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# The Proof in the Pudding

*The Importance of Solution Sales to VAR Business Success*

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# The Proof in the Pudding

## *The Importance of Solution Sales to VAR Business Success*

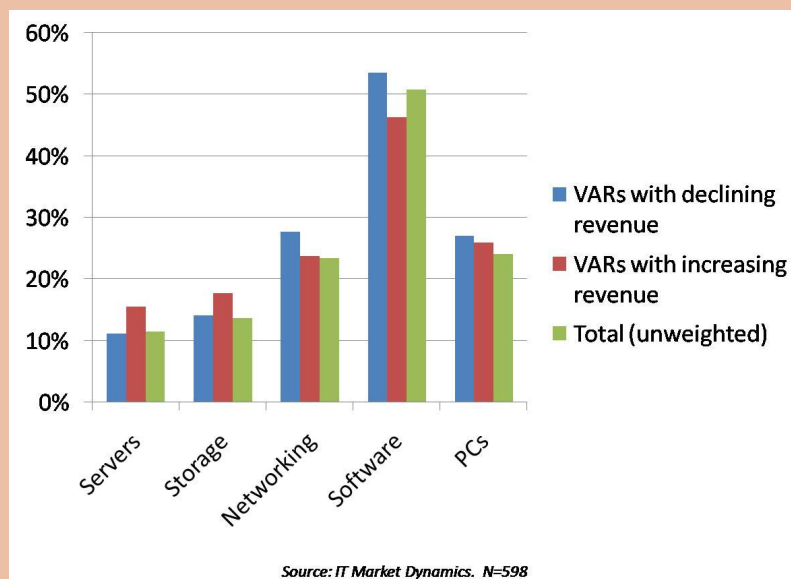
At the *Tides of Change III: The Channel and the Customer* event presented by IT Market Dynamics and CRN Canada at the Toronto Eaton Centre Marriott on November 25, I posited that some of the long-term trends in the channel – including the transition from sales of products to sales of solutions as a means of building business success – accelerated in 2009, spurred by a declining economy that escalated “margin erosion” to “market erosion.”

Immediately after the event, I spent some time re-cutting the data that we collected in our 2Q09 and 3Q09 channel surveys to see whether we could establish any fact-based evidence to support the belief that this trend from products to solutions is crucial to channel business viability. Often, these exercises yield little more than multi-coloured pages without a discernable narrative. In this case, though, two slides combine to demonstrate the importance of solutions to business growth, both in absolute terms and in comparison to product sales.

The story here starts with products. Take a look at Figure 1. In it, we've isolated two groups of reseller respondents: those who say that their business is growing (231 respondents), and those who report contracting revenues (170). I've also included a “total” column, which shows the findings for all (598) respondents.

The most interesting part of this Figure is what it *doesn't* show – a substantial gap between growing and declining businesses. VARs who claim to be increasing revenue in 2009 are slightly more likely to have seen growth in sales of servers and storage, while those reporting declining revenue in 2009 are actually slightly more likely to report growth in networking, software, or PC product sales. The real message, though, is contained in the closeness of the results across the two groups; the Figure is best interpreted as saying, “there was no real difference in product category results within either growth-defined category” – or, “revenue growth in a particular category isn't correlated with overall business success.”

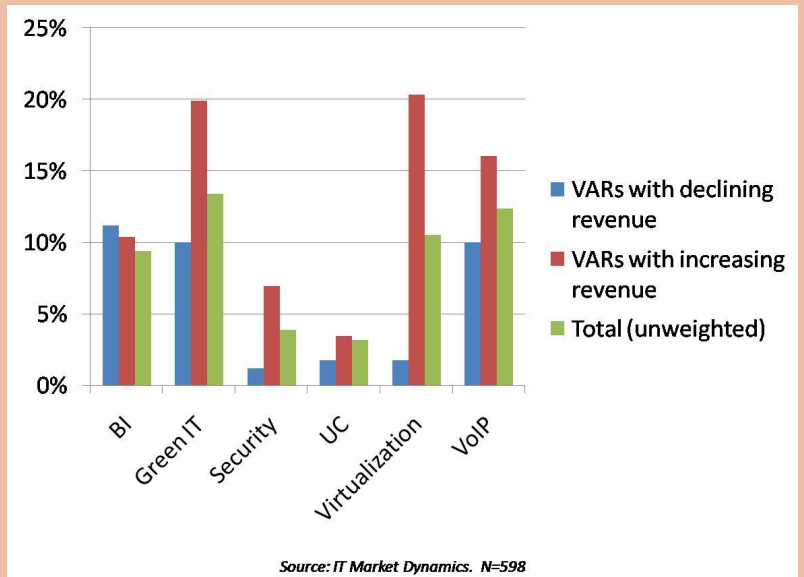
Figure 1. 2009 Growth in Product Sales by VAR Revenue Trend



So if sales success in specific product categories doesn’t translate into business growth – what is the factor that leads to VAR business success? Over the past few years, two answers have been most frequently advanced: increased services sales, and increased focus on selling solutions. In the real world, the two can’t be entirely separated –while it’s possible to sell services without selling (software-dependent) solutions, it isn’t really possible to sell solutions without adding services expertise to the products used to create the solution. I think most people would concede that the two approaches are distinct from a sales and marketing perspective, though – that merely emphasizing services is different from positioning a firm as a specialist in security, virtualization, or any of the other prominent solution categories.

The data collected from our Q2 and Q3 research does not demonstrate any causal connection between services revenue trends and overall business success (other than, “companies that are experiencing overall growth are increasing services sales, and those with contracting revenues are very likely to report that services revenues are declining, too.”) However, we get a much more compelling perspective when we look at trends in solutions sales. As you can see in Figure 2, even VARs with declining 2009 revenues experienced success in some solution areas: approximately 10% report growth in sales of business intelligence, green IT, and VoIP solutions. What really jumps out here, though, is the relative success of growing VARs in building momentum for solutions. Focus on virtualization and security are especially important to VAR business success: as compared to VARs who contracted in 2009, VARs who reported 2009 growth are almost five times more likely to have increased sales of security solutions, and more than 10 times more likely to have increased virtualization sales in 2009. Growing VARs are also about twice as likely to have experienced success with green IT or with unified communications (UC) than those who contracted in 2009.

Figure 2. 2009 Growth in Solution Sales by VAR Revenue Trend



In 2010, the entire IT industry is expecting an improved economy and the introduction of Windows 7 to provide some “bounce” in the Canadian IT market. Even this “rising tide,” though, will not lift all boats *equally*. Customers with increasing budgets have already demonstrated high relative levels of investment in solutions like security, virtualization, and UC, and these results show that VARs who develop expertise in these areas are positioned to benefit from this demand. As the “market erosion” wanes in 2010, we should expect to continue to see VAR “margin expansion” tightly connected with success in selling solutions.