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June 2019

Game over?

Insight EMEA boss Wolfgang Ebermann warns traditional resellers that their model might not be viable for much longer **16**

DOES MICROSOFT'S TAKING AZURE DIRECT MAKE ITS CHANNEL FAIRER? **10** INTEL BOSS SAYS THE END IS IN SIGHT FOR THE FIRM'S SUPPLY WOES **18** A BLOW-BY-BLOW ACCOUNT OF FIGHT NIGHT **22**

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Direct hits

As Satya Nadella has breathed new life into Microsoft over recent times, the channel has been right by its side. Be that driving Office 365 adoption, migrating customers to Azure, or refreshing laptops and PCs to Windows 10.

But a couple of recent decisions have irked partners in some quarters. Last year the vendor reshaped its Cloud Solution Provider programme, raising the threshold required to be a Direct partner and trade with Microsoft itself.

As a result, a number of partners became Indirect, meaning they have to buy from another partner.

More recently, Microsoft overhauled how it sells Azure to SMBs, taking this process direct and becoming the "primary contact" for customers.

The first change may have raised a few eyebrows, but the second has frustrated some of the vendor's biggest UK partners.

In this month's Spotlight Marian McHugh asks how the dynamic between reseller and vendor has altered since the changes came into force, with one boss revealing that his firm has had to compete with Microsoft multiple times in just a few months.

This month's Big Interview is the first of two conversations with bosses at huge channel firms.

> **"A couple of Microsoft's recent decisions have irked partners in some quarters... frustrating some of its biggest UK resellers"**

Insight's EMEA boss Wolfgang Ebermann tells us why it is perhaps best to refer to the global titan as an independent software vendor, rather than a reseller.

Ebermann reveals the extent to which Insight has invested in its software development capabilities and questions those not moving beyond traditional reselling – as well as those that are acquiring traditional resellers.

In the other interview, SHI's UK boss reveals how the American reseller, a £285m player in the UK, has only started to drive growth in the UK over the last two or three years.

Darren Brodrick, who has been at the firm for a large chunk of its 20-year UK existence, opens up on plans to tackle the UK public sector for the first time – and also how one drunken night triggered a 400-mile bike ride across France.

We've also included a round-up of this year's Fight Night, which was probably one of the bloodiest yet! Congratulations to everyone who took part. You can find more photos, and videos of the fights, on *ChannelWeb*.

As ever, please get in touch via *ChannelWeb* or Twitter @CRN_UK.

■ *Tom Wright is managing editor of CRN.*


CLOUDASHUR®

Five things we've learned this month

1. HP HAS A PLAN

HP Inc is going to great lengths to turn around its ailing print supplies business. The vendor revealed struggles in its ink cartridge unit in Q1, and emphasised during its latest earnings call that it is working hard on a revival.

CEO Dion Weisler rattled through a sixfold plan that the vendor has implemented, to convince investors that the situation is under control.

The supplies business saw revenue decline yet again in Q2, down three per cent to $3.3bn (£2.6bn).

"We are taking action; we have made and continue to make improvements in our business management systems and to enhance our measurements of the market and our performance," Weisler said.

"We are simplifying and strengthening our pricing discipline to achieve consistency of our value proposition."

HP's strategy consists of four operational initiatives, Weisler said: overhauling marketing; cracking down on counterfeit trading; reducing channel inventory; and improving the use of big data.

2. HUAWEI IS STILL BEING BLOCKED

Rarely does a month (or even a week) pass without further restrictions being placed on controversial Chinese vendor Huawei.

Last month saw Donald Trump up the stakes, declaring a state of emergency over foreign telecoms providers and issuing an executive order that banned US firms from trading with certain comms companies, with Huawei believed to be the main target.

In the days that followed, Google pulled Huawei's licence to use the Android operating system on its smartphones, while UK chip maker ARM issued a memo to staff telling them to end all engagements with Huawei, with Qualcomm making the same decision.

Meanwhile Microsoft reportedly pulled all Huawei laptops from its web stores.

3. EUROPE IS HURTING TECH DATA

Tech Data's crystal ball is clearly on point, with the distributor correctly predicting that uncertainty in the European market would affect sales in its first quarter.

Overall revenue for the three months ending 30 April fell two per cent to $8.4bn (£6.6bn), but Europe was the only region to see revenue decline.

Europe-specific sales dropped eight per cent to $4.3bn, still accounting for over half of total revenue.

Tech Data's European boss Patrick Zammit had previously said that sales in the region would be hit by Brexit, political unrest and "a highly competitive environment".

The profit story was however more upbeat in Europe, rising four per cent to $45.6m.

4. THE CHANNEL M&A SPREE IS CONTINUING

The recent spate of M&A in the channel shows no signs of slowing down, with the largest acquisition of the year taking place at the end of May. Kelway founder Phil Doye has returned to the industry, snapping up Microsoft partner SBL.

SBL reported sales of £139m for the year ending 31 August 2018, down 10 per cent on the previous year.

Doye admitted that he was "a little surprised to be back", but said he was excited to start the next chapter of SBL's journey.

Elsewhere, IBM partner Recarta IT acquired virtualisation specialist Möbius Business Technologies, creating a £15m VAR, while GCI acquired £12.5m Microsoft partner Modality Systems.

5. DELL'S SERVER SALES ARE IN DECLINE

Demand for servers is weaker than expected this year, according to Dell, which reported its first decline in server revenue for 10 quarters.

The Texas-based vendor saw overall sales rise three per cent year on year to $21.9bn, but server revenue tumbled nine per cent to $4.1bn.

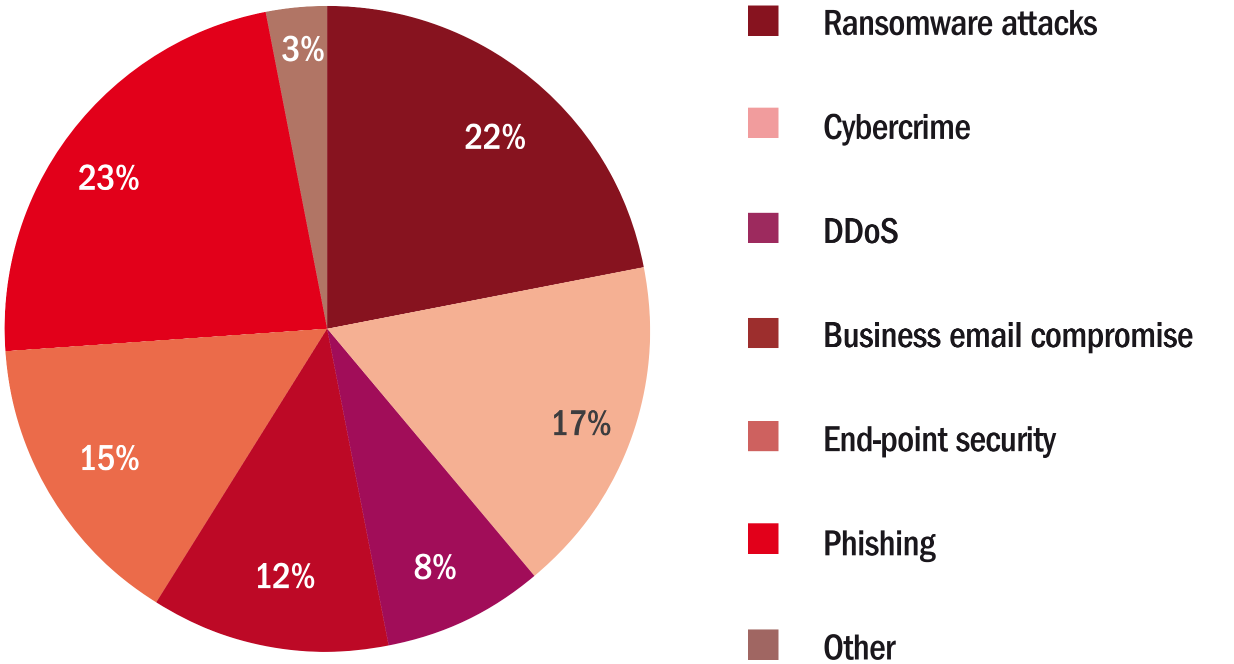
Dell said that the decline was partly due to "unprecedented" demand last year creating a tough comparison quarter.

VP Jeffrey Clarke, however, said that the drop is partly due to Dell being "more selective on larger deals", particularly in China.

He said that this approach led to a fall in sales, but also to higher profitability.

Dell's share price fell more than 10 per cent following the publication of the results.

The cybersecurity threats CIOs are most concerned about in 2019*



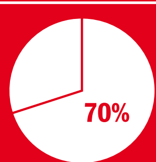
**Data from a CRN poll of 150 CIOs*

FACTS AND FIGURES

3 The number of CEOs Lexmark has had in the last three years

The revenue achieved by the top 30 UK specialist print resellers, according to *CRN's Print Provider Report*

The date Microsoft will open its flagship London store – the vendor's first in Europe



The amount AMD's share price has increased since the start of the year

Tweet of the month

CDW's UK managing director Dan Laws welcomes Kelway founder Phil Doye back into the channel.

NOTABLE AND QUOTABLE

"We are a little bit behind the curve on that at the moment, but it is definitely an area where we are lively in terms of our discussions and conversations"

Exertis UK managing director Paul Bryan says the UK firm is looking to improve its cloud game

Fair or foul play?

***Marian McHugh** asks the channel whether Microsoft's recent comments on making Azure more equitable for partners holds some truth*

When the news broke earlier this year that Microsoft was planning on making its Azure cloud offering available directly to SMBs, it was met with mixed reactions from partners, with many questioning the reasoning for the move.

The Microsoft Customer Agreement (MCA) came into effect in March, replacing agreements already in place and making the vendor the "primary contact" for customers. Those wanting to buy managed services must do so via a Cloud Solution Provider (CSP).

James Marshall, partner strategist at Microsoft, told *CRN* recently that the move to make Azure directly available to end customers is an effort to make it a fairer playing field for all partners.

"The Microsoft modern commerce initiative is about ensuring that partners have a more level, fair field of access to opportunity through their customers," he said.

"There's a lot to the commerce plan; the transition of Azure and certain cloud enrolments being direct is one part of that, but it's part of a broader story."

Rich Gibbons, software licensing analyst at The ITAM Review, argued that since the introduction of the MCA, very little additional information has come from Microsoft to clarify what it all means for the channel.

"We all need more information from Microsoft to fully know what the plan is," he stated.

"But I think it's all around this push for differentiation between partner services rather than the price of the service."

Taking on Microsoft

Since the changes came into effect in March, one partner has found itself going up against Microsoft for contracts on several occasions.

Neil Murphy, group managing director of Bytes, said the firm has faced off against its vendor partner in a number of situations and that it was an "uncomfortable" position in which to be.

"We've only had five situations that we had to directly compete with Microsoft," he explained.

"In all five situations, the customers decided to work with Bytes, because we are adding other services and products. They would rather stick to a one-stop shop solution and they've been dealing with us for several years and know and trust us."

Murphy said that Bytes' decision to move away from being a "Microsoft-centric" company and widen its cloud portfolio is "without a doubt" influenced by the vendor's move to take Azure direct.

Though the Bytes boss is largely unconcerned about the MCA in the short term, he does take umbrage at Marshall's comments about making it more equitable for all partners to take a slice of the pie.

"It shouldn't be an equitable playing field because we invest an awful lot more into Microsoft than smaller players do," he stated.

"What we get in return for that is some kind of advantage because we are promoting it every day of the week to our client base, so I do think that needs to be revisited."

Levelling out

Despite Marshall's statements about the MCA making things more equitable for its partners, some in the channel remain unconvinced of the vendor's reasoning.

Alastair Edwards, analyst at Canalys, is of the opinion that the move has nothing to do with partners; rather that it is a "logical step" for Microsoft to make it as easy as possible for those customers who want Azure

and have the capability to manage it, but don't want to use partners.

"It's an understandable decision from Microsoft when customers are going directly to AWS and doing the same thing with their credit cards," Edwards said.

"But Microsoft is being disingenuous if it tries to position this as a positive move for partners.

"Offering Azure direct means the MCA is effectively in direct competition with CSP, meaning partners will have to work harder to convince customers to buy via CSP.

"Separating the Azure purchase from the service doesn't level the playing field, it makes it harder for partners to sell their services."

Edwards also questioned the proportion of clients who wish to avail themselves of Azure directly and whether Microsoft will actively pursue those contracts.

"If this is just a small minority of customers that otherwise would go elsewhere, it will probably have a limited impact," he stated.

"But if Microsoft actively pushes MCA via its own sales force, that's a kick in the face to partners that have invested in building a CSP practice."

Competitive edge

Earlier this year Canalys predicted that making Azure available for direct purchase would allow Microsoft's competitors to exploit the opportunity and gain more share in the cloud market.

Edwards explained that Microsoft's message to partners seems to be about pushing them into wrapping services and value-add onto Azure rather than just reselling it, but that it doesn't have the same dominance in the cloud space as it does in other areas.

"Microsoft can't act like a monopoly with cloud, because it's not," said Edwards.

"It's not just competing with AWS and Google – it's competing with on-premise infrastructure vendors, it's competing with partners that are leading with selling other infrastructure solutions both on- and off-premise.

"It needs partners more than ever to help it gain momentum and share, and will do for the long term.

"I don't think that many partners currently selling Azure will move away from Microsoft completely as a result of the launch of MCA. But it hands a gift to the other cloud providers that are now investing to build out their own channel partner ecosystems.

"That includes distribution. Microsoft's strength has always been tied to its channel-centric business model and the hundreds of thousands of partners that promote and sell its products worldwide.

"That advantage is eroded every time it makes moves like this."

The MCA puts distribution in an unenviable position, as it does not have the same abilities as resellers to sell services when Azure is sold directly, according to Edwards.

However, at least one distribution partner sees the move as a necessary evil by Microsoft.

Craig Joseph, CEO of cloud VAD IntY, agreed with Edwards that distribution is up against the same challenges as reseller partners in terms of losing business to Microsoft but he believes the vendor is in a "no-win" situation between satiating partners and ensuring AWS doesn't have a monopoly on the cloud market.

"Competing against Microsoft is not something that we as a distributor nor partner should be doing," he said.

"That's the downside of Microsoft trying to help the community and help customers in the way it is doing.

"But it could do things better. If it can help a partner and help the end customer, it should then make it really easy for that end customer to switch buying direct from Microsoft and go to a partner."

IntY is a Microsoft CSP and Joseph firmly believes taking Azure direct is a short-term position for the vendor in order to ensure it doesn't lose any of its market share.

"Do I believe that Microsoft will keep everything direct? No, I don't. They are a vendor, they can't cope with taking business direct.

"SMB is where the volume is, and I think they want to capture the volume at the moment.

"I genuinely believe it is a short-term position. They cannot cope with a large majority of end customers, certainly not SMB."

So while some partners reckon the MCA is a calculated move to capture more of the cloud share in the short term, others, like Murphy, have bristled at being put in the position of having to compete with a key vendor partner.

Canalys' Edwards issued a word of warning to the vendor on the ramifications its decision to sell Azure direct will have on its channel relationships.

"The sale of Azure will be driven by a consulting-led approach, focused on outcomes, workloads and applications, not just raw processing power," he said.

"So any moves to actively sell direct are probably going to be more damaging than they are beneficial in the short to medium term, in terms of adding to the partner frustration and discontent that already exists."

> **"Microsoft is being disingenuous if it tries to position this as a positive move for partners"**
> **Alastair Edwards, Canalys**

Attack from the peloton

*SHI's UK boss talks to **Marian McHugh** about relying less on hardware sales, committing to drunken promises, plus gunning for the public sector – and a top 10 spot in CRN's Top VARs*

It takes a certain kind of personality to commit to a four-day, 400-mile cycle through France without even owning a bike, but Darren Brodrick, general manager of SHI UK, is nothing if not a man of his word.

"I didn't actually own a bike until about 10 or 12 weeks beforehand," he admitted. "It was just a drunken night in the local rugby club and I was invited to participate in a cycling thing, so I said 'Yeah I can do that no problem'. And then that 'no problem' turned into something quite serious!"

In the cold light of the next day – when the last thing you want to wake up to is a text reminding you of the promise you made in the pub to cycle 400 miles across France – Brodrick saw it as a new challenge.

"I've never owned a bike, I've never cycled that distance, I've never cycled in France and I've never cycled with 55 people," he said of the attractions of the trek.

"It was a challenge and I like a challenge. And if I say I'm going to do something, I do it."

This attitude is something that has helped Brodrick during his 15 years at SHI's UK wing, which he has headed up since 2014. He likened his cycling excursion to doing business in the channel.

"If there's something that I want to achieve, I typically work very hard and try my utmost to achieve it," he expounded.

"This industry is very exciting and rewarding, but it's like anything in life – what you put in is what you're going to get out. So you have to work hard, be determined, and be focused."

Public sector pull

In SHI's most recent earnings report for its first quarter of 2019, revenue hit $10bn (£7.9bn), with its public sector business in the US climbing 25 per cent year on year.

Brodrick acknowledged that the UK business has resisted dipping its toes in the public sector pool until now.

It has submitted an application to G-Cloud 10 and is also bidding on the Technology Products 3 framework.

He added that the UK wing didn't have the resources nor the interest before now to bid for public sector contracts.

"We feel that the public sector is an area that could help SHI drive some real growth in terms of bottom line over the coming years," he said.

"It's not something that we've ever looked at because there hasn't really been a need for public sector due to the nature of our business.

"So it's something that has created a little bit of excitement because it's something new, and it's potentially going to give us some scale.

"You need resources and certain capabilities for that market, which we haven't had it in the past. Whereas today, due to some of the investments that we've had around pre-sales resources, additional sales and headcount we have the ability to go off and approach new markets."

This confidence in approaching new areas of business is built on years of trust from SHI's higher echelon and allowing him to follow his instincts, according to Brodrick.

"At a personal level, SHI has given me the flexibility and the ability to create my own kind of path," he said.

"Many years ago as a salesperson, I had success with some customers and was able to maintain and grow that success based on the decisions that I wanted to make and not on what the business wanted to make.

"In the last five or six years as general manager, I've been allowed to not only evaluate where the opportunities for the UK business are, but to get on with it and help us grow based on what my team and I feel are the areas where we can add value and win.

"I've been here for a long time and seen lots of changes, and the investment that we're seeing from the owner today makes me smile and gives me the opportunity to develop and hopefully take SHI UK to the next level."

From cog to captain

SHI has been in the UK for two decades, but Brodrick admits that it is only over the last two or three years that it has made efforts to grow its presence.

Since then, a concentration on services and a recruiting frenzy have significantly contributed to its growth in the UK, Brodrick said.

He added that hardware reselling now accounts for less than half of SHI's revenue, with software and services making up 52 per cent.

"Services for us at a local level is very new, but it is a huge opportunity for us to continue to add value to the current business that we do by adding professional services, consulting services and managed services to that type of business," he said.

"It's certainly a market at which we are throwing time and effort in order for us to continue to grow. If you want to survive – especially in the world that we operate in today – services have to become a key and core part of your business."

Virtual desktop infrastructure, device-as-a-service and its promotion to a Microsoft Cloud Solution Provider are all new lanes with a lot of potentially huge growth for SHI, according to Brodrick.

He said that these recommendations come from his own experience but also listening to feedback from his team, which he believes to be a vital skill for any leader.

"I'm a pretty open guy and I have an open-door policy, and anybody can come into my office at any time and say what they like, so long as it's done in a professional manner," he explained.

"Giving people the opportunity to express themselves and create their own destiny is really what it's all about.

"But you also need to have a very clear strategy in terms of where you see your success and what the steps are going to be to get to that point.

"So have an open mind, be honest, but be very tactical and stringent with your own vision, and your own plans."

Top 10 intentions

Brodrick himself draws leadership inspiration from Microsoft CEO Satya Nadella for the way he has transformed the culture at the tech giant, as well as new-found respect for elite cyclists based on his recent two-wheeled excursion.

When it comes to his own career path, the SHI UK boss has some very clear plans to ensure the company joins the very elite in *CRN*'s *Top VARs* research.

He plans to do so by attacking the public sector market but also investing in cloud capabilities.

SHI is partnered with the 'big three' public cloud providers: Amazon Web Services (AWS), Microsoft Azure and Google, though Brodrick remains unconvinced of the latter's vows to invest in its partner programme.

"I was challenged last year by Thai Lee (CEO and owner of SHI) to get the UK business into the *CRN* Top 10 rankings," he declared.

"The first way I plan to do that is getting into the public sector market. The second way is through cloud services.

"We've already made investments with Microsoft and AWS, but not yet with Google.

"As we continue to build out those capabilities in cloud practice, certification and competence for the wider teams, I think that's going to help us achieve that goal."

But is there any chance he could be lured onto another path or don another coloured jersey?

"I've been with SHI for just over 15 years – I think I was employee number 15 in the UK – and we've got over 170 people here today," he said.

"I've seen us transform from being one of the small guys into one of the really big global players that has lots of capability.

"I'm very happy here. I have a huge challenge ahead of me in terms of how we get into the Top 10, but I'm open to the challenge. I never shy away. It's a massive opportunity.

"And I think I'll be here for the long haul unless they make decisions elsewhere!"

"If you want to survive – especially in the world that we operate in today – services have to become a key and core part of your business"

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Tech Data

'How long will traditional resellers see success?'

Wolfgang Ebermann talks CRN through US giant Insight's increasing reliance on software development, questioning for how much longer traditional reselling will be viable

It's no secret that some VARs are incorporating an element of software development into their business, in order to stay profitable as hardware margins continue to shrink.

But a number of the largest resellers, including the likes of Softcat, CDW and Computacenter, are still seeing success selling the traditional way.

You could also include Insight in that category, with the US firm now a £500m-revenue operation in the UK.

But Insight would rather be known for its software development capabilities, according to EMEA boss Wolfgang Ebermann.

Ebermann told *CRN* that building its own IP is becoming an increasingly significant part of Insight's business.

"We have been building out our own products and a substantial investment has been put into the business over the last six or seven years," he said.

"It's an investment through acquisitions; if you look through our earnings releases over the last few years you can see we have been acquiring additional capabilities, often in Europe.

"Now, as a company, you could see us as an independent software vendor. We built a product that sits on top of Office 365 and helps organisations to drive and adopt a new way of working."

Last year Insight announced a $10m (£7.9m) investment in its European services operation, a "big chunk" of which Ebermann said will go into Insight's "digital innovation".

He said that Insight's plan is to replicate the success it is already seeing with its IP in the US.

"Do I want to scale this to $100m-plus business as fast as I can? Absolutely in Europe, just like we did in the US," he added.

"The digital innovation go-to-market approach is something we have just started to incubate in Europe.

"We will also add additional offerings because we don't want to become irrelevant to our customers."

Ebermann said that Insight will continue to be acquisitive when it comes to developing its IP further, but scoffed at the prospect of acquiring a reseller to bolster its traditional business.

"What would be the benefit for us to do that, versus growing our relevance across the different stakeholders where there is a big need at our client side to ask for help?" he asked.

"Will that grow our relevance in an area where it's not about price competition, but it's about driving business outcome? If you listen to that, where would you invest?"

Despite many prophesising that resellers would struggle to see success for much longer, a number of global partners are still thriving.

Computacenter recently acquired a US reseller, while analyst Canalys predicted that CDW will acquire a large European reseller in the near future, after creating a £1bn operation in the UK following its takeover of Kelway four years ago.

Meanwhile, Softcat continues to beat expectations.

Eberman acknowledged the success these businesses are seeing, but countered: "The question is, for how long? If you do an acquisition in the same business, you need to look for synergies.

"If you can find the synergies and if you can find a culture complementary, then you can do it, but I do question the benefit.

"Every president and CEO needs to think about how it affects the company's profile, and how it affects clients' perception.

"We are observing and looking around, but for us there is a very clear criteria on where we are making investments and we are staying very firm on those criteria."

Ebermann's views were supported by Insight's recently reported results, where dwindling hardware sales were blamed for the reseller's sales decline, while cloud migration was picked out as the reason for a drop in software sales.

"For Europe, the next couple of years will show how the market is going to evolve. For me, it's very clear that the success of partners is very much dependent on acting client-centric, rather than vendor-centric and selling products"

US comparison

Part of Insight's $10m investment in Europe has been to bolster its cloud services operation.

Ebermann claimed that, unlike in the US, cloud service providers in Europe are generally struggling to move out of start-up mode because of a lack of capital.

"When you look at the market across Europe in particular there are a lot of smaller cloud service providers which have established businesses in the last five or six years," he explained.

"They are 20 to 40 people. The majority of them have specialised themselves, so they went for a Microsoft cloud solution stack or for an AWS stack. You learn when you speak to those folks that they are able to grow their business, but they are not yet able to be profitable.

"They are struggling to build the operational discipline into their business to become profitable, from our point of view. This is a little bit different to what we see in the US, where you see already more mature cloud services businesses with 300 to 400 people that have matured, become profitable and are seeking the next evolutionary step.

"They then either go with an investment strategy, or they go to search for large organisations that are interested in partnering with them to jointly accelerate the business going forward."

He claimed that the next few years will show whether the European market is capable of matching the US' cloud credentials, but warned that a fairly radical change in approach is needed if businesses in Europe are to successfully make the transition.

"For Europe, my belief is the next couple of years will show how the market is going to evolve," he said.

"For me, it's very clear that the success of partners is very much dependent on acting client-centric, rather than vendor-centric and selling products.

"If you are not building the ability to make it more strategic and provide intelligent solutions from an early advisory stage, all the way through implementation, with managed service, and if you can't fulfil on that full deck, you run the risk of not being able to survive."

The view from the UK

Insight's most recent UK accounts are for the year ending 31 December 2017, when sales rose 11 per cent to £502m.

Ebermann said that the UK operation has "majorly contributed" to Insight's overall European business, claiming that he remains confident in the region moving forward – despite the ongoing Brexit saga.

"The UK business is super strong and super important for my immediate business," he said. "We have been growing share in the UK due to the expansion of our product portfolio and I'm excited about that.

"For me it's a little bit unfortunate that we have the discussion at the EU right now but fundamentally, the UK business, from an IT spending point of view, has been healthy over the last few years.

"In the UK, company owners understand that evolving the business and making IT a strategic asset that can drive better business outcomes has to happen one way or the other.

"The government market is a little bit more uncertain, but overall, it's very optimistic in the way that I see spending growth for the moment."

In terms of Insight's own Brexit strategy, he claims that a set of recently launched managed services hubs across Europe means the firm is prepared to serve both UK and European businesses, if and when the UK leaves the EU.

"We basically have this managed service operation," he said. "We have it in the UK, in Spain, we also have it in the Netherlands where we acquired the company.

"We are ready now for any direction Brexit goes in. That was also important for us. We acknowledge whatever the decision is, but we will, as a company, be ready to help our clients to go either way and I think that is important, because we are an international company.

"We want to help UK clients who have affiliate entities outside the UK, either in Europe or in the US, and we want to be the partner of choice."

While Ebermann says Insight has taken great strides to transition from being a traditional reseller to a services and solutions-led business, he admits there is more to do.

"If we stood here and celebrated success today, and just kept that engine going for the next 10 years, then what would happen to us is what happened to Nokia," he said.

"There is no moment where you could declare victory and just celebrate success. We have to stay on the curve, because that innovation in market is accelerating with high speed and we need to participate there.

"We need to proactively lead. So it's a constant change and that's normal."

Chipping away

*Intel's UK boss Adrian Criddle spoke to **Marian McHugh** about why he isn't concerned about rivals taking advantage of its ongoing chip shortage*

The PC market may have enjoyed a pleasantly surprising resurgence last year, but the rediscovered love came at a price. Intel, by far the world's largest chip manufacturing, has been struggling to keep up with demand – giving its far smaller competitors a chance to close the gap.

But Intel expects to be in better shape within a few months, according to UK GM Adrian Criddle.

"Whenever we go through a technological transition, we're trying to call the mix correctly on a forecast a couple of months out," he explained.

"We don't want to constrain customers…but we are working very hard to mitigate as many of those supply challenges as we can.

"We will see constraint through Q2 and into Q3, but as the factories and long lead time for silicone manufacturing catch up, we hope to be in a healthy place by the time we get to Q4."

Intel's rivals, notably AMD, have taken advantage of the industry stalwart's supply woes, particularly when it comes to cost-effective notebooks and tablets.

Criddle refused to comment on its competition but was nonchalant about losing any more market share.

"In our Q1 results our client computing group (CCG) business grew four per cent year over year," he stated.

"We are selling a far richer mix because we are filling from the top; making sure we are fulfilling our clients with Core i7, Core i9 and Core i5 products.

"We probably are leaving a little bit of a gap at the very low end [of the market] – and I know some of our competitors would be aggressive to take that business – but as we get to the back end of the year we are making sure that we are working closely with our customers and partners to fulfil their demand requirements from us."

Intel's 2018 financial year saw it break a number of revenue records, with CEO Bob Swan optimistically predicting that its Q2 would see the end of the CPU shortage that has plagued the vendor.

Criddle pinpointed the unexpected demand for PCs from the commercial, SMB and government sectors in the past couple of years as the main driver of the vendor's supply constraints.

This demand, coupled with the manufacturing process that can take up to 24 weeks, has resulted in the ongoing chip challenges at Intel.

"We started seeing tightness of supply in the second half of 2018 and then went into official constraint in the back of that year," he explained.

"The main driver for this was that nobody at the start of 2018 forecast the growth back into the PC market in the commercial, SMB and government spaces.

"The combination at the back end of 2018 of more demand than anyone expected means it's taken us a while to catch up on production of our seventh-, eighth- and ninth-generation technology."

Competitor share is 'borrowed'

Dave Stevinson, MD of distie QBS software, told *CRN* that the supply constraints are more noticeable in the PC market and that the vendor has clearly been prioritising CPUs for high-performance compute (HPC) in datacentres.

"I believe Intel has lent the market to the competitors, but not given it, and when their supply chain kicks back in people will go back to it," he said.

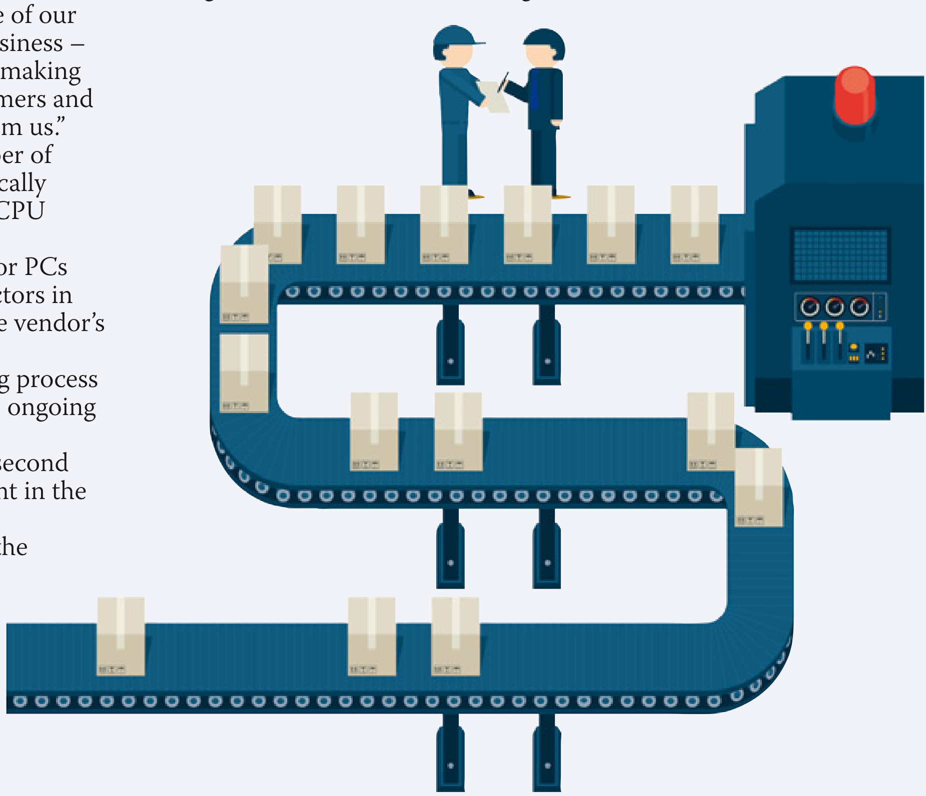
"It has such a position that it can take whatever market share it wants because its technology is superior. AMD will gain some share – but it's borrowed."

Stevinson noted that supply issues can often be a "feast or famine" with customers making multiple bookings in order to get their desired number of chips, but this has a knock-on effect.

"For example, say you ask for 10 CPUs, but you can only get four," he explained.

"People now ask for 20 and get eight. Eventually, things will go back to normal and the people who overbooked will get caught out."

Not all Intel partners agree on this as Cory Lees, product marketing exec at Target Components, said that AMD's Ryzen CPUs can go "toe to toe" with Intel regardless of the current shortage.



"AMD has been handed the greatest opportunity it has had in the last five years," he said.

"Not only has it released some great processors with the Ryzen gen 1 and 2, it just happened to release these at the same time that Intel has a shortage.

"We work with several games developers and we have seen an increase in orders for AMD-based machines as they are now specifically programming games to utilise the AMD chipset and additional cores.

"As a system builder, we have seen an increase in demand for AMD-powered PCs at the entry level, as the AMD offers better value for customers."

Lees added that Target is not witnessing the same supply issues as it was last October and November.

"Supply of the higher-end processors is still plentiful, it's just the lower end where we are still experiencing some shortages and prices higher than would be expected in these performance brackets," he said.

Pioneering UK

Though Intel does not break out numbers for regions, the UK wing had a "successful" Q1 when measured by the company's internal metrics, according to Criddle.

This was driven by investment in artificial intelligence (AI), increasing demand from corporate clients in the UK, demand for networking infrastructure as 5G is readied to roll out, and high-end gaming.

"With every customer we meet or opportunity we encounter, we are not constrained by the opportunity in the UK," Criddle stated.

"In the UK we are very flexible, adaptive and entrepreneurial. Our worldwide team looks to us to do some pilots and ground-breaking projects that can then be scaled worldwide.

"It's a country with lots of innovation, design, creation and capability. London, for example, has been identified as the second-largest hub for AI behind San Francisco – what a better place to be than being part of that AI revolution."

The run-up to the initial Brexit date of 29 March also played a hand in the vendor's Q1 fortunes, Criddle noted.

"In the UK we did see a little bit of anticipation of the 29 March decision, where inventory built across the channel in preparation of a deal or no deal," he explained.

Criddle expects that the relentless drive for digital transformation among UK businesses will neutralise any further impact from a possible Brexit for the remaining quarters of the year.

"I think there will be a little bit of ensuring that the purchases that happened in Q1 will be consumed by the market," he said.

"I think the retail market is down because people aren't buying larger-ticket items, but I think the transformation of businesses into the cloud, both on-premise and off-premise, and hybrid cloud [will drive demand].

"The continued migration to the latest secure operating systems and applications is driving business consumption of technology, servers, infrastructure and PCs.

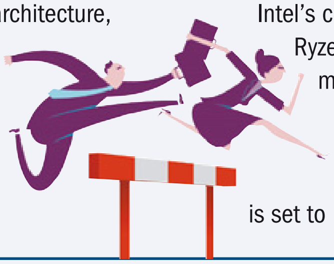
"We have had a project team on Brexit and are well prepared for a variety of scenarios. We will be able to support our customers and we expect little operational disruption based on the plans we've put in place."

> **"We probably are leaving a little bit of a gap at the very low end [of the market] – and I know some of our competitors would be aggressive to take that business"**

AMD levels up against Intel with newest chip

While Adrian Criddle is unworried about rival AMD scooping up more market share, the rival chip maker is gunning for Intel's crown with a host of new product announcements at the recent Computex Industry show in Taipei.

AMD CEO Lisa Su took to the stage at the event to unveil its third-generation Ryzen microprocessor. She claimed the new chips, which are based on AMD's Zen architecture, outperformed a comparable processor from Intel by more than 16 per cent during internal testing. The new Ryzen chips will be released in July, retailing at $500 – half the price of Intel's competing product.



Not one to back down in the long-running battle between the pair, Intel told CNBC that AMD was comparing the new Ryzen against an older Intel chip.

"AMD's system was tuned, yet they made this comparison with the older product without latest software tuned for the workload. If they had, the second-generation Intel Xeon Scalable processors will take the top spot," an Intel spokesperson stated.

Intel's chip shortage woes have been a boon to AMD, whose Ryzen products have helped boost its share of the CPU market significantly in the past 18 months.

The morning after Su's announcement, AMD's share price rose nearly 10 per cent, while Intel's dropped two per cent, fuelling analyst anticipation that AMD is set to nab more of the PC processor market from its rival.

Caught in the middle

*The Trump administration announced a levy on a range of products coming from China. **Jessica Meek** finds out how the latest twist in the US-China trade war will damage the MSP community*

As trade talks between the US and China broke down once again last month, the Trump administration announced an increase in tariffs on a range of Chinese imports.

For many in the tech sector, this was just the news they hadn't been waiting for. With the last round of tariffs – a 10 per cent levy on a variety of technology, among other things – offering a taste of what might be to come, the channel was hoping the threat of a 25 per cent tariff had been all but forgotten.

But "as quick as a tweet", as one MSP put it, the tariff hike came into effect on 10 May, sending ripples through the tech sector and American economy as a whole.

For some in the channel, the new tariffs raise anxieties about cost and supply. For others, the impact is "nominal". But for all, the question of what's next is at the forefront of their minds.

With the news coming as somewhat of a surprise, all eyes are fixed on the tension between the two power nations to see how things unfold.

An obvious concern for MSPs is supply. With modems, networking equipment and semiconductors on the list of imports that will now be subject to the 25 per cent tariff increase, MSPs may find that they will have to slow down projects as they wait longer for components to arrive.

"After the last round of tariffs, suddenly we saw a supply problem for electronics. It's causing some downward parts problems, which are causing us delays. By that I mean that we can't sell the parts to our customers because we can't procure them from the distributors, who can't get the parts that go into them in China," Karl Bickmore, CEO of Arizona-based MSP Snap Tech IT, told CPI.

The procurement issue will be exacerbated by the latest round of tariffs, he said. Customer migrations and hardware upgrades are expected to be affected, with back orders increasing and manufacturers struggling to have stock available in the usual time frame.

"Suddenly, all these computer systems we need to order were back-ordered for months, when usually with a back order – which is rare anyway – it's not for so long. All manufacturers now feel that they can't make stuff fast enough because they can't get their supplies of electronics components, which are commonly manufactured in the Chinese market," Bickmore pointed out.

This will particularly affect MSPs working with customers on Windows 10 migrations, the CEO said. As the channel knows only too well, extended support for Windows 7 ends in January 2020, and as the upgrade generally also involves a hardware refresh, for an MSP's many clients still on Windows 7, the timing of the tariffs is somewhat unfortunate.

"A lot of MSPs are directly looking to do a lot of Windows 10 migrations this year. Those clients that keep putting it off are all going to need to do it this year, and we've been seeing problems all year with getting deliveries on computer systems, which our manufacturers are telling us is because of parts in China. I think [the latest tariff increases] are going to make this a lot worse," Bickmore said.

MSPs looking to procure the necessary hardware for the upgrades may start to struggle as the supply chain becomes more exposed to the impact of the tariffs, Bickmore noted, adding that "a lot of what we have planned is becoming a real problem because we can't get the supplies we need."

This is compounded by customers who have left their Windows upgrades to the last minute, according to Chris Bradley, VP of managed services at Memphis, TN-based ProTech Systems Group.

He notes that the shortages on workstations are likely to stem from the high numbers of clients waiting until the last minute to do their Windows 10 upgrades, as opposed to as a direct result of the tariff increases. As such, he "fully expects" to see some supply chain issues in Q4.

Where the tariffs do come into play is cost,

Bradley said, meaning that customers who wait until Q4 to do their Windows 10 migrations are set to face further annoyances.

"The impact of the tariffs is that the costs are going to go up, so customers are going to like it even less. But it's not like they're going to have a choice," he noted. "The tariffs are going to make it cost more for those that have waited until Q4, making it more painful for them to make that upgrade. And unfortunately for us, in order to maintain the margins we need to, we're going to have to pass the cost along just like our vendors pass it to us."

It's not only clients seeking Windows 10 upgrades that will find themselves exposed to the cost impact of the new tariffs. Vendors are going to have to pay the tariffs on any necessary components they bring into the country from China, and they are going to want to pass those costs on to their partners, who obviously in turn will have to pass those costs on to their customers if they are to maintain stability in their business model.

Stocks shock

Elsewhere, the stock market reaction to the tariffs is cause for concern for any business, especially MSPs, who are often the first outsourced element to be cut when budgets are being reconsidered.

As Bickmore points out, "any time there are issues, particularly ones that spook the stock market, it seems like there's almost always a confidence issue that causes people to slow on their IT spending as well".

This means that not only do MSPs face the risk of existing customers slowing down their IT spend owing to lack of confidence, but new business is also affected as decision makers become more cautious about embarking on new projects.

"We are definitely witnessing that. It's very slow right now,' Bickmore said.

While the tariffs are set to expose MSPs to these complications, there are workarounds to the problem to be found.

Tim Burke, CEO and president at California-based Quest Technology Management, notes that distributors can offer a workaround for MSPs as they are much more likely to already have product "on shore" before the tariff announcement.

"But with some vendors, everything is built to order and their supply chain is directly back to China, which means I place an order here and the tariffs will immediately apply to whatever I place. That's versus going to distribution or to local providers who may buy things from China but already have them in stock. And as a plus, in order to gain my business, they might say, 'hey, I've got something that doesn't have the tariff applied'. So that's a potential alternative," Burke said.

He also notes that after the implementation of the first round of tariffs in June 2018, the firm placed some "significant orders ahead of time" in order to manage cost structure and ensure major upcoming projects wouldn't be affected by the tariffs or threat of future tariffs.

Another potential workaround for MSPs is a shift into software from hardware, Burke noted. This could minimise supply chain issues in particular and offer an alternative source of revenue for those players who are able to diversify in this way.

According to Mike Ritsema, president and partner at Grand Rapids, MI-based i3 Business Solutions, this is true.

"We're expecting nominal impact because the majority of our sales and profits come from services," the MSP said. "As for hardware, we basically pass through those costs with a price mark-up."

For those MSPs that are more exposed to problems affecting hardware, the good news is that, ultimately, any of the issues that arise from the tariffs will hit all those exposed more or less equally. Further, as Ritsema noted, for MSPs, a large chunk of their business is not built around hardware, which is currently where key concerns lie.

"We're not going to have our lunch eaten by our competitors, that's true," Bickmore pointed out. "And it's not like this is the business that drives most of my profitability, but it's just about having a bad customer moment and really putting our customers at risk. It's very hard for us to protect our customers if we can't make the Windows 10 migrations, so it's particularly bad timing."

The hope is, of course, that the tariffs will be temporary and merely "a lot of bluster that's going to settle down", Bickmore said.

"Hopefully things will get settled and everybody will be happy and we're going to get to swing back to business as usual, and just have a few months' delay," he added.

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Packing a punch

CRN's Fight Night 2019 recently saw 20 channel stars step into the ring to raise money for their favourite charities. Here's how they all got on

The evening kicked off with a cruiserweight bout between HPE Aruba's Micheál 'The Big Fella' Reynolds and Fujitsu's David 'The Magician' Martin. A thrilling fight ensued, with the Big Fella throwing a volley of punches in round three, bloodying The Magician's nose. Because of an injury sustained by David Martin in round three, the fight was stopped and **Micheál Reynolds** was declared the winner.

Bout two saw CDW's Andy 'The Tangerine Dream' Williamson face Northamber's Mark 'The Pummeler' Pallanca. The Pummeler was knocked to the floor in round one, and The Tangerine Dream went on to dominate round two. The referee stopped the fight in the third round, handing victory to **Andy Williamson**.

The third fight was between our two female boxers, Comms-care's Meg 'The Merciless' Littler and SecureLink's Courtney 'Killer' Healey. The Merciless came out strongly in the first round, following up with plenty of punches in the second round. Both fighters stepped up the pace for the last 30 seconds of the fight. Scoring the fight 29-28, the judges named **Megan Littler** as the winner.

Next up was a heavyweight bout between Jack 'The Flash' Funnel from CDW and Cisilion's George 'Nighty' Knight. Knight came out hard, with the real-time crowd vote 100 per cent in his favour after round one. The vote was a 50/50 split after round two, and both fighters gave it their all in the final round, seeming visibly tired by the end. In a very close fight, **George Knight** was declared the winner.

it was then the turn of Computacenter's Stephen 'The Architect' Love to face Logitech's Michael 'The Big Un From Wigan' Waterworth. Unfortunately, the fight was stopped in the first round after Love sustained a broken nose, and **Michael Waterworth** was handed the victory. We wish you a speedy recovery, Stephen!

Bout six pitted Pete 'The Heat' Hopkins from Freestyle IT against Scott 'The Money' Cooper from Softcat. A barnstorming first round saw Hopkins knocked to the floor. Despite a valiant effort from Hopkins, the fight was stopped in round two and **Scott Cooper** was declared the winner.

Next up saw Palo Alto's Keith 'The Hunter' Poyser versus Cisilion's Eamonn 'Smokin' Nolan. The real-time crowd vote was 100 per cent in favour of The Hunter for rounds one and two, and Smokin' Nolan was knocked down in the third in an energetic performance from Poyser. The referee stopped the fight in the third round, naming **Keith Poyser** the winner.

The eighth fight was a light heavyweight bout between Exertis' Steve 'Raw Deal' Ridge and Trustmarque's Paul 'Nosebleed' Neary. Ridge dominated the first round, gaining 100 per cent of the real-time crowd vote. The referee stopped the fight in the second round, handing victory to **Paul Neary**.

The penultimate bout was between Aaron 'Hammer' Smith from Westcoast and Sidney 'The Siduation' Ratcliff from Bytes. A fast start saw the real-time crowd vote 100 per cent behind Ratcliff. The referee stopped the fight after the first round as Smith suffered a shoulder injury, making **Sidney Ratcliff** the winner.

Finally, Mimecast's Ben 'Clubber' Lang faced Trustmarque's Lewis 'Foxy McFoxface' Fox. Both fighters gave it their all, with Clubber gaining 100 per cent of the real-time crowd vote after rounds one and two. Showing his appreciation for this fight, MC Mark Burford described it as "one I'd love to see again" and "off the charts". In a wafer-thin 29-28 decision, **Ben Lang** was declared the winner. In recognition of his efforts, Lang was also named the Fighter of the Night.

Not just broadliners

*After attending three of the biggest disties' events in recent weeks, **Marian McHugh** sums up the lay of the distribution landscape*

May was a busy month for a certain section of the channel, as three of the UK's biggest distributors held their annual partner events, and I managed to clock up nearly 200 miles in total travelling to and from them.

Arrow, Exertis and Ingram Micro Cloud may each have had their own takeaways for partners, but for those who attended all three the message was clear: none want to be seen as just a broadliner anymore, highlighting the importance of services and software to their respective businesses.

Arrow's Vision

Of the three, Arrow had the most philosophical message for partners. Held at the Olympia in London, data was the theme of its Vision event.

UK MD Mark McHale told the audience at his opening keynote that distribution will have to become an "aggregator of technology" and work with partners in customer conversations.

"We have to get tools and services and people to be able to do that aggregation," he told *CRN*.

"People seem to think that just by putting one piece of tech with another that that is a solution, but that's not what we call a solution in our business.

"We have to go much higher and talk to end-user customers to really understand what they desire in their business and then twist it to tech to come back.

"That's what we see our role as: helping our partners understand what the requirements really are, through the aggregation of technology."

Ingram 'don't call us a broadliner' Micro

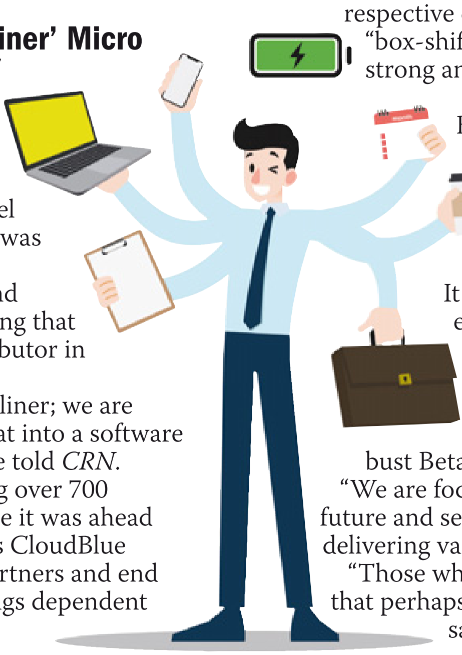
Ingram Micro was the most vocal of the three in its efforts to shed its 'distributor' label.

EVP of global cloud Nimesh Davé told the audience at its UK Cloud Summit, held in The Landmark Hotel in London that "software publisher" was now a more accurate term.

Scott Murphy, director of cloud and advanced solution, echoed this, stating that Ingram Micro was no longer a distributor in the traditional sense.

"We don't see ourselves as a broadliner; we are working hard to move away from that into a software company and a solution provider," he told *CRN*.

Cloud boss Davé boasted of having over 700 software engineers working to ensure it was ahead of its competitors, as he talked up its CloudBlue commerce platform, which offers partners and end users a "curated catalogue" of offerings dependent on their industry.



Exertis' exaltations

Silverstone played home to Exertis' Plug In event this year and, like its two competitors, it emphasised its services offerings, which currently make up 15 per cent of its business, with aims to grow that figure to 20 per cent in the next few years.

UK MD Paul Bryan told *CRN* that the firm would be focusing on audiovisual, device-as-a-service and cloud to expand its services offerings, though he admitted it was "behind the curve" when it comes to the latter.

Exertis was the only one of the three that didn't outright reject the "broadliner" moniker, although Bryan did echo Arrow's sentiments that the role of distribution has to keep up with the changing channel landscape.

"Distribution is about shifting the boxes, but actually it's more about what services we can wrap around – whether it's a consumer or business space, as well as how we can we help leverage resellers into whatever area they are selling in," he said during his keynote.

Surprisingly, Exertis was the only one of the three to raise the B-word at its event, with Bryan stating that when it comes to Brexit, distribution had to be to the channel what the UK government has proved it cannot be – strong and stable.

"We are seeing infrastructure investment and business projects being delayed and slower than normal," he said.

United message

Despite their rejection of the 'broadliner' label, the respective execs all acknowledged that the traditional "box-shifting" element of distribution is still very strong and unlikely to disappear.

"It's not an either/or scenario," Exertis' Bryan explained.

"We have to ensure we are focused on our services and that it becomes endemic to the sale because then people rely on us more and we are stickier to the customer."

It is understandable that as the channel evolves, distribution wants to be seen to be doing the same.

Pivoting away from sole reliance on hardware could prove to be a smart decision to avoid a similar fate of now-bust Beta, Entatech and Steljes.

"We are focusing on areas where we see growth in the future and services strategy to make sure that we are delivering value-add," Bryan stated.

"Those who are going under are probably businesses that perhaps haven't been as focused on that…I would say they didn't have a service-led approach."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