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NOVEMBER / DECEMBER 2017

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p. 18

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Contributors

ANDREW MOORE

Hurricane Harvey's relentless rains had barely stopped pummeling Houston when we trepidatiously asked Moore, COO at Houston-based MSP IronEdge Group, to write us a column. He was gracious enough to share some incredibly detailed insight into a continuity of operations planning strategy that ensures IronEdge can perform for its clients, even from the eye of the storm.

PETER KUJAWA

The president of the Locknet Managed IT Division of EO Johnson Business Technologies brings a unique perspective to the pages of *Channel Executive*. His financial services and healthcare clients are among the most legally-bound you'll find, regulated by dozens of federal and municipal mandates. That puts Locknet on the hook, but Kujawa rests easy. His secret weapon? His law degree.

NIKKI BAIRD

You want to know retail? You need to know Nikki. She's one of four partners at Retail Systems Research, a consultancy whose reports are required reading for any self-respecting retail systems provider. In this month's Channel Analysis, Baird ruminates on the leading trends in retail, and the opportunities those trends create for retail solutions providers.

MICHAEL MENDOZA

Omni-channel retail is still a lot like the Wild West: uncharted and unruly. That makes it tricky for the channel to navigate. For insight into your best omni-channel opportunities, we turned to a man who's built systems for some of the world's leading brands. Mendoza, senior solutions architect at billion-dollar integrator Hitachi Solutions, didn't disappoint.

It's Acquisition Season

MATT PILLAR Chief Editor

In a recent and sweeping conversation with Jay McBain, principal analyst, global channels at Forrester, he threw an eye-opening statistic on the table for discussion. Within the next seven years, 40 percent of channel executives will retire.

The statistic isn't eye-opening because it's alarming. Late-blooming baby boomers are making final plans to tap out, and the leading edge of Gen X, though generally working longer than their pension-heeled predecessors, won't be far behind. The statistic is eye-opening because of the opportunities it will bring to an IT channel that's in the midst of a good run of health and opportunity.

If we amassed all of the VARs, MSPs, and integrators that comprise the channel in a three-tiered pyramid, we'd see tens of thousands of lifestyle and boutique players — those in the single-digit millions revenue class — filling out the foundation. The middle tier would be the second-largest segment, where thousands of double-digit million-dollar companies play. The elite top spans a far wider revenue gap — let's say from a hundred million to a billion dollars or more — but it's composed of a far smaller cohort of companies.

Many of the lifestyle and boutique businesses are the channel's old guard. Some are dyed-in-the-wool POS dealers from the ICRDA (Independent Cash Register Dealer's Association, the precursor to today's RSPA, or Retail Solutions Provider Association). Some are the pioneers of the managed services model. Collectively, they own huge, yet geographically-fragmented, chunks of the small and midsize markets, and many of them have deep vertical and technical expertise honed by 20, 30, or more years selling specific technologies in specific vertical markets. Lots of them will be up for sale in the very near future.

Sheer volume aside, there are a few factors at play that make this an exciting merger and acquisition scene. For one thing, the channel is healthy. By the account of consultants at Service Leadership, Inc., MSPs on the right side of the operational maturity model have been enjoying consistent annual revenue growth beyond 20 percent — and in many cases *well* beyond 20 percent — for several years running. Top performers are boasting double-digit EBIDTA to boot. Those figures are corroborated by recent numbers coming out of HTG Peer Groups, which keeps close tabs on members' performance.

These numbers don't just indicate that mature channel companies are flush with the cash necessary to acquire. They also indicate that the channel isn't over-inventoried with solutions providers. If we were, winning new business and growing existing accounts would be tougher. In that scenario, letting the forthcoming retirement boom take the course of natural attrition would benefit everyone. As it stands, the market demand for VARs, MSPs, and integrators is too high for the channel to let that happen.

The business opportunities around specialization are another factor that makes this an exciting time to consider an acquisition. We're seeing specialized providers experiencing significant growth due to rapid shifts in the tech landscape. For some, it's fueled by demand for data security, which has spawned the market for MSSPs. For others, IoT and Big Data are feeding new, consultation-heavy practices focused on helping clients make better use of their data. The best way to get in front of these trends is often the acquisition of a team that's already in the fray.

Profits are up, interest rates are down, and affordable VARs, MSPs, and integrators are coming up for sale by the thousands. Now is the time. Choose your targets carefully. Analyze their financials with a concerted look at recurring revenue. Seek those that specialize in technologies or verticals you want to own, and scrutinize the employee-level assets that support that specialization. Go forth and buy confidently. C

Have a response to our experts' answers?
Send us an email to atb@channelexecutivemag.com.

Q

What retail technologies and/or services present the best opportunities for POS and retail systems VARs over the next three years?

A ONE OF THE BIGGEST SERVICES I think VARs can provide their customers is Security-as-a-Service. Instead of just waving it off as the merchant's problem, you can take the initiative and protect your customers from a lack of security.

There are a lot of different ways to do this, such as adding managed firewalls, secured Wi-Fi, backup for non-cloud systems, and a 4G failover option. All of these are incredibly easy to implement into a monthly service contract that's appealing to your customers.

Those are services your customers benefit from but often are not receiving from their VAR provider. All of these things are desperately in need and bring so much value to the merchant at the end of the day, but it's a missed service opportunity.

Q

Why are you and your peers at BNG excited about the potential of these technologies and/or services, and how are you gearing up to sell and service them?

A THERE HAS SLOWLY BEEN A SHIFT in the industry from a reactive business model to a proactive one, and that's a positive trend our business is following.

Structuring your business to sell proactive services, like managed firewalls, secured Wi-Fi, backup for non-cloud systems, and a 4G failover option for a reasonable fee, is a win-win for both VARs and the people they serve. Not only are you offering a cost reduction for your customer, but you're also keeping their business from being ruined by a data breach.

Trying to make it easier for merchants by having a consistent monthly price they can budget for takes a burden off their mind. No unexpected bill, no downtime if their internet service goes down, and backing up their system prevents losses. Nobody wants to hear they're receiving a $1,000 bill one month, or that they lost all their point of sale data.

BRADY NASH
is the CEO of BNG Team, a credit card processing and payment solutions company based in Fargo, ND. Brady leads BNG's overall company direction, spending most of his time negotiating contracts and new partnerships. Brady's daily life is spent ensuring the four departments of BNG are working together to achieve the company's goals. Brady lives in Fargo with his wife and four children.

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Are you a progressive channel business leader who's interested in contributing to the effort?

Drop Chief Editor Matt Pillar a note at matt.pillar@ChannelExecutiveMag.com.

The Distributor's Relevance In The Age Of The Internet

DEDE HAAS Contributor

Award-winning, high-tech sales professional and founder of DLH Services, LLC (www.DLHServices.com), Dede Haas creates channel sales solutions for vendors and their channel partners. This month, Haas explores the value of distributor relationships with two members of The ASCII Group, whose services help 1,300 North American VARs, solutions providers, and MSPs grow their businesses.

STANLEY LOUISSAINT

is principal and founder of Fluid Designs (www.fluiddesigns.com), a New Jersey–based managed services provider offering comprehensive computer, server, and network support services for managing computer information and technology systems.

MIKE BLOOMFIELD

is the president geek of Tekie Geek (www.tekiegeek.com), a managed services provider in Staten Island, NY. One of Staten Island's most-trusted IT advisors, Mike has a passion for business continuity, network security, data security, and IT infrastructure.

QUESTION 1: Distributors have been part of the channel from the beginning. Now that software and cloud application vendors are easily able to work directly with their partners and cut out the middleman, can distributors still be relevant and add value?

LOUISSAINT: The answer to me is yes, because distributors *do* add value. They let you know when there are bundles, discounts, or promotions on items you buy. They can add value by introducing new products and services.

It's not just about the product or service that you're buying from them but also the overall industry knowledge they have, because they do work with all kinds of manufacturers through all kinds of applications. With that knowledge they can help you to architect or create what you're trying to do the right way.

BLOOMFIELD: I absolutely believe that distribution is still a necessity in my business. If growing up in Staten Island, NY, taught me one thing, it's that business is extremely relationship-driven. Human interaction is absolutely necessary. When cutting out the distributor and going direct, you're often dealing solely with a website. They're expecting you to place your orders and get pricing without human interaction, because they're trying to cut costs.

The other major area that I find is lacking when cutting out distribution is that support usually becomes lackluster.

QUESTION 2: What advice would you give to a solutions provider who is being recruited by a vendor that sells software through a distributor?

LOUISSAINT: Make sure the distributor you're going to work with can meet your needs. I prefer an online portal where I can order things or request items such as licenses without having to interact with a person on the phone.

Make sure you can place your orders in a smooth, expedited fashion and have room to make your margins. Time is a valuable resource, and the more you spend toying around with distribution the less you have left to make money.

BLOOMFIELD: Ask some straightforward questions. Where does support come from? Am I able to go to the distributor for support? Does that distributor have a dedicated support team to help with both presales and post-sales support issues?

The final thing I would recommend asking is whether you are still able to register deals and try to get the best pricing.

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The Promise (Or Peril) Of Retail

Are store closings a sign of a receding vertical, or are they indicative of a massive opportunity for retail solutions providers?

In this month's "Channel Analysis" column on page 12, Nikki Baird, Principal Analyst at Retail Systems Research, shares the top tech trends in retail for 2018. These trends are tied directly to retailers' ability to maintain the relevance of their stores, which have seen significant culling in 2017. Here's a look at the major retail brands that have shuttered the largest number of sites through Q3 of this year, as well as those who are putting up the most new stores in spite of the rumors of retail's demise. While the net square footage of the playing field is clearly dwindling, the tech going into new stores — and being deployed to aid the struggling — spell opportunity for the retail IT channel.

STORE CLOSURES

Total **6,101**
announced store closures

183%
year over year

RadioShack	1,000
Payless Inc	700
rue21	400
Ascena Retail	400
Sears & Kmart	358
Gymboree	330
The Limited	250
hhgregg	220
GameStop	190
Bebe Stores Inc	180

STORE OPENINGS

Total **3,381**
announced store openings

58%
year over year

1,290	Dollar General
650	Dollar Tree
400	Aldi
111	TJX
100	Five Below
100	Ulta
100	Lidl
90	Ross Stores
90	Gap
70	Sephora

SOURCE: Fung Global Retail & Technology

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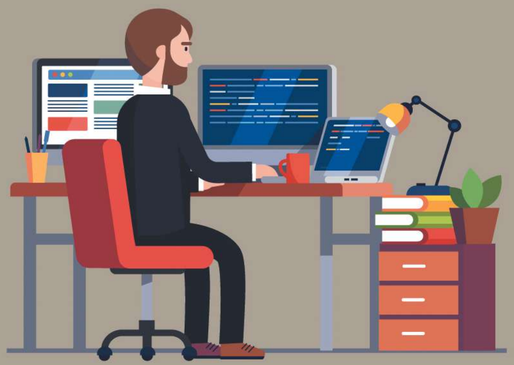

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Top Three Retail Trends For 2018 And What They Mean For Resellers

NIKKI BAIRD Managing Partner, RSR Research

By nearly all accounts, 2017 has been a rough year for retailers. We kicked off the year with a panic attack about the death of retail (which was indeed exaggerated) and worked through further panic attacks driven by Walmart's aggressive moves into e-commerce and Amazon's aggressive moves into brick-and-mortar.

It would be easy to portray 2017 as a kaiju movie: *Mothra vs. Godzilla* or something like that, where two titans battle it out to rule the world. In that analogy, most of the rest of retail would pretty much be Tokyo, getting trampled beneath monster feet. But the truth is, every retailer's strengths hold the seeds of their weaknesses, and Amazon and Walmart are no different. There are opportunities out there for the rest of retail. They just have to find the two titans' blind spots and exploit them.

Unfortunately, right now it's fair to say that most of the rest of retail is still operating in reactionary mode. They know they need to do something, they have a long list of things to do, and they all seem crucially important; and while they have a sense of urgency as never before, they have the same budget they've always had, which is already dedicated mostly to keeping the lights on.

Bottom line, retailers are looking for advice and help, and this is a perfect opportunity for resellers to play an advisory role in helping them navigate the challenges ahead. But if it's not the end of retail, the question remains: What's next? And how can you help?

Every summer, RSR Research takes a step back from the noise and looks at trends in our data and in our interactions with retailers and solutions providers, and tries to piece together a big-picture view of what's going to have the most impact on retail in the next year. We publish this take in the fall, to give retailers and solutions providers alike the opportunity to build these trends into their planning for the next year. Here's our take on the top three trends and what they mean for resellers (note, there are seven trends in all).

TREND #1: RETAILERS WILL HAVE TO CONTINUE TO FIGHT OFF THE PERCEPTION THAT "RETAIL IS DEAD"

The news got really grim during the first half of 2017, with lots of cries of retail apocalypse. Part of the problem was a lot of reporters focusing on the bad news. Yes, stores were closing. There are still plenty of retailers who are over-leveraged because of realty trust buyouts or investors who piled on debt, and those retailers, cash-strapped with debt payments, are the most likely candidates to close next. They certainly don't have much breathing room to make the game-changing investments required of both stores and omni-channel to keep up with consumers' expectations.

But reporting only store closings is like reporting only deaths and not births. The truth of the matter is, there were actually more store openings than closings in the first half of 2017, and for every retailer who is closing stores, there's one who sees opportunity to open stores.

That does not mean it's all going to be rosy news going forward, and our expectation is that retailers will have to continue to reassure both investors and customers that they are not just alive and kicking but doing so robustly.

For resellers, your role in helping retailers tell their story of growth and change is critical. Retailers are going to prioritize investments that help them refocus from spending on maintenance to spending on innovation, and resellers play an important part in helping retailers identify exactly which investments will help them achieve that goal, as well as helping them get those benefits quickly.

TREND #2: THE DEBATE OVER WHETHER OMNI-CHANNEL IS RELEVANT TO SPECIFIC SEGMENTS OF RETAIL IS OVER. IT IS.

This is mostly a grocery story. Grocery has sat out of, by choice, a lot of the innovations coming out of e-commerce and omni-channel. For a long time the vertical maintained that customers wanted to come to stores, that they're picky about produce, and there's no cost-effective way to deliver 12-packs of Diet Coke to people anyway.

Even before Amazon bought Whole Foods, grocers were starting to realize that these long-held ideas are no longer true. But now that Amazon has bought Whole Foods, these retailers are scrambling to get on the omni-channel learning curve as fast as possible. What's most interesting about this space is the large number of independent retailers who get their technology from a co-op or through a distributor – which are just as far behind in omni-channel thinking as they are.

For resellers, don't be surprised if some of these independent retailers come knocking on your door looking for help. If you have strong omni-channel capabilities, but you haven't really served the grocery market before, 2018 may be the year when you give the vertical serious consideration, because they are going to need a lot of help and don't really have a lot of resources to turn to.

TREND #3: CONSUMERS ARE NOT AS PRICE-OBSESSED AS RETAILERS BELIEVE. WILL THEY FINALLY MOVE OFF PRICE AS THE PRIMARY VALUE PROPOSITION?

If there are any lasting scars from the 2008-10 Great Recession, it is the persistent belief among retailers that consumers only care about price. Part of the issue may be that when you ask consumers, they'll tell you they only care about price. But this can lead retailers just as far astray as asking consumers if they want to see more advertising in videos. Of course they're going to say no – but that doesn't stop the advertising from working. Consumers still respond to it.

Low prices are the same way. Consumers say all they want is low prices, but their behavior speaks differently. Yes, there are plenty of retailers who have been victim of consumers who use their high-touch service model to figure out what they want to buy and then go online to buy it at rock-bottom prices from Amazon or someone else. You can have the highest-touch model in the world, but there is an upper limit to what consumers are willing to pay for that service, and it's probably not as high a limit as retailers would like it to be.

But the reality is, only Amazon or Walmart is going to win the race to the bottom on prices. For everyone else, the end of the race to the bottom is not a finish line, it's a cliff. With giant rocks at the bottom to land on.

Everyone else is going to have to differentiate on something other than price. The reseller who can help its retail clients find that differentiator and profitably exploit it is most likely going to have a client for life. And, in fact, this is exactly what retailers themselves need to do: they need to become so ingrained in their customers' lives and so helpful in anticipating and solving their problems that consumers don't even think about prices. As long as they're feeling like they got a good value, they'll be customers for life.

THE BOTTOM LINE

These are just the top three trends to anticipate for 2018. There are more — store employees are at a crossroads, and 2018 just may be the year they find a new fate. And, more good news for resellers, retailers are slowly but surely being forced to re-orient their businesses to become more tech-focused. That means more IT spending and more focus on data and how it can drive value for them. But most important of all is the sense of urgency among retailers. Consumers are changing and demanding more from retailers faster than ever. If you can help them keep up, then you may indeed earn a client for life.

NIKKI BAIRD is Managing Partner at Retail Systems Research. She focuses on trends impacting the consumer-retailer relationship, along with their supply chain and marketing implications. You can see all seven trends for 2018 here: https://www.rsrresearch.com/agenda.

When Harvey Struck Houston, We Stayed Open

ANDREW MOORE COO, IronEdge Group

Hurricane Harvey unleashed almost 50 inches of rain, the equivalent to 500 inches of snow, on the Houston metro area. The rain was slow, steady, and nonstop, lasting for almost a week. Most people cannot understand what it is like to experience rain like that for seven days. Water starts to back up into the ditches and culverts. Storm sewers overflow into the streets. Water creeps over the grass and up to the doorstep, then inside, then upstairs. Suddenly, when the water is everywhere, there is no time to make plans.

A HISTORY OF HAVOC

In June 2001, Tropical Storm Allison sat on top of Houston, TX, for six days. Over 35 inches rained down into the bayous and creeks. Roads were impassable; critical infrastructure located underground was destroyed. Phone systems, servers, and mechanical systems required for businesses to run were under 12 feet of water. It took months to recover. Some companies never came back. But Harvey would push every system to its limit and make Allison look like a pretest.

Over the last 15 years, Houston and the rest of our nation learned by experience about disaster management. Just after Allison, the U.S. endured September 11, and a new focus was applied to business and government regarding the continuity of operations planning. Shortly after the terrible events in New York and Washington came the formation of the Department of Homeland Security. With an injection of dollars and national focus, many industries and government agencies ramped up quickly on how to manage a crisis. Houston helped with Katrina in 2005, and, shortly after, we lived through Hurricanes Rita and Ike. All of these events came with lessons learned regarding planning, continuity of operations, personnel and disaster management. Harvey was going to test all of those plans. Sixteen years after Allison, it was time to see what Houston had learned.

> **“Disaster recovery is the planning and use of systems *after* a disaster event has occurred ... . Business continuity is not the same.”**

BUSINESS CONTINUITY VS. DISASTER RECOVERY

It is important to understand the difference between business continuity and disaster recovery. The terms are often used interchangeably, and this creates confusion. Disaster recovery is the planning and use of systems *after* a disaster event has occurred. This is typically a major failure of critical systems, be it by hurricane, hacker, or, more commonly, human error. When a server, data set, facility, provider, or key person in your organization is not available and a process must be enacted in order to recover from the issue, disaster recovery is enacted. Having a server fail and needing to recover from a backup is considered disaster recovery.

Business continuity is not the same. Continuity of operations planning (CooP) is a proactive measure, whereas disaster recovery is a reactive measure. Business continuity plans and systems provide a guided approach to handling an emergency or failure in order to maintain a minimum level of functionality. An example of a continuity plan would be: In the event of potential flooding, personnel will work remotely in order to avoid issues with getting to the office and not covering shifts.

> **“IronEdge schedules days several times per year where everyone works remotely. Drills are executed to surprise the team, asking them to work from home with little notice.”**

Houston has a multitude of potential emergencies that can occur at any time. Our city floods a lot. It can be hard getting to work after a hard rain, let alone after a tropical storm. We are an international melting pot of people and have one of the largest international airports in the world. Houston is an ideal place for a pandemic. We are a target for terrorist activity, which includes dirty bombs and bioterrorism. The most likely scenarios preventing our company from functioning properly boil down to team members not being able to get to our facilities and having to shelter in place from either a natural disaster or man-made attack.

The best continuity of operations plans require *no change* in normal workflows and systems. We have built our primary systems for client support to be accessed from anywhere in the world at any time. We utilize an internet-based phone solution, co-located servers in conjunction with AWS and Azure for key internal applications. We provide laptops to ALL personnel. There is no change in access or utilization of the systems regardless of being in the office, at home, or on the road. By having to activate secondary continuity systems, the following issues emerge:

- Who makes the call to rollover to a secondary system?
- Who actually flips the switch to roll the systems over?
- Do the employees know how to access the secondary systems?
- Are there multiple people available for each role in the plan in the event that primary personnel are unavailable?
- What else is different from normal operating procedures?

HOW TO FUNCTION FOR FAILURE

IronEdge schedules days several times per year where everyone works remotely. Drills are executed to surprise the team, asking them to work from home with little notice. This allows us to tweak our processes and improve our response.

Using video conferencing, chat, and email are keys to a successful continuity drill. Employees must be able to communicate with one another quickly and directly, as if they were sitting next to each other in the office. Our team checks in and out daily during continuity exercises, providing transparency. We execute meetings via video conference. Almost no change to our daily work is caused; the execution and location simply shifts.

It's more than just technical redundancy. It's also important to build processes and plans around positions and roles, not specifically named individuals. By building processes around positions, our team does not run the risk of having failures during an emergency when specific individuals are not available. In our experience, by sharing the responsibility for making decisions as a group we avoid bottlenecks during continuity exercises.

Co-location facilities, coupled with advances in cloud infrastructure (IaaS) and online software services (SaaS), make most on-site technology unnecessary. Taking the time to map out what systems, applications, and workloads can be moved to a redundant infrastructure should be top of mind for any executive.

HARVEY AND THE GREAT TEXAS FLOOD OF 2017

During Harvey, the IronEdge team activated our plan. We asked that all personnel work from home and check in as per our standard procedure. Over the five days of rain and flooding, we had multiple team members lose power and internet connectivity, and a few evacuated their homes due to rising flood waters. We also had *no* SLA breaches. The members of our team who could work, did work. When they were not working, they helped their neighbors find shelter and muck out houses. The only major issue our team had was due to a shutdown of UPS, FedEx, and the Postal Service. Inbound and outbound packages were delayed or held, impacting our ability to ship and receive

THE COOP FRAMEWORK

Continuity of operations planning (CooP) is based on a DHS/FEMA initiative designed to ensure continuity of government activity during any number of disastrous events. The initiative has spawned similar preparedness models at the corporate level. These are the overarching continuity requirements for agencies, per FEMA:

ESSENTIAL FUNCTIONS: The critical activities performed by organizations, especially after a disruption of normal activities.

ORDERS OF SUCCESSION: Provisions for the assumption of senior agency officials during an emergency in the event that any of those officials are unavailable to execute their legal duties.

DELEGATIONS OF AUTHORITY: Identification, by position, of the authorities for making policy determinations and decisions at HQ, field levels, and all other organizational locations.

CONTINUITY FACILITIES: Locations, other than the primary facility, used to carry out essential functions, particularly in a continuity event.

CONTINUITY COMMUNICATIONS: Communications that provide the capability to perform essential functions, in conjunction with other agencies, under all conditions.

VITAL RECORDS MANAGEMENT: The identification, protection, and ready availability of electronic and hard copy documents, references, records, information systems, data management software, and equipment needed to support essential functions during a continuity situation.

HUMAN CAPITAL: During a continuity event, emergency employees and other special categories of employees who are activated by an agency to perform assigned response duties.

TESTS, TRAINING, AND EXERCISES: Measures to ensure that an agency's continuity plan is capable of supporting the continued execution of the agency's essential functions throughout the duration of a continuity event.

DEVOLUTION OF CONTROL AND DIRECTION: Capability to transfer statutory authority and responsibility for essential functions from an agency's primary operating staff and facilities to other agency employees and facilities.

RECONSTITUTION: The process by which surviving and/or replacement agency personnel resume normal agency operations from the original or replacement primary operating facility.

equipment. We solved this problem by redirecting inbound shipments to our San Antonio facility and driving outbound shipments to San Antonio to ship from there.

A backlog of issues, 30 percent higher than normal, was a by-product of the storm, as many clients were not available for us to help with their issues. We eliminated the backlog within a week of returning to normal operations. We worked remotely for the next two weeks to avoid traffic delays and made no excuses to our clients for not being available. We had every normal meeting and every planned event except for the onboarding of two new employees, which we pushed back a week due to safety concerns of flooding near our facilities. Over 50 inches of rain fell on Houston, and IronEdge never went down or had to take our services offline.

Due to the following guidelines we put in place, IronEdge believes we can endure most major disasters, from a citywide shelter-in-place, to a total failure of our corporate headquarters:

- All major data and applications are located in public and private cloud systems
- Normal business processes are the same as business continuity processes
- Planned and surprise testing of business continuity (BC) happens each quarter
- Open and over communication is required during a BC event
- We do not panic because we plan … and we plan so we do not panic. Our families and clients need us to be calm and make good decisions.

In order for a business to execute a successful continuity plan, the plan must be tested and revised, and each employee must be immersed in the details. We find it best to align the plan as closely to normal operations as possible so the employee immersion is seamless and natural. During a stressful time, with changes and issues all around, the last thing an organization should ask its team to do is to run at full speed using dated instructions on systems that are never tested.

ANDREW P. MOORE is COO at IronEdge Group. Andrew has led strategic and operational service delivery for the firm for more than seven years. Andrew is Lean Six Sigma Certified and has an MBA from the University of Phoenix. He is the chair of the Greater Houston Power BI Users Group, recently named PUG of the month by the national chapter. He's also the lead singer and keyboard player for the corporate house band. Find him online as an IronEdge blogger and thought leader and on LinkedIn at Linkedin.com/in/andrewpmoore/

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By M. Pillar

FROST & SULLIVAN PROJECTS THE FIRST RESPONDER TECHNOLOGY MARKET TO HIT $131.6B NEXT YEAR. HERE'S HOW ONE EMT-TURNED-IT INTEGRATOR IS EARNING A PIECE OF THAT GIANT PIE.

Bob Gronenthal lives to serve, and that's no platitude. Twenty-six years ago, while kicking off his pursuit of a criminal justice degree, he signed on with a volunteer ambulance company serving a portion of the 912 square miles that comprise Suffolk County and its more than 1.5 million residents. He quickly became an advanced EMT. By 2000, he was the chief of service for his department. At this point, you're wondering why you're reading about an honorable and well-intentioned man who has seemingly little to do with the IT channel.

Well, Gronenthal had a problem, and IT was the answer. In 1994, just a few years after joining the ambulance company, he was hired as an Emergency Medical Services (EMS) dispatcher with Suffolk County. In that role, Gronenthal was responsible for managing 911 calls and routing the appropriate emergency resources from 135 volunteer fire and ambulance departments. Back then, this was a largely manual exercise guided by a phone book and a physical—as in paper—Hagstrom map, the undisputed New York Metro atlas of record for nearly a century prior to the invention and commercialization of GPS.

"We hand-drew all the fire and ambulance districts into these giant Hagstrom maps," says Gronenthal. "When a 911 call came in to an operator, the operator used these maps to look up the address of the emergency. Then, they'd record the call information by hand on duplicate paper and hand it over to dispatch." That was the heaviest lifting in the cumbersome process, but the process would only become more manual. Dispatch would use that handwritten call data to determine which emergency procedures were necessary, using a

SELLING MOBILE TECH IN LIFE-CRITICAL APPLICATIONS

MATT PILLAR Chief Editor @MattPillar

Rolodex of procedural protocols as a reference. When the system was running at peak, it was up to 15 minutes between receipt of a 911 call and the departure of an emergency crew.

Gronenthal tells a great story about he and a couple of his coworkers setting out to solve the problem. They took it upon themselves to learn Visual Basic and Access by reading books, and they subsequently developed the first CAD (computer-aided dispatch) system for Suffolk County Fire Rescue. They built the program on what Gronenthal describes as a hand-me-down Northrop Grumman dispatch infrastructure. They didn't know how to wire. Cables were simply crimped together. When they set out to test the first iteration of the system in the new dispatch center, they found themselves with a two-for-three success ratio. Was the First System on? Check. Was the Second System on? Check. Was the Third System on? Negative. Any attempt to add additional systems crashed the entire network.

Gronenthal and company kept after it, though. Despite a lack of resources, they eventually built a CAD system that worked. One day in 1998, a local fire chief visited the dispatch center and took notice. "If you can build this for the entire county, you can write software for my department," the chief told Gronenthal. He didn't know it then, but the EMT-turned-developer was staring at his future.

THE BEGINNINGS OF A NICHE IT INTEGRATOR

Realizing an opportunity to develop his own CAD and records system to market, Gronenthal launched CDS, a development company formed to refine and sell CAD software and networks to fire and EMS organizations. But Gronenthal admits that his and his associates' development skills were no match for the transformational nature of Y2K, not to mention the changes to national dispatch standards that followed. He and business partner Peter Vescovo sold out to an established software vendor in 2004, began representing that company's software package, and billed themselves as an IT service provider to first responders. They called their new endeavor ITS (Island Tech Services).

"When we launched, our customer base was comprised exclusively of fire and ambulance companies," says Gronenthal. "The mobility revolution was in full swing at that time, and there was a clear need for data transmission and accessibility — not just voice — in first response vehicles." The company began introducing ruggedized laptops to first response vehicles around that time, riding the relatively new trend of mobile data plans on public networks. Back then, the company used the 1xRTT (single-carrier radio transmission technology) on a Verizon network, which was predated by the radio and RF networks Gronenthal had grown up with.

Today, ITS is selling, deploying, and integrating a host of mobile and field service technologies to a variety of field service-oriented businesses in the public and private sectors, but fire, EMS, and police organizations remain the company's bread and butter. "Our solutions have the vehicle in common—they're all wrapped around the vehicle, the technology in the vehicle, and its voice and data connection to dispatch and headquarters," says Gronenthal. Using that focus, ITS has blossomed into a $12 million company that supports 26 employees in its Long Island, New Jersey, and Massachusetts offices with nationwide expansion on the horizon.

THE STICKY NUANCES OF MUNICIPAL MARKETS

Gronenthal says that while ITS caters its service delivery model to fit clients' objectives—it's a full-fledged MSP— he admits that subscription-based, managed IT services can be a nonstarter for some government and municipal customers. "Eighty percent of our market is municipal government agencies that run on an annual operating budget. That doesn't allow multiyear vendor contracts, so we tend to run in an annualized fashion as well." He also warns that providing a service to customers that operate on annual budgets brings with it an inherent and repetitive risk of being underbid. "When your customers can't lock in for a long contract period, you find yourself facing more, and obviously more frequent, competition," says Gronenthal.

Annualized municipal budgets are also far from static. "In general, municipal budgets are on the decline, and nobody wants to raise taxes," says Gronenthal. "In the emergency response space, that's somewhat mitigated by fee hikes in certain municipalities, but budget decline remains an issue." Gronenthal says it's important to focus on the long-term operating expense of a solution, versus the up-front capital expense. "Our customers are going to spend a significant amount of money on a solution that has to last them five to seven years and operate 24/7 in a vehicle that sees all sorts of weather, terrain, temperature, and lighting conditions," he says. "We must provide a functioning, safe, and ergonomic mobile office that holds up for the duration of its service. Our engagement approach focuses on that long-term operating investment."

> **"OUR SOLUTIONS HAVE THE VEHICLE IN COMMON—THEY'RE ALL WRAPPED AROUND THE VEHICLE, THE TECHNOLOGY IN THE VEHICLE, AND ITS VOICE AND DATA CONNECTION TO DISPATCH AND HEADQUARTERS."**

Shrinking hardware margins add to the integrator's challenge, and that reality is exacerbated by low-cost bids for high-volume municipal jobs from the major national resellers that offer few to no services, value-added or otherwise.

Services are, therefore, the tip of ITS' differentiation spear. In addition to the ruggedized mobile hardware, WAN and VAN (vehicle-area network) infrastructure and software integration that make up its core offering, ITS service offerings include:

- Firewall and Security Management
- Data Backup and Disaster Recovery
- Account and System Administration
- Project Management
- Cloud Data Storage
- Service Desk Management
- Help Desk
- Server Support
- Secure Remote Connectivity.

"When we wrap paid services around the bid, we position ourselves as a total solutions provider, which differentiates us from some of the low-cost providers," says Gronenthal.

ANCILLARY SERVICES KEEP CUSTOMERS IN THE FOLD

To further create "sticky" customer connections, Gronenthal and Vescovo have expanded the ITS line card beyond straight-up tech integration. Given their backgrounds, the men know their way around an emergency vehicle the way most MSPs know their way around a server room. That being said, ITS has taken the total solutions provider concept well beyond the mobile and field service technology it sells. In fact, ITS can perform nearly every modification necessary to turn a Ford Explorer into a Ford Interceptor — with the exception of dropping in the Interceptor's 365 horsepower Cyclone engine. Here's a partial list of the vehicle upfitting services ITS performs in its own garages:

- Mounting solutions for all vehicle types
- In-vehicle laptops, tablets, video systems
- Vehicle lighting: emergency and amber
- Partitions, cages, and K9 transports
- Mobile power management and vehicle charging
- Vehicle consoles, custom cabinetry, command centers
- Mobile installation and complete upfit services
- Emergency vehicle graphics application.

These are relatively new services from ITS, but they aren't an occasional "Sure, we can do that" proposition. When one of ITS' police department, fire department, or ambulance service customers orders a new Ford vehicle, that vehicle often gets the ITS treatment before the customer even sees it. ITS garages are Ford Authorized Drop Ship locations. "The genesis of these service offerings was more necessity than opportunity," explains Gronenthal. "The IT part of the emergency vehicle build is typically the last step in the assembly line. We'd get a vehicle, begin the installation of some console or in-dash technology, and often find ourselves fixing the work of the light bar and siren controls installers," he says.

Gronenthal realized that it would be far more efficient for his installation team to wire and bolt multiple components at once—while the hood was open and the upholstery pulled back—and that ITS' own efficiency gains would pale in comparison to those realized by its customers. "Offering complete IT and upfitting services is a huge differentiator for us," he says, "because it greatly diminishes the amount of time our customers have to wait to put a vehicle into service or keep one out of service for maintenance work." ITS recently invested in a new 5,000-square-foot garage to house its vehicle upfitting operation, and the company also performs some installation and maintenance services in the field to further minimize customers' downtime.

The ancillary products and services concept is one that can easily be applied to other verticals. Take retail, for instance. At face value, it might not make a whole lot of sense to a traditional retail POS provider to add shelving or refrigeration units to its line card. But as those fixtures become increasingly digitized in the age of IoT, their suppliers will either look to integrate with — or encroach on — the POS playing field.

THE IMPORTANCE OF VERTICAL EXPERTISE

"In many small police departments, the resident IT guy is often a police officer who has an interest in technology but is not formally trained in IT," says Gronenthal. His point isn't lost. Waltzing into a police or fire department with a feeds-and-speeds IT pitch probably won't do you any favors. Talking their talk and demonstrating the benefits of technology in terms they understand certainly will. "Being the subject matter expert in this particular space separates us from the competition," says Gronenthal. "They want to know why they should buy a particular product. We represent multiple competing vendors, and because we know the first responder space, we can give them specifics that they understand as to why they should take our recommendation." Of course, selling to municipal employees doesn't come without its challenges. "I don't mean to imply that commercial IT sales are easy, but there's a commercial sales advantage in that you can sell a business owner on the cost of lost revenue," says Gronenthal. "If a tech failure shuts a commercial client down for a day, they might lose thousands, even millions of dollars. In the emergency and first responder space, at a minimum, tech downtime is disruptive and inefficient. Tickets won't be processed or reports won't be automated. On the extreme end, however, lives could be put at risk or even lost if dispatch is down."

> **"AS A TRUSTED ADVISOR AND SUPPLIER TO OUR CUSTOMERS, IT'S MY RESPONSIBILITY TO ACT ON THEIR BEHALF AND ADVOCATE FOR THEIR NEEDS. ALLOWING VENDORS TO INFLUENCE US INTO DISPLACING THEIR COMPETITORS WOULD BE A DISSERVICE TO OUR CUSTOMERS AND, IN TURN, OUR BUSINESS."**

Police generally accept the value of technology, says Gronenthal. "They're in the car 8 to 12 hours per day. It's their office, and dispatch serves as their own personal lifeline." He sees fire and EMS, however, as emerging markets for IT. "Telemedicine is changing the market. There's new pressure to provide patient data from the field to the hospital in a timely and accurate manner, and that's opened up a tremendous opportunity for us."

As a case in point, ITS recently worked on a mobile stroke unit pilot project in partnership with Capital Health. The solution enabled first responders to conduct CAT scans in the field using a mobile CT scanner and provide those scans to doctors in real time from the field. In a less dire example, there's growing interest in mobile health technology in the home healthcare space. "There's a tremendous amount of money being spent on these vehicles. We're currently handling the network aspects, but there's a lot of opportunity to expand from there as the markets mature."

SIDESTEP CAREFULLY

Gronenthal says another advantage of near full ownership of his customers' vehicle tech and fitment needs is that it's allowed his company to make some exploratory moves, and even fail on a few, without suffering too much collateral damage. "We invested in GPS tracking a few years back. We thought that AVL (automatic vehicle location) systems were really going to take off," he says. "We quickly learned it's a low-margin, super-competitive business that was already well established. Verizon/Fleetmatics could do it, and soon commercial and even residential GPS tracking was pervasive. We thought maybe we'd pick up the landscaper and fleet guys with that offering, but that didn't pan out either; it became a ubiquitous commodity too quickly." The financial impact of that investment wasn't crippling, he says; it was more a man hour and marketing resource loss. "But we learned from it and instead brought a third-party offering using open platform systems, so clients could use pre-existing hardware, which was a much better decision for us and our clients."

Gronenthal is willing to take those risks for the benefit of having a long-term customer relationship when one shows promise. In the mobile stroke unit example above, for instance, he says the immediate payback was minimal. "There were a small number of vehicles built, and it was far from a financial windfall," he says, "but the customer relationship means a lot more at this point." Even the upfitting portion of the vehicle business, he says, is more about the totality of the solution. "It's not a very high-margin sale, but owning the relationship proves high-value in the long run."

FOCUS ON CUSTOMER — NOT VENDOR — CENTRICITY

As mentioned earlier, ITS isn't betrothed to any single vendor in any single hardware category – it carries Panasonic Toughbooks, for instance, and it also carries ruggedized laptops from Getac. "We don't position the vendor on the vendor's behalf, and we don't go into any sales engagement with a vendor displacement mentality," says Gronenthal. "If a customer is happy with their hardware, we have no cause to disrupt that. If they're struggling with it, we'll make recommendations based on their needs," he explains. Transparency with his vendor partners, he says, is key to managing those vendor relationships. "As a trusted advisor and supplier to our customers, it's my responsibility to act on their behalf and advocate for their needs. Allowing vendors to influence us into displacing their competitors would be a disservice to our customers and, in turn, our business." Gronenthal says carrying competing lines does help him leverage his vendors for favorable terms and even better products for his customers. "If a vendor wants us to lead with its device, that vendor needs to be positioned to help us sell it by ensuring it's differentiated from competitors. They need to be working hard to minimize lead time and ensure the availability of their products," he says. There's no point, he says, in vendors trying to outdo one another on margins. "We're premier dealers for all of them, so we're already discounted as deeply as we can be. We might have a couple of points to play with, but that's a minor consideration in relation to getting the product that's right for the customer and getting it in a timely manner."

NO VERTICAL FOR SALESMANSHIP

Gronenthal closes out his commentary on selling tech to first responders—or selling them anything, for that matter—with some sage advice. "In their professional capacities, first responders are trained to cut to the chase. Police officers are paid to determine who's honest and who's not. EMTs and firefighters are trained to make decisions based on the facts and the vitals they're presented with," he explains. "They apply the same critical thinking to vendor and solutions provider selection, and that's important to understand when you're trying to sell them something." He also classifies them as a tight clique, where word of mouth and referrals are worth their weight in gold. If a chief in one department recommends ITS to a chief in another department, half the battle is won. Of course, it helps the cause at ITS that the guy behind the sale is, at heart, a public servant himself.


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M&A FUNDAMENTALS FOR VARs

ADVICE ON SELLING YOUR BUSINESS CAN IMPROVE YOUR COMPANY NOW

ABBY SORENSEN Executive Editor @AbbySorensen_

Every VAR should want to increase recurring revenue, form stickier relationships with customers, maintain organized financial records, and accelerate growth. If you listened to sound bites of Brooke Ybarra's (pronounced ee-bar-a) keynote presentation at *Channel Executive's* Retail IT VAR Of The Future conference in April, you might have thought she was giving advice on how to run a successful IT channel company. Instead, the senior manager at First Annapolis Consulting (recently acquired by Accenture) was giving VAR executives insights on how to prepare their businesses for a sale. Much of Ybarra's advice is similar to the buying and selling process she sees regularly in the enterprise payment space. No, solutions providers are likely not going to be involved in a $10.4 billion deal any time soon (that's what Vantiv paid to acquire Worldpay in August 2017, not to mention the $1.65 billion it paid for Mercury in 2014). Still, Ybarra knows the channel, and her insights into M&A fundamentals apply to businesses of all sizes.

Keep in mind a key part of the Mercury-Vantiv deal was Mercury's strong presence in the channel. It should come as no surprise that the M&A market for payment companies is healthier than it is for the IT channel as a whole. Forrester's Jay McBain says the IT channel is down 30 percent since the recession, though that's not all doom and gloom. Some could see this as a market correction: many resellers came out on the other side of the economic downturn thriving with increased profits, and the companies who lacked the discipline and processes to survive were cleared out of the way so these more stable resellers could capture new customers. McBain offers this portrayal for many of the 600,000+ channel companies: "Good midsize companies with deep specialization skills are being sold, but at a multiple less than revenue. Those companies that are more of a generalist are going for a much smaller multiple to the point where it might not even make sense to sell. And if you do sell, it comes with a string attached that you have to keep working."

Regardless of the size of a deal or the timing of it, understanding the buying and selling process can help any VAR improve business processes and run a more-efficient, profitable company. As Ybarra points out, "The value drivers and the steps that you can take to be preparing your company for sale are really applicable, whether you're a payments company, a VAR, an MSP, or involved in other pieces of the value chain." She outlines important things solutions providers should consider before they try to sell, including understanding value drivers, marketing the company to potential buyers, and getting your business organized now instead of waiting until you are ready to sell.

UNDERSTANDING WHAT DRIVES VALUE

Ybarra recalls a conversation she had with a private equity firm about the channel. Simply stated, that private equity firm wouldn't even entertain engaging in a potential deal with a VAR because it considers most resellers too small. One way for a VAR to get the attention of bigger players could be to scale up with other VARs, either through acquisition or by forming a regional consortium. Although the market for acquiring VARs is far from booming, she notes there could come a time when payment processors and vendors might look to buy resellers and augment existing sales. Payment companies have already started adding ISVs to portfolios, and VARs could be next. For now though, many resellers looking to sell their company will be tasked with finding another reseller to buy them.

Regardless of the potential buyer, there are four key drivers of valuation beyond a company's immediate cash flow: financial, strategic, operational, and customer control.

On the financial side, resellers should consider more than just margins and profitability. The size, growth, acquisition cost, and retention rate of customers, along with opportunities for future revenue generation through cross-sell and upsell will be important to any buyer. Tracking and understanding metrics related to marketing and churn are actions solutions providers should be taking regardless of whether they are considering selling right now. Of course, recurring revenue is towards the top of the financial considerations food chain, too. This is true for any company looking to sell, not just VARs. For example, when Adobe transitioned to a monthly subscription model, its market cap increased 122 percent in just two years, from $16 billion to $35.5 billion.

Strategically speaking, value increases if your business has a product, process, or niche market expertise that is of unique value. According to Steve Jones, VP at M&A advisory firm Corum Group, "Attractive targets are those services firms with expertise in custom app integration, core development, and technology expertise coupled with strategic consulting services with specific deep domain proficiency and knowledge." That means run-of-the-mill line card providers are in for a disappointing exit if and when they are ready to sell. According to the latest IT industry scorecard from M&A advisors martinwolf, median multiples of enterprise value (EV)/EBITDA are at 10.2 in commercial IT, compared to 12.6x for government IT firms, 13.6x for healthcare IT firms, and 15.2x for financial services IT firms. And if you're a reseller considering developing your own software product, martinwolf's 26.9x EV/EBITDA median multiple for SaaS companies would suggest that is a good solution investment.

It's not just vertical expertise that matters, though; buyers also care about the expertise of your management team and employees. "Specialization sells," says Ybarra. "Put simply, a deep understanding of a particular market niche, a set of products, or pieces of technology, and really being the expert can help a buyer understand how all of the different pieces of their business fit together." She also points out scale itself isn't necessary to sell, but rather, solutions providers need to show potential buyers how their current processes and systems *could be scaled* postacquisition, once the buyer brings resources to the table.

From an operations standpoint, a company's value will decrease if a buyer comes across any legal or regulatory issues or if vendor partnerships are too complicated. "We've worked with companies that had certain vendor contracts with nonsolicit or noncompete agreements that the buyer was just unwilling to live with," says Ybarra. "Unfortunately, it was a deal killer in this case, where the buyer felt they couldn't access that customer base and be able to cross-sell or introduce new products or technologies. That's really where they saw the value of that company and the ability to drive revenue growth." Vendors can be a double-edged sword in the selling process. VARs want to have robust offerings in their portfolio, but having too many complex or overly dependent relationships with vendors and outside partners can scare away a buyer.

The fourth value driver, customer, is core to any buyer's decision. VARs not only need to have customer agreements in place that help them influence buy decisions now, they also need to consider how their contract language will influence their customers down the road once the company is sold. Customer control doesn't necessarily mean relying on long-term contracts either, according to Revenue Rocket Consulting, which recommends one-year contracts with automatic renewal clauses that have built-in price increases to address inflation. These types of contracts are meant to shorten sales cycles, motivate companies to improve customer satisfaction, and ultimately stabilize a client base.

VARs don't have to be perfect (or immensely profitable) in order to sell, but they should be proactive and transparent. It's not necessarily a bad thing if VARs are not taking full advantage of upsell and cross-sell opportunities. For example, if a private equity company looking for a VAR that has not yet added payment enablement to their line card (something we hope all members of the *Channel Executive* audience have done), Ybarra says, "Buyers see that as money just waiting to be generated. Specifically targeting those companies that have not monetized payments means a forecast for improved revenue growth."

Determining the value of your company doesn't have to be guesswork either. Resources like Prosperity Plus Consulting's Value Builder Score are free tools available to all resellers (www.prosperityplus.biz/Value-Builder-Score.html).

A MARKETING CAMPAIGN TO SELL YOUR BUSINESS

As Ybarra explains the phases of the selling process, she alludes to the importance of marketing to potential buyers. "It's a story. It is marketing to sell your company. The financials are going to be important, but it's as much about the future as it is about the historical. That is going to be less about what we did yesterday, but the story about and the value proposition that you can describe to a buyer for what's coming tomorrow." Buyers are going to want answers to questions such as: What is the growth picture? How is your expertise relevant? What's the next market that you're moving into? Preparing to sell your business is no different than preparing for a job interview. If you're looking to add a new member to your executive team, it would be a short interview if a candidate didn't have good answers for how they were going to help your business grow.

The first phase of selling involves creating a marketing plan — gathering information, defining your value proposition, and preparing materials to tell the best possible story to the market. Phase two involves getting that marketing material, such as your financials and management bios, in the hands of potential buyers. Marketing materials should be tailored to the profile of the buyer. The point of marketing to your buyer is to get that buyer comfortable enough to enter the third phase of the process, the actual negotiations. Marketing to a potential buyer should be treated like

"The value drivers and the steps that you can take to be preparing your company for sale are really applicable, whether you're a payments company, a VAR, an MSP, or involved in other pieces of the value chain."

Brooke Ybarra
Senior Manager
First Annapolis Consulting

marketing to a potential customer. That's why firms like Prosperity Plus Consulting help solutions providers with things like website development, slide decks, email marketing, direct mail, and sales collateral geared towards buyers.

GET ORGANIZED

VARs should start organizing this marketing plan long before it's needed. Ybarra suggests companies should have the business processes in place, organize financial books and records, and have access to all of your customer, vendor, and partner contracts. She says, "Maybe it sounds like nothing, but I can't tell you how many times we come into a situation and we ask for what we think are basic agreements, thinking 'of course you'll have them in this file folder or you know exactly where they are,' and it's not the case."

Hiring a specialized tax attorney, obtaining a third-party financial audit, and reviewing financial records and customer contracts are proactive steps companies can take to prepare to sell. When it comes to contracts, Ybarra points out the importance of having everything in writing. If customers and services provided are not under contract, they likely won't be considered an asset by a potential buyer.

Jim Kahrs, president and senior consultant at Prosperity Plus Consulting, suggests resellers should start preparing to sell at least three years before the sale. Even if your target retirement date is well beyond three years from now, and even if the channel M&A market isn't at an all-time high, that doesn't mean it's too early to start thinking ahead. Organizing your assets, understanding your company's value proposition, and taking an honest look at the factors driving what your company is really worth can help any VAR run a better business, regardless of whether or not you are looking to sell.

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5 KEYS TO RETAIL TECH SALES LONGEVITY

70-YEAR-OLD NORTH COUNTRY BUSINESS PRODUCTS HAS WRITTEN THE BOOK ON STAYING POWER. HERE'S HOW ITS NEWLY APPOINTED CEO PLANS TO CONTINUE THE LEGACY.

MATT PILLAR Chief Editor @MattPillar

There's no arguing North Country Business Products' (NCBP) long and rich legacy in the POS business. Founded in 1948, it's one of those companies that has withstood testing times that many others like it have not. A quick survey of the resellers serving today's midsize grocery, hospitality, and retail markets offers up the proof. A new breed of VAR selling new breeds of POS applications has displaced many old stalwarts of the ICRDA (Independent Cash Register Dealer's Association), that precursor to the modern-day RSPA that was founded just a few years after NCBP was.

NCBP has thrived on its legacy through a time when the very word "legacy" has proven a liability to so many others. The company, which today employs roughly 160 associates in 15 brick-and-mortar offices nationwide, has adapted with the times. That adaptation has required some strategic decisions, especially in recent years. Last year, the company divested its longstanding copier, office supply, and office furniture divisions in a calculated move to focus exclusively on the development and sale of hardware and software solutions and professional services to grocery, hospitality, and retail businesses.

More recently, NCBP placed company veteran Jim Freed at the helm, naming him CEO and president this past August when Dean Crotty, Freed's mentor and the man he credits with the company's success to date, vacated the position to focus on chairman of the board duties. We caught up with Freed for a discussion on, among other things, what he considers the best opportunities for NCBP to continue building on its 70-year legacy and his take on the current state of the channel.

A COMPANY-MAN-TURNED-CEO STORY

Freed doesn't have an MBA. In fact, he didn't go to school for business, finance, or management. He earned a B.S. in biomedical electronics back in 1992. That course of study didn't lead him to landing a job in the biomedical field, much less prepare him for a career as a channel executive. But his technical acumen was beyond proficient to net him an entry-level position as a service technician with ACME Business Machines. Freed quickly advanced into a systems analyst position while there, a job that found him programming, implementing, and supporting computing solutions for mid-market businesses, and by 2005 he was managing that support group. That's about the time NCBP came along and acquired ACME, snatching up its future CEO as part of the deal.

Freed joined NCBP as a branch manager in its Peoria, IL, office, overseeing every aspect of branch operations, including field service, support, implementation, inventory management, and billing. Hospitality was the primary vertical served at his location, and within two years his mastery of the company's hospitality solutions lineup earned him a product management role, responsible for management of all aspects of the NCBP hospitality solutions portfolio.

> "With EMV, it's like Y2K every year. It's constantly changing — whether that change takes the form of an updated PCI/PADSS mandate or a new security threat — and therefore the challenge is unending. There are also a lot of variables that have to be checked off for us to be successful with payment processing and payment security sales."
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> Jim Freed, CEO & President, North Country Business Products

The company was on a bit of an acquisition spree at the time, and as new locations joined the fold, it began to suffer a side effect of rapid growth: a lack of consistency from one branch to the next. More specifically, Freed noted measurable variance in offers, support levels, and sales, implementation, and service processes, largely because branch operations were managed independently. Recognizing an opportunity to improve that situation, Freed developed standardization around ordering, sales and go-to-market, and support processes at NCBP.

By 2013, Freed moved into the director of professional services position for the hospitality vertical, and in 2016 he was named senior director of operations. That role gave him oversight of implementation, professional services, development, field service operations, and customer care for all of NCBP's verticals. It also positioned him to throw his hat into the ring when, in May of this year, the company began a search for a new CEO and president. Our conversation revealed five distinct points of retail solution sales advice from the veteran channel professional and new CEO.

> "Launching a standardization initiative among disparate offices that each have their own P&L, budget, and even work hours quickly gives rise to a number of 'our way is the best way' mentalities. But running a business with a dozen different approaches to any number of processes simply doesn't scale."
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1. CREATE STANDARDS FOR STRUCTURED GROWTH

Freed's leadership of the aforementioned standardization effort played a large part in his being chosen to take the reins at the company. It's also foundational support to the company's growth. "Launching a standardization initiative among disparate offices that each have their own P&L, budget, and even work hours quickly gives rise to a number of 'our way is the best way' mentalities," says Freed. "But running a business with a dozen different approaches to any number of processes simply doesn't scale. Establishing a *single* way is in many respects more important than obsessing over the *best* way." In 2006, on the heels of its acquisition spree, NCBP implemented a centralized support desk, which formed the nucleus of his more recent standardization efforts. "We've expanded the availability of the help desk to seven days per week, and we've increased help desk staff to 36," says Freed. "That's been the driving force for consistency across branches that span the country," he says. "Solution configuration and customizations simply have to be consistent across the board to allow our support team to be effective."

And effective it is. In fact, NCBP has turned its well-oiled help desk into a revenue generator by white labeling it to perform on behalf of several other resellers across the country.

2. KEEP SUPPORT IN STEP WITH FAST-CHANGING SOLUTION PORTFOLIOS

Freed says maintaining a consistent process structure, particularly as it pertains to product and customer support teams, is particularly important in fast-changing times like these, when new products are being added to line cards more rapidly than ever. Freed says touch screen kiosks, self-checkout, and electronic shelf labels are exemplary of technologies that his teams are now selling and supporting. While all three have been around for some time, he says the pace of sales has picked up due to the millennial generation's penchant for self-service — and merchant employers' penchants for labor savings — especially in the hospitality and grocery segments.

Payment security technologies also keep the help desk on its toes. "With EMV, it's like Y2K every year," quips Freed. "It's constantly changing — whether that change takes the form of an updated PCI/PADSS mandate or a new data security threat — and therefore the challenge is unending. There are also a lot of variables that have to be checked off for us to be successful with payment processing and payment security sales." That's in large part because payment technologies rarely displace one another—rather, they're compounded. Google Wallet, Apple Pay, and any number of NFC (near field communications) payment apps are piled on top of chip cards. Mag stripes are hard to kill. Cash might never die. Gift and loyalty cards, while somewhat tempered in recent years, are still popular. And then, of course, there's the necessity in some segments to accept EBT (electronic benefits transfer) cards for food stamps and cash benefits. And Freed says to boot, his company still finds customers that don't understand or comply with PCI standards. "These payment security and acceptance innovations drive business, but they also add a lot of expense and complexity for the retailer," says Freed.

Freed says that expense and complexity leads to what he terms a "delicate situation." The frustrations that arise from that expense and complexity are often misdirected — at the VAR — despite the fact that it's the VAR who's there to help merchants through those challenges. Help desk standards also help clarify this misdirection. "We need to effectively communicate that these payment update and support issues will never end, and that it's not us causing the disruption." That's a difficult pill for many to swallow—especially for those customers that have been subjected to multiple upgrades in rapid succession due to change requirements beyond the VAR's control. "To many of these customers, the concept of unending updates and compliance requirements is still a new phenomenon," says Freed. "Y2K was the first time something outside of the core POS application required an update. Now, in payments, it's a constant." He draws the point that when he started in the business in the early '90s, credit card payments weren't integrated with POS applications. Semi-integrated payments were a huge step forward. Now, because of the inherent and chronic risk of breaches, the industry is reverting to disintegrated payment environments. "The payments space is the source of the most significant changes at the POS in the past 15 years, and the resulting technology expenses merchants are faced with is never-ending," says Freed.

3. NEVER STOP CONSULTING

As the complexity of solutions and support VARs offer compounds, Freed says it's more important than ever to take a consultative tone from the outset of a client engagement. That starts, he says, with a consultative sales approach. "With so much POS software and so many peripheral application options on the market, we have to do our due diligence to understand what's in the best interest of the customer and then justify our recommendations through education," he says. "Particularly in the hospitality space, many businesses aren't staying on top of regulatory requirements.

> "Solution configuration and customizations simply have to be consistent across the board to allow our support team to be effective."
>
> Jim Freed, CEO & President, North Country Business Products

It's outside their wheelhouse. It's not our job to merely convince them to open their wallets, but to help them understand why they need to."

To that end, packaged — and again, standardized — solution offerings are part of NCBP's consultative approach to sales. Freed points to ongoing EMV upgrades as an example. "We upgraded hardware or updated software on thousands of terminals across hundreds of sites over the course of the past year," he says, "and those projects follow a prescriptive, standardized plan — from sales through implementation and support — that we developed well in advance of the rollout. Those projects are funneled through a single entity here, so we're consistent with the messaging and education around the initiative."

Most consultation at the sales stage isn't considered billable at NCBP — rather, the cost of that consult is accounted for in the price point of the company's bundled solutions. "By focusing on processes and structure, we've become quite efficient at delivering value. We don't bill for lessons learned along the way, and we learn those lessons quickly to avoid paying the 'dummy tax' more than once."

The company does, however, bill for consultation service in some circumstances. Most commonly, in situations where midsize clients that don't have depth in their internal IT departments need VCIO-like services. "There's a market for VCIO services in grocery and hospitality," says Freed. "Operators at these establishments are inundated with opportunities to spend their money on something they can't live without. They know how they want to operate their business, but they struggle with the technology." Many, he says, have made costly mistakes that have turned out poorly. "They're willing to pay for guidance from someone they can trust, especially concerning the complexities of integration and device-level compatibilities."

4. GET READY FOR THE FUTURE — THE FUTURE IS DATA

Key to a 70-year-old company's sustained relevance is its ability to keep an eye to the future. Freed and NCBP are

> "Users are missing the data that's right in front of them that can help them improve what they do and how they do it … If we can see those trends, uncover things our customers are missing, and provide direction on the business decisions that will affect the situation, there's the potential for that clear-cut ROI our customers require."
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placing their bets on future opportunities being data-centric. With that being said, it's taking a measured approach to developing a data-focused go-to-market strategy. "We acknowledge that data and IoT are already impacting retail, grocery, hospitality, and the channel," explains Freed. "There's a tremendous amount of data there to be mined, analyzed, and put to use. But we have to make sure there's a clearly articulated ROI for the customer, too. Independent and regional operators are not Amazon. Their technology spend has to make sense for them, and until we can offer an ROI that resonates, anything we pitch is going to be a no-go."

Freed says that in addition to data intelligence technology advances, there's a demographic shift occurring that will catalyze data-driven business solutions. Younger operators are already clamoring for business intelligence tools, and they understand the power of IoT. They might not, however, have the resources on hand to leverage it, and that's an opportunity that's ripening for the channel. "The new generation of operators wants to mine data. They want to identify and seek out customers based on habits, lifestyles, and actions, and they want to direct offers accordingly and measure those returns," says Freed. "The value of that is becoming understood, but the second requirement—having someone on staff capable of doing it—is often a nonstarter." For enterprises, data scientists are hard to come by, a fact reflected in their salary requirements. Will the channel begin to monetize VCDS (virtual chief data scientist) services? Perhaps.

"Users are missing the data that's right in front of them that can help them improve what they do and how they do it. That equates to an opportunity for the channel to take that on," says Freed. Monitoring and analysis of loyalty, pricing, and merchandising data, for instance, can have a direct business impact, but few midsize and smaller merchants are equipped to find and leverage that data. "If we can see those trends, uncover things our customers are missing, and provide direction on the business decisions that will affect the situation, there's the potential for that clear-cut ROI our customers require," says Freed.

5. ADOPT XaaS ASAP

Years ago, when the as-a-Service model transcended from its software roots to channel-provisioned hardware and services as well, skepticism prevailed among many. Today, Freed says the concept is highly desirable to both resellers and a growing population of their customers. The end-use benefits that make it more saleable, he says, include agility, deferred/distributed costs, and the ability to scale the application ecosystem through integrations. That latter benefit is equally beneficial to the VAR. "Financial and cash flow advantages aside, there are a host of applications and integrations available today that equate to incredible add-on sales opportunities," he says. "Timekeeping, loyalty, stored value, and e-commerce in hospitality and grocery are just a few examples of best-of-breed integrations that make a custom package such a better sell than the on-premises, all-in-one solution of yesterday." Those as-a-Service applications are particularly appealing to midmarket merchants who need to rapidly scale in order to compete with the likes of Amazon, particularly on the heels of its Whole Foods acquisition.

The exponential expansion of a la carte applications does, however, bring its own set of challenges. The deeper the line card, the more consultative the sales requirement, and the more partner relationships to manage. That latter challenge has been exacerbated by the pace of merger and acquisition activity in the vendor community. "POS sales has been a tough business for a long time, but the mergers and acquisitions taking place make it even more so," says Freed. "The lines aren't as vivid as they once were. I'm still a firm believer in vendor partnerships, but given the change over the past 10 years and the anticipated change over the next 10, it's hard to envision a channel that looks like it does today," he says.

Of course, today's channel doesn't look anything like it did when Freed launched his career in 1994, and it certainly looks different than it did when Crotty joined the company in 1975 and began a journey to the CEO position (he assumed the title in 1995) that very much mirrors Freed's. The company's anticipatory skill and proactive philosophy on technology has ensured its longevity to date. With Freed at the helm, it's a safe bet that legacy will continue to serve NCBP well. C


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Omni-channel Opportunity For VARs And MSPs

A Q&A WITH MICHAEL MENDOZA Senior Solutions Architect, Customer Engagement Solutions, Hitachi Solutions America

According to the 2017 Retail Tech Spending Report from Retail Executive *magazine, omni-channel spending is growing steadily among retailers. But what does this mean for VARs and MSPs? How can resellers make money off this shifting technology mindset?* Channel Executive *Digital Editorial Director Jon Dudenhoeffer asked Hitachi Solutions America's Senior Solutions Architect Michael Mendoza to share how it is tackling omni-channel challenges for its clients.*

CHANNEL EXECUTIVE: "Omni-channel" is a big buzzword for resellers, IT integrators, and solutions providers. How can VARs and MSPs properly define this concept for their customers?

MICHAEL MENDOZA: Many of our business customers understand and want to utilize omni-channel. They understand how beneficial it can be to engage customers on all channels, whether that be chat, video, or mobile devices. The challenge they have is finding a way to do this without disrupting operations. We want to effectively incorporate interaction data into the customer's current customer visibility capabilities without introducing complexity through yet another application that is separate from the rest of their CRM platform. The challenge is not so much in communicating the value of omni-channel communications — customers get that. What they need is a partner that can ensure that these challenges are addressed, and then the value of a unified solution is unlocked for them.

Many businesses both in B2B and B2C have been able to incorporate various communications channels into their customer service offering, but they've done it through a patchwork of solutions and applications, which often don't integrate well with their CRM systems. Our sales proposition stresses the value of seamless interactions across all channels and complete visibility to all contextual and interaction data. It's clear that agent performance and customer satisfaction improve when agents have the context of the customer histories and journeys through each chat, text conversation, and screen-sharing experience, stored in one correlated record.

> **"The best way to communicate the business advantages of omni-channel is through demonstration ... . Basically, it's a form of show-and-tell. A working solution is the most effective tool."**

We're looking to deliver a comprehensive, single view of all customer interactions, across all engagement channels. Being able to integrate this customized experience within a unified schema is a real differentiator, as is offered through the CaféX Live Assist omni-channel platform. Because it's so closely integrated within the Dynamics 365 platform, we're able to present agents with a comprehensive view of each customer in real time, eliminating the silos of communication to facilitate not only chat and video, but also cobrowsing and other media channel functions.

CHEX: What kind of education is necessary in order to deliver on the value of omni-channel solutions?

MENDOZA: We find the best way to communicate the business advantages of omni-channel is through demonstration. Our customers understand their businesses and its challenges. Our job is to provide them with a solution that addresses these needs, is integrated with the Dynamics 365 platform, and is easy to deploy and use. Through demos, we illustrate how they can engage with customers through a multitude of channels without complicating their operations. Basically, it's a form of show-and-tell. A working solution is the most effective tool. Everyone wants chat, but a real-time demo showing chat transcripts along with voice, text, etc., consolidated into an account record — that's an easy sell. Companies see that and love it.

CHEX: What common mistakes do resellers/integrators make when it comes to implementing omni-channel solutions for customers?

MENDOZA: We often see businesses saddled with an unwieldy mix of solutions deployed from different vendors, sometimes administered by different personnel, which complicates and sometimes undermines efficiency. For instance, when there's one solution for the sales team, a different one to accommodate chat for the support team, and so on, the business may have all the capabilities it needs, but it may not necessarily be in a better position to serve its customers. Building siloed solutions is a huge risk for a customer, can increase complexity for a reseller, and still may not get the business to where it wants to be.

This is also a complicated approach for the customer. Since none of the solutions interwork seamlessly, companies are forced to manually correlate or transfer information between platforms. If agents can't access all the available information about each customer, from every platform, while in the midst of an interaction, that data loses its value.

CHEX: What kind of additional sales opportunities can resellers anticipate from implementing omni-channel solutions?

MENDOZA: Adding an omni-channel offering to our solution set has opened terrific new opportunities to bundle applications and solutions and offer additional services to existing clients. This also allows us to work with our customers in a far more strategic manner regarding their customer engagement infrastructure. We can consequently provide a much broader service option to that customer, depending upon each client's level of needs, maturity, and sophistication with respect to omni-channel.

"Building siloed solutions is a huge risk for a customer, can increase complexity for a reseller, and still may not get the business to where it wants to be."

It's hard to quantify the level of value we deliver by providing a more turnkey, integrated solution. It definitely strengthens our relationships, which can only lead to more opportunities. In addition, becoming more embedded in their business processes helps deflect competitive challenges.

CHEX: What strategic processes have you put in place to train end customers and make sure they get the prescribed value from these solutions and services? How has this contributed to your success as a reseller?

MENDOZA: We've implemented what we call our "Agile Workshops," not just for omni-channel solutions, but for all our CRM projects. These workshops educate customers about possibilities while eliciting requirements from business stakeholders before we embark on a deployment. Participants often include system users, administrators, sponsors, and whoever else might have input into how the system will be utilized. During the workshop, we do an intensive review of the project ideation and use case scenarios, policy definitions, and goals. Through this process, we've been able to rapidly characterize high-level requirements, priorities, and objectives.

Our customers derive considerable benefit from these sessions, since we develop a concrete requirements list in real time, and it helps ensure that proposals address the customer's needs. Using this methodology, we've discovered how to make omni-channel engagement serve the broader organization in ways we didn't always initially identify. It's an effective way to maximize the potential of any solution, while we simultaneously become more familiar with the company's needs and culture. All these elements are critical to a successful relationship.

MICHAEL MENDOZA is a Field Service practice lead for Hitachi Solutions, where he focuses on helping organizations transform service and field service operations. Michael holds an MBA from Simon Fraser University and dual bachelor's degrees in technology and marketing.

It's Time For Vendors To Step Up And Help Their Channel Partners

JOE FINIZIO Principal Consultant, Northlake Associates

Ten years ago, at a POS industry educational conference, there was a session called "What Do VARs Want From Vendors And What Do Vendors Want From VARs?" It was an excellent, candid dialogue, and to say that it was a lively session would be an understatement. In the end, the VARs wanted good, reliable products and good support, and the vendors just wanted the VARs to sell more. While those items are still critical, things have definitely changed and become more complex for the VAR channel. There has been considerable consolidation of technology and services, business models moved from break-fix to a monthly subscription, and technology platforms have continued to become a commodity.

For the past five or so years, there have been countless webinars, education conference sessions, articles, and blogs telling resellers that they need to change, transition, grow, and just sell more. Lately there have even been a few articles stating the VARs are a liability, are going out of business, and just don't get today's retail technology business. If you have been in the IT business for more than a few years, you will know that shrinking margins have a negative effect on the services provided to the customer and a VAR's overall sales and marketing resources. Selling via the internet, sophisticated CRM and marketing automation software applications work and, in some cases, work very well, but again have a negative effect on the services provided to the customer and a VAR's overall sales and marketing capabilities. Most significantly, the barrier to purchase has been significantly lowered. Imagine you are an independent restaurateur who has become unhappy with the current POS. Just go online, search, click, and purchase a monthly subscription from another POS software provider to run on the iPads you already have in the store. The $20,000 to $30,000 up-front payment sales hurdle is gone. But once again there is a cost to the customer. Did their internet search lead them to the right POS software application for their business' operational needs? Did the inbound sales representative provide the right information for the number of server terminals needed for a busy Friday-night crowd? What was the ultimate cost for that restaurateur to self-install and self-train the staff via an online video?

So far this information should not be news to the reader. We know that the industry evolution is an opportunity for some forward-thinking, well-financed VARs to grow and thrive, but it's definitely hurting the average-size traditional POS VAR. What's not known is the level of the negative impact on the traditional POS VAR channel and the hurdle it has placed in front of new VARs contemplating business in the POS market.

On the vendor side, hardware suppliers and distributors have less and less gross margin, and manufacturers have cut the level of marketing dollars that distributors could use for programs to assist VARs. Software vendors are also seeing margins shrink and are being purchased by payment processors or super ISOs for their installed POS user base and Merchant ID (MID) portfolio (Dinerware, PC America, Xpient, and Restaurant Manager, to name a few). Some POS ISVs are even dumping their VAR channels and moving to a direct sales model.

The good news is that the evolving industry continues to create evolving business opportunities. There are excellent business opportunities for VARs that are positioned well with cost-efficient infrastructure and financing. If a hardware or a software vendor is selling POS to a user with any level of sophistication beyond a "cash box," services are needed to properly market, sell, install, and support those products. In other words, to professionally represent the vendor's brand in the marketplace. MSPs, payment ISOs, and POS VARs are well-positioned to go after this opportunity, but they need help.

From my personal observations, the vendor community, particularly the software ISVs, are positioned best to step up and provide more help to any MSP, ISO, and/or POS VAR selling their products. The "average" POS VAR is not equipped for today's market, MSPs and ISOs need to better understand the operational needs of POS users, and there is little knowledge being provided to harvest the collective value channel partners bring to the market. Education seminars, monthly webinars, and annual conferences are good, but the bar of support for channel partners must be raised. Based on my experience running VAR channels, here's my short list of what vendors need to do for their channel partners, and what VARs should expect of their vendor partners.

GENERAL EDUCATION:

- VARs need good salespeople! Set up a job board, establish a collective posting on Indeed or LinkedIn.
- Develop a curriculum specific to your company and the levels of expertise as a guide for VAR education.
- Provide real-world sales education for specific vertical markets.
- Develop and deliver professional technical and product sales skills education for the professional services and sales staff.
- Partner with companies that provide business and management training.
- Recognize and reward those individuals and VARs that attain certain levels.

MARKETING PROGRAMS:

- Develop marketing campaigns that can be customized by VARs for their market.
- Provide content for VAR websites that can be used to capture leads.
- Train VARs on good marketing practices for the product and, most importantly, their company.

SERVICE PRODUCTS:

- Assist VARs in identifying the value proposition of the services they provide and how to properly market those services.
- Provide statement-of-work documents and best practices for installing, training, and providing ongoing professional services.
- Provide online professional quality education programs that VARs can utilize to provide ongoing staff training services to users.
- Offer central help desk options for VARs without those resources.

LEAD GENERATION:

- VARs need leads. Buyer Zone should not be the only source of leads.
- Create a comprehensive lead generation program with VAR feedback to measure closure ratios and marketing program ROI.
- Provide CRM and marketing automation resources to manage marketing and lead generation.

If the VAR community is able to obtain this type of support and assistance from their hardware provider or ISV, they will have the resources to market and to provide the services needed by the market. With those resources, VARs will ultimately "sell more product" along with providing support and professionally representing the vendor's brand. Here's the call to action for vendor executives: Do an honest self-evaluation of the support you are providing to your channel partners. Does your program really provide VARs what they need in today's market, or is it a 1980s version of co-op marketing funds and an outdated manual? Channel executives should also conduct a self-examination of what you need and receive from your vendors and suppliers. Make sure that support meets your needs and that your business is using all of the resources and assistance provided by your vendors and suppliers.

Having a VAR channel is more than providing a good product that works. VARs provide the services that set a vendor apart from the competition. Current and evolving support and programs from vendors are a win for the customer, VARs, and providers of technology products. C

JOE FINIZIO'S retail tech career includes long-term senior management positons with Data Terminal Systems, Micros Systems (VP of North American operations), Sharp Electronics (corporate VP and GM), and an eight-year tenure as president and CEO of the Retail Solutions Providers Association (RSPA). More recently, Finizio served as COO at POS.com and VP of sales and marketing for Action Systems Inc.

Managed Services In Highly Regulated Industries

Peter Kujawa, Locknet Managed IT Division president, attorney, and Channel Executive Magazine editorial advisory board member, weighs in on the requirements for doing business with heavily regulated clients.

MATT PILLAR Chief Editor

Peter Kujawa took a roundabout path to leader of $11-million, 57-employee managed services company, Locknet. After spending six years in a business management capacity with U.S. Cellular, he decided he wanted to be a lawyer when he grew up. In 1998, he enrolled in an evening program at Marquette University and ground through classes four nights a week for four straight years.

Three of those four years found Kujawa running a major accounts team with the cellular service company during the day, until he worked at a law firm in Milwaukee in his final year of law school. He also interned with the U.S. Attorney's office, graduated, and ultimately the allure of business management beckoned once again. He took a position as president and CEO at Info-Pro Mortgage Services, Inc., a SaaS-based lender services company in the highly regulated mortgage industry, in 2003. That's where he had his first look at the managed services space, albeit as a client. When the opportunity arose to grow a $2-million managed services company in La Crosse, WI — where he had met his wife and made his home some 15 years earlier — he jumped on it.

"I didn't have an IT background, but the philosophy I formed working with IT service providers was that if you could do what you said you were going to do, do it on time, and do it at the right price, you could crush your competition because the industry was not at all customer-centric," says Kujawa.

It turns out that his experience as an attorney would play a critical role in his ability to scale the managed services company he was hired to lead. Today, it's achieved $11 million in revenue, and Kujawa led it through an acquisition by managed print services leader EO Johnson Business Technologies in 2012.

It's said that some 50 percent of lawyers are no longer practicing attorneys within 10 years of receiving their degrees. Few wind up at the helm of a managed IT service company. In a Q&A with Kujawa, *Channel Executive* learned why his law background suits him so well at EO Johnson - Locknet and how his company is navigating the intricacies of providing managed IT services to a heavily regulated client base.

CHANNEL EXECUTIVE: How is your legal background serving you well at EO Johnson - Locknet?

PETER KUJAWA: It's been advantageous because of the nature of our clients, 80 percent of which are regulated in some fashion and 50 percent of which are heavily regulated banks and credit unions. In our capacity as an IT service provider to the financial industry, we're held to the same FFIEC [Federal Financial Institutions Examination Council] regulatory standards and laws as the financial institutions we serve. The benefit of a legal background is that it provides a foundational understanding of those laws and regulations. We're examined and audited just as our clients are, and this understanding helps us ensure that we're protecting our customers and our own business.

When I joined the company in 2010, almost all of our clients were banks and credit unions. We continue to see strong growth and retention in that space, and we're experiencing even faster growth in other newly regulated industries, like automobile dealerships, large nonprofits, insurance agencies. They're waking up to find that they need help ensuring that their systems are compliant with HIPAA, the Dodd–Frank Wall Street Reform and Consumer Protection Act, and the Gramm–Leach–Bliley Act [GLBA, also known as the Financial Services Modernization Act].

In addition to finding and interpreting regulations that protect our clients, a legal background serves us well when it's time to review contracts with suppliers and partners. It's critically important to read and understand what we're obligating our organization to do, and what level of risk we're taking on when we onboard new clients and partners. A legal background helps me ensure that we're insuring our own business at an appropriate level to protect ourselves relative to the work we take on, as well as understanding and complying with employment law. Finally, it's an advantage when we're negotiating contracts, holding suppliers accountable to contract terms, and defining SLAs [service-level agreements] to protect our organization. I use my legal knowledge nearly every day in one capacity or another.

CHEX: At the risk of stereotyping lawyers, doesn't the legal eagle mentality have a tendency to slow business down at times?

KUJAWA: On the contrary, my legal perspective on our business doesn't stand in the way of speed, it actually enables us to move quickly and accurately. In fact, I find the contracting process to be significantly faster if I'm engaging directly. For example, we do business with a public company that has a large compliance and legal team. Because I dealt with that team directly during negotiations, we eliminated the need for outside counsel. We can interpret each other's needs in a mutually understood way and make sure the needs of both parties are being met in a reasonable way, as opposed to attorneys on both sides protecting their interests and getting nothing done.

CHEX: Give us some examples of client regulatory requirements that become, at least in part, the responsibility of the MSP.

KUJAWA: We're subject to regular on-site exams from IT examiners with the FDIC and the Federal Reserve. We look down the barrel of the same gun the banks and credit unions do. As an FFIEC-examined tech service provider (TSP), we also have to operate under FFIEC guidelines, which are covered under Dodd-Frank, Gramm-Leach-Bliley, and others. These can even affect auto dealerships that offer financing, because the financial data they retain on-site and run through their networks must be secure and, as a result, they can be viewed in a similar way as a bank. We have to be aware of and meet HIPAA requirements for our healthcare clients. Even clients like large nonprofits that you wouldn't think of as healthcare providers — we work with one that works with Head Start and collects data regulated under HIPAA — all the IT work we do for them has to meet HIPAA data security standards.

As a result of the work we're doing for regulated clients, we've built and become recognized for our full-capability as an MSSP. As the market becomes more aware of security risks in IT, even companies that aren't subject to regulation are coming to us because we're so security-focused.

CHEX: What are the risks associated with taking on heavily regulated customers?

KUJAWA: Any IT service provider is at risk of being breached themselves. You have to make sure you secure your client environment, but you also have to eat your own cooking at an even higher standard, because you're often the aggregator of client information. Internally, you need to make sure you're doing the right things in terms of employees, training, testing, investing capital in your own infrastructure, and continually acquiring expertise. The challenge I see for a lot of MSPs is that they have extremely talented individuals, but because of how busy everyone is doing project work for their clients, ensuring compliance in their own environments takes a back seat. Every MSP should allocate time and resources to doing the same things for their own network that they do for their clients. A lot of smaller MSPs struggle with it.

We enjoy hosting other MSPs to visit us to pick our brains on what we're doing to build and maintain compliant operations. That's a neat thing about the MSP space in general. Everyone is willing to help each other get better. That's in all of our best interests, because every time a client decides to try managed services and they have a poor experience, they don't necessarily see a provider that's not doing a good job, they assume the entire MSP concept is bad. That's bad for all of us, so we're firm believers in information sharing and collaboration.

CHEX: Tell me about the foundational elements an MSP must address to serve clients in regulated industries. Let's tackle this from the technology, people, and legal perspectives.

KUJAWA: From a technology perspective, it's incumbent on the provider to understand what baseline regulatory technologies the industries it serves need to have, and it doesn't matter if you think it's overkill or not. If they need it because of their regulatory environment, you need to deliver it. In some cases, take the financial industry, for instance, the banks and credit unions are required to have some form of a SIEM [security information and event management] tool in place, and if they don't, they'll be called out on it by examiners. If you're a small community bank, SIEM is expensive, and it's probably overkill for a smaller institution's risk profile. Many MSPs would say it's not necessary, but that doesn't matter. What matters is that they pass the examination, so we need to provide it, or they'll find it somewhere else. You have to build your technology decisions around the client's requirements.

Once the client's technology requirements are understood, the MSP must understand that they'll be held to the same standard the client's internal IT department would be if they were doing these things directly. When the client is subject to audits and exams, the regulatory examiners will be on-site. It will have questions for the MSP about how it's performing services, and the MSP needs to have that information at its fingertips. For example, we have a full due diligence packet for bank and credit union requirements, and we keep that updated. The auditors can pull that down any time, and they'll have updated due diligence information. It's a matter of being able to show the auditors and examiners that your client is doing business with people doing it at the right level. Our clients are required to do vendor due diligence, so we need to make them look good.

In terms of people, we're looking for cultural fit, first and foremost, and tech skills are secondary. We can train technology, and we can train compliance with regulations, but we cannot train cultural fit. So we have an intensive four-step interview process that every applicant has to follow regardless of level. Once we make the decision to move forward, we execute a background check that covers criminal, credit, and driving records to ensure our employees meet FFIEC standards.

On the legal side, we're fully audited to the SOC 2 [Service Organization Control] and UCS [Unified Certification Standard for Cloud and Managed Service Providers] audit standards. We retain outside consulting on compliance as needed, we employ an in-house compliance officer, and we have an incredibly capable security team with six full-time security engineers. We also maintain a compliance committee that meets every other week. Yes, the price of poker is high working in these industries.

CHEX: What other recommendations or advice do you have for VARs and MSPs that sell into regulated environments?

KUJAWA: Understand that it's difficult to just dip a toe in the pool. You're going to end up jumping in, so find a vertical that fits and fully commit. Engage in associations, learn their language, subscribe to their industry publications, and meet that vertical's requirements. Be prepared to fully understand that the price is high, and you have to pay it if you want a seat at the table. Or be prepared — and there's no shame in this — to say no, and walk away from a client you can't effectively serve.

CHEX: In addition to your appointment to the *Channel Executive* Editorial Advisory Board, you serve on the Advisory Board for the MSPAlliance. What are your responsibilities on that board, and what are the benefits of involvement in that organization?

KUJAWA: The MSPAlliance board meets annually at its retreat in November and at several other times throughout the year, and our primary goal is to make sure the Alliance is providing relevant services to its members. One example is E&O [errors and omissions] insurance coverage. Most E&O carriers don't understand the MSP industry, but we found one that does a good job covering our members.

Another example is the UCS (also known as MSP Cloud Verified) audit standard the Alliance developed, using overlays of a SOC 1 or SOC 2 methodology, plus components specific to the industry, such as financial viability. The standard creates an audit report that's easy to read by an MSP client, giving them a clear understanding of an MSP's capabilities. It's a very rigorous standard, fully audited by an accounting firm, and going through it will force the MSP to get better. I highly advise it, and I consider it one of the best things we've done from a marketing dollars standpoint, because it differentiates us from other MSPs. At the board level, we create controls and ways to make the audit standard more rigorous and ensure it remains relevant.

We also play a role in programming for the MSP World conference, which brings relevant, peer-led educational content to attendees. I typically speak there, as do most of our other board members. C

PETER KUJAWA has been the division president of EO Johnson - Locknet Managed IT Services since 2010. He's a member of the MSPAlliance advisory council and a past member of Fortinet's Partner Council and holds a law degree from Marquette University. In 2014, he was named to the MSPmentor 250 list.

A Call To Innovate

HTG's Israel Lang shares his perspective — and his concerns — about innovation in the channel

ISRAEL LANG

ISRAEL LANG is part of a team of coaches and consultants serving the IT industry. He enjoys helping companies go further faster through developing executives, managers, and teams into effective leaders who reach their fullest potentials.

I started my career as the internet began to penetrate rural America, the cell phone form factor was the flip phone, and apps were served before the main course at dinner. Solutions providers or VARs primarily made money from hardware and software sales. It was an amazing time, as we introduced the idea of managed services to customers in our markets. We talked of proactive support and providing "trusted advisor" consulting services.

Over time, industry pioneers, such as Steve Bowsher, Gary Pica, Paul Dippell, Arnie Bellini, and Arlin Sorensen, helped codify what we were doing. They, along with many others, gave us the common working business models that we employ today. The communities formed around their ideas allowed us to learn from each other and shorten our collective learning cycles.

However, what was a real competitive advantage became something else. What many of us considered to be our unique value proposition became another UVP … a ubiquitous value proposition. I experienced this after one of the companies I worked for was acquired. Within months, a key member of their team came to me with documents to revolutionize our service delivery. Actually, it was a series of best practices documents developed by a company in my peer group. These best practices were a bit stale, but to the new company they were revolutionary. In that moment, I knew our business model was based on "common practices," and we had to begin thinking differently to remain competitive.

THE CURRENT STATE OF INNOVATION AMONG MSPs

Since joining HTG Peer Groups as an executive consultant in 2014, I see many of the best companies positioning themselves in a similar way. It's more about executing the model better than their local competitors and less about having a better model. We have effectively shifted from what Michael Porter of Harvard Business School would classify as a generic strategy of differentiation to one of cost leadership. We are looking to increase efficiency to maintain margins, lower prices to remain competitive, or both.

TWO CONCERNS IN THIS NEW STAGE OF CHANGE

I propose we are at a new stage of change. This stage requires more innovative thinking and execution around innovation. We must begin to develop additional business units or lines of revenue that provide a clear and unique value proposition. Those two statements evoke concerns for me.

> "What was a real competitive advantage became something else. What many of us considered to be our unique value proposition became another UVP … a ubiquitous value proposition."

I am concerned with the lack of innovation occurring among many service providers in our ecosystem. This lack of innovation leads to pressure from competition and margin dilution. Their competitive advantage has moved from unique to ubiquitous. Many organizations have at best plateaued and at worst crossed from booming to decelerating on the life-cycle curve without knowing it.

What is causing this concern? Primarily our interaction with hundreds of organizations around the world, inside and outside of HTG. As we engage in strategic planning, peer groups, and executive coaching, I notice few are talking about innovating. Sure, we have conversations around Office 365, cloud models, and other broad categories, but nothing I would term as innovative. Other times we talk about security, but never in any concrete terms. In both cases we leave the conversation feeling that we must figure out how to innovate. Same for data analytics and IoT. And rarely are these organizations aware of local competitors that are focused on these areas.

JUMPING CURVES THROUGH INNOVATION

What is the answer? I propose differentiation through innovation. This can occur by looking at current markets and developing new products, solutions, or services (product development) for those markets, and/or looking at new markets and taking your existing products to them (market development). These are examples of curve jumping.

For years, we have taken dozens of solutions provider organizations through a strategic and operational planning system called Paterson's StratOp process. Tom Paterson of the Paterson Center developed the constructs used in this process. He developed one particular tool, the Fountain of Youth, after observing how Roy and Walt Disney worked together.

Walt Disney was a visionary and innovator. He thought up more ideas in a week than many of us will think up in our lifetime. Roy, his brother, had to develop a system to help the broader Disney team process and act on the plethora of ideas that Walt would ideate while spending the majority of their efforts on the projects and ideas already in the queue. Roy created what has become known as Walt Disney's idea drawer.

Tom took the principles of their collaboration and created the Fountain of Youth. This tool is intended to help organizations sense opportunities in the market, seize the ones that they felt had the best chance for success, build the appropriate product and services to take advantage of these opportunities, and then reap the rewards of those opportunities.

The problem is, as we lead organizations through this tool, they struggle to think innovatively. Having a well-thought-out process would allow them to identify relevant emerging solutions, contextualize them for their markets, and build a go-to-market strategy to introduce those solutions to customers and prospects alike.

HTG'S EFFORTS TO IGNITE INNOVATION

At HTG, we've been thinking about individuals in the ecosystem and helping the industry grow. We have been thinking about and taking action to help our members move into this next stage of the industry. We want to continue to provide relevant thinking about current business models as well as new ones.

To that effect, this year we provided both cloud and security workshops to our members. We brought thought leadership from key HTG vendor members as well as real-world examples of how member organizations have updated their value proposition in those areas. These conversations extended to robust opportunities that members were actually seizing in the market.

In addition, we've shifted one of our key executives, Scott Scrogin, to focus primarily on understanding the innovation that is occurring and identifying how our members can best leverage those opportunities to grow their businesses. During 2017, Scott led our team to develop what we call the Opportunity Framework. The first framework we focused on was cloud opportunities. We plan on introducing other frameworks in 2018 and beyond.

> **"Having a well-thought-out process would allow them to identify relevant emerging solutions, contextualize them for their markets, and build a go-to-market strategy to introduce those solutions to customers and prospects alike."**

The Cloud Opportunity Framework combines a holistic view of cloud services, practices, and opportunities. It includes a learning platform and best practices sharing between successful members and vendors. The framework benefits members by broadening exposure to new opportunities, reducing risk and time-to-market, improving the innovation process, and increasing profitability.

Each opportunity is analyzed by definition, resources and training requirements, financial commitment and return, recommended next steps, vendor and member FAQs, and member best practices videos.

As I mentioned, I am concerned. I am concerned about the lack of innovation I am seeing in most companies. If you share that concern, here are four ways to engage:

1. Assess how you are innovating internally. What products, services, and solutions are you planning on bringing to market? Are you reacting to competitors or innovating to differentiate? Do you have a formalized process to evaluate new solutions?
2. Assess what you are doing externally around innovation. Are you attending at least one new industry event every year, talking to new vendors, and asking customers what they need?
3. Keep an eye on the *Expedition Leadership* blog at HTG.com, where we'll be writing about innovation and HTG's Cloud Opportunity Framework.
4. Connect with us and mention this article to receive an invitation to a webinar about the Cloud Opportunity Framework. Email Joddey Hicks at jhicks@htgpeergroups.com for an invite.

We're harnessing the power of community to provide building blocks for innovation. We're excited about our mutual innovation success in 2018 and beyond. C

LEADING INNOVATION INTO 2018 AND BEYOND

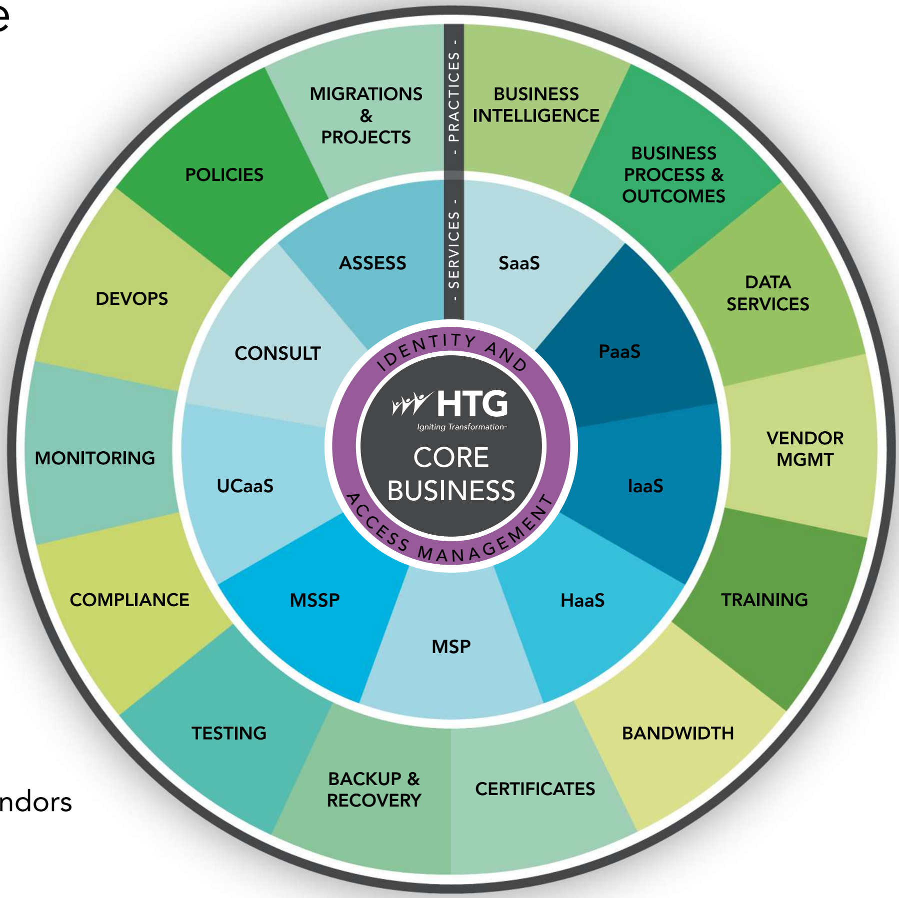
HTG — transforming the way you do business.

INTRODUCING

CLOUD OPPORTUNITY FRAMEWORK

HTG's newest innovation is designed to:

- help identify, implement, and profit from new opportunities
- determine first steps and valuable resources
- reduce go-to-market timeframe
- broaden portfolio with new offerings
- develop targeted relationships with vendors
- improve timely decisions



Want to learn more about the Cloud Opportunity Framework and how it will IGNITE your business?

Contact Joddey Hicks (515) 357-8262 -or- jhicks@htgpeergroups.com

HTG is an international consulting, coaching and peer group organization that cultivates success by *Igniting Transformation™* in business, life, leadership and legacy. HTG invites you to explore the program that suits you best, and apply today to begin experiencing The HTG Way.

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