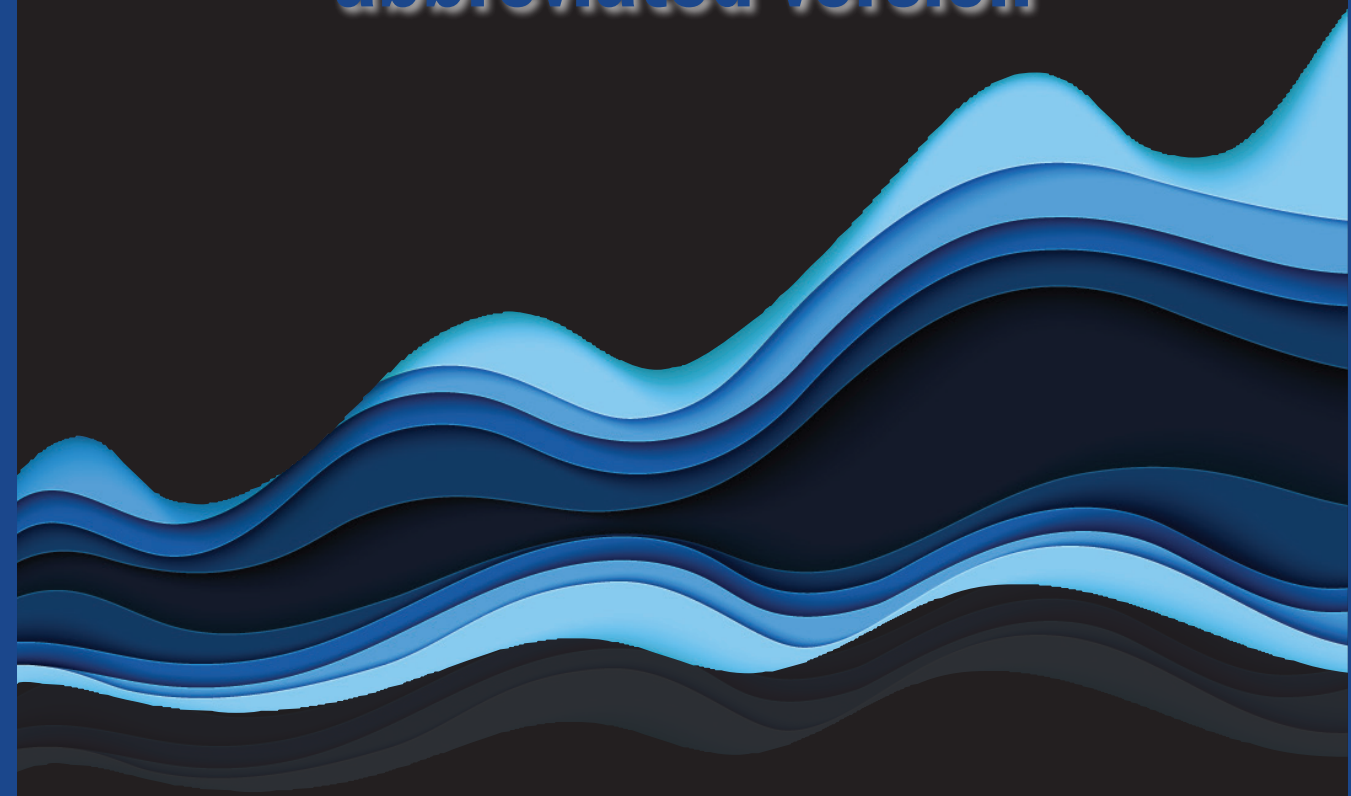# CRN
ESSENTIAL

Rise of the shadow channel:
abbreviated version

Rise of the shadow channel

With every company now said to be a technology firm, it's natural that every B2B provider wants to be a technology provider too.

The last decade has seen a proliferation of 'non-traditional' or 'alternative' IT partners, from accountancy firms, digital marketing agencies and legal firms to ISVs and cloud software providers.

According to analyst Forrester, the number of ISVs has boomed from 10,000 to 175,000 since 2009, while 81 per cent of accounting firms and certified public accountants (CPAs) and 78 per cent of digital agencies include technology in their portfolio.

Unlike traditional IT solution providers, these new breeds of IT suppliers have grown up in the 'shadow IT' world, selling cloud software to the CMOs, CFOs, HR chiefs and other line-of-business (LoB) managers who are now responsible for the majority of technology spend.

A decade ago, the IT department controlled the vast majority of the IT budget. Today, this figure has shrunk to 35 per cent, according to Forrester, with the CMO alone now spending more on technology than the CIO does, by rival market watcher Gartner's reckoning. Shadow IT has grown to now be regarded as the new normal.

Often, however, it is the professional services firms and specialist ISVs that already had the ear of these new breeds of buyer – rather than traditional resellers and MSPs – that have made hay in this burgeoning, high-margin, 'shadow channel' world.

Multiple analysts have pinpointed this dynamic as one of the biggest challenges – and opportunities – facing traditional partners whose IT infrastructure stomping ground is commoditising.

This report examines to what extent this trend is on the radar of *CRN*'s audience of resellers, MSPs and consultancies; whether they see it as a threat or opportunity; and what, if anything, they are – and should – be doing in response.

To this end, we have spoken to the analysts tracking this trend and conducted quantitative and qualitative research of our own, surveying our database and interviewing several leading UK channel figures.

Origins of the shadow channel

The term 'shadow channel' was coined by US channel veteran Jay McBain in 2015.

"It was a very simple connection back to 10 years ago, when line-of-business executives started making technology decisions, mostly around the cloud," McBain – who is now principal analyst of channels at Forrester – told *CRN*.

"That was called shadow IT or rogue IT, and over that 10 years

CIOs tried to stamp it out and gain control of it. But they never did, to the point today where 65 per cent of all tech decisions get made in that shadow world. It's not shadow anymore; it's the new normal.

"What's interesting is that these new decision makers didn't just figure out who the current partner of record was – in 29 per cent of cases they didn't include IT at all because they didn't like handing over control of their own projects. So in many cases they had a different set of requirements for partners, and one of those was to be hyper-specialised. Whether they were in marketing, sales, operations, they wanted them to know them as a buyer."

Traditional MSPs and resellers didn't possess the depth of specialisation required by these new breeds of technology buyer, McBain continued.

"Many new channels are taking their place, and we call them either alternative channels or adjacent channels – I call them shadow channels because they grew up in shadow IT," he said.
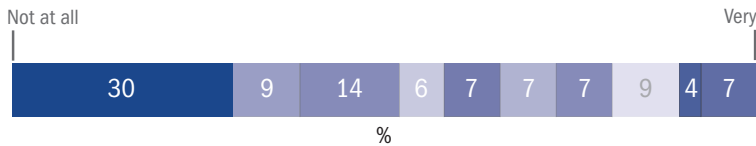
Quantifying the shadow channel

There are "literally millions" of companies wrapped around these new buyers, according to McBain. CPAs in the US alone number

> **"65 per cent of all tech decisions get made in that shadow world. What's interesting is that these new decision makers didn't just figure out who the current partner of record was – in 29 per cent of cases they didn't include IT at all because they didn't like handing over control of their own projects"**
> **Jay McBain, Forrester**

1. How familiar are you with the term 'shadow channel'?

Not at all — Very

| 30 | 9 | 14 | 6 | 7 | 7 | 7 | 9 | 4 | 7 |

%

2. Respondents who see the following new breeds of tech suppliers as competitors to a 'fair' or 'great' extent

36% Digital marketing agencies

28% Manufacturing firms

21% Law firms

20% Accountancy firms

150,000 (compared with 162,000 VARs and MSPs), 81 per cent of which now play in tech services. And there are 108,000 digital marketing agencies, 78 per cent of which now also style themselves as tech players, McBain explained.

Having swelled from 10,000 to 175,000 over the last decade, ISV numbers will soon top one million, McBain predicted, adding that they are increasingly congregating around the marketplaces of the big cloud software vendors. Amazon Web Services' partner ecosystem has rocketed from 10,000 to 60,000 partners in the last two years, while Microsoft and Google are adding 7,500 and 2,000 partners

a month, not to mention the ecosystems around other cloud vendors including Workday, Netsuite and Adobe-owned Marketo.

Another market watcher tracking the rise of the alternative, specialised partners serving LoB is Rod Baptie of Baptie & Co.

Asked to illustrate the scale of this new parallel channel, he estimated that 20 to 30 per cent of CPAs in the US now have a technology practice.

New LoB buyers want to talk to the breed of professional services firm that best knows their business, Baptie explained.

"Once you move to the cloud,

The mid-sized reseller's view

Name: Kieran O'Connor
Vantage point: Sales director of Total Computers, a £65m-revenue VAR

Is shadow channel on your radar?
We're very aware of it. Technology dominates every walk of life and every person – both in the workplace and outside it – so of course, more companies are going to get involved. People now see that technology is the enabler that makes them better than their competition. I think it's the job of the reseller to make sure they stay close to their customers. But resellers won't want to do all the things that some of the other companies are doing.

Do you bump into non-traditional partners when bidding for deals?
Not yet. But what you do see is accountancy firms, legal firms – those type of professional services organisations are trying to now add technology to their stream of business. I don't see it too much

outside those types of organisations. But do we see them going for the straightforward bids we're involved in? We've not seen any evidence of that yet.

"Technology dominates every walk of life and every person so, of course, more and more companies are going to get involved"

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there is more requirement for business skills and less requirement for technical skills," he said.

"The second [driver], which I think is equally important, is that, increasingly, HR companies, marketing agencies and CPAs are beginning to see a downward trend in their traditional revenue. The amount of money CPAs can make from audit and tax is less than it used to be. Talking technology – particularly technology that enables you to deploy expensive people – is really valuable to them.

"A third key factor is that with the move to the cloud, customers are after something different. They want a genuine business conversation with a partner that understands what their business is all about. The CPAs, marketing agencies and HR consultants have the ear of the people concerned.

"If you're the CFO, your accountant [not a traditional MSP or reseller] is your trusted adviser; if you're the CMO, it's your marketing agency."

Eager to delve deeper into the trend, we quizzed 57 executives from front-line tech providers about the growth of non-traditional IT partners. Although the complete findings are available in the full version of this report, you can view some key findings in figures 1, 2, 3a and 3b.

3a. Respondents on whether the rise of non-traditional partners is a threat...

"These firms know how to sell high-value products like analytics software – better than the traditional channel," *MSP CEO/ managing director*

"We have loyal customers and do not normally compete with shadow competitors," *Reseller sales employee*

"[It's] not widespread yet, but potential to come," *Reseller CTO/CIO*

"It's always happened. For instance, Sage have long used their 'Accountants Club' to sell to accountants and through them to the accountants' customers," *Reseller sales director*

"Software isn't our biggest market – we are predominantly hardware resellers. However, if these companies start selling full solutions, it would be worrying. Maybe we should start developing accountancy software," *MSP sales director*

The security VAD's view

Name: Ian Kilpatrick
Vantage point: Strategic advisor at pan-European security and networking distributor Nuvias

Do you view shadow channel as a threat or an opportunity?

There aren't a huge number of these apps guys who are interacting fully around cybersecurity. They're ISVs, and they're pushing for feet on the street and apps on devices, rather than raising the security issue. So it's creating more opportunities for the existing channels who are the trusted advisers, and have security credentials, to go find those apps and secure them.

Because the biggest challenge that organisations have today is how they deal with ID management, with single sign-on, and multiple devices accessing their applications and data: how they deal with all that within a GDPR environment. How they understand; the threats across their perimeter.

"It's creating more opportunities for the existing channels who are the trusted advisors, and have security credentials, to go find those apps and secure them"

The large reseller's view

Name: Graeme Watt
Vantage point: CEO of £1.1bn-revenue infrastructure reseller Softcat

Is shadow channel on your radar?

It might be a factor for us if we were to extend our portfolio to include [ERP, CRM, marketing tools], but we don't see it being a big factor for infrastructure.

It's not how we operate, and it's not the way we see our customers operating. They've got to be tight on the security and governance and what people are layering into their infrastructure. And they don't allow marketing, finance or sales directors to just plough into it because of the security concerns and integration requirements.

> **"In infrastructure, it's not how we operate, and it's not the way we see our customers operating"**

3b. Respondents on their success in targeting new breeds of IT buyer...

"We are used to selling to techies but we have been adapting well," *Reseller CEO/MD*	"The CMO in particular has real spending power – deal with it," *MSP CEO/MD*	"The more people spending on IT, surely the better...not our concern where the money is coming from, right?," *Reseller sales employee*

One marketing employee at an MSP said the shift was "most evident when we try to engage around cloud", while another sales-based respondent at a reseller commented that "salespeople build strong relationships to mitigate changes of processes".

The ERP and CRM specialist's view

Name: Stuart Fenton
Vantage point: CEO of Microsoft Dynamics partner QuantiQ

What's your spin on the rise of alternative partners and shadow channels?

The traditional channel sells to the IT department, but certain solutions, particularly various software, targets the functional lines. For example, we usually engage the CFO or the sales director. We almost never target the CIO as they often remain the most risk-averse group who are less focused on a solution as opposed to controlling their little environments.

This is true for security, sales software, Apple tech, and so on. It's not focused at the IT department. I'm not sure that I like the term shadow IT. I think tech is widely used and needed in every organisation and rarely is the CIO in a position to understand or identify all needs.

> **"We almost never target the CIO"**

The MSP's view

Name: Ben Hayes
Vantage point: Director of London-based managed services provider IP6Net

Digital marketing agencies have started selling technology to the CMO, and the same has happened with accountancy firms and CFOs. Meanwhile hundreds of thousands of ISVs are popping up. Have you noticed a growth in non-traditional partners in the last few years?

Absolutely. We've been around for 14 years. We deal with companies that have been with us that distance. We also deal with start-ups and young businesses. And we find that the younger the business, the more the shadow partners – the SaaS providers – have managed to break into those businesses.

We're very much in the SMB market, and if you take for example accountancy firms, you had the traditional, cumbersome ERP solutions – Sage and so on – and now you have the dawn of things like Xero and Quickbooks and there's a huge marketplace around those applications. What we're seeing is that the accountant will have a conversation about Xero and it snowballs with the ecosystem around it from there. There are applications like Chaser, which does automated chasing of overdue invoices, and that stops with the accountant, but what other stuff is that then introducing to the customers?

We're seeing a lot of that, and inbound marketing has rocketed over the last five years with apps like HubSpot. It might be that there's a customer with a few digitally switched-on millennials in marketing who do a bit of online training. And they'll start using HubSpot without any partner assistance, although three's still loads of scope there for a partner of HubSpot to come in and do a more detailed job.

It's not anything new – we've always had Salesforce partners delivering CRM solutions. It's just there's more activity going on now that requires these specialisms.

As an MSP, do you view this trend as a threat or opportunity?

Any disruption to business is a threat if you don't address it, or adapt to it in the right way. These SaaS applications are coming into the business, and the project manager of that SaaS application may say to the business 'right, we need to do this now'. And the business looks at them blankly and goes, 'well, your IT partner should be taking care of that'. They might then reach out to their IT partner and the IT partner takes a traditional approach and says 'that's nothing to do with us; we don't support that, you're on your own'. And that can be quite damaging for the traditional partner because that then forces the shadow IT partner to say, 'here's a company that we've worked with before on this exercise, you might want to give them a call'. Then that slowly starts to erode, and they might start to have conversations about other stuff. That's the danger.

The way we approached it is often with a lot of this stuff there are sticky applications. The single sign-on applications and the data storage applications are consistent in whatever SaaS app you might move to, and it's about taking a more consultative approach to those things. Your traditional stuff like cloud networking, security products, you're not going to get any of those shadow IT providers providing that.
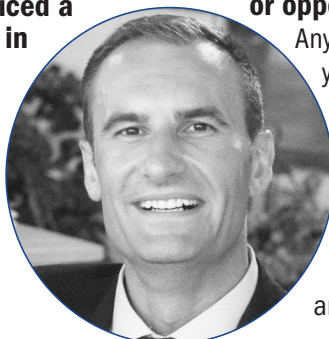
> **"What we're seeing is that the accountant will go in and have a conversation about Xero and it snowballs with the ecosystem around it from there"**

The full 13-page report is available exclusively to CRN Essential subscribers. For more information contact Jessica Richards on 0207 484 9923 or at jessica.richards@incisivemedia.com