CRN ESSENTIAL

VAR 350

EXECUTIVE SUMMARY

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VAR 350: Executive Summary

Hello and welcome to this Executive Summary of *CRN VAR 350 2021*.

It would be hard to overstate the influence of the 350 IT resellers, MSPs and tech consultancies featured in the full report, which is available exclusively to *CRN* Essential subscribers.

With combined revenues of nearly £22bn, they represent the major route to market for IT manufacturers, often holding sway over the end-user budgets they are so eager to unlock. Together, they sell, install and manage the lion's share of the IT, software and cloud services consumed by UK businesses and public sector organisations each year.

Any vendor wishing to broaden its UK footprint must first win over this posse of enormously influential trusted advisors, from £1.7bn-revenue juggernaut Computacenter all the way down to the £5m-£10m specialist providers that tail the rankings.

VAR 350 represents the most comprehensive attempt ever to map the UK channel, and this year it is packed full of even more information and analysis.

The report features 45 new faces, including a Dell partner that is targeting £100m sales after growing 536 per cent in its latest year, and an ambitious "customer-first, cloud-first" MSP that was formed recently by a serial channel entrepreneur.

Together, the 350 firms profiled in the pages below generated revenue of £21.9bn in their latest filed accounts (as of 15 January 2021), a 7.8 per cent hike on the previous year.

Their bottom lines also improved for a second year running, with median net profit margins increasing modestly across all company sizes.

Despite being united by their common status as channel partners, like breeds of dog these 350 firms sometimes have little in common beyond their genetic species.

Some are high-end software consultancies and MSPs making gross margins north of 60 per cent, while others are shifting PCs and Microsoft software in bulk at gross margins of under 10 per cent.

While some are generalists selling a wide range of enterprise technology, over 150 have a laser focus on disciplines including cybersecurity, managed print, ERP software, audio visual and comms.

Some are even more specialised, with one company in this report focused squarely on providing technology to students with disabilities, and another making a living from selling workstations and design software to computer graphic artists.

Nearly 70 of them are international players, or have overseas parent companies.

Whatever their size, shape and vertical bent, together they represent a potent front line interfacing directly with the IT decision makers all vendors are so eager to reach.

But the Executive Summary of this report begins in the only place it can. Covid is the facemasked elephant in the socially distanced room, and on the following two pages we bring this research up to the present day by examining how the pandemic is impacting the fortunes of the 350 firms in this report.

For enquiries on how to obtain this report, or become a *CRN* Essential subscriber, please email Jessica.richards@incisivemedia.com.

■ *Doug Woodburn is group editor of CRN and Channel Partner Insight*

> **"VAR 350 represents the most comprehensive attempt ever to map the UK channel, and this year it is packed full of even more information and analysis"**

Weathering the Covid storm

This report provides a snapshot of how the UK's top IT channel partners performed in their most recent years on record.

What it doesn't do is pinpoint how the 350 firms profiled are faring right now.

As the chart opposite shows, most annual accounts we used to compile this report were for financial years that ended before the pandemic began. Where there was overlap, it was only for a few months, weeks or even days (in the case of those with a 31 March 2020 year end).

Fortunately, anyone who filed their last set of accounts in the last six to nine months (which is most companies) had at the time at least an inkling of how Covid might shape their fortunes, and duly referenced the pandemic in their directors' commentary or strategic reports.

These references provide important clues on whether the channel has had a good, bad or indifferent 2020, and how it might perform in 2021.

Here are seven trends that emerged:

1. There will be winners and losers

While some firms in post-Covid hotspots such as cloud, security and unified comms are rushing to hire staff and raise cash to fuel expansion, others are abandoning growth plans and furloughing staff.

To take a couple of extreme examples, 253rd-ranked Anana claimed in its annual accounts that lockdown has actually turbo-charged demand for its omni-channel customer experience solutions, with sales rising during the pandemic.

But it's a different story for 35th-ranked Compu b, which acquired 81st-ranked UK rival Stormfront and its 23 Apple Premium Reseller stores at the end of 2019. It blamed store closures in the wake of the pandemic for a downturn in its fortunes as it entered Irish 'examinership' (a court supervised rescue process) last summer.

While all resellers and MSPs are having to contend with project postponements and rising levels of bad debt, beyond this the pandemic's impact is being felt across the channel in very different ways.

2. Managed print providers bearing brunt

With offices across the country shuttered for large chunks of the last 12 months, anyone selling and servicing on-premises equipment is enduring lean times.

Managed print providers have been among the worst hit, with 236th-ranked Clarity Copiers seeing monthly revenues decline by as much as 69 per cent at the height of the first lockdown, and 185th-ranked Capital Document Solutions predicting a fiscal 2021 trading loss amid "significantly reduced service revenues and sales opportunities".

Audio visual providers – particularly those with live events arms – are also undergoing turbulence, with 138th-ranked Diversified revealing it would slash overheads by a "marked percentage", and 157th-ranked Smartcomm predicting a 15-20 per cent revenue slide in its current year. Universal AV (ranked 272nd), meanwhile, admitted its three-year plan had been "rewritten many times over" due to the pandemic.

"It is apparent that a return to pre-Covid 19 levels of business could take many months or perhaps years."

Papergraphics annual accounts

3. Many putting faith in furlough

The true Covid fall out in the channel may only become clear once the furlough scheme is withdrawn, with countless VAR 350 firms disclosing their use of the programme in their latest annual accounts.

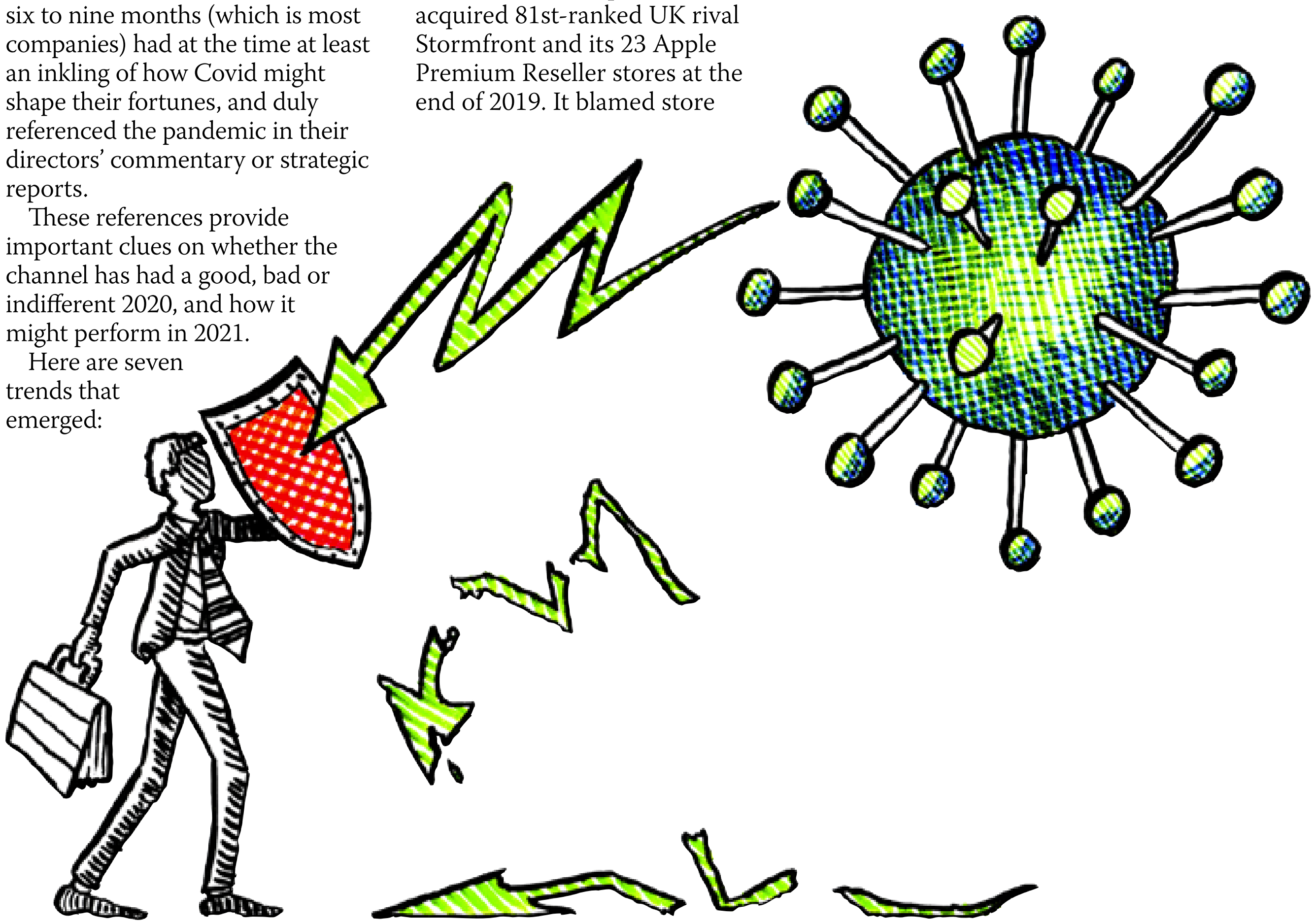
To take just two examples, 123rd-ranked TSG said it had furloughed employees whose roles "were impacted by the restrictions and change in customer demand", while Covid-induced project deferrals prompted 154th-ranked IDE to furlough up to 56 of its staff.

Others have used the Coronavirus Business Interruption Loan Scheme to boost their liquidity, with 217th-ranked Computerworld and 276th-ranked Covenco securing £700,000 and £525,000 through the programme, respectively.

4. Big offices a thing of past for some VARs

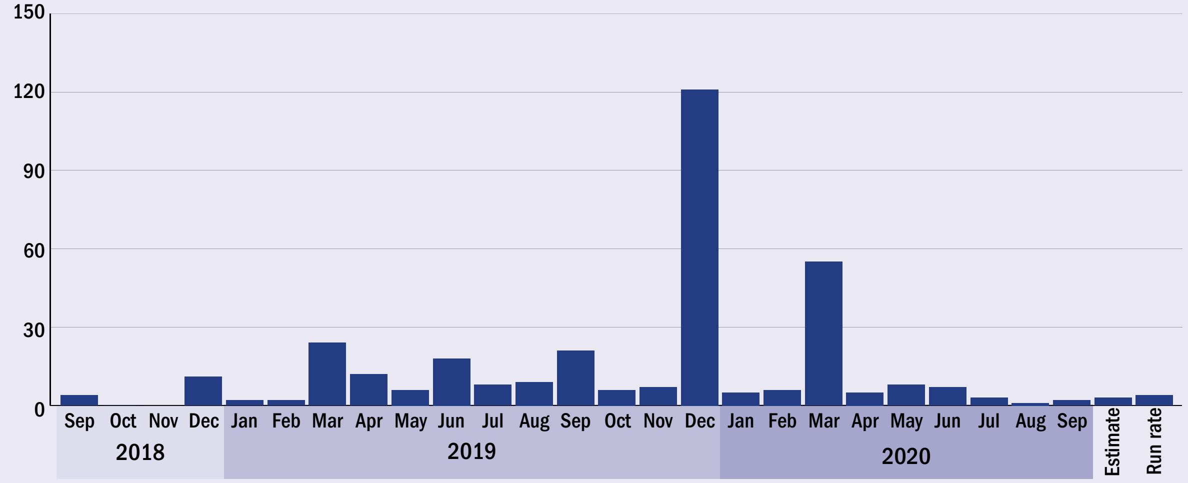
While it's a safe bet that slow growth/no growth will be the norm for VAR 350 firms in their current financial years, Covid's likely impact on their bottom lines is less clear.

Many are saving six or even seven-figure sums on travel and events, while others are using Covid as an opportunity to trim



Year ends

We have provided runrate figures for four firms (namely Daisy Corporate Services, Kerv Group, DSP and Taylor Made) based on numbers they have given us or display on their website, and estimates for three others global giants that don't report revenues (WWT, SHI and Crayon). All other revenue numbers are based on the latest set of UK annual accounts we could locate for each company (as of 18 January 2021), the year ends of which are displayed below. In instances where these covered a truncated or extended annual period, we have annualised the figures.



costs more permanently by downsizing their offices.

This includes 320th-ranked Core, which recently opted not to renew the lease on its 72-desk London office (it now works from a 12-seat Mindspace office). Meanwhile, 189th-ranked swcomms is now letting out its ground floor main suite of 70 desks after concluding its staff are as productive working from home.

5. Recurring revenue and cloud a tonic

A source of reliable, long-term income even in good times, recurring revenues have assumed a Holy Grail status during the pandemic as resellers and MSPs find themselves less able to prospect for new business.

ONI (ranked 212th) claimed in its accounts that it is "well placed to weather the impacts of the pandemic" due partly to its high level of recurring revenue, while 190th-ranked IP Integration stressed that the 85 per cent of its business generated by recurring revenue "will remain mostly unaffected as it is supporting critical services for our clients and is contracted income".

Covid has – anecdotally at least – accelerated digital transformation and cloud adoption, and some VAR 350 firms are convinced that embracing cloud is their ticket to post-Covid success.

Striking a bullish tone in its accounts, 281st-ranked Port-P predicted its services will remain in demand "as a provider of cloud solutions that enable remote working". Google Cloud partner Cloud Technology Solutions (ranked 163rd), meanwhile, claims it is doing brisk business as the remote working boom triggers demand for Google Workspace.

"Covid-19 has increased the economic focus on e-commerce, which in turn requires contact centres and customer engagement to support it. This... has secured an increase in business and revenue for the group."

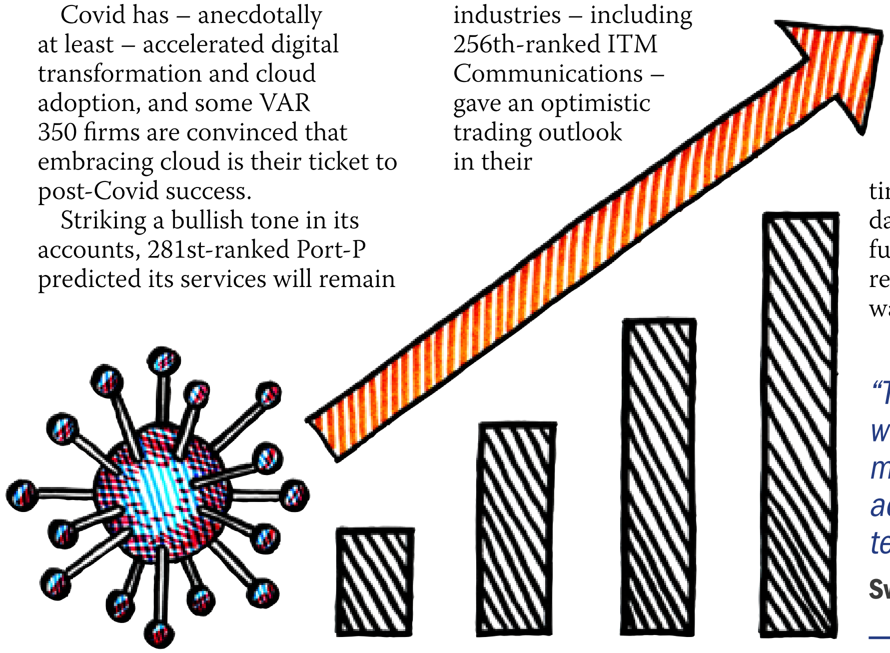
Anana annual accounts

6. The vertical market lottery

Government restrictions have caused whole industries to almost completely shut down while allowing others to function relatively normally – creating a lottery for vertical market specialists in the VAR 350.

While some with a focus on public sector and critical industries – including 256th-ranked ITM Communications – gave an optimistic trading outlook in their latest accounts, others haven't been so lucky.

Retail and hospitality-focused Retail Assist (ranked 267th) confided that it had reduced its staff levels to 180 since its year end (down from an average of 235 in fiscal 2020). Forty second-ranked Itelligence, meanwhile, admitted its business in traditional industries such as automotive supply and manufacturing is "under pressure" at a group level.



7. All not lost for retailers

While Covid has had a devastating impact on some Apple Premium Resellers (APRs), other VAR 350 outfits with a retail presence claim they are doing a roaring trade as they turn their attention to internet sales or B2B and education customers.

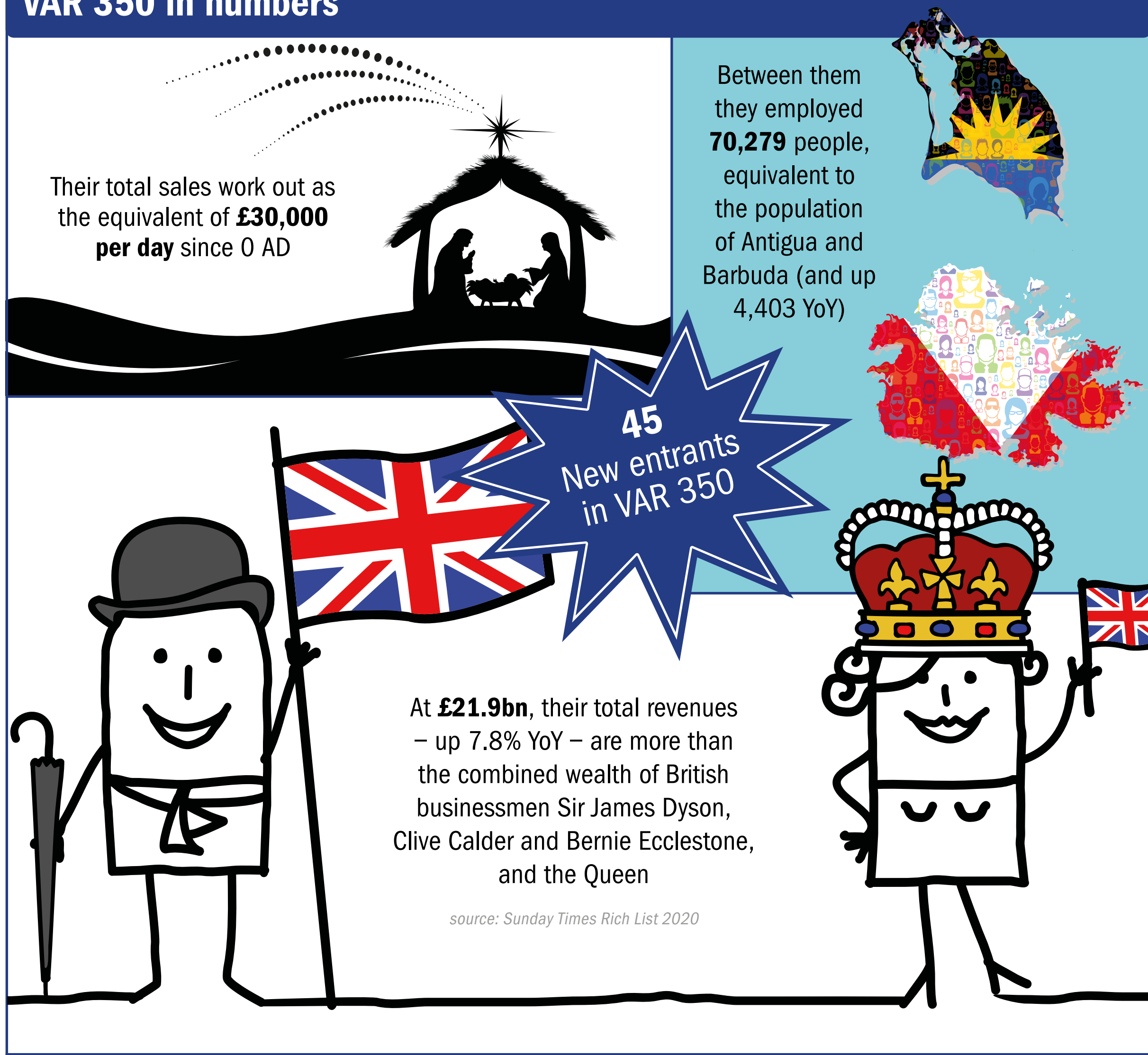
KRCS (ranked 208th) expects revenues and net profits to remain at similar levels in its fiscal 2021 ending 30 June. The negative effect of reduced footfall at its three APR stores – which generate 30 per cent of its sales – "can be managed and compensated for by other revenue streams", it stressed.

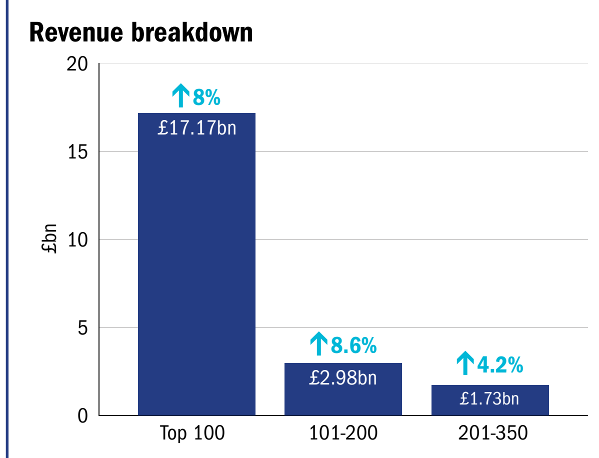
An internet sales spike during lockdown "more than made up for the shortfall in other areas", 153rd-ranked PC builder Novatech added, noting that orders were four times usual volumes on some days. It emphasised it had not furloughed any staff, instead redeploying retail workers to its warehouse and other teams.

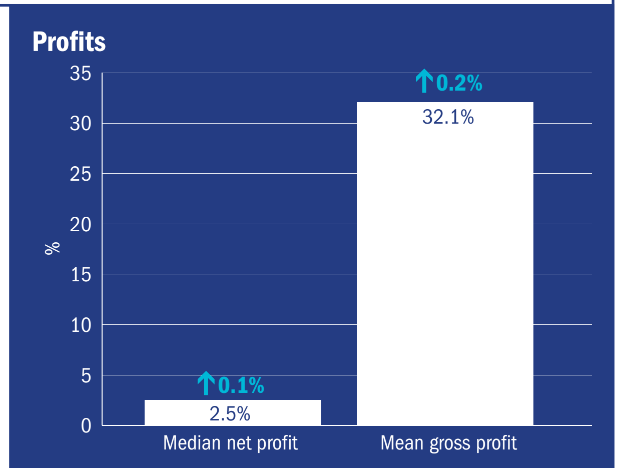
"The success of our remote working programme has meant we have been able to adopt this as a more long-term hybrid strategy."

Swcomm, October 2020

VAR 350 in numbers







Profiles explained

350. Company

Year-on-year growth

↓14 | £2.6m (+35%)

15.7% | 13

Net profit expressed as a percentage of revenues

Average monthly staff numbers during the year

350. Business Connexion (BCX)

↓2 | £1.9m (+23%)

13.5% | 9

The UK arm of this South Africa-based IT and converged comms provider scrapes into this report on the back of a 23 per cent revenue surge in its year to 31 March 2020. The wider business has struggled during the pandemic, however, with reduced spend among enterprise customers fuelling an 11 per cent revenue dip to R7.9bn (£380m) in its 1H to 30 September 2020.

349. Cipher Security

NEW | £2m (-23%)

-17.5% | 17

The UK arm of this MSSP and cybersecurity consultancy sneaks it into *VAR 350* courtesy of its £2m calendar 2019 revenue haul. The FireEye partner, which is headquartered in Miami and boasts operations across the US, South America and Europe, was acquired by private security giant Prosegur in 2019. Cipher Security's offering spans managed detection and response, managed security services, red team services, GRC and cybersecurity integration.

348. Datcom

↓2 | £2.1m (+7%)

10.7% | 22

A subsidiary of accountant and tax adviser Duncan & Toplis, this Lincoln-based IT support and solutions outfit claims to serve 150 SMEs in the East Midlands. It posted a small rise in both net profits and revenues in its year to 31 March 2020, generating £2.1m of Duncan & Toplis' overall £21m top line. The blog section of its website gives regular updates on the comings and goings of Office 365.

The UK channel's total addressable market

VAR 350 represents the most comprehensive attempt ever to map the UK channel, but how much of the overall UK B2B IT channel do our numbers actually capture?

The 350 firms in this report generated combined revenues of £21.9bn in their most years on record, the vast majority of which will be UK revenues.

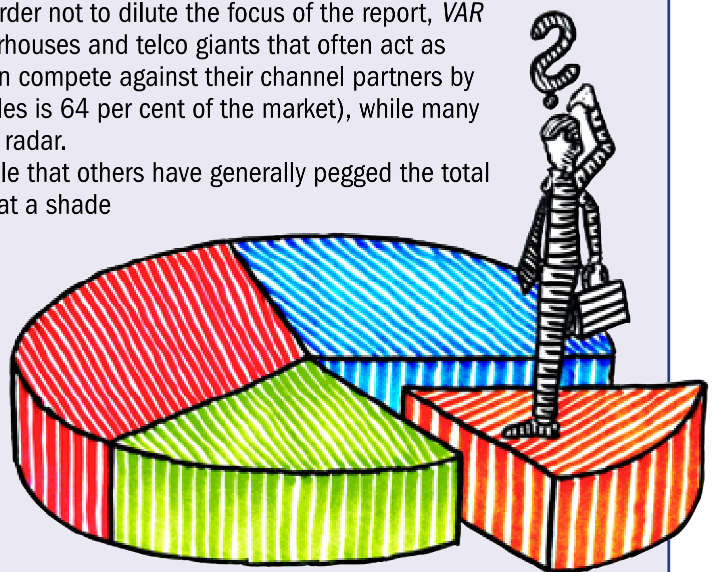
But the total addressable market for selling and servicing B2B ICT hardware, software and cloud services in the UK is likely to be at least double that total.

Because it's not their main business and in order not to dilute the focus of the report, *VAR 350* purposefully excludes the IT services powerhouses and telco giants that often act as big channels for the vendors. Vendors also often compete against their channel partners by selling direct (Forrester estimates that direct sales is 64 per cent of the market), while many sub-£20m resellers and MSPs aren't yet on our radar.

For these reasons, it's perhaps understandable that others have generally pegged the total addressable UK market for resellers and MSPs at a shade over £50bn.

In its most recent annual report, Capita estimated that the market targeted by its Technology Solutions arm (which includes the old Trustmarque business) was worth £54bn in 2019.

Softcat is of a similar mind, claiming industry estimates put its market share around the three per cent mark in its 2020 annual report. This would also put the total market at round £55bn.



347. Scotia

↓6 | £2.7m (-11%)

4.2% | 16

This Edinburgh-based audio visual integrator characterised its fiscal 2020 ending 31 March as a "successful year", despite seeing net profits halve to £114,000 and revenues dip 11 per cent. Counting 3M, Sony, Sanyo, NEC, Smart and Polycom among its vendors, it targets major public and private sector organisations throughout the UK, Europe, the Middle East, North America and the Far East.

346. IC Technology

↓2 | £2.9m (+37%)

8.2% | NA

Primarily selling into the education space, ICT Technology claims to be one of Dell's largest UK client equipment resellers. Calendar 2019 was a bumper year for the Stafford-based firm, with revenues soaring 37 per cent to £2.9m and net profits more than doubling to £237,000.

345. Communicate Technology

↓7 | £2.9m (-15%)

-25% | 30

This Tees Valley-based provider of network infrastructure solutions to business parks characterised calendar 2019 as a year of restructuring as it looked to bounce back from a "difficult" end to 2018. Net losses halved to £737,000. Although a new five-year contract agreed with its largest client in December 2019 will boost long-term revenues, Communicate admitted Covid-19 had made it difficult to predict when pipeline projects will come to fruition.

New faces

This year's *VAR 350* features 45 new companies; so who are they, and where did they come from?

At least a handful of the newbies are young and fast-growing companies that have only recently started filing full accounts showing a revenue number.

This includes 300th-ranked AWS partner Inawisdom (founded in 2016), 263rd-ranked Ideal Networks, 321st-ranked MSP Managed247 and 283rd-ranked BCN (all founded in 2009), and 207th-ranked Systal (founded in 2008).

Claire Hopkins, CEO, Ideal Networks

Others – including 183rd-ranked Sword IT Solutions, 199th-ranked Xenith and 181st-ranked Vedbaek (which owns 'The NAV People') – enter *VAR 350* after appearing on our radar for the first time.

Still others are newly named amalgamations of firms that have appeared in previous editions of this report, among them 110th-ranked North and 197th-ranked Kerv Group, or demergers, such Daisy Corporate Services (which demerged from Daisy).

Other newcomers have re-entered *VAR 350* following a hiatus in which they did not report revenues (for instance 217th-ranked Computerworld), or because we have deemed them eligible for inclusion following a reassessment (eg 40th-ranked NTT Data, 48th-ranked Options).

The largest genuine *VAR 350* newbie – 26th-ranked Ricoh IT Services – fits into none-of-the above categories, but we opted to include it (based on a runrate figure from Ricoh provided itself) due to its growing presence in the market.

Alastair Mills, CEO, Kerv Group

344. Pinnacle

↓7 | £3.3m (-11%) | 16.1% | 25

In one of the case studies showcased on its homepage, this London-based comms and Apple reseller claims it halved fit-out contractor Harvey Shopfitters' mobile costs. Although revenues slumped 11 per cent to £3.3m in its year to 30 September 2019, it remains one of this report's most profitable firms, relatively speaking. Pinnacle is an Avaya [...] with Vodafone, Apple, Microsoft, Cisco and SonicWall.

343. Deans Computer Services

↓3 | £3.8m (+16%) | 9.9% | 47

This Wetherby-based accounting software specialist labelled calendar 2019 a "positive year", as product and services growth combined to produce an overall 16 per cent top-line hike. Net profits fell fractionally to [...] Exchequer partner generates a growing proportion of sales from bespoke software development following its 2017 acquisition of rival Leckhampton Computers, and now claims to have a team of ten developers.

342. Evaris Solutions

↓13 | £4m (-12%) | -6.4% | 21

This Rochdale-based reseller chalked up a 12 per cent pro-rata calendar 2019 revenue drop to [...] adding that an investment in staff tipped it to a £255,000 net loss. The Cisco, Dell, HP, HPE, Kemp and Synology partner – formerly King of Servers – claims it now has a "positive trading outlook" and is positioned for growth.

341. Lynx Networks

↓11 | £4m (-10%) | 1.8% | 54

Targeting customers with between five and 5,000 staff, this Milton Keynes-based networking reseller [...] low" bottom line in its year to 31 March 2020 as its net profits plunged from £282,000 to £71,000. It blamed the slump on its investment in a new job control and customer engineering software, which it claimed will ultimately boost its efficiency.

340. Nolan Business Solutions

↓6 | £4.5m (+9%) | -7.7% | 44

One of the few VARs to count [...] among its key target customers, this Fleet-based Netsuite and Microsoft Dynamics partner saw revenues tick up a further nine per cent in its year to 30 June 2019. Higher staff costs hit its bottom line, however, pushing it to a £349,000 net loss.

339. Trustco

↓4 | £4.6m (+16%) | 5.8% | 12

Having logged two consecutive years of falling sales, this East [...]

The full version of this report is available exclusively to *CRN* Essential subscribers

The full report contains:

- Profiles of the entire top 350
- Analysis of net profit margins by company size
- Analysis of gross profits
- Map of UK headquarters
- Analysis of domestic vs international players
- Summary of new entrants
- Summary of M&A moves
- Deals of the year
- Quotes of the year
- Summary on biggest risers and fallers

Please contact Jessica.Richards@incisivemedia.com for more information