



# Top Challenges Facing Partners in 2024

A look at the most vexing problems facing partners and what vendors can do to help them succeed



March 2024





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## Not a Worry-Free Year

On paper, 2024 appears promising for the technology sector and its associated channels based on current projections. Forecasts suggest a growth of over 4% in global IT expenditure. Cloud computing services are expected to witness an impressive increase of over 20%, while business software sales are anticipated to grow by 17%, as per IDC's analysis. Additionally, the hardware segment is set to experience a revival, with infrastructure components such as servers, storage, and networking equipment projected to see a 10% rise. Furthermore, the market for PCs is predicted to return to a trajectory of positive growth (roughly 3%).

Despite the optimistic financial projections for 2024, the channel faces significant hurdles. The Channelnomics 2024 Channel Forecast report

reveals a decline in partner confidence for the second consecutive year, falling below the levels experienced at the height of the COVID-19 pandemic. Factors such as rising interest rates, inflation, and uncertain economic policies and outlooks are weighing down partner optimism, even in the face of increasing spending. Moreover, partners are grappling with various operational challenges that hinder their performance and overall efficiency.

In this report, a continuation of the 2024 Channel Forecast, Channelnomics looks at the top challenges facing partners across the channel this year. This report will provide you, vendor and channel leaders, with insights and prescriptive guidance on what these challenges mean to partners and what you can do to mitigate their impact on partner performance.

Increasing Competition

Competition in the market and channel is always a concern to partners. Despite their economic and operational challenges, most believe they're performing well compared to their competitors. When asked how well their business is operating compared to their competition, 76% of partners said "better" and only 3% said worse (see *FIGURE 1: Partner Performance Compared to Competition*).

However, when asked about challenges, increasing competition from other IT service businesses topped the list, with 41% of partners expressing this concern (see *FIGURE 2: Partners Concerned by Increasing Competition*).

The worries over escalating competition are justified, especially considering that a majority of part-

ners are strategizing to broaden their capabilities, market reach, and product portfolios in 2024 (see *FIGURE 3: Partners' Planned Strategic Changes in 2024*). Partners intend to augment their sales and marketing efforts to boost sales of existing products in their portfolio. Additionally, they're looking to forge partnerships with new vendors and venture into unexplored markets this year, further intensifying the competitive landscape. These expansion plans highlight a proactive approach in adapting to evolving market demands and seizing new opportunities for growth.

Four out of every 10 partners plan to expand their businesses through the acquisition of other resellers and managed service providers (MSPs). Despite high interest rates that make financing more costly, merger and acquisition (M&A) activities are

FIGURE 1: Partner Performance Compared to Competition

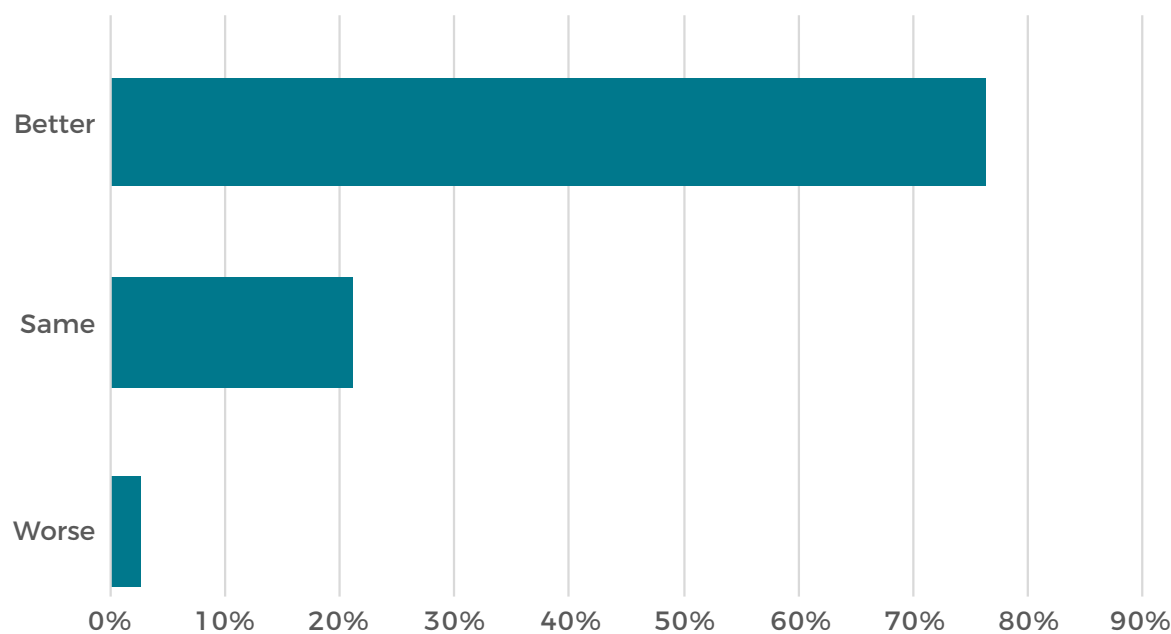




FIGURE 2: Partners Concerned by Increasing Competition



anticipated to rise in 2024. This trend is driven by the fact that many businesses have experienced a decrease in their valuations over the past year, largely due to the same economic pressures.

Despite customers being more willing to spend, partners are noticing increased competition for buyer attention. This competition isn't just with peers; partners are contending for a share of the budget among customers deciding between a particular technology and a system in an entirely different domain. In other words, storage partners aren't competing just with other storage resellers; they're also competing with resellers of business applications.

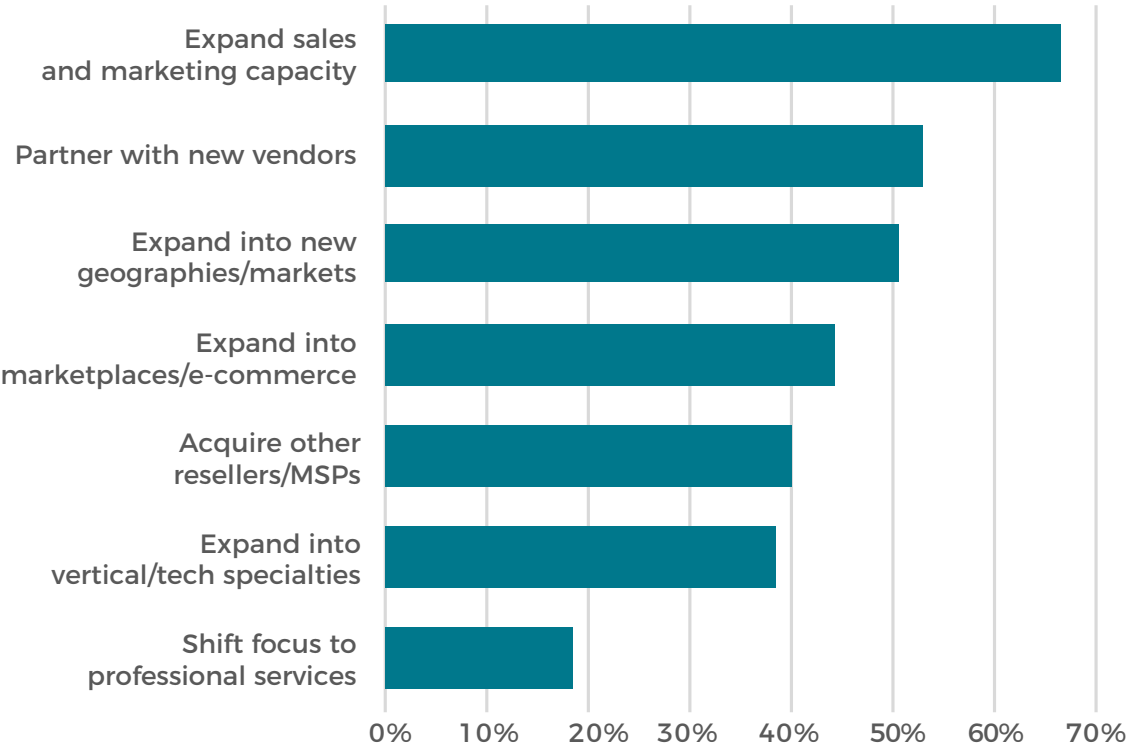
Channel conflict with vendor direct-sales teams is always a challenge facing partners. However, in 2024, only 8% of partners cite this as a concern. While some vendors are pulling back from

the channel to focus on what they perceive as more productive direct sales, most are turning to their partners to carry more of the sales load as a means of increasing coverage without increasing fixed costs.

**What Vendors Can Do:** Intra-channel competition and conflict are endemic to indirect go-to-market models. Partners will always face competition that can impede their productivity and progress. While it's partners' responsibility to build a strong value proposition and differentiate themselves from their competitors, vendors can take steps to help their partners improve their market position.

- **Market intelligence:** Provide partners with insights into market trends and competitive analysis to inform their strategies.
- **Training and skill development:** Offer comprehensive training programs to enhance partners' product knowledge and sales skills.

FIGURE 3: Partners' Planned Strategic Changes in 2024



- **Technical & vertical specializations:** Provide partners with opportunities to differentiate with technical and vertical-specific specializations that they can market.
- **Marketing support:** Supply co-branding materials and collaborative marketing initiatives to boost partner visibility.
- **Financial and operational assistance:** Extend financial incentives and operational support to ease partners' burdens and enhance their focus on growth.
- **Streamlined deal registration:** Make the application and approval process for opportunity protection easier and faster.
- **Restrictive partner programs:** Implement more stringent program participation requirements to reduce the number of partners vying for the same opportunities.

### Attracting & Retaining Talent

In 2023, the technology industry shed more than 260,000 jobs — at least, that's what we know of. Many smaller technology companies, particularly partner organizations, don't always report layoffs or have their downsizing recorded. The volume of tech layoffs was more than double what it was in 2022, and the string of planned and announced downsizings and reorganizations among tech companies is continuing. The watchword for 2024 in tech is "optimization," as vendors and partners look to streamline their businesses to maximize productivity and decrease costs.

Despite the downsizing at the vendor level, partners are planning to increase their staffing in 2024. According to our survey, 75% of partners plan to increase the number of employees, with only 5%

planning workforce reductions (see *FIGURE 4: Partner Plans for Staffing Changes in 2024*). The staffing increases reflect partners’ anticipated increase in customer demand for products and services this year.

Even given the number of displaced tech workers, the market is still facing a talent deficit. More than one-third of partners in the 2024 Channel Forecast survey reported being challenged by the shortage of skilled IT professionals (see *FIGURE 5: Partner Staffing Challenges in 2024*). Another 14% said they’re having trouble attracting and retaining top talent. Part of the recruitment and retention challenge is inflation, which, along with the talent shortage, has driven up wages, making it harder for partners to afford the people they need.

The need for IT talent among partners is high. As noted in the “Increasing Competition” section, partners are planning to expand their sales

and marketing capacity, as well as move into new geographies and markets. Such expansion requires personnel, and finding people capable of performing complex IT tasks is challenging, which is why 40% of partners are planning to acquire a peer. The rationale behind intra-channel acquisitions includes geographic expansion and talent acquisition.

Where partners need help is in growing and emerging technologies. The biggest growth in the technology market in 2024 will come from cloud computing services, business software, security, and artificial intelligence (AI). The AI market opportunity is expected to expand at a 55% compound annual growth rate (CAGR) over the next three years, going from \$40 billion in 2024 to \$150 billion in 2027. Capitalizing on these opportunities requires skilled personnel who can market, sell, and support these technologies.

FIGURE 4: Partner Plans for Staffing Changes in 2024

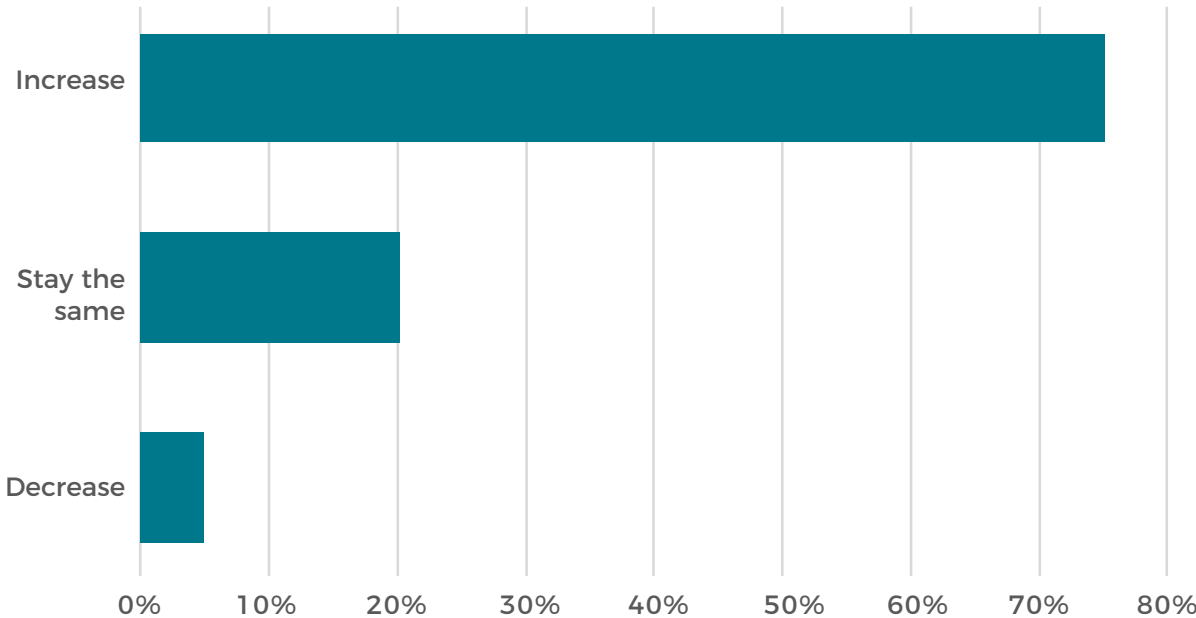
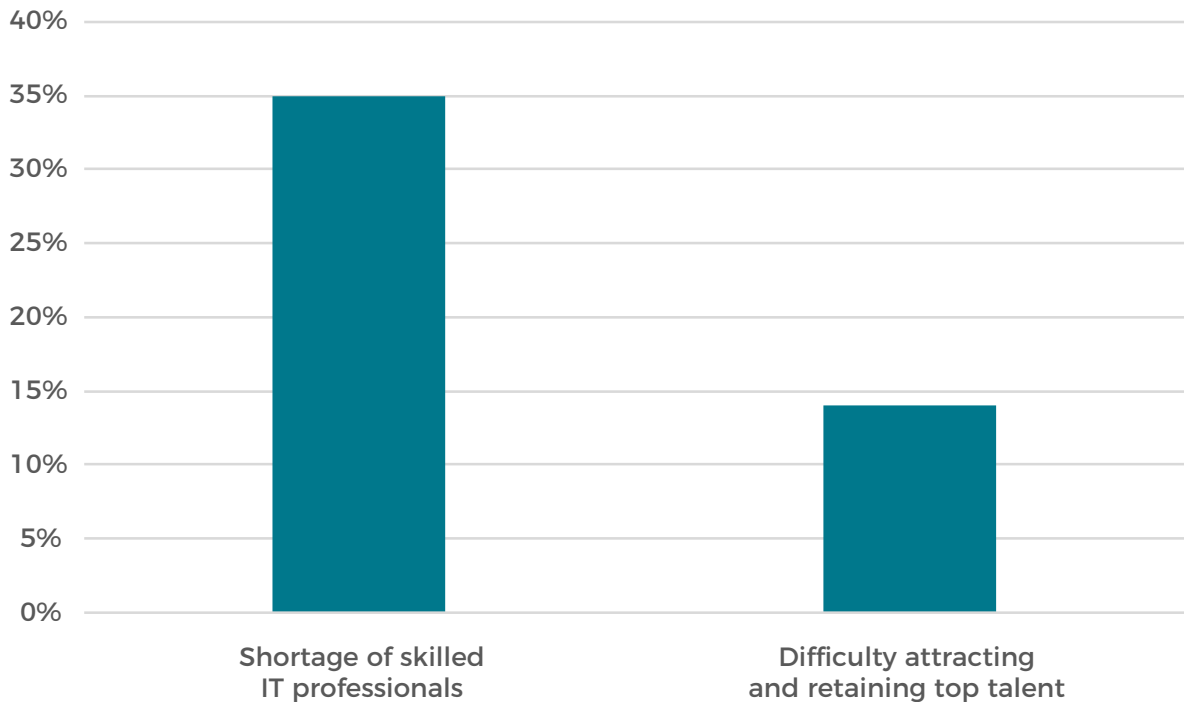


FIGURE 5: Partner Staffing Challenges in 2024



Channelnomics anticipates that staffing challenges will persist for partners for the foreseeable future. Although they can recruit talented individuals affected by vendor layoffs, they remain in competition for technical and sales professionals skilled in emerging technologies like AI. The labor costs associated with hiring professionals who possess advanced capabilities will continue to exert pressure on partners' ability to hire effectively. Automation will help ease labor pressures, but not enough to fully mitigate partner staffing needs.

**What Vendors Can Do:** Vendors play a crucial role in assisting partners with ongoing labor challenges. They can support their partners in talent recruitment, retention, and skill development. These initiatives are vital not only for addressing immediate staffing concerns but also for contributing to the long-term growth and sustainability of their partners' businesses. Below are several strategies

vendors can employ to help partners with talent recruitment and retention.

- **Skill development:** Offer training programs in emerging technologies to enhance workforce skills.
- **Certification support:** Provide certification opportunities in specialized areas to increase employee value.
- **Talent sharing:** Facilitate a talent-sharing network or outsource specialized tasks to reduce full-time hiring needs.
- **Recruitment assistance:** Share best practices for attracting and retaining talent, including competitive work environments and compensation strategies.
- **Collaborative hiring:** Engage in joint hiring initiatives to access a broader candidate pool.
- **Funded head count:** Provide partners with funding to hire people for specific purposes — to develop new technology sales or territories, for example.



- **Internships and apprenticeships:** Develop programs with educational institutions to build a future talent pipeline.
- **Technology access:** Provide automation tools that will help to maximize efficiency with a smaller workforce.
- **Community building:** Create a partner community for knowledge-sharing and peer support in talent management.

### Keeping Up With Advancing Technologies

The COVID-19 pandemic is likely the most dramatic shock to the technology industry – and the world – in recent memory. As businesses enforced social distancing and isolation measures, the technology industry provided essential tools for businesses and individuals to establish alternate communication lines, manage workflows remotely, and maintain crucial business activities.

Nearly two-thirds of partners (62%) changed their GTM strategy as a result of the COVID-19 pandemic and the subsequent changes in economic conditions (see *FIGURE 6: Changes in Partner Strategy Resulting From COVID-19*). In response to the sudden market shift over the past three years, 80% of partners adopted new technologies and services.

The pandemic did much to spur innovation and the development of creative solutions. Currently, at the forefront of the AI revolution, partners find it challenging to keep pace with rapid changes. Nearly one-third of partners say they’re challenged by the rapidly changing technology landscape (see *FIGURE 7: Impact of Changing Technology*).

This struggle is tangible, with partners constantly receiving messages and outreach from vendors urging them to adopt or support their products.

FIGURE 6: Changes in Partner Strategy Resulting From COVID-19

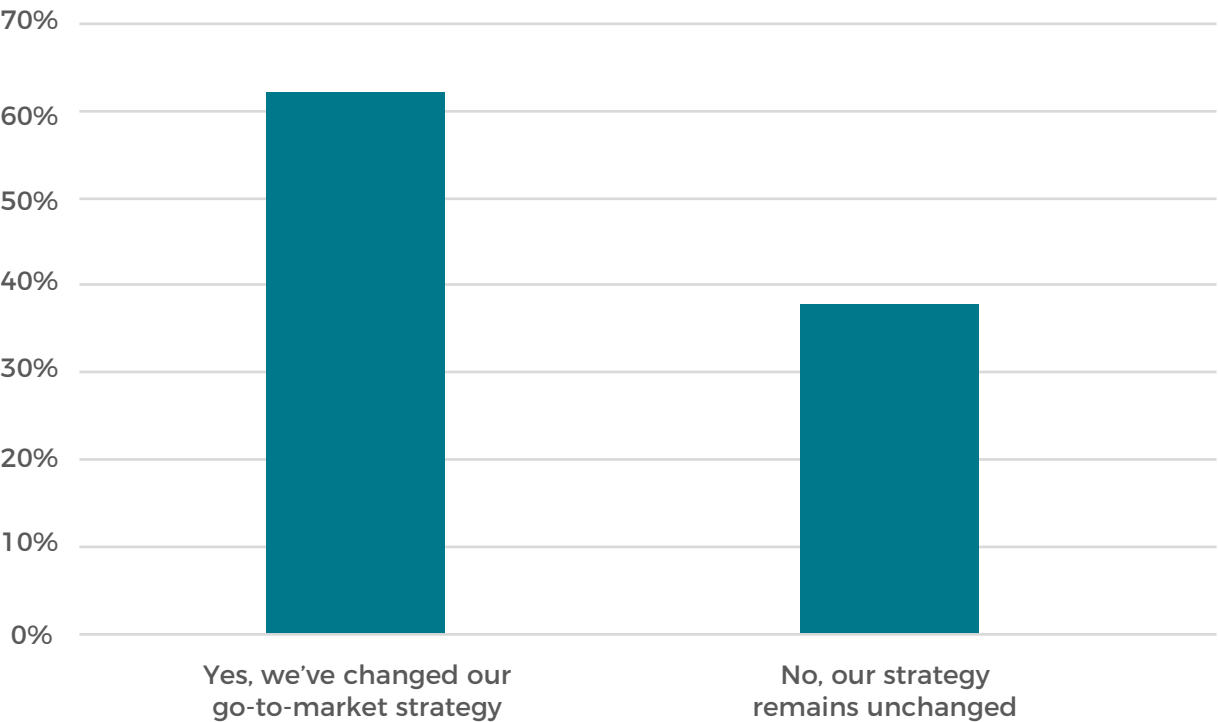
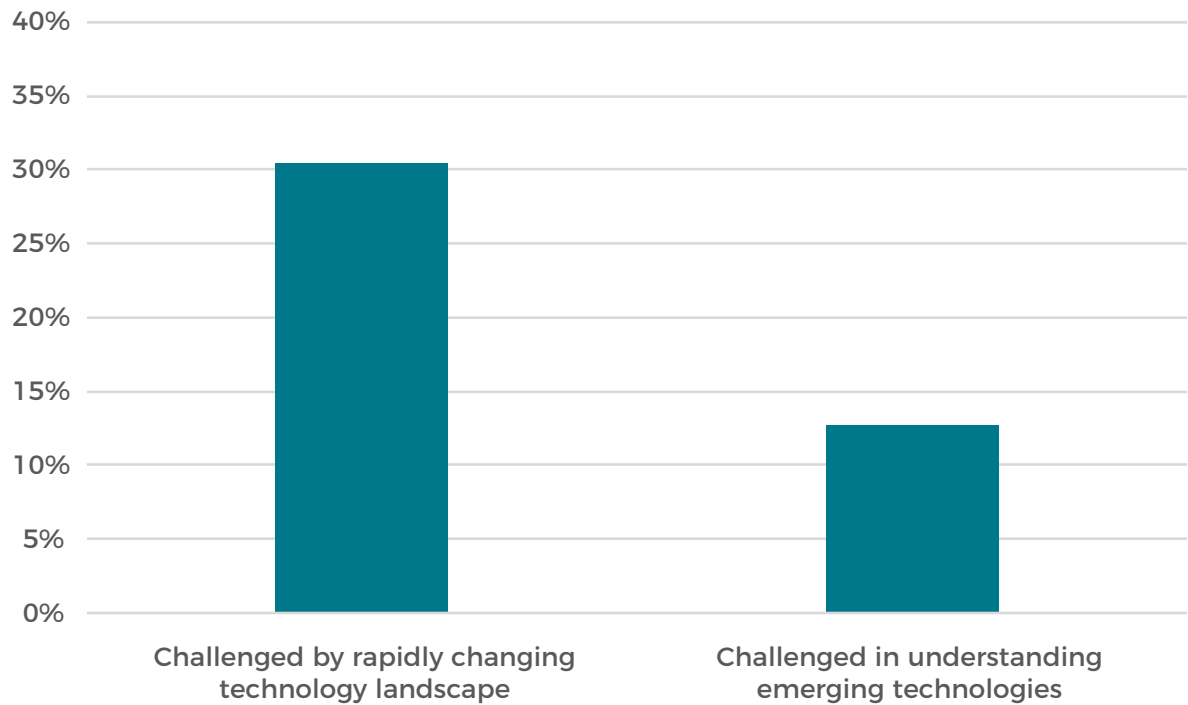


FIGURE 7: Impact of Changing Technology



Although vendors discuss leveraging the channel ecosystem’s power, the overwhelming combination of possible products and services can perplex partners.

Smart partners will work with their vendors and peers to develop repeatable integrated systems to simplify their sales processes and support methodologies. However, each system developed comes at a cost in terms of development resources, training, and infrastructure. In 2022, MSPs consolidated their technology stacks and vendor relationships because they were struggling to keep up with maintenance and support costs.

The good news is that only 13% of partners say they’re having a hard time keeping up with understanding emerging technologies.

Channelnomics anticipates that the challenge partners face in keeping up with the pace of tech-

nology change will only increase over the next three to five years. This is as AI permeates other categories and the demand for advanced systems in operational management, data management and hygiene, and custom application development grows.

**What Vendors Can Do:** To help partners navigate these challenges, especially in the context of COVID-19 and rapid technology advances, vendors can take several steps:

- **Customized training:** Offer targeted training programs on new technologies like AI using online courses and webinars.
- **Streamlined communication:** Simplify communication by providing clear, relevant information through dedicated channels.
- **Collaborative development:** Involve partners in product development for solutions that better meet their needs.

- **Flexible solutions:** Provide scalable and interoperable technologies that easily integrate into partners' existing systems.
- **Financial and technical support:** Offer financial incentives and dedicated technical assistance to facilitate the adoption of new technologies.
- **Market insights:** Share analytics and market trends to help partners refine their strategies and stay competitive.
- **Community engagement:** Create partner forums for the exchange of information and best practices.
- **Customizable marketing tools:** Supply adaptable marketing materials that can assist partners in effectively reaching their markets.
- **Strategic planning support:** Aid partners in long-term planning to anticipate and prepare for future trends.
- **Strong partner ecosystems:** Develop a robust network of collaborators to provide a comprehensive range of solutions.

Economic Uncertainty Lingers

IT spending is projected to increase slightly more than 4% this year, and it could jump as much as 8% in 2025, according to market analyst firms such as IDC and Gartner. But spending isn't uniform across all categories. For every category seeing double-digit growth rates, there's another category in the low single or negative digits.

Most partners believe their gross revenue and profits will increase this year. Among respondents, 88% say their revenue will climb higher than 2023's top line. And 84% believe their profits will exceed the amounts they reported as net income last year.

FIGURE 8: Expected Changes in Partner Revenue and Profits



Less than 2% of partners believe their revenue will decline, and roughly 3% believe their profits will drop compared to last year (see *FIGURE 8: Expected Changes in Partner Revenue and Profits*).

These growth expectations are pretty strong, but there’s still a fair amount of uncertainty in the channel about how well partners will perform in 2024. Persistent economic uncertainty, stubbornly high interest rates, and fluctuation in inflation are dragging down customer confidence and causing many businesses to remain in a conservative spending posture.

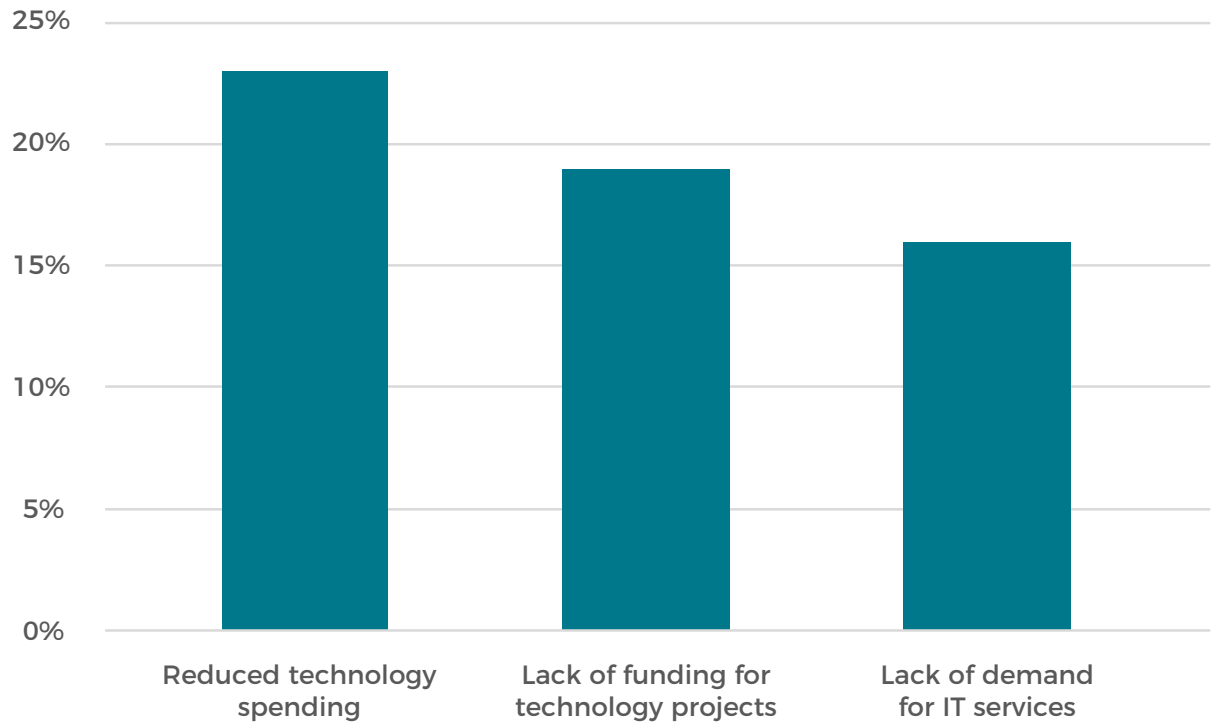
Nearly one-quarter of partners (23%) say economic uncertainty is causing customers to pull back on their IT spending (see *FIGURE 9: Effects of Economic Uncertainty on Customers*). This trend is a

continuation of what vendors and partners saw in 2023 as customers cut their budgets and held on to their cash, waiting to see if the economy would improve or slip into recession.

Another 19% of partners say customers lack funding for technology projects, hindering their ability to initiate or complete new projects. Vendors tell Channelnomics that they saw the same trend; customers would open purchase orders but suspend spending against them because funds weren’t available.

Finally, 16% of partners say that there’s a general lack of demand for IT services. Partners experiencing slack demand for service engagements are likely seeing their customers attempt to optimize existing service contracts. Many customers experienced rising services costs over the past two years

**FIGURE 9: Effects of Economic Uncertainty on Customers**





and have been trying to curb service spending to keep it from getting out of control.

Channelnomics hears from partners that they're optimistic about improving economic conditions and a return to healthy spending by their customers. Channelnomics believes the first half of 2024 will be much the same as 2023, with uneven spending, longer sales cycles, and higher customer expectations for vendors and partners to demonstrate value. Spending will likely pick up in the second half of 2024 as businesses start building new infrastructure, refreshing PC fleets, and investing more in automation.

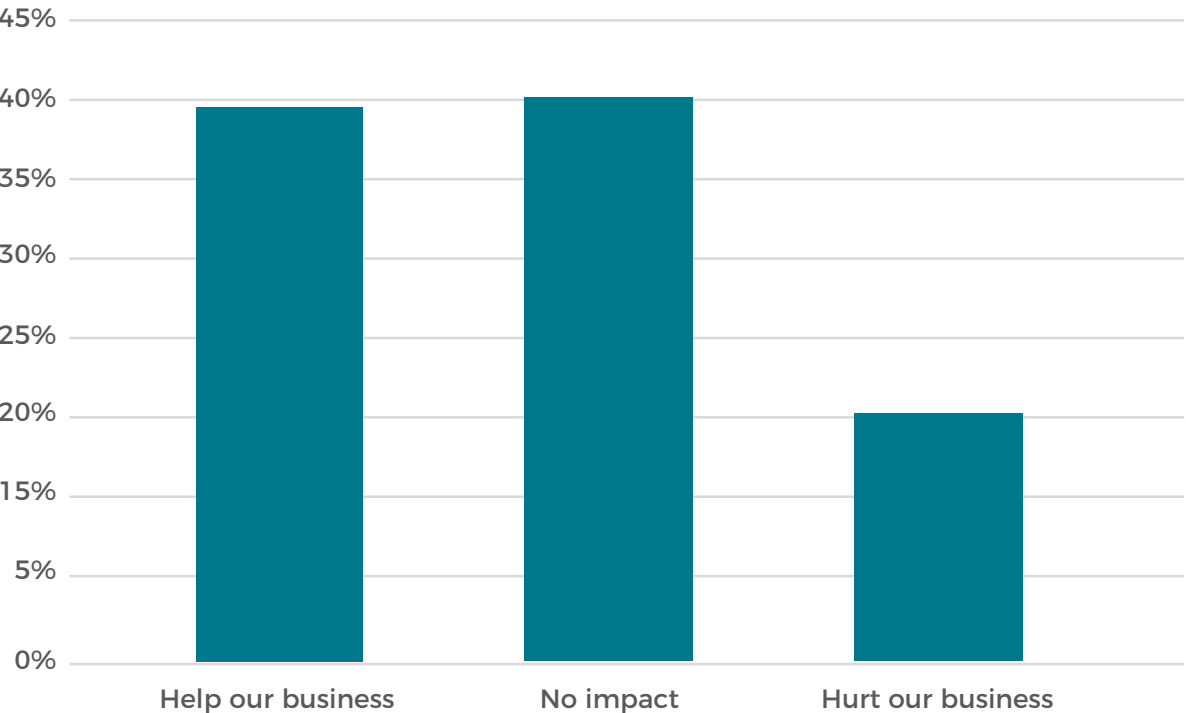
**What Vendors Can Do:** Vendors can play a crucial role in helping partners navigate challenges and capitalize on opportunities in the current IT market. Here are several strategies vendors can employ:

- **Flexible financing:** Provide extended payment

terms and leasing options to ease customer investment concerns.

- **Enhanced marketing support:** Help partners with targeted campaigns that highlight the value of IT investments.
- **Training:** Equip partners with training on new technologies and sales strategies.
- **Partner incentives:** Motivate partners with financial bonuses and rewards for achieving sales targets.
- **Bundled products and services:** Create value-driven bundles to simplify customer purchasing decisions.
- **Increased support:** Offer robust sales and technical support to assist partners with customer interactions.
- **Market insights:** Give partners access to market trends and customer behavior data.
- **Guidance on growth areas:** Point partners toward sectors and/or technologies with higher demand.

FIGURE 10: Impact of Government Regulations on Partner Businesses



- **Solutions for market segments:** Develop solutions specific to different industries or customer sizes.

## Security & Regulatory Pressures

Security threats are persistently on the rise, placing the security sector in an arms race with hackers. With each new infrastructure and data protection technology that hits the market, hackers devise new methods of circumventing defenses. Thanks to artificial intelligence, malware is becoming easier to create, leading to a dramatic rise in circulation volumes.

Partners face the same security threats and challenges as end users. They may be steeped in technology knowledge and resources, but that doesn't mean they can effectively solve their security issues. One-third of partners say they're challenged by the security threats facing their businesses and in keeping up with the technology.

On the customer side, security threats and regulations are driving spending. According to Gartner, global security and risk management spending will increase 14.3% in 2024. Governments around the world are compelling businesses to invest in security and data protection technologies to safeguard their infrastructure and personal identifying information — or risk heavy fines.

Partners have mixed feelings about the impact of government regulations on their businesses and customer spending. While 39% of partners believe government technology regulations will help their businesses, 40% say it will have no impact, and 20% believe regulations could hurt their businesses (see *FIGURE 10: Impact of Government Regulations on Partner Businesses*). One-fifth of partners believe IT service regulations, such as performance stan-

dards, security expectations, and legal liabilities for losses, could create new challenges that disrupt their operations.

The escalating complexity and frequency of security threats, along with the dynamic regulatory landscape, presents significant challenges and opportunities for partners in the technology sector. Navigating these changes successfully requires a balanced approach, blending advanced technological solutions with strategic business adaptations to ensure security and compliance, while also capitalizing on emerging market opportunities.

**What Vendors Can Do:** Vendors, equipped with extensive security expertise and access to detailed security intelligence and regulatory insights, are in a unique position to support their partners. This support can range from providing state-of-the-art security tools to offering guidance on regulatory matters. Here are some key ways vendors can assist their partners:

- **Advanced security tools:** Provide cutting-edge cybersecurity technologies to partners.
- **Security training:** Offer regular workshops on the latest security threats and best practices.
- **Real-time threat intelligence:** Keep partners informed about emerging security risks.
- **Guidance on compliance:** Assist in navigating complex regulatory environments and compliance standards.
- **Compliant products:** Create solutions that meet specific industry regulations.
- **Risk management:** Collaborate with partners to formulate comprehensive risk-management strategies.
- **Legal expertise:** Provide legal advice on IT security and regulatory compliance.
- **Certification support:** Facilitate the process for partners to obtain security certifications.

## Rising Up to 2024's Challenges

In 2024, partners are navigating a particularly complex environment. Despite the promising forecast for IT expenditure in cloud computing and AI, partners are confronted with a spectrum of challenges. These include intense competition, talent acquisition and retention hurdles, the fast pace of technological advancements, economic uncertainty, and the persistent issues of security and regulatory pressures. The role of vendors becomes crucial, as they can step in to offer much-needed support and collaboration to help partners overcome these challenges and seize growth opportunities.

As competition intensifies, with partners expanding their capabilities and market reach (often through mergers and acquisitions), there's an urgent need for differentiation and innovative growth strategies. Here, vendors play a critical role by providing strategic guidance and support to help partners stand out in this competitive landscape.

The talent landscape presents another significant challenge, with a general talent deficit contrasting partners' plans to expand their workforce. Partners are particularly keen on acquiring professionals skilled in emerging technologies. Vendors can offer invaluable assistance in this area through comprehensive training programs, certification support, and recruitment assistance, thus helping partners build a workforce capable of driving growth and innovation.

Technological advancements, especially in AI, offer exciting opportunities but also pose significant challenges. Partners must keep pace with these rapid changes to stay relevant and competitive. Vendors can aid significantly by offering customized training, facilitating streamlined communication, and engaging in collaborative product development.

Economic uncertainty, marked by concerns over customer spending and the impact of high interest rates and inflation, is influencing market dynamics. Vendors play a vital role in alleviating these concerns by offering flexible financing options, delivering enhanced marketing support, and directing partners toward growth areas.

Last, increasing security threats and evolving regulations require a proactive and informed approach. Vendors are uniquely positioned to support partners in this regard by providing advanced security tools, conducting regular training, sharing timely threat intelligence, and offering guidance on compliance matters.

The year 2024, while ripe with opportunities for both partners and vendors, also demands a heightened level of agility, innovation, and collaboration among all parties concerned. It's essential for vendors to help partners address challenges so they can leverage their strengths and navigate this dynamic environment successfully. ■

## Channelnomics Reports & Services

Channelnomics is your partner in optimizing high-value channels. Through our research and strategy services, we deliver market intelligence, partner insights, and go-to-market best practices that aid your channel management and partner relationships. Our content assets include the following reports and guides:



### 2024 Channel Forecast

Channelnomics introduces its inaugural Partner Confidence Index (PCI), a metric reflecting partner sentiment around the ability to execute strategies over the next 12 months. This report is designed to help channel professionals understand the dynamics of the partner community, offering insights that are crucial for strategic decision-making and collaboration.



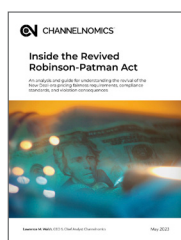
### 15 Must-Watch Channel Trends

As 2024 unfolds, the technology sector is poised to navigate unprecedented complexity. This special report aims to provide clarity amid change, encouraging vendors to adopt a mindset of adaptability as they navigate the ebbs and flows of the market.



### Ease of Doing Business: A High-Value Influencer

Based on an examination of more than 200,000 partner satisfaction records, this report tells deep into the factors that underscore the importance of ease of doing business as a foundational objective for shipping partner behavior, and performance.




### Inside the Revived Robinson-Patman Act

In this Channelnomics report, we assess the implications of the revived Robinson-Patman Act of 1936 for the IT channel, providing insights into what it means to vendors and distributors and offering guidance on what could come of its widespread enforcement.



### Channel Recession Survival Guide

In this report for channel professionals, Channelnomics offers insights and practical guidance on how vendors can leverage their indirect routes to market to counteract the impact of an economic downturn.

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## About Us

Channelnomics is a global analyst and research firm that helps technology vendors and service providers fine-tune their channels, win customers, and sharpen their competitive edge. The company offers a portfolio of best-in-class products and services, including research, market analysis, thought-leadership content, and expert guidance. The innovative analysts at Channelnomics leverage data to develop customized route-to-market strategies for any client that wants to translate vision into value.

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