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The evolution of distribution

CRN has compiled a rundown of the top UK distributors. Sam Trendall reports on a time of unprecedented change in the industry

Sam Trendall, CRN 02 Aug 2010

"He who rejects change is the architect of decay." While it is unlikely that Harold Wilson was talking about the IT distribution landscape, the former prime minister's words can rarely have been so epithetic.



The last year has been, to say the least, an eventful one in the distribution space, with consolidation being the watchword. A host of familiar names – including Rocom, CCD, Sphinx and, of course, Bell Micro – have disappeared from view or will do so shortly.

The latter three were swallowed up by Ingram Micro, Arrow and Avnet, respectively – three quarters of the quartet of US broadline giants. The fourth, Tech Data, has also been playing the consolidator, making a host of acquisitions in mainland Europe and Ireland.

The big four appear increasingly aggressive in their intent to dominate the distribution landscape on this side of the pond. But smaller players and startups have shown they can be equally bullish.

What is expected of distributors from both VARs and vendors also continues to change. The traditional requirements of stockholding and logistics no longer appear enough to stand out in an increasingly competitive market. The average distributor's value-add kitbag is now just as likely to contain marketing, training, white-label services and other market-making tools.

For the next few months, *CRN* will be taking an in-depth look at the UK distribution arena. We will be canvassing your views on the key issues shaping what the future holds for distributors.

First, this feature will look at how the landscape is changing, and how it will continue to do so. We have also come up with a list of the UK's 25 largest distributors by revenue – see our table at the bottom of this page.

The role of the distributor has changed seismically over the past five years. But in many ways the value added by distributors would seem to have become less clear. Steve Pearce, UK managing director of Arrow ECS, claims the nature of distribution has fundamentally altered.

"Distributors are becoming much more of an extension of the vendor, rather than being a separate part of the overall chain," he says. "Distribution is playing a bigger role now than perhaps it did in the past. It is more involved in embracing multiple vendors as part of a solution that fits the needs of resellers, rather than merely providing access to different offerings."

Niche offering

Paul Eccleston, head of UK operations at SDG, agrees that distributors can, and should, offer far more to partners than high stock levels and ready access to credit. Get niche or get out should be the mantra, he argues, and distributors should be able to provide comprehensive technical expertise.

"There is a bigger role to play for distribution than it has ever offered before," he says. "A large reseller may need to have four or five competencies with VMware, Citrix, Symantec, HP, IBM, Cisco [and others]. I challenge any organisation to employ enough people to be specialised in all of those areas."

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Eccleston says vendors increasingly expect their distribution chain to build critical mass in the mid-market. Keeping abreast of end user needs and wants is crucial, he adds.

"In better times, distributors have been able to sit back and wait for the orders. Today, we have to think about what the customer is trying to do, and how we can help the reseller help the customer."

Tony Nevill, general manager of Comstor UK, is another to suggest that distributors need to be constantly in touch with vendors, resellers and the wider market. He adds that resellers have always needed regular reminders of what distribution can offer them.

"The partner community will often need to be reminded of the value that distribution adds, particularly when negotiating aggressively priced deals. It is incumbent on distributors to continually promote their value proposition, making sure it meets market requirements and the resellers' expectations," adds Nevill.

Training, mentoring and marketing are essential offerings nowadays, he says, but distributors forget the more traditional services at their peril.

"From a training perspective, the technical services and solutions that vendors are bringing to market are increasingly complex," he says. "We want to be in a position to remove the barriers to entry."

"Fundamentally, distribution still has to get the basics right – the right inventory and the right credit lines and financial services. The first thing a customer wants is the right product to get to the right place at the right time."

John Toal, UK country manager at Avnet Technology Solutions, says both vendors and resellers require more of distributors now than ever before. Such demands will only fuel more consolidation, he adds, with the power being driven into the hands of those with the scale to service it.

"Over the past five years, our role has changed significantly," he says. "The expectations of our supplier partners have increased. They are expecting greater value for money in terms of distribution driving programmes that deliver results and incremental business for them."

"The market has also become even more competitive, with the business partner community expecting a similar or increased level of value-added service from distributors while demanding very competitive commercial terms. These factors will only increase the speed of consolidation in the distribution market as we are all driven to become more efficient."

The past 18 months have witnessed a dizzying spell of mergers and acquisitions. Some onlookers have suggested the preponderance of deals foreshadows the emergence of a far more consolidated model, with the big boys calling the tune as they never have before.

Jill Henry, UK and Ireland channel director at vendor McAfee, predicts the broadliners will fortify their position of power, but adds that value-add and specialised players will always have opportunities to thrive.

"Distribution has been lagging behind some of the vendor consolidation we have seen and the change in market dynamics was overdue," she says.

"The scale will go into the hands of the big four [US broadliners], but it will be like it is in the software industry. You can point to three to five companies that sell a broad range of solutions, but below that you will always have space for innovative products. The dynamics in distribution are the same. There will always be a space for smaller players who respond to niche requirements."

Local specialists

Toal echoes this sentiment. "The major players will dominate but, in parallel, there will be a number of local specialists that deliver in markets that demand a high degree of expertise," he says.

But Pearce, from Arrow, asserts that each market segment will ultimately reduce to a smattering of powerhouses. He adds that this trend will benefit every rung of the channel ladder.

"The market has demanded consolidation and is continuing to demand it," he says. "Consolidation will continue and it will eventually settle down into a handful of major players in any given sector. Consolidation is a good thing for vendors, distributors and resellers."

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The specialists and local players are, unsurprisingly, eager to fight their corner. Those interviewed by CRN all suggest their relevance remains unthreatened. Technical and geographical expertise will always be required, they argue.

One such player is VADition, and the company's business development director Barrie Desmond says his firm and the broadliners serve different purposes. He adds that breakthrough technologies will always need the risk-taking and innovation that only a true VAD can provide.

"I do not see [broadliners] as a direct competitor. We employ different business models," he says. "They are fantastic at logistics, credit control and warehousing, whereas our business model is focused on new disruptive technologies and vendors. We are market making as opposed to market taking, which is what the broadliners do."

Surely the most disruptive technology of all is cloud computing, with the fundamental change in technology delivery and consumption that it is often predicted to induce. A widespread move to the cloud would seem to threaten the very existence of distributors – or at least their traditional way of doing business.

Desmond compares the emergence of cloud to the advent of MP3 and peer-to-peer file sharing technology. He warns both distributors and resellers to take steps to avoid suffering the same problems as the major record labels and high-street music retailers. "Distributors must not fight cloud, they must embrace it. Those that go against the grain will suffer," he says.

Dave Ellis, director of new technology and services at Computerlinks, claims cloud requires a substantially different model to the traditional role of the distributor. But they will still have a role to play, he predicts.

"Some have worked out how to monetise cloud and others are still scratching their heads," he says "But the providers still need routes to market and channels that have customer relationships. They also need points of aggregation and partners that can offer end users multiple services."

Ellis claims now is a time of unprecedented change in the market and that the next few years could see the stars of the distribution arena surge ahead of their rivals.

"Things are moving a lot more than they ever have and the role of distribution needs to evolve if they are going to really maximise what comes out of this," he says.

"Undoubtedly, there will always be a role for distributors that can provide credit and can ship boxes. But those that are agile and knowledge based, that really understand the markets and can provide will be the ones to profit most."

Top 25 UK Distributors by turnover

1. *Computer 2000* - £1.02bn

Broadliner continues to make European acquisitions

2. *Avnet* - £900m*

Bell Micro buy-out to nigh-on double turnover

3. *DCC SerCom* - £800m*

Irish giant reports "strong market gains" in UK

4. *Ingram Micro* - £720m*

CCD buy-out could add £100m to top line

5. *Westcoast* - £651.3m

Sales up 15 per cent for largest UK-owned distributor

6. *Arrow* - £565.9m*

Sphinx acquisition to add security expertise

7. *SDG* - £390m

UK-based SCHd gets a new name

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8. *Westcon Group - £300m**

Distributor launched Comstor worldwide arm

9. *Midwich - £167.6m*

AV player hit Europe with French acquisition

10. *Northamber - £139.3m*

Sales down 22 per cent during tough 2009

11. *Computerlinks - £130.8m*

Security VAD wants 10 per cent profit margin

12. *Nimans - £92.4m**

Comms firm to double in size with Rocom buy-out

13. *VIP Computers - £78.2m*

Components player is big in Europe

14. *Beta Distribution - £67.4m*

Revenue up 36 per cent in 2009

15. *Computers Unlimited - £64.5m*

European growth offset UK decline

16. *Steljes - £58.7m*

Moved into digital signage space

17. *Hammer - £58.3m*

Storage player adds 10-strong new business team

18. *CMS Peripherals - £49.8m*

Distributor is on a cloud drive

19. *Magirus - £49m**

Bagged Cisco UCS contract

20. *Enta Technologies - £45.4m*

Recently appointed Webroot distributor

21. *Zycko - £40.9m*

European expansion continues with Hungary office

22. *CCI Distribution - £33.7m*

Strong hard drive sales in 2009

23. *Man and Machine - £26.4m*

Sales down 22 per cent in tough 2009

24. *Wick Hill - £25.2m*

Security VAD continues push into comms

25. *Getech - £23.9m*

Firm enjoys thin-client success in 2009

*Approximate



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All figures are UK and Ireland only distribution revenue and are taken from most recent accounts filed with Companies House or other publicly available documents. In cases where the figure is approximate, revenue from acquisitions may have been added on, or may have been calculated as a percentage of a bigger total or from a currency conversion at a historically appropriate exchange rate. If you think we have missed anything, phone or email Sam Trendall

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