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Thinner margins equals tough times

The figures are in ... we make 85 percent less profit on the sale of an average computer than we did 10 years ago

The old saying goes that there are lies, damned lies and statistics. In some respects, people often see surveys and research in the same light, but I believe that surveys can give us an invaluable look at what the general market feels.

The past two weeks have seen me on another whirlwind tour of Australia and New Zealand with a combined Intel/Kaseya Roadshow. In preparing my talks for that tour I had to find some additional research (with many thanks to Jean Marc Annonier from IDC). On that same tour was Joe Panettieri from MSPmentor in the US, so I will add some global information from him as well.

In looking at a variety of IT business models over several years, I have been saying that ticket prices and margins have been shrinking – almost from the time I started my first IT business 19 years ago. The raw data was worse than even I had guessed. Notebook prices have reduced (in real terms) by 72 percent over the past 10 years. Over that same period PC prices have been reduced by 59 percent. Margins have shrunk by 57 percent. The net result of these three figures is that, as resellers, we make 85 percent less profit on the sale of an average computer than we did 10 years ago. The average small business now only spends 33 percent of their overall IT budget on hardware – with a staggering 54 percent on services and support. This then leads to the huge outsourcing market in Australia – estimated to be worth $5.3 billion in 2008 and growing at 3.7 percent year on year.

PCs have certainly made their way into every part of society now. The average Aussie now spends twice as much on PCs as they do on pizzas and they buy twice as many PCs each year as cars.

Data storage is the other area growing phenomenally – it is estimated that Australians will add 50 Petabytes of data over the next year. Sure, some of this is driven by consumers, but the majority is driven by businesses.

These are Australian numbers – but it was interesting to hear what JP had to say on a global scale (we quickly started calling Joe JP because we couldn't pronounce his surname). JP delivers most of his research and information via his blog – which just happens to be in the top three percent of all global blogs.

If ever you were thinking about adding a blog to your website, spend a week with Joe. A good blog is not for the faint-hearted. Joe epitomises what is required in a true blog.

To say Joe is obsessed with his blog would be to say that the Pope is a good Catholic. Joe takes obsession to a new level. Whilst delivering my first talk, Joe had posted blogs about my talk by the time I had finished. He had three comments back on his post by lunchtime. He blogs on everything and anything. If I wanted to know if Joe was free for dinner, I wouldn't ring or email him, I would check his blog because everything that was happening in Joe's world is on his blog. To Joe, the advent of Internet access on planes is not a nice convenience, it is an essential business necessity so he can continue blogging while up in the air.

As Joe told me, he is a natural at writing a blog because he has an opinion on everything – so of course he had a huge amount of commentary on where the reseller market was headed.

Joe is a firm believer in one of my pet sayings. A great IT provider "takes the pain away" from their client. The real sweet spot for the MSP space seems to be the clients who have 20-50 seats and no IT manager as they are the ones who feel the most IT pain.

Each year, Joe publishes a list called his MSPmentor 100. This list uses a variety of metrics to analyse the Top 100 MSPs across the world. Upon further analysis of this list, it was discovered that 88 of the Top 100 had better than 25 percent revenue growth in the MSP space. The opinion of Joe (who, you will remember, has an opinion on everything) is that despite a slowing market, successful MSPs are becoming more successful. It is an indication that people are after services more than they are after price.

> "The ones who will survive are the ones who show real executive leadership"

Of all the VARs in the US, the estimation is that five to 10 percent have gone down the MSP path – and this is growing. This figure is definitely higher than the percentage of MSPs in Australia so there is a real opportunity there for resellers to review their current business model.

We have started to see some trends in the Australian market of 'cloud' services but I believe our infrastructure is still not quite up to the standard required for this ... yet. In the US there is a huge demand for cloud services. The latest trend is on-demand storage. Think of the storage of that 50 Petabytes I mentioned earlier. Everyone in the US is watching Microsoft to see where it goes with hosted Exchange, Sharepoint and Dynamics CRM.

What is the next big thing according to Joe – who, did I mention, has an opinion on everything? Telepresence – or next generation video conferencing. With an increased push to be Green in our day-to-day practices, companies will start to utilise IT to save the environment. Cisco is already saving millions of dollars a year in transport costs by utilising its 100 telepresence sites.

Final words from Joe? He recalled a conversation he had with the Cisco CEO in 1998. He said that in a 10-year time frame only 40 percent of VARs would survive. Joe believes that the ones who will survive are the ones who show true executive leadership and transition to services with some form of MSP offering and, before too long, 20 percent of MSPs will control 80 percent of the market.

Tell me your survival plans at mathew.dickerson@smallbusinessrules.com