

## Vendor channel strategy in focus: Dell Technologies

### What is Dell Technologies' global channel strategy?

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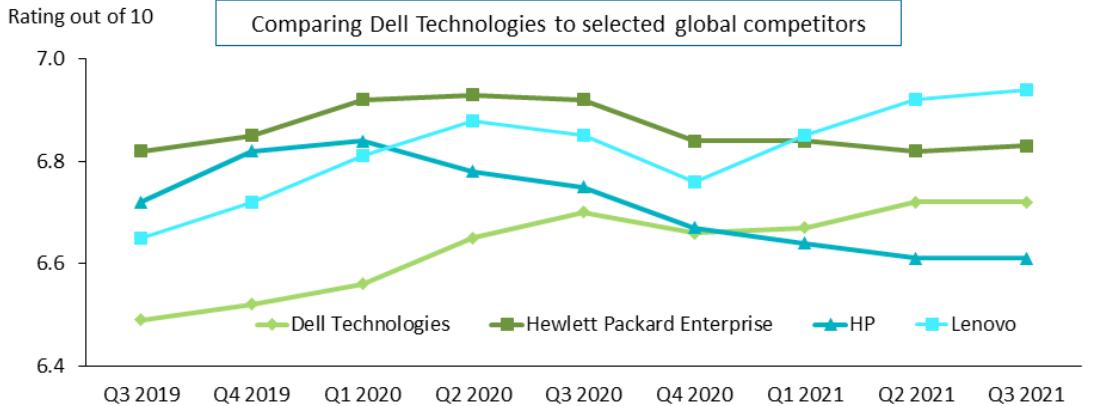
- ▶ The size of Dell Technologies' indirect business makes it a major global force in the channel.
  - ▶ Dell will need to carefully manage the shift to an as-a-service model to avoid alienating some of its core partners.
  - ▶ Dell remains committed to driving direct growth but its unified sales structure to support "One Dell Technologies" will help deliver greater alignment with partners.
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**Dell Technologies' dominance in global channels continues to grow, despite its direct sales heritage. As part of Canalys' series of "in focus" reports examining the go-to-market models of leading technology vendors, we assess Dell's global channel strategy and performance, and consider the implications for partners of its move toward as a service, edge and hybrid cloud.**

It's almost 15 years since Michael Dell led Dell on a dramatic shift toward indirect sales, as he acknowledged the importance of channel partners to the company's future success, and Dell launched its first partner program. Today, Dell Technologies is one of the world's largest channel vendors, with indirect revenue (including VMware) of US\$54 billion in the 12 months to May 2021. Only Microsoft sells more through the channel. With one of the broadest technology portfolios in the IT industry, spanning client, infrastructure, cybersecurity, cloud and software (including VMware), Dell's reach and relevance in the channel is inescapable. For many partners around the world, Dell is their biggest vendor. Partnerships span global systems integrators, cloud service providers, outsourcers, alliance partners and OEMs, as well as resellers and distributors. Dell has plowed hundreds of millions of dollars into programs, tools, processes, partner training, financing and people, and has built one of the most successful partner programs in the industry. Dell's global partner sentiment (tracked by the Canalys Vendor Benchmark), continues to improve, overtaking channel-led HP for the first time at the end of 2020.

## Dell partner sentiment has consistently improved

The Canalys Vendor Benchmark measures partner sentiment across 12 areas of channel management



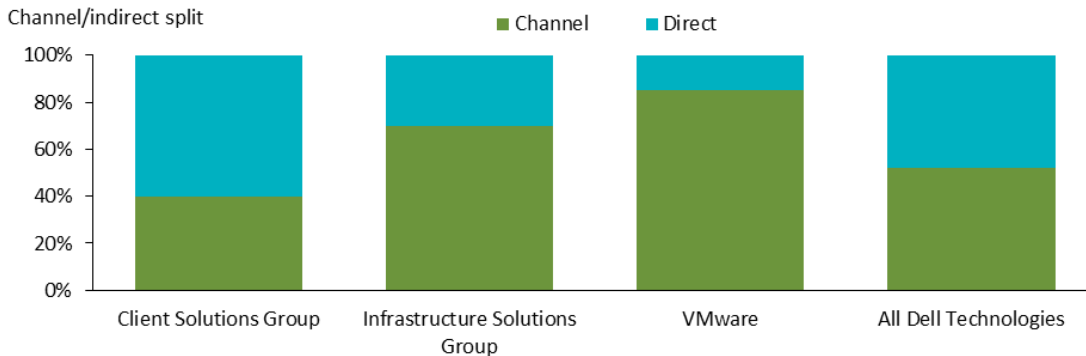
Source: Canalys worldwide Vendor Benchmark, Q3 2019 to Q3 2021



Yet despite this shift, Dell has not abandoned its direct heritage and direct sales growth remains a core strategy. In the year to the end of May 2021, the channel accounted for just over half of Dell's total net revenue of US\$96 billion. Go-to-market approaches differ by business unit: Dell has shifted over two thirds of its infrastructure business (servers, storage, networking) to an indirect model, reflecting the role of partners in delivering and supporting complex infrastructure solutions. In its client PC business, however, direct is still the dominant (and preferred) go-to-market model. This mixed approach creates persistent tensions with the channel. Partners complain of the challenge of competing with Dell's direct pricing and availability, particularly for PCs. This creates a dilemma for partners, which are drawn to Dell by customer demand and its portfolio strength but are wary of potential conflict.

## More than 50% of Dell business is indirect

Dell Technologies channel/indirect business split (full-year estimate to May 2021)



Source: Canalys estimates, July 2021



As it looks to the future, Dell's go-to-market strategy is set to change further. In May, it officially launched APEX, its IT-as-a-service portfolio, as it seeks to capitalize on customer demand for consumption flexibility, and to compete effectively with public cloud growth. APEX is being positioned as underpinning the "New Dell", which will drive a re-engineering of the whole organization, including its ecosystem partnerships. At the same time, Dell is doubling down on key growth opportunities: workplace transformation, edge, IoT, hybrid cloud and infrastructure modernization. The importance of channel partners will become greater than ever as technology complexity intensifies, and customers seek technical expertise, integration skills and managed services. The spin-off of VMware later in the year is yet another change. Close technical integration with VMware sits at the core of many of Dell's solutions, across digital workspace, security, networking, edge, HCI and cloud, and in the last couple of years it has focused on greater channel integration.

Maintaining this will be important. The two companies agreed a new commercial partnership as part of the spin-off, which will see them continue to collaborate on joint solutions such as VxRail (their successful HCI solution), VMware Cloud, application modernization software Tanzu, digital workspace and other high-growth technologies, while Dell agreed to sell VMware products and provide "go-to-market scale" for VMware. Allowing Titanium and Platinum partners to sell VMware licenses through the Dell Technologies Partner Program at the start of 2021 (previously only available to a select group of named partners) was a big boost for those partners selling both brands, simplifying solution sales involving both VMware and Dell, speeding up the licensing process with VMware, and giving Dell partners an additional revenue stream to meet their tier revenue targets. Maintaining this "Access for VMware" initiative after the VMware spin-off will be welcomed by partners.

## Shift to “One Dell Technologies”

With no channel hard deck, and a strategy of pursuing both direct and indirect growth (often in competition), Dell’s approach has been to “protect” partners from direct competition through deal registration, incumbency protection, “partner of record” status and compensation neutrality for Dell’s sellers (rewarding equally for direct and indirect sales). In 2020 the company sought to drive greater alignment across its direct and indirect go-to-market models with the launch of a unified global sales structure, under the “One Dell Technologies” banner. Dell’s goal is to drive an acceleration in revenue through partners, by creating much tighter cooperation between the channel and its own field sales. The new structure sees channel and direct sales move under a single global sales organization, led by Global President of Sales and Customer Operations, Bill Scannell, responsible for both client and infrastructure. Dell’s Global Channel Chief, Rola Dagher, reports directly to Scannell.

At the same time, Dell consolidated its worldwide sales regions from five to just two: North America and International (broken down into APJ, EMEA, Greater China and LATAM). The presidents of each region report directly to Scannell and have responsibility for both direct and channel sales across infrastructure and client solutions. The regional channel leads in both North America and International report to the regional presidents, rather than directly to the Global Channel Chief. With the regional presidents ultimately accountable for channel success as well as direct, the aim is to encourage greater collaboration between Dell sellers and partner salesforces, and reduce competitive tension between the two.

The impact of this change has been partially masked by the pandemic, which has taken its toll on Dell’s channel growth in 2020. Full-year indirect sales were up only 3%, against 5% for the whole company, meaning direct outperformed channel. This is likely to reflect the shift in product mix toward commercial and consumer notebooks during the crisis, while infrastructure sales shrank. Dell has seen a sharp recovery in channel performance since the start of 2021, but this has been driven by a bounce-back in the IT industry, particularly in infrastructure. Fiscal Q1 2022 channel orders increased by 14% year on year against 12% revenue growth for Dell as a whole. Indirect sales slightly outperformed direct in both client and infrastructure, with PC orders through the channel jumping 21%, servers up 10% and storage increasing 3%. Rebate payments to the channel increased by almost a third during the period.

But maintaining this momentum ultimately relies on Dell driving long-term cultural change (through education, behavior and governance) within its own sales organization, a willingness to shift compensation models for its own sellers toward collaborative and co-sell models with partners, and allocating a greater share of the customer base to a channel-only model. This has already been seen in specific initiatives such as Power Up, which supports co-sell and allocates a share of the customer base as “channel-led”. Yet focusing this all-in-one global sales organization depends on a sustained commitment to driving partner-led growth from the top leadership down, which can change from leader to leader.

## Channel chief spotlight: Rola Dagher

Driving this momentum also relies heavily on having a strong partner advocate to lead in channels. In September 2020, Dell appointed Rola Dagher to replace outgoing Channel Chief Joyce Mullen. Dagher has responsibility for partner strategy and the Dell Technologies Partner Program, along with enablement, partner experience, etc. Channel strategy, processes and programs are tightly controlled at a central, global level, as Dell focuses on driving consistency in the global partner experience. Unlike her predecessors, Dagher was recruited from outside Dell, most recently running Cisco Canada. While she spent many years of her earlier career at Dell, this external perspective is highly valuable. Dagher shared her 2022 strategic priorities with Canalys:

- **Enhance the end-to-end partner experience:** Making it easier for partners to do business with Dell is a top priority for Dell's global channel organization. Dagher wants to personalize the experience for all partners, raising the bar on automated tools and processes, and building the partner program for the future.
- **Accelerate partner growth with best-in-class emerging technologies:** This spans a few key strategic product and solution areas:
  - Leveraging the relationship with VMware on the addressable market for emerging technologies.
  - Doubling down on consumption-based and as-a-service offers with APEX. Partner incentives have been boosted to up to 30% rebate, paid on committed contract value.
  - Pursuing and re-stimulating storage growth. Competitive swap has been a continued focus, particularly aimed at NetApp and other key competitor brands. Dell has also enhanced front-end discounts for partners on mid-range storage refresh projects.
- **Enhance channel partnerships with Dell's "Progress Made Real" social impact plan to advance sustainability, cultivate inclusion and transform lives, underpinned by ethics and privacy.** Dagher's aspiration is to work with partners to empower customers, inspire the community and make an impact in terms of what technology can do. Dell is considering ways to support the worldwide partner ecosystem to do this. These ambitions are worthy, though will require a concerted effort led by the whole organization, extending throughout its entire supply chain.

## Dell's partner program has evolved

Dell Technologies' Partner Program (DTPP) has been one of the company's channel success stories, and a key factor behind its partner growth despite the legacy of direct competition. The program offers three primary partner tiers – Titanium, Platinum and Gold – and a consistent global framework for partners, built on a mission statement of “simple, predictable and profitable”. Incentives are structured around front-end discounts (based on tier and linked to deal registration), a base rebate – paid from dollar one, multipliers for selling additional “lines of business” (for example, client, server, storage), predictable MDF, new customer acquisition benefits and competitive swap-out bonuses for specific product lines (with a strong focus on midrange storage).

As with many vendors, new customer acquisition (NCA) has been a strategic priority as Dell seeks to push partners toward white space and competitive accounts. Along with the standard NCA incentive in the program, two years ago it launched the Enterprise Preferred program, providing targeted incentives for partners that converted server and storage customers from a specific set of non-Dell large enterprise accounts over to Dell. Larger customers have always been a particular target for Dell's direct sellers, so this program provided protection for partners winning these accounts with a “partner of record” status and front-end discounts. The success of this led to it being extended into the mid-market and a broader set of Dell products as the Preferred Partner program. At the start of 2021, Dell combined the Partner Preferred program with its equivalent program for direct sellers, Power Up, giving partners extra incentives and deal registration benefits for converting a broader set of targeted, high-potential accounts. If partners see they have “protected” status in these accounts through partner of record and incumbency status, it gives them greater confidence to pursue customers of NetApp, HPE, IBM and others, and bring them across to Dell. But Dell does not commit to not target these accounts directly, nor does it create a “hard deck” for partners, so the potential for sales conflict persists.

By far the biggest share of channel business sits within the top two Platinum and Titanium levels in the DTPP. Introducing distribution was a big step forward in driving growth in its Gold and lower-tier partners; while Dell initially offered partners a choice of purchasing, it is now shifting a greater share of Gold partners over to distribution. As an indicator of the increasing maturity of Dell's engagement with distribution, distributor incentives are increasingly focused on this Gold tier and new partners, with less emphasis on fulfilment for larger Titanium and Platinum partners (which can affect distributor profitability). One of the biggest challenges for distribution is competition with Dell for VMware. Dell is now VMware's largest global distributor, giving it a significant advantage over most of its competitors, particularly when partners seek access to the combined purchasing of Dell product and VMware licenses. But it is almost inevitable that Dell's share of global distribution will increase further in the next few years, given the breadth of its portfolio, and as it seeks to leverage distribution for APEX.

## Titanium Black is the pinnacle of Dell's channel

### Titanium Black partners



- Titanium Black is the top tier of Dell Technologies' partner program, available by invitation only to Dell's largest and most significant global partners.
- Only 13 channel partners so far appointed since program launch.
- Titanium Black is a global status that can be used by partners in every country of operation.
- An expanding mix of solution providers, global systems integrators and service providers.

Source: Canalys research and estimates, July 2021



Arguably Dell's most important partners in terms of relevance sit at its Titanium Black level. This is an invite-only level, which currently only includes 13 of its largest partners worldwide. Dell has preserved a sense of mystery and opacity around the level – it doesn't actively publicize Titanium Black members in its partner locator for example – which seems somewhat counter-intuitive but has contributed to its exclusivity. The hard benefits of Titanium Black status are not publicized, but the level of leverage and access enjoyed, both by Dell leadership (including directly to Michael Dell) and to top global customers, provide significant value. Titanium Black partners can apply their status in every country of operation, helping to facilitate multinational business. In recent years, Dell has added global systems integrators (Atos and DXC) and service providers (Swisscom) to the original list of large global resellers, as these companies start to deliver bigger volumes of Dell's technologies as part of transformational projects.

## Looking ahead: APEX takes Dell in a new direction with partners

The launch of APEX as a service is likely to bring a profound shift in Dell's go-to-market models. Partners will be critical to Dell's ability to increase adoption. But this requires new partner capabilities, and a different approach to incentives and partner engagement. Consulting skills are important to help customers define business cases for as-a-service investments. Yet Dell's APEX strategy challenges the value proposition of many of its current partners. Dell will own and deliver the infrastructure that APEX is provided on and manage that on behalf of the customer via the APEX Cloud console, while providing "close to the box" services directly. Its message to partners is that this enables them to deliver more differentiated, outcome-based services to customers, such as application services, data migration services, and consulting and advisory services.

Dell will allow partners to use the console to build subscription services for customers (or for distributors to do this on behalf of resellers), giving them visibility of those subscriptions and enabling them to help

customers realize the full value of their APEX investments. The next step, in development, is allowing partners to integrate with the APEX console via APIs to create their own managed services, and to own the end-to-end billing relationship. By removing the lower-value piece in terms of billable hours for configuration and integration, Dell wants its partners to focus on generating higher-value services that both enhance profitability and improve customer retention.

For partners that have already moved in this direction, or have as-a-service-led models, this messaging can be compelling. Yet for many legacy solution providers, this is a complex jump, requiring significant investment – and support from the vendors – to evolve business models. Customer adoption of IT as a service is by no means guaranteed, especially in international markets. It's not yet clear how attractive that message will be to the bulk of Dell's partners. Dell has sought to sweeten the pill with the launch of highly competitive incentive models around APEX for its channel partners – including up to 30% of the committed contract value paid as an upfront “referral incentive” for APEX Data Storage Services and APEX Cloud Services, and 20% for APEX Custom Solutions. It also promises to train partners to help them build ongoing, sustainable opportunities with APEX.

It has designed three different business models for partners:

- **Referral** – for partners in an advisory role, with finder's fee rewards for bringing new customers to APEX.
- **Host** – for partners that want to use APEX to underpin their as-a-service offers.
- **Resell** – for partners that want to own the billing relationship and resell the solution for a margin.

One of the biggest implications of these models is that, as Dell attracts more “referral” partners to its program, it effectively takes on a bigger proportion of those deals directly, while paying a “finder's fee” to the partner. The question many will be asking is what happens to those referral customers in the long term? Will Dell retain those customers directly or seek to pass them on to partners to manage them through the lifecycle. Dell's message is that it sees “referral” as a potential first step for partners toward as-a-service “resell”, by allowing them to participate in these new models without making large capital investments upfront. It will also recognize “referral” revenue for specific lines of business (for example, storage) within its partner of record programs. As other vendors pivot more toward partners for their own IT-as-a-service growth, developing and articulating this kind of “as-a-service” roadmap for partners with APEX (while also recognizing that as a service will only be a proportion of the opportunity) will be key to Dell successfully winning the battle for channel mindshare.

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