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Unique Viewpoints from Industry Leaders

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Editor's Note: *Rune Syversen is a co-founder of Crayon and has been its chief executive since 2002. Prior to leading the establishment of Crayon, he held a number of senior positions in the Telenor group in Norway and Sweden as well as establishing several companies involved with IT and financing. Rune studied at the Norwegian School of Management.*

Crayon is headquartered in Norway with offices around the world. How did you come to have such a global presence?

Crayon was founded 15 years ago as a spinoff from the Norwegian Telco Telenor. At the time, there were 11 LSPs in the market serving 4.5 million people. That's less than the number operating in the United States today. Most of these legacy domestic players however were extremely transactional—which gave us an opportunity to launch a more value-based disruptive approach. It was in 2002, after the dot com crisis and the market wasn't good and after establishing an infrastructure consulting service and a training practice, we realized we had to go beyond where we were to succeed and thrive. That's what led us to develop our Software Asset Management-led strategy, which provides a significant difference and value add over how you see Microsoft and other software publishers defining it today.

We started early with TCO ROI analysis for medium-sized and large business and public sector customers, which really was the breakthrough for Crayon. As the business developed it became clear that being just a domestic Norwegian company didn't allow us to leverage the customer opportunities that we were generating, particularly with customers whose primary presence was in other markets. At the time we had several Nordic customers headquartered in Sweden or Denmark. We realized to best serve them we needed to establish a broader Nordic presence. Following that, and given the widespread consolidation occurring within the IT industry, we logically continued our expansion to provide a pan European capability which could serve all the major technology markets within the wider region.

About five years ago, the practice of currency arbitrage became a significant factor with respect to the optimization of operating margins and competitive positioning so we needed to ensure Crayon Group had access to all major currencies (including the US dollar). The decision was therefore taken to expand our geographic operations into additional global markets. Following our successful pan Nordics and then European expansions we knew that our business model was essentially boundary-less. We had also noticed that our customers were having issues with optimizing software procurement. Many were

seeking to right-size their procurement practices, but they were finding that vendors were trying to sell them more than they needed. This accelerated the market demand for the type of SAM-led, data driven software estate optimization focused on maximizing customer side ROI in complex technology that Crayon were ideally placed to provide.

How large is your US presence? How important is the US market to your growth strategy?

The US market is the largest in the world, and as one of Microsoft's largest global partners we would agree with third party estimates that the US represents around 40-45 percent of the achievable global IT market. So it's obviously extremely important, and today we have 130 people in the Crayon organization serving the US market. We acquired a company called Anglepoint about a year ago, which strengthened our presence and capabilities instantly.

Today, we have physical operations located in 14 important metro markets within the US with three main hubs: Santa Clara in the Bay Area, Dallas and Denver. We also have a back office operation in Provo, UT that serves the rest of the world as well as the US as due to the strong higher education infrastructure and diverse cultural background of our teammates we have excellent multilingual capabilities. The US is our 'biggest bet'—indeed the biggest in the history of the company but today to be conceived of as a serious global player by both customers and our trading partners you need to have a corresponding US presence. When we started working with Fortune 50 customers, it was clear to us that strategically we would not be successful without it.

What are your thoughts on the European economy? Has Brexit impacted your business?

The good thing about our business model is that most customers and partners are interested in continuing to work with us whether the macro market conditions are good or bad so typically, we have a highly durable and sustainable business model. During the financial crisis in 2008-09, we actually doubled the business over a period of 18 months. We're therefore not very concerned about Brexit from that perspective—we actually think Brexit is a good opportunity for us to leverage provided we successfully manage the challenge of the country's exit.

When it comes to the European economy, we believe it to be quite stable, but it's challenged from a growth perspective. The Nordics are particularly strong, with the exception of Finland, but we have good growth in all the European markets where we have a presence. In addition, since we're in the software business, we're careful to only

operate in markets with strong software demand and with good compliance and business practice cultures. This has led us to stay out of eastern Europe to date and instead focus on the more mature markets and we're therefore very positive about the future given our business model.

How has the ongoing industry shift to the cloud affected Crayon? What have you done to ensure that you are able to fulfil your customers' cloud needs?

I think we're seeing the most significant wider business and IT market transformation since the development of the internet. At this point, many vendors are continuing to develop and modify their go-to-market strategy. Microsoft is a good example of a vendor that largely tried to do everything itself with regards to its cloud offering. Now, it's more or less a 180º turnaround with the company emphasizing its partner ecosystem. For us as a business, the cloud is an ongoing and accelerating opportunity. Initially market development did not happen as quickly as you would expect, but the appeal of leveraging the enterprise agility and the potential cost benefits of hyper-scaled computing within the cloud, enabling self-provisioning and other capabilities are accelerating the market rapidly.

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Another consequence of the rise of the cloud is the prevalence of information and the rise of IP designed to organize and analyze that information. These dynamics are further complicating the landscape for our customers, cloud and the typical hybrid environments now being run or implemented by most of global enterprise actually significantly increase complexity and the challenge of optimizing customer ROI and Crayon's cloud solutions, which we can resell to customers across the world, both differentiate us and enhance our overall capabilities. Indeed, our broad solutions offerings, paired with our original SAM-centric consulting DNA, have transformed us into a full cloud transformation and enablement leader.

KKR recently invested in SoftwareONE. Are you seeing increased private equity investment in the channel?

We are seeing a lot of interest from private equity in growth companies, and today you're seeing companies like SoftwareONE and Crayon continuing to grow. That growth, paired with the overall trend toward consolidation in the technology space, has created a multitude of opportunities for private equity players to step in and share in the success. Typically, we have two or three new offers brought to us on a monthly basis. There's skill and interest, and there's a real opportunity for companies that can stand out in a crowded field.

Microsoft changed its incentive program for LSPs. How has that affected your business?

Microsoft has reduced what it pays to its reseller partners for Software technology transactions over the last three years to about 70 percent of what they used to pay, so of course it's an issue that affects everyone in the market. However, I think it's a good thing for us as Crayon is predominantly a services company. Sixty-five percent of our gross profit is generated through IP that we built for the customer and therefore we are less exposed than our competitors.

Our approach has therefore migrated from one of selling software agreements with additional services to primarily one of selling unique services that might lead to software agreements. It's actually a mindset change that has materially helped our value differentiation in the market and will continue to help us in the long term, although of course, it has created some challenging short-term scenarios that we are facing today. Due to our investment in IP and services, we have been comparatively well-positioned versus our more transactional peers.

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Additionally, coming from Europe (and particularly the Nordics), many of our customers are from the mid-sized range, an area that was not hit as hard by the incentive revisions. However as stated it's a challenge for the whole industry, and a reminder that vendors can be very unpredictable in terms of how they adapt and improvise their strategies. Ultimately, it reduces our dependency on Microsoft and increases the pressure on our competition, which are both good for us.

How does Crayon differentiate itself from its competitors?

The answer to that depends on who you define as our competitors. Some would say that SoftwareONE, Comparex and similar are our competitors and in the software sales markets this would be a fair assumption. However, those are not the only companies that we consider to be our main competitors.

We also see large consulting houses like PWC, KPMG and Deloitte as competitors for our SAM practice. Avanade is a typical competitor we face on the services side. It's important to segment our competitors like this. The way we differentiate ourselves is by focusing on optimizing customer value, building on the unique IP we have around TCO/ROI, provisioning, and automation around hyperscale cloud providers such as Amazon, Facebook and Microsoft.

What do you look for in potential acquisitions? What role does M&A play in your growth strategy?

When we started out, we grew organically through the first seven

countries. After that, we started to combine organic growth with focused M&A activity to leverage the opportunities presented by smaller players, whether LSP or consulting companies, struggling to exist on their own in some of the markets we wanted to grow into. Our aim was to clearly accelerate growth and market entries into important geos for our business whilst acquiring talent and adding financial value to our company. As a result, we identified a few companies to co-invest in and executed on those deals. Today we clearly view M&A as a major piece of our growth strategy, especially as we continue to expand beyond our mature markets.

What we look for in an acquisition is consulting capabilities, software asset management skills, and a connection with Oracle, IBM, or any other large vendor. Other than that, we're always looking for companies with unique skills or IP, particularly as it complements our own. Transactional capabilities are already well-represented in our business, so we are not especially looking for more of those.

"If leveraged properly, [Microsoft's] ecosystem can drive customer value and result in an end-to-end services package being made available to the customer."

How important are your services capabilities to your business model? How do you decide what capabilities to add or to focus on?

We have continued to develop our consulting capabilities and track the market closely. What we know is that there are discernible trends and we try to develop IP that both anticipates those trends and solves the problems encountered by our customers. In my view, from the long-term perspective the transactional and logistics business is on the decline—and it will be businesses that have the broadest IP capabilities that will be most successful.

How well are Oracle, Microsoft and other vendors adapting to the cloud?

Oracle came late to the party, and have continued to struggle with a fairly unclear strategy regarding how they want to take their cloud suite to market. That said, I think they're trying to be a company that primarily sells software in the cloud, compared with Amazon, for example, which sells capacity and traditional MSP capabilities. Microsoft does a mixture of those approaches, and is unique in that it has the largest partner ecosystem. If leveraged properly, this ecosystem can drive customer value and can result in an end-to-end services package being made available to the customer. I think Microsoft is very well-positioned, but it remains a challenger with Amazon (AWS) remaining the name to beat. However, all companies have slightly different approaches, and it remains to be seen whether Oracle will succeed. The company has a sophisticated offerings suite, but also a reputation for and history of doing things on its own.

What is a piece of advice you were given that has shaped your business philosophy?

I learned something from my dad way back in the day: he told me you have to make money when you sleep. There is a lot of wisdom in those words: you need to do something smart, with scalability so you will be able to continually leverage what you develop. Additionally, you can't do everything on your own, you need a strong team of people around you in order to maximize your potential impact.