

THE **CHANNEL** CO.

AI in Action

What GenAI Momentum Means
for the IT Channel



TABLE OF CONTENTS

03

**The Channel Navigates
Uncharted AI Territory**

04

**A Wide-Angle View of AI
in the Channel**

05

**Channel Company Types Leading
the Way With AI Capabilities**

06

**Channel Partners Enter the
GenAI Discovery Era**

07

**The Channel Takes a Measured
Approach to AI Implementation**

08

**Growing Confidence and Persistent Hesitation:
The GenAI Use Case Gap**

09

**Take Action to Capture the New Possibilities
of AI (While Avoiding the Pitfalls)**

The Channel Navigates Uncharted AI Territory



Before generative artificial intelligence (GenAI) captured widespread global attention in 2023, almost overnight, AI-powered applications like predictive analytics were delivering value to the channel for years. But GenAI heralds a seismic shift in possibilities for technology solution providers and their end users. This is technology that can be harnessed quickly and by non-technologists — not only by highly trained AI engineers and data scientists.

Amid the dizzying rise and ongoing buzz surrounding GenAI, channel partners are pushing forward AND showing thoughtful restraint in how they integrate this powerful technology, according to two new studies by The Channel Company.

GenAI empowers the IT channel to deliver innovative applications for internal and external use faster than ever, while reducing costs and shifting skills associated with development. Interest among customers is rising, with almost 50% of channel partners we surveyed saying they've fielded questions about GenAI and large language models (LLM).

“Talk of disruption in tech is constant and not always accurate, but the rise of GenAI is a truly disruptive moment for the IT channel. With the AI landscape evolving fast, it’s essential to understand the current state and challenges of AI adoption so you can support channel partner success, capture the full potential of this AI transformation, and steer your brand toward long-term AI leadership.”

*– Kristy Davis
Global VP, Active Intelligence and Insights
The Channel Company*

Rightly tempering all the excitement are significant data security and control concerns, and issues surrounding intellectual property rights.

Still, most IT channel partners are in the GenAI and LLM exploratory phase, with exciting use cases already online or over the horizon — and unprecedented opportunities for forward-looking companies in the IT channel.

Generative AI and Cybersecurity

GenAI opens up innovation and opportunity to bad actors too. Channel partners must evolve and incorporate tools and strategies to protect against GenAI-powered:

- **Customer and proprietary information leaks**
- **Sponge attacks that reduce AI/ML efficiency**
- **Data poisoning to manipulate AI output**
- **Malware and phishing emails**
- **User credential attacks**

This is a partial list that will no doubt evolve quickly and continuously — just like GenAI.

A Wide-Angle View of AI in the Channel

To gain an overarching view of GenAI adoption in the channel, we analyzed the website language of 11,000+ US-based channel companies skilled in at least one AI specialization, such as GenAI, robotic process automation, machine learning (ML), or chatbots.

Among AI-capable IT channel partner websites, about 44% use broad AI terms, 37% use a significant volume of ML-related terms, and 27% use robotics-related language.

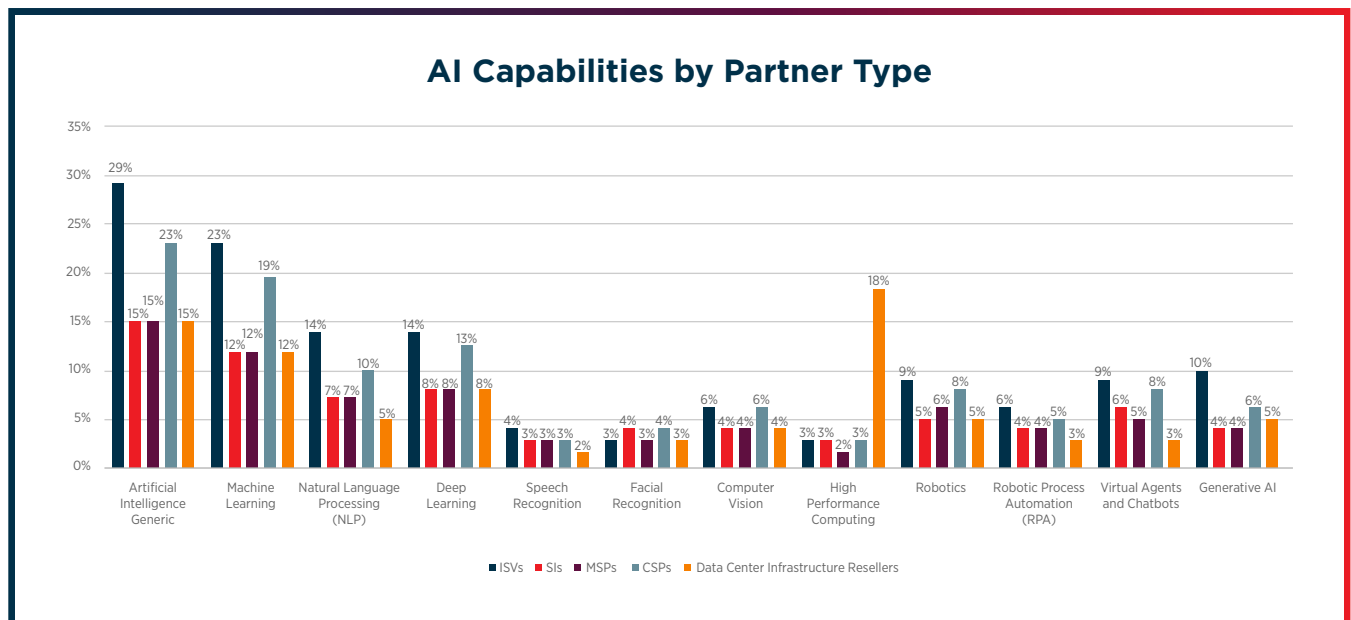
Indicating GenAI traction in the channel is the prevalence of websites with GenAI-related language, including “generative AI,” “LLM,” and “GPT modeling.” In just over one year, 13% of channel partners have signaled a rapid rise in interest and exploration of the potential of generative AI technologies for their business.

A low prevalence (less than 1%) of the “AI inference,” a core term in GenAI, suggests that most companies are in the early stages of implementation or still in the middle of discovery. The groundswell of “machine learning” language in the channel, by comparison, coincided with rising instances of “deep learning” and other closely related terms.



AI/ML-Driven Tools in Action

We used our proprietary AI/ML-driven Intelligence Index to drill down further into channel partner website language to determine company type (ISVs, SIs, MSPs, CSPs, or Data Center Infrastructure Resellers) along with their respective AI capabilities.



Source: The Channel Company’s GenAI in the Channel Survey 2023, Andrejs Bogdanovs and Samuel Auer

Channel Company Types Leading the Way With AI Capabilities

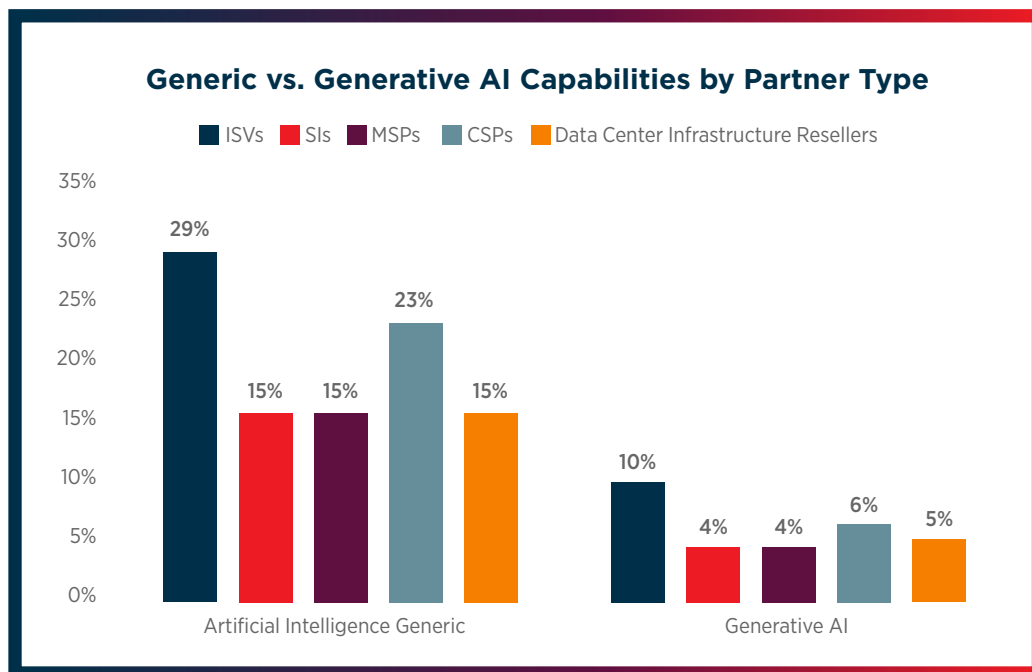
Customer demand, pre-existing capabilities and infrastructure, and AI-related skills all factor into channel partner momentum toward AI integration and use case development.

Independent software vendors and cloud service providers have more AI-related skills in their toolkit, while managed service providers, systems integrators, and data center infrastructure resellers have made more modest AI inroads.

For GenAI specifically, independent software vendors lead the way in successful adoption over all other channel partner types, including cloud service providers. This leading edge is due to greater AI resources and business differentiation through continuous software improvements, which must now respond rapidly to high customer demand for GenAI-led innovations.

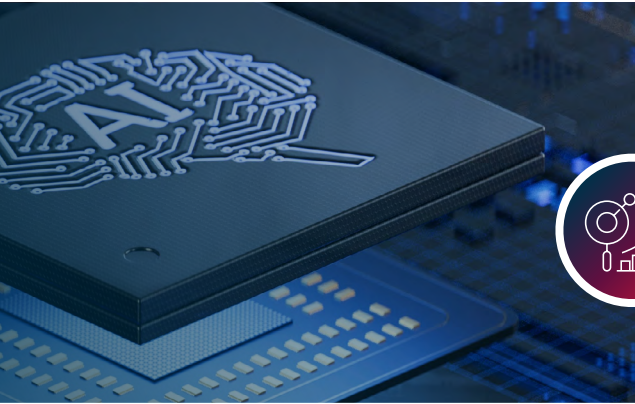


Cloud Service Providers (CSPs) follow closely behind independent software vendors in GenAI adoption. Their early momentum is propelled, in part, by business models that include packaged services delivered to many customers, meaning they can scale GenAI quickly by incorporating the technology into existing service innovations and upgrades. CSPs also have access to cloud infrastructure and platforms that empower rapid spin ups of testing and experiments — which they are already doing. Finally, all major public cloud providers have a significant AI/ML stack and are rapidly rolling out GenAI-powered services to their partner ecosystems which include CSPs and helps position them among the frontrunners of this trend.



Source: The Channel Company's GenAI in the Channel Survey 2023, Andrejs Bogdanovs and Samuel Auer

Channel Partners Enter the GenAI Discovery Era



There are three stages to GenAI and LLM adoption for channel partners when incorporating the technology into their own workflows and when delivering GenAI use cases to clients.



Stage 1. Exploring and researching use cases.

Most channel partners are currently in this stage, according to our recent survey of 297 channel partners, which included managed service providers and value-added resellers, managed security service providers, consultants, and systems integrators.

1 Most channel partners in our survey have one person dedicated to exploring and learning about GenAI. This is another indicator that the majority are still in the early stages of adoption.



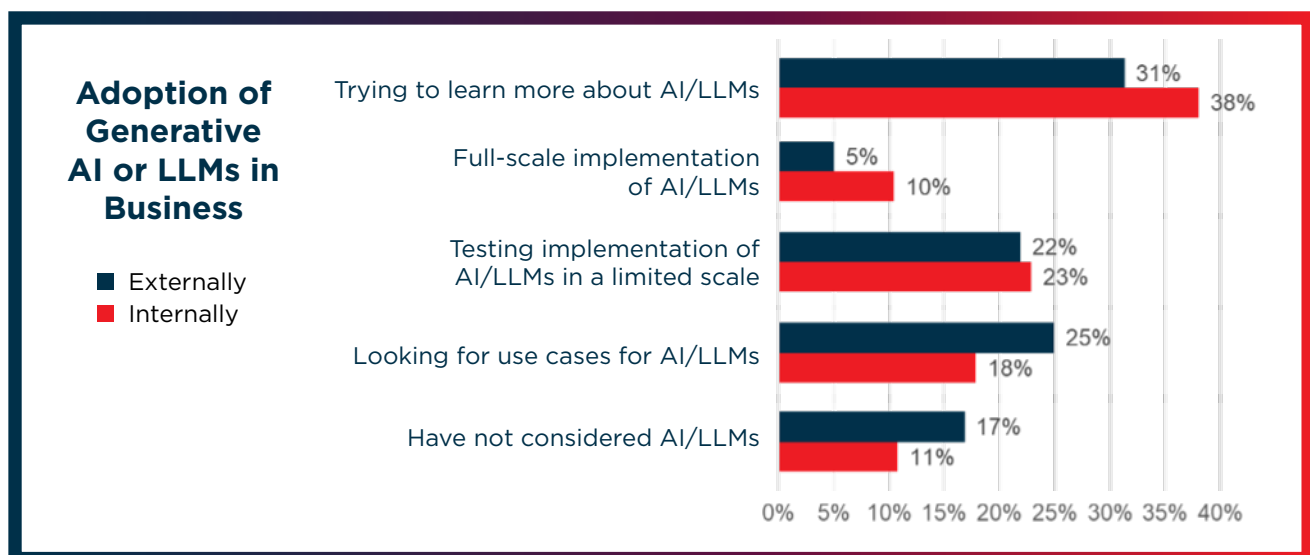
Stage 2. Testing GenAI implementations at limited scale.

Just under one quarter of partners in the survey are at this stage.



Stage 3. Fully implemented GenAI programs.

This stage includes the smallest group of respondents. Just 10% have fully adopted GenAI and LLM for their internal workflows and 5% have implemented the technology for their clients.



Source: The Channel Company's GenAI in the Channel Survey 2023, Andrejs Bogdanovs and Samuel Auer

The Channel Takes a Measured Approach to AI Implementation

Immediately following the rollout of ChatGPT in November 2022, GenAI feverishly entered the IT channel conversation. Teams across industries, departments, and job titles gave the technology a spin.

Questions quickly arose about real-world use cases, as did serious concerns about the technology's security and workforce implications.

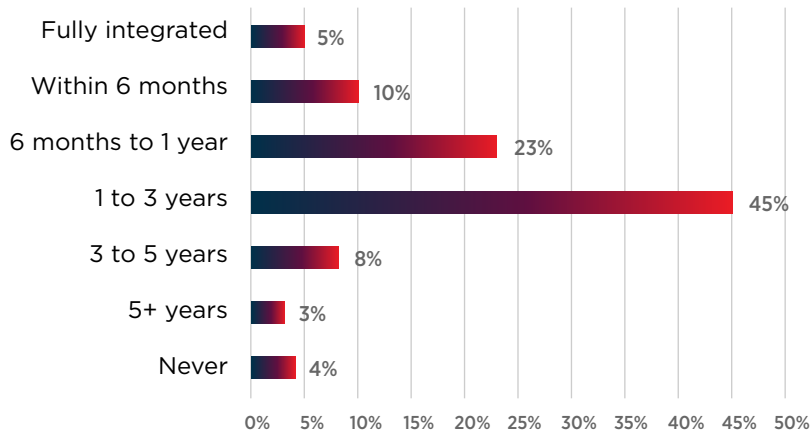
While the channel is making clear, bold moves toward adoption, partner companies are not rushing. **Almost half of respondents (45%) plan to implement GenAI in the next 1-3 years, and about a quarter (23%) are on a 6-month to 1-year timeline.** These results indicate conscientiousness about the ongoing security and compliance worries and a commitment to reducing risk for their clients and their business. They may also point to the need for greater clarity about business use cases.



While there is significant motivation to incorporate AI into channel operations and offerings in the near future, only 10% of respondents plan to implement GenAI within six months. This spotlights a reticence to rush into decisions that don't support long-term business strategies and channel growth.

Most companies also want to avoid sluggish AI momentum, with just 8% of respondents on a three-to-five-year adoption timeline and only 3% targeting AI adoption in more than five years. Beyond missed opportunities, an overly slow pace risks diminishing trust in an organization's commitment to innovation.

Channel Partner AI/LLM Implementation Timeline



Source: The Channel Company's GenAI in the Channel Survey 2023, Andrejs Bogdanovs and Samuel Auer

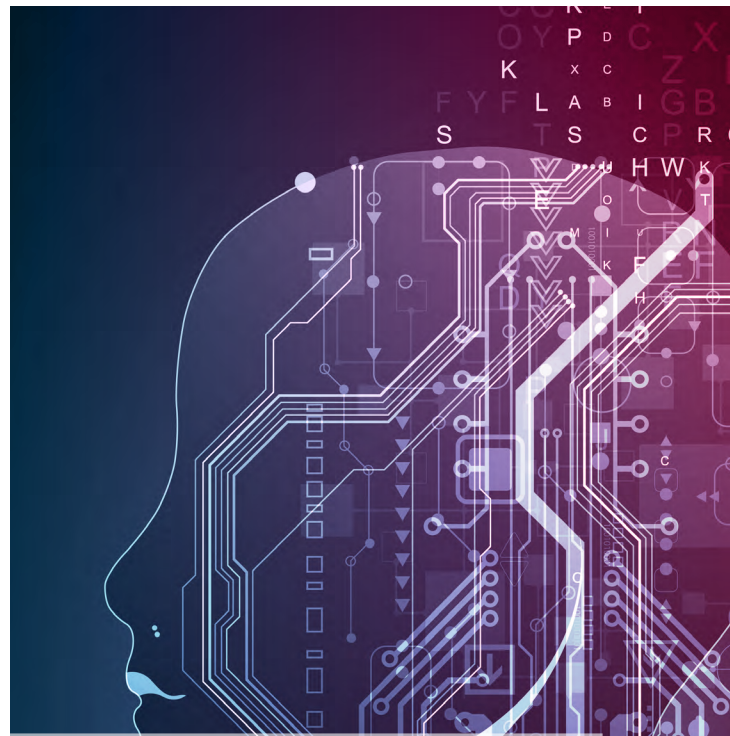


Growing Confidence and Persistent Hesitation: The GenAI Use Case Gap

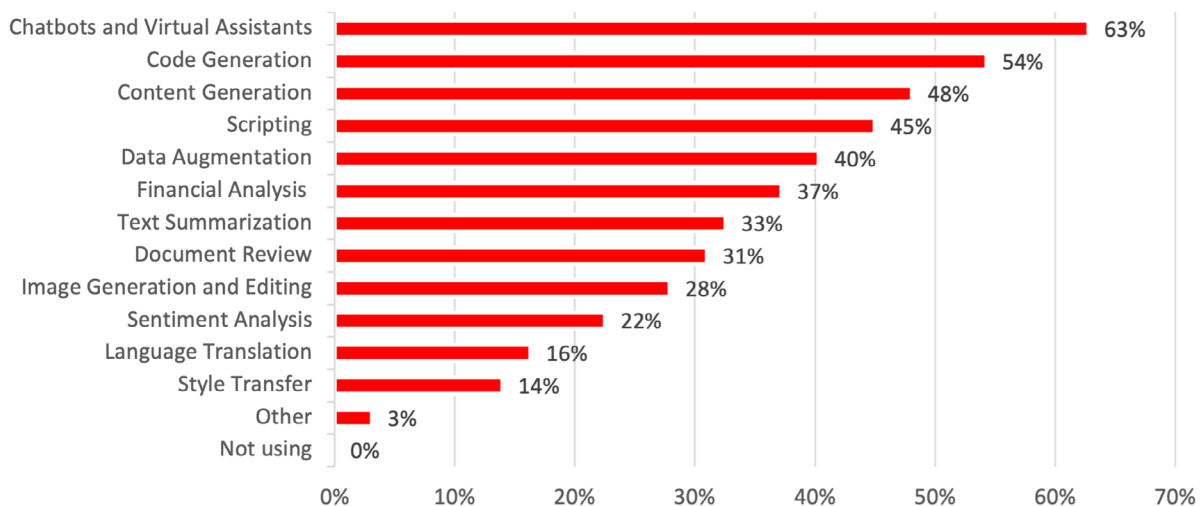
Most channel partners see clear potential in generative AI and large language models and expect these technologies to drive efficiencies in their organizations. **More than 50% of respondents to our survey believe GenAI and LLMs will considerably or moderately enhance the efficiency of their business segment, and 17% think the efficiency impact will be significant, high, or very high.**

Conversely, a fifth of channel partners do not have high expectations for GenAI-driven efficiencies, with 20% of respondents saying the technology will only have a slight impact on their business processes. And nearly 10% of respondents said they don't think GenAI will have any impact on efficiency at their organization.

Though optimistic about the value of GenAI internally and responding to increased client interest, we found that channel partners are still unlikely to recommend GenAI solutions to clients just yet.



GenAI and LLM Channel Partner Use Cases So Far



Take Action to Capture the New Possibilities of AI (While Avoiding the Pitfalls)

Now that the disruptive dust has settled, the channel is steadily moving forward to put AI into action to drive efficiency and accelerate business growth — for themselves and their clients.

The Channel Company offers the following guidance for GenAI innovation and growth in the channel:

Connect GenAI use case evangelists with your data security team. Don't let the excitement and rush to harness AI efficiencies and opportunities override critical data security controls. Your AI and security teams should meet regularly and often from the beginning, so security is built into every decision.

Create a GenAI discovery team. This is a time for creativity, ideation, and collaboration — which requires multiple people. Establish a discovery team of three or more people from across departments to create greater diversity of input and ideas. Appoint one person to head the team and establish clear timelines for use case recommendations.

Refresh AI conversations with clients. No doubt you fielded a rush of questions through early 2023, but these may not have been productive discussions backed up by deep knowledge. Now that your GenAI expertise is more robust, return to these conversations to see what your customers and partners are looking for now.

Bridge the GenAI knowledge and use case gap. The IT channel is in the midst of a watershed moment, and many partners will require support through GenAI transformation and initiatives, as they seek to leverage the technology for operational efficiencies and innovative new client solution and service offerings.

Move forward with purpose. Don't get stuck in the exploratory phase. Other channel companies will be moving forward with GenAI internally and externally. Due diligence is critical, but so is demonstrating GenAI innovation to your customers.

Connect with our team of IT channel strategists to identify GenAI use cases, prioritize AI initiatives based on enterprise readiness, and optimize GenAI outcomes.

CONTACT US