



# Trace3 is creating a future in the post-VAR world with innovation services

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As we emerge from the economic downturn, digital innovation has become an almost compulsory element of management speak and management planning. Many CIOs ultimately 'own' the relationship their organization has with technology vendors, and many look to new-entrant technology vendors to help them provide innovative capabilities for their organizations. Usually the innovation is offered within existing vendor portfolios, often as part of outsourcing contracts that can claim a transformational element. However, technology vendors are now beginning to offer innovation services in their own right. Trace3 is a company doing just that.

## The 451 Take

The Trace3 approach to innovation is a perfect ecosystem play, bringing together CIOs, VCs and technology startups. Trace3 introduces disruptive technology companies to CIOs, VCs add value to their disruptive technology clients (beyond providing capital) by making potential enterprise customers feel more comfortable buying into the technology, and Trace3 wins because it gets early mover advantage in the distribution channel for new technologies, as well as the chance to deepen its relationships with its customers. Going forward, scalability will be an issue for the approach because it is relationship-based. However, if Trace3 can build IP around its innovation services, keeping them relevant to an increasing number of customers, the company should be able to address this issue.

## Context

Trace3 was set up in 2001, and is based in Irvine, California. It began life as a reseller of IT infrastructure products and grew to a \$420m revenue business over 12 years. A few years ago, CEO Hayes Drumwright decided that the company needed to radically rethink the way it operated in order to continue to provide customers with value beyond the classic product reseller model. The core of the business remains with Trace3's Transformed Data Center practice, and a cloud practice and big-data intelligence practice have been added to this. But this consulting-led technology provider has also added an organizational health and education group (working in partnership with highly respected The Table Group), as well as an innovation team, to the mix. The innovation services are helped by Drumwright being a partner at InstantScale Capital, a venture capital fund focused on investing in early to mid-stage emerging IT providers.

Based on these capabilities, Trace3 is building levels of trusted partner status with its 2,500 clients that the big global consultancies would be proud of. So just how has Drumwright managed to lead this change?

## Services

A few years ago, Drumwright began a group in Trace3 to reflect the shift in how companies consume products, which led to the company's current focus on adding services to assist CIOs with innovation and organizational health. From Drumwright's own experience in getting Trace3 to transform

itself from a VAR to a consulting-led organization, he knows that most internal silos will fight you as you try to introduce change. For transformation, you need a cohesive team to lead the change to get everyone on the same page. This is why he has added an innovation service capability to Trace3's offerings, charged for on a 'time and materials' fee basis.

Organizational health is part of this capability, and is the result of the partnership Drumwright has developed with San Francisco-based The Table Group. Working with each client and The Table Group, Trace3 facilitates customized workshops set up to help the CIO make a project or a team more successful.

Within the area of emerging technologies, Trace3 vets technology and then introduces relevant new technology areas to clients. Its research team puts emerging technology into stacks that customers can use. Trace3 also offers VC briefings, where it takes CIOs from around the US to meet with startups in Silicon Valley, so that CIOs get a heads up on new offerings before they are commercially available. The market is changing so quickly that the company usually sets up a day of 'speed dating' between technology entrants and CIOs.

Working with clients, VCs and entrepreneurs, Trace3 customizes a one-to-three-day session. The content is built around the client's interests and business needs, with the context set by Trace3's knowledge of its customer combined with its holistic view of trends. CIOs bring their CTO or CMO with them, and sometimes come along with their CEO.

The meetings are all formalized with VCs, and Trace3 chooses to invest in some new entrants to create a deeper partnership. This process limits the sales-execution risk for clients because Trace3 undertakes a big vetting process around a technology, as well as helping it pick new technologies to distribute. In this way, Trace3 is operating as the innovation team for clients so that they can capitalize on the disruptive technology investment, but don't have to hire for it.

Drumwright is also CEO of another company that is currently in stealth mode, called PoP (Portal of Pain), that is being developed around a social media tool that gathers messaging from clients, partners, etc. to provide information backup to management about how an organization's digital transformation is being received. In the future, Drumwright believes that PoP will add a crowdsourcing, crowd-funding dimension to Trace3's innovation services so that it can roll out incubator companies.

## Customers

Trace3 has quite a few customers that have experienced its Innovate offerings, including gourmet burger chain Red Robin and marketing services company Epsilon, both of which shared some of their thoughts with 451 Research.

### Red Robin

Chris Laping is part of Red Robin's business transformation team, as well as CIO of the company. The business transformation remit is to enable change and to provide a very robust toolset to drive change. Burgers and shakes are Red Robin's core competency, but it needs to drive change because it is operating in a hyper-competitive market.

Laping joined Red Robin as CIO in 2007, and the company already had a relationship with Trace3 then, which continues at the infrastructure level. He personally has a strategic relationship with the company focusing on emerging markets – the new things that are coming to market – so that Red Robin can be an early mover.

Laping says that the VC-CIO briefings introduced him to big VC firms that understood his company's strategic imperatives so that relevant meetings could be set up. The meetings then took place in Silicon Valley, and the founder of the startup came in to discuss its roadmap, helping make a connection early in the startup's development. The VC briefing had a big impact on Laping – he arranged to come back in a few weeks with his CEO to meet with engineers and visionaries.

Laping attended his first VC briefing in June 2013, and has been to four or five briefings since then, and a couple of relationships have developed. He would like to set such briefings up on an annual cycle because, for Red Robin, strategic planning happens in August, so summer is a good time to meet companies.

Red Robin is also a paying customer of PoPin (an internal version of the portal product). It is used so that Red Robin has its fingers on the pulse of the field operations team. Based on this information, Red Robin has a 35-40 minute discussion with Hayes Drumwright every other week. This embeds Trace3 further in the business. Laping says that he engages with less than a handful of partners, and he does not have this type of relationship with any of the rest of them.

#### Epsilon

Keith Morrow, CIO of Epsilon, views Trace3 as a trusted partner that helps with infrastructure. For example, Trace 3 is a prime contractor for Epsilon's core network, and worked with the company on its big-data consolidation project.

Beyond this, Morrow works with Trace3 for organizational health. He had worked with The Table Group in a previous CIO role, so when he heard that Trace3 had developed a partnership with it, he was keen to re-engage. Morrow has a team of 550 engineers and technical staff, and the company does a lot of acquisitions, so he was keen to go through an alignment process with his senior team and The Table Group.

He took a two-day off-site session with The Table Group to reorient and realign the team around their big-data objectives. Trace3 facilitated the session, tabled the agenda and put the process together. Following on from the session, he has a weekly tactical group meeting that follows The Table Group's format and checks against goals. This becomes an operating mechanism so that the team does not lose sight of strategic objectives. Since Epsilon is such a high-growth business, this gives the team a chance to focus on strategic objectives. After the engagement, he says that he saw a different level of accountability within the team, as well as an increase in performance and communication. Because Epsilon is client-facing and is building software products with clients, it already spends a lot of time with the VC community and early stage companies, so that part of Trace3's portfolio is of less interest, currently.

### **Competition**

There are a lot of IT infrastructure service providers from a VAR background that Trace3 competes with in terms of its well-established competencies around network and datacenter management, such as Forsythe Technology, InterVision Systems, Presidio and Sirius Computer Solutions. However, with its trusted partner status developed around capabilities dealing with change management and innovation services, its offerings are really more closely comparable with IT service providers that also have strong SI and consulting capabilities.

So, for example, IBM Global Business Services is launching Innovation as a Service, which also offers connections with Silicon Valley VCs, and most Indian-heritage service providers, such as Cognizant, TCS and Infosys, offer 'CIO tours' of disruptive technology entrants in different parts of the world. Indeed, for more than 20 years, CSC's Leading Edge Forum (LEF) has been providing research, study tours, workshops and briefings to CIOs on technology innovation.

The main difference between Trace3 and these far larger companies is the personal relationship provided by Hayes Drumwright himself, as part of the package of innovation and leadership support the company provides its clients.

### **SWOT Analysis**

#### **Strengths**

Trace3 has taken quite a bold step to build on its traditional VAR capabilities in order to become a real trusted partner by the CIOs among the client base it serves. This approach, creating a network of alliances, with a variety of well-respected companies in the management consultancy and VC worlds, is proving a strong differentiator for the company.

#### **Weaknesses**

The main weakness with the strategy is that it is not clear how well it will scale as the company continues to grow. There will be limits to the number of relationships Drumwright can personally develop, as well as a limit to the number of engagements The Table Group can manage, for example.

#### **Opportunities**

Once Trace3 is established as a trusted partner (as it already is with a number of customers), this opens up a number of further engagements with customers in terms of additional projects and the ability to take over management of IT infrastructure. The work with the VC briefings also provides an excellent discovery route to

#### **Threats**

It is difficult for Trace3 to position itself in the market because it is creating a business model that is quite different from the vast majority of VARs and MSPs. The 'VAR with change management consultancy and innovation services' path to market is not well traversed, and that makes the proverbial elevator pitch a

take on the distribution of new technology products.

challenge.

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