



# Successful Cloud Partners 2.0

What IT Solution Providers Need To Know To Build Profitable Cloud Practices

An IDC eBook, Sponsored by Microsoft



# Contents

|  |    |
|--|----|
| <a href="#"><u>In This Study</u></a>                             | 3  |
| <a href="#"><u>Executive Summary</u></a>                         | 4  |
| <a href="#"><u>Research Methodology</u></a>                      | 6  |
| <a href="#"><u>IDC Cloud Market Overview</u></a>                 | 8  |
| <a href="#"><u>Cloud Partners Continue To Outperform</u></a>     | 10 |
| <a href="#"><u>Planning For Your Cloud Business</u></a>          | 13 |
| <a href="#"><u>Your Cloud Business Strategy</u></a>              | 22 |
| <a href="#"><u>Your Cloud Sales Strategy</u></a>                 | 31 |
| <a href="#"><u>Your Cloud Marketing Strategy</u></a>             | 50 |
| <a href="#"><u>Your Cloud Managed Services Strategy</u></a>      | 56 |
| <a href="#"><u>Your Cloud Intellectual Property Strategy</u></a> | 62 |
| <a href="#"><u>Conclusion</u></a>                                | 69 |

# In This Study

In July 2013 at WPC in Houston, Texas, IDC and Microsoft released an initial [in-depth study](#) on the performance of partners offering cloud solutions. That study showed that many partners were finding success in the cloud.

The objective of this updated eBook is to both validate the significant findings from the first study, and drill down into how partners are finding success. What are some of their best and innovative practices? And how have they changed their business to suit the cloud?

On top of a large worldwide survey, IDC went deep with 20 Microsoft partners to learn some sage advice as well as some actionable business ideas. We were overwhelmed by the intelligence and innovation found in leading Microsoft cloud partners. While we thought we might hear a lot about technology, the best ideas came around strategy, marketing, structure, and especially sales. As sales is the lifeblood of any IT solution provider, it also makes up a significant portion of insights in this report.

Not every idea in this report is going to apply to your company. Some insights were learned from partners who focus on one part of the market (for example SMB or Enterprise). Some insights apply more to a volume play than going deep with fewer, larger clients. Some insights are purely helpful for you to benchmark your business – are you ahead, are you on course, are you behind?

But we are convinced that if you spend a little bit of time, you will find some ideas that you can immediately take back to your business and act on.

# Executive Summary

IDC has worked with Microsoft and its partners on understanding profitability and success in the cloud. Insight from this IDC research report reveals the proven potential of leading with the cloud, and provides helpful advice from top-performing partners. Highlights of the report include:

## Cloud Partners Outperform Their Peers

The survey and interviews conducted for this study continue to confirm the fact that cloud-oriented partners significantly outperform their peers, achieving higher gross profit, higher growth, and a higher new customer acquisition rate.

## Invest Now, Think Long Term

The cloud market is growing fast and you can't afford to be on the tail end of the trend. There is still an opportunity to catch up, but time is running short. You need to think clearly about where your business will be in one, three and five years time, and prepare for that future reality. Go out and get some cloud deals now if you haven't already. There may be some short term pain as you transition to a recurring revenue model. But if you have a clear vision for your long term cloud future, it can be a profitable one. Recurring revenue can bring you predictable cash flow, higher gross margins, and even a higher valuation of your business.

## Make a Difference

As you plan your cloud strategy, set yourself up for success. Use the solutions you are selling to create your own case studies. While the cloud landscape continues to mature, stay on top of cloud trends so you can stay ahead of your customers and competition. And make sure you find your company's own differentiated value proposition, quite possibly based on a specific vertical or horizontal domain. This will help you be able to have credible conversations with Line of Business leaders, the new IT purchasing power brokers.

### Re-think How You Sell

Make the move to a Cloud-First company and use the cloud to open doors to new and existing customers. Take your customers to the cloud in steps, and don't move too fast. Nurture your new long term customer relationships to create a solid book of business. But re-think your sales strategy in terms of sales structure, sales compensation, and even who you hire to sell. Your next sales stars might come from the industry you are selling to or might be young graduates who themselves were 'born in the cloud'.

### Market Smart

The best defense is a good offense. Get ahead of sales objections about "fear, uncertainty and doubt" by addressing the most common cloud concerns up front. Your prospects are more educated than ever about what they're buying. Use thought leadership in your marketing and reach them using a compelling website and other social media content. And with more educated and savvy buyers, your marketing department will now be expected to hand off much more qualified leads to your sales team than in the past. Remember that a strong call to action is necessary to get prospects to take definitive action.

### Measure to Manage

As the saying goes, you can't manage what you can't measure. There are important new key performance indicators you should consider for your cloud business such as Monthly Recurring Revenue, Churn, and Lifetime Customer Value. It's critical that you pay attention to your total recurring revenue per month and as a percentage of your revenue, how many customers you gain and lose each month, and the lifetime dollar value of your customers.

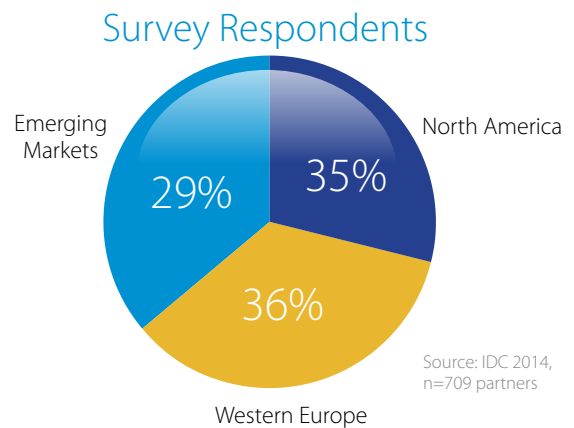
# Research Methodology

This study included two major components: a quantitative study of worldwide partners and a series of deep interviews done with leading cloud partners.

## Quantitative Research

Survey of over 700 partners worldwide covering several regions and countries:

- “North American Market”:  
USA, Canada
- “Western Europe Market”:  
England, France, Germany
- “Emerging Markets”:  
India, Brazil, Mexico



Sample partners were randomly selected and not provided by Microsoft.

## Qualitative Research

- Successful Microsoft partners with cloud practices
- 20 in-depth interviews (in-person and over the phone)
- Partners were chosen based on their success in the cloud, their business models, and selected from markets with longer cloud tenure.
- The partners were from: USA, Canada, England, Norway, Australia
- It is worthwhile to note that solution providers all over the world, in both developed and emerging economies, can learn from the leading cloud partners we interviewed, and whose insights are highlighted throughout this report.

# Cloud Partners Interviewed

| Microsoft Partner                         | Interviewee(s)                               | Title  | Country   |
|---|--|--|-----------|
| <a href="#">10th Magnitude</a>            | Alex Brown                                   | CEO  | USA       |
| <a href="#">Agility Inc.</a>              | Jonathan Voigt                               | CEO  | Canada    |
| <a href="#">BitTitan</a>                  | Geeman Yip                                   | CEO  | USA       |
| <a href="#">Catapult Systems</a>          | Emily Lynch<br>Greg Schlather<br>David Moore | Vice President, Marketing<br>General Manager, Cloud, Managed Services<br>Digital Marketing Manager | USA       |
| <a href="#">Cloud Business</a>            | James Butler                                 | Managing Director  | UK        |
| <a href="#">Core</a>                      | Conor Callanan                               | CEO  | UK        |
| <a href="#">Forceworks</a>                | Steve Mordue                                 | CEO  | USA       |
| <a href="#">Fully Managed</a>             | Chris Day                                    | CEO  | Canada    |
| <a href="#">imason</a>                    | Jeff Dunmall<br>Duncan Smith                 | President<br>Sales Director, Cloud Practice  | Canada    |
| <a href="#">InverseCurve</a>              | Stephen Alderman                             | Chief Technical Officer  | Australia |
| <a href="#">Nintex</a>                    | Brian Cook                                   | Executive Chairman   | USA       |
| <a href="#">Palmetto Technology Group</a> | Reed Wilson                                  | CEO  | USA       |
| <a href="#">Perficient</a>                | David Greve<br>Matt McGillen                 | Microsoft Cloud Strategy National Director<br>Director of Microsoft Infrastructure                 | USA       |
| <a href="#">Perspicuity</a>               | Ben Gower<br>Charlie Gilbert                 | Managing Director<br>Sales Executive   | UK        |
| <a href="#">Peters &amp; Associates</a>   | Ric Opal<br>Bruce Ward                       | Vice President<br>Senior Project Manager (vTSP)  | USA       |
| <a href="#">ProServelT</a>                | Eric Sugar                                   | VP, Sales and Marketing  | Canada    |
| <a href="#">Qlogitek</a>                  | Isa Qureshi                                  | EVP, Client Services   | Canada    |
| <a href="#">Skyline Technologies</a>      | Kenny Young                                  | Director, Cloud Computing & Development  | USA       |
| <a href="#">Visma</a>                     | Hans Petter Dramstad                         | CTO  | Norway    |
| <a href="#">Wavex</a>                     | Mark Williams                                | Partners & Alliances Director  | UK        |
| <a href="#">Zero2Ten</a>                  | David Kohar                                  | Chief Customer Officer   | USA       |

# IDC Cloud Market Overview

Of the many reasons for IT solution providers to start or grow a cloud practice - perhaps the greatest is to not miss out on one of the fastest growing areas in the IT industry. IT vendors are executing their cloud strategies. Your peers are doing the same. And customers are more and more looking to the cloud as the first technology option they investigate. Check out this section to see IDC's data on where this market is headed.



**PUBLIC IT  
CLOUD  
SERVICES**

is comprised of:

**SaaS**

(Software-as-a-Service)

**PaaS**

(Platform-as-a-Service)

**IaaS**

(Infrastructure-as-a-Service)

**2012-2017 CAGR (%)**

Latin America

**67.4**

Middle East and Africa

**46.9**

Central and Eastern Europe

**44.0**

Asia/Pacific (excluding Japan)

**31.3**

Western Europe

**29.9**

Japan

**27.8**

Canada

**21.2**

United States

**16.2**

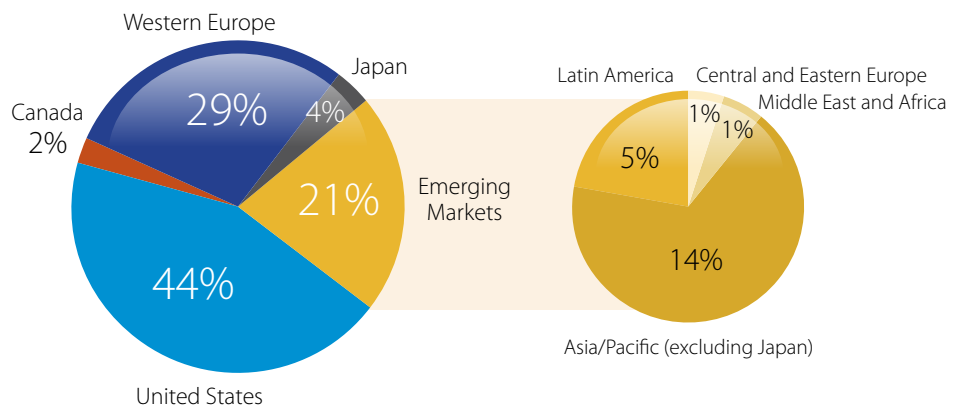
# The Cloud Market is Growing Fast

IDC tracks the public cloud services market more closely than anyone. And the rate of growth continues to impress:

- Public IT cloud services spending reached \$47.4 billion in 2013 and will reach nearly \$108 billion in 2017, with a five-year compound annual growth rate (CAGR) of 23.5% — five times the growth of the IT industry as a whole.
- SaaS will remain the largest public IT cloud service category through 2017 (57.9% in 2017), while PaaS and IaaS will grow faster than SaaS over the next five years.
- Emerging markets will grow 1.8X faster than developed markets, and begin to close the gap on the size of the markets. By 2017, emerging markets will account for 21.3% of the public cloud opportunity.

But the cloud opportunity is about much more than just public cloud services — the cloud opportunity landscape also includes private cloud services, “IT for the cloud” (IT hardware and software that enables building/running public and private cloud services), and “IT services for the cloud” (services that support adoption, development, integration, and management of cloud services).

## Worldwide public IT Cloud Services Revenue in 2017 **\$107.2B**



Source: Worldwide and Regional Public IT Cloud Services 2013-2017 Forecast (IDC #242464, August 2013)

# Cloud Partners Continue To Outperform

If you read the IDC report released at WPC 2013, you may remember that IDC proved through 2 different partner surveys that “Cloud-Oriented Partners” (i.e. over 50% of their revenue is related to cloud offerings) had many superior key performance indicators (KPIs) versus other partners (i.e. <50% cloud revenue).

IDC has replicated this outcome yet again in a survey done with over 700 IT solution providers worldwide.

It’s clear that cloud-oriented partners continue to outperform their peers. And the next few pages will provide evidence of various aspects of this performance.

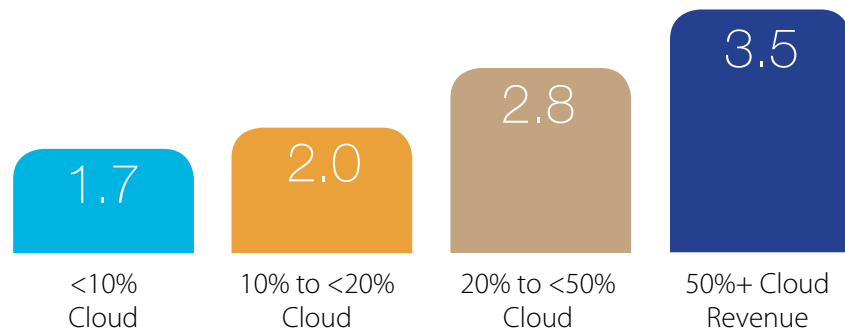
But remember, good business performance is not solely attributable to the cloud, although our research shows a positive effect from cloud. Top performing solution providers have been taking on cloud in their businesses earlier, and adopting it faster, than their peers.

Partners with strong leadership tend to see critical trends in the industry first, whether it was virtualization, or even client-server computing some time ago. They made the commitment to cloud early, and they are benefiting from their vision. They’ve had strong KPIs in the past, and bring those to our study.

## Cloud Partners Started Sooner

Cloud oriented partners have been in the cloud for 3.5 years vs. 2.3 years for the rest. That means there's only about a one year gap between cloud leaders and followers! It's not too late, get moving now!

### How Many Years Have You Offered Cloud Solutions?



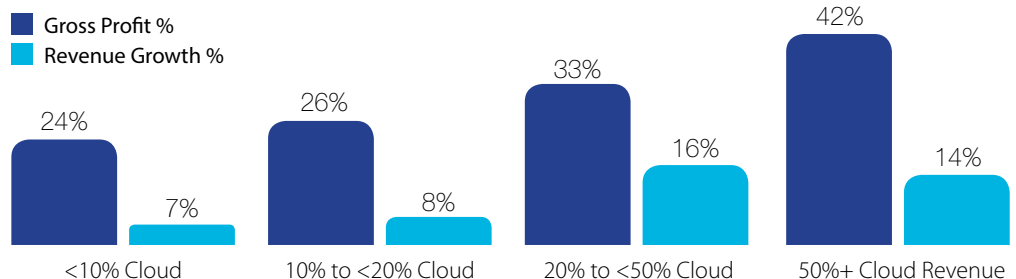
Source: IDC 2014, n=552 partners

## Cloud Partners Grow More Quickly and More Profitably

Cloud Partners (>50% cloud revenue) have 1.5X the gross profit % vs. other partners. They have 1.7X the gross profit % vs. the bottom group.

The top two quartiles of cloud focused partners also grow considerably faster than the bottom two quartiles.

### What Was Your Gross Profit % and Your Revenue Growth?



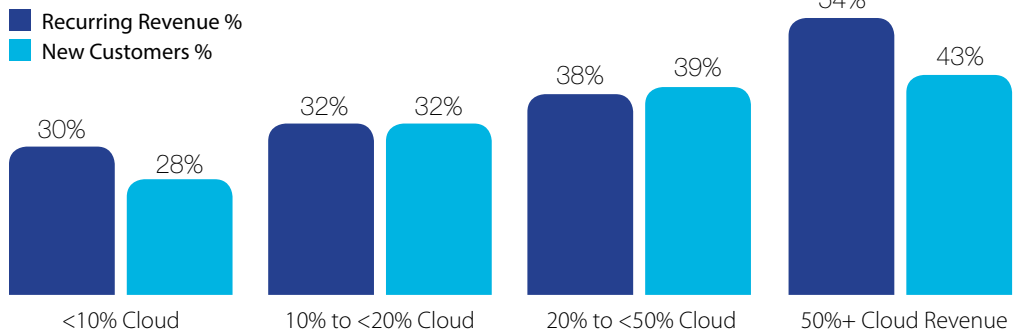
Source: IDC 2014, n=690, 672 partners

# Cloud Partners Get More New Customers and More Recurring Revenue

Cloud partners (>50% cloud revenue) have 1.6X the recurring revenue as a portion of total revenue vs. other partners. They have 1.8X the recurring revenue vs. the bottom cloud quartile.

Cloud partners (>50% cloud revenue) have a 1.3X higher new customer ratio vs. other partners. They have a 1.5X higher new customer ratio than the bottom cloud group.

## What Was Your Recurring Revenue % And Your New Customer %?



Source: IDC 2014, n=690, 670 partners

# Planning For Your Cloud Business

Of the four major forces in technology today including social, mobile, analytics and cloud – it's cloud that represents the biggest change to a solution provider's business model. That's because cloud is a different paradigm in terms of how customers pay for technology and therefore how both IT vendors and their partners are paid.

Explore this section to learn more about understanding the new paradigm, assessing your opportunity, and planning to transform part or all of your business.



*You can't grow long-term  
if you can't eat short-term.*

*Anybody can manage  
short. Anybody can  
manage long. Balancing  
those two things is what  
management is.*

**Jack Welch,  
Former CEO, GE**

## Manage Short Term Pain for Long Term Gain

The transition from a project / transactional business model to a cloud, managed services, or any sort of recurring revenue model, means that there will be a period of time where your top line revenues may decrease. Bottom line profits may decrease as you are bearing the cost of the service immediately and only collecting or recognizing revenue over time.

But at some point in the future – perhaps between 2 and 5 years – revenue and profits should be higher. For instance, in year 5 of this new model, you have recurring revenue coming in from customers you signed up in year 1, 2, 3, 4 and 5! That's very powerful.

And there is a tremendous comfort level knowing where a significant chunk of your revenue is going to come from.

The pain will be felt differently by each partner based on their business model and by their approach to taking on cloud. Will it be an all-in type of shift? Or will it be more gradual? There are pros and cons to each option.

### THE BOTTOM LINE

- ✓ Look closely at your existing business plan and run through scenarios of what your financials would look like with different ratios of recurring versus one-time revenue. It is important to document and test the validity of your assumptions. What's the best case scenario? What's the worst case scenario?
- ✓ Advice from cloud partners is to ensure that the owners of the business and senior management are completely on board in terms of the plan to go to the cloud. It's the only way to get every member of the company to follow the plan.
- ✓ Visma, a Nordic ERP software maker, will sacrifice a short term financial hit in return for a lucrative recurring revenue ratio in a few years.



*The stock market values companies with more regular cashflow more highly. Even if the revenues were the same, the costs the same, the profits the same, moving from a variable revenue stream such as upgrades to a more regular one as in subscriptions should boost the value of [a company] itself.*

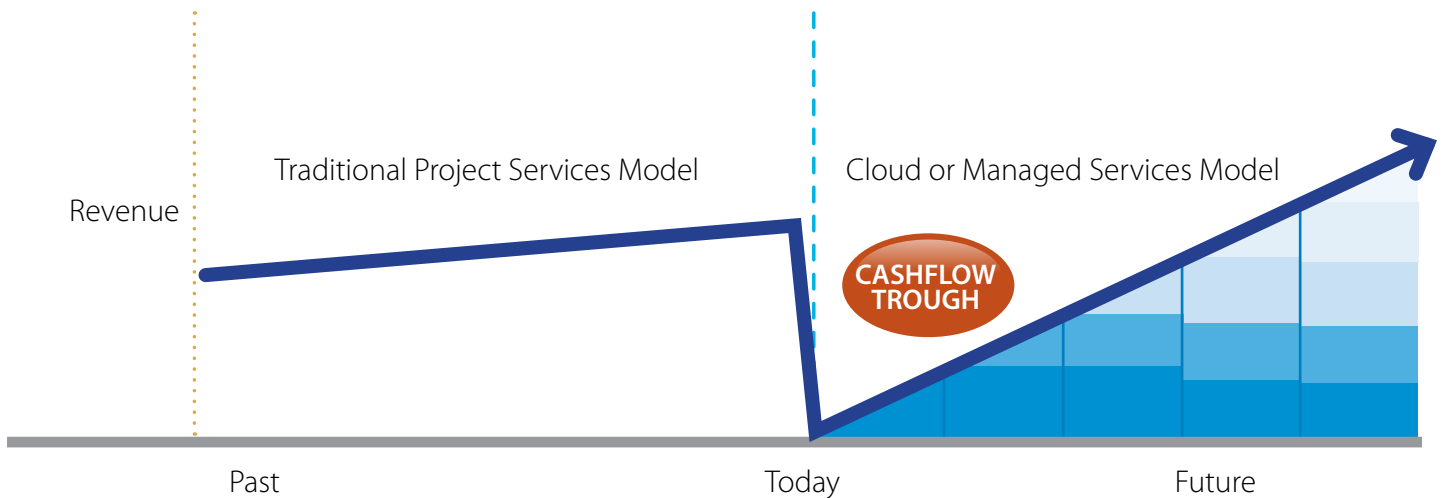
**Tim Worstall,**  
Contributor, Forbes

# Understand the Recurring Revenue Model

Many partners will experience a cashflow “trough” as they move from a transactional / project based revenue model to a cloud or managed services model.

The trough is most severe if there is a sudden, wholesale change in models, as depicted here. However, many partners see the long term potential of a recurring revenue model, even if there is short term pain.

## Beware of the Cloud / Managed Services Cashflow Trough



Source: IDC Channels and Alliances



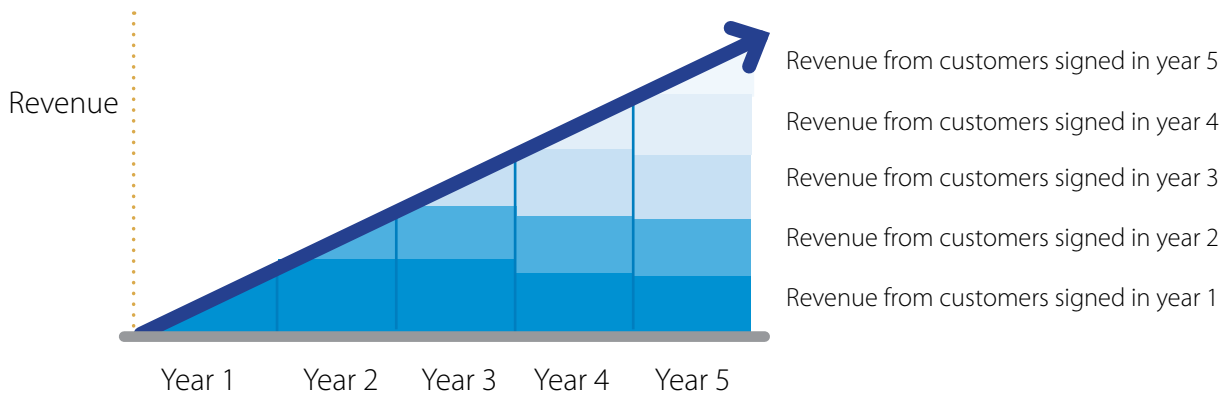
Having recurring revenue on a cloud service model has been gold for us because it flattens out the peaks and valleys of revenue.

**Jonathan Voigt,  
CEO, Agility**

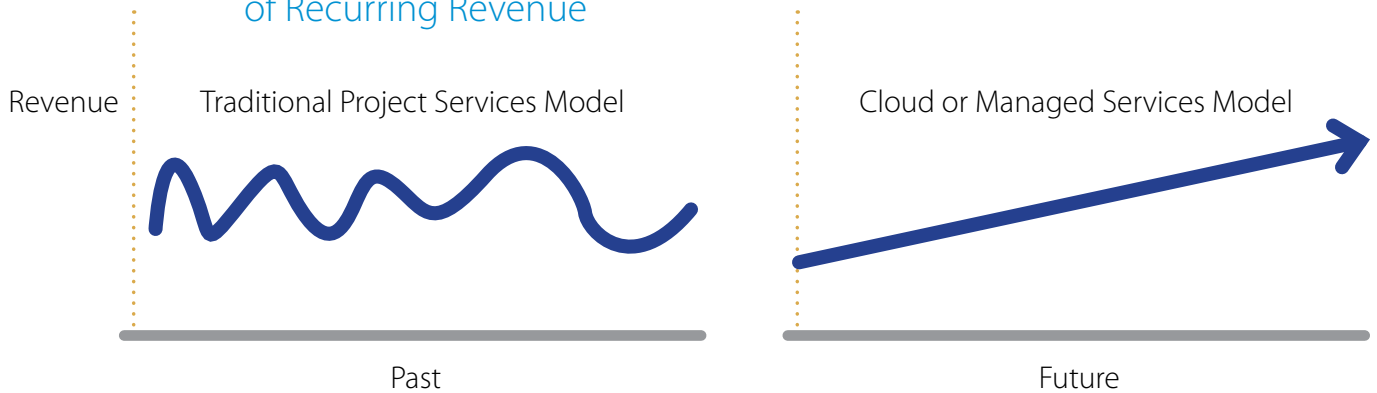
## Understand the Recurring Revenue Model (Continued)

As long as you keep your rate of churn (losing customers) low, and you maintain your rate of acquiring new customers, the recurring revenue model can be highly lucrative over time. Future years bear the fruit of years of cumulative customer contracts. In addition, cloud and managed services can smooth out bumpy / “peaks and valleys” revenue streams that are common with a transactional project services business.

### Consider the Long Term Appeal of the Recurring Revenue Model



### Take Control in the Predictability of Recurring Revenue



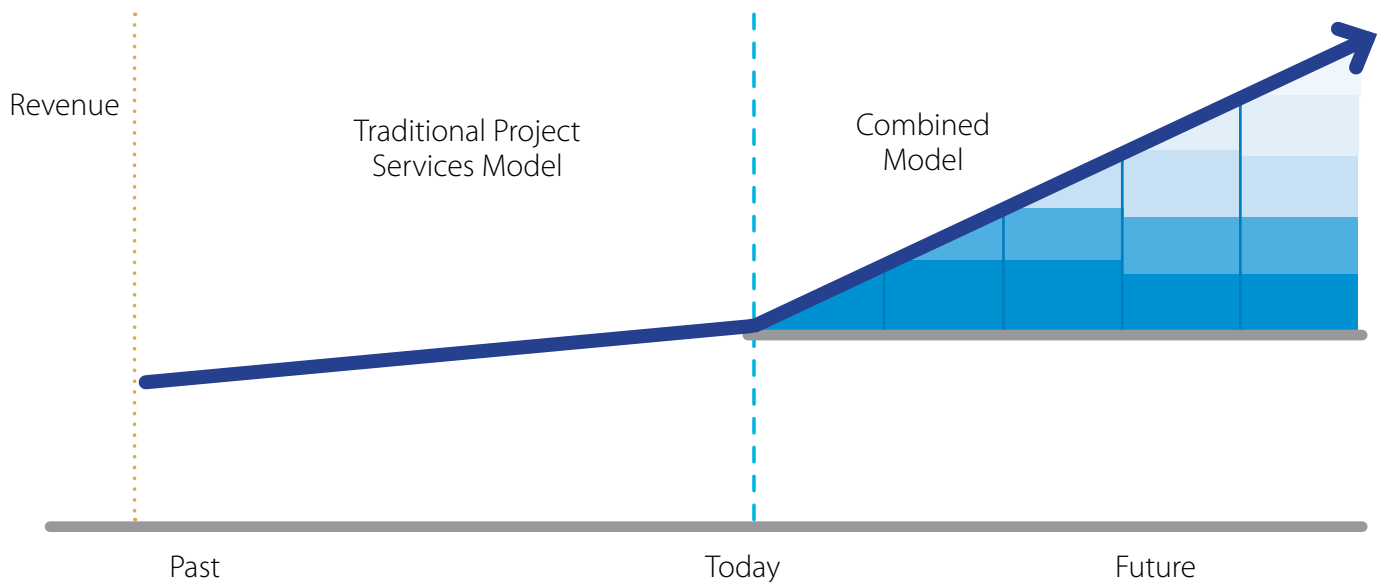
Source: IDC Channels and Alliances



# Understand the Recurring Revenue Model (Continued)

What if you were able to maintain your existing business, and add-on a cloud / managed services practice on top? The revenue and growth situation starts to look very impressive, though this is a harder formula to pull off. Most partners will have to face at least some opportunity cost from their traditional business when making the move.

## Understand the Recurring Revenue Model



Source: IDC Channels and Alliances

### THE BOTTOM LINE

- ✓ Moving to a recurring revenue model can be a scary proposition in the short term but a very profitable one in the long term. Make sure you consider the implications to your own specific business situation.

The average partner has a tenure in the cloud of just over **2½ YEARS.** It's still maturing.

Source: IDC 2014, n=552 partners

Only **16.5%** of IT solution providers worldwide still have no cloud-related revenue.

Source: IDC 2014, n=690 partners



*Over a year ago we said listen, we are an NSI, we are 100% Microsoft dedicated, we are not taking advantage of the cloud opportunity here.*

*We're watching ourselves get second and third seat in our districts and regions to partners who have nothing in terms of the skill, preparation, in-depth consulting, advisory, even relationships that we have with our client base. But we're getting buried by people who are... born in the cloud. And you know that makes us mad... And it made us mad at ourselves.*

**Emily Lynch, VP Marketing, Catapult Systems**

# Stop What You're Doing and Consider Your Cloud Plan

There are plenty of partners that realize they need to transform their businesses due to the disruption of cloud computing. Those who don't will fall into the 'boiling frog' syndrome – comfortable in the short term, but less so once the market starts 'boiling' faster and faster. They will essentially get left behind.

Business leaders should use market data around new buying behavior for cloud and managed services to trigger the discussion around a re-assessment of the business. The objective is to set a new strategy for the organization, invigorate the sales teams, and get the employees behind it.

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“Cloud has transformed our business... but if you don't have a plan and you haven't communicated it, how the heck are you going to get everybody there? I mean really basic stuff you'd think. But in the headlong rush that we were in, we haven't focused on the employee side and we hadn't focused as a senior management team in identifying who they were and making sure we had a very tight team and tight goals.” — **CONOR CALLANAN, CEO, CORE**

## THE BOTTOM LINE

- ✓ Moving to cloud requires conscious planning, but make sure your plan is based on hard data not just guesses. Research the statistics that are relevant to your market and identify where your competition is going to come from – it may not be where you expect.
- ✓ The market is moving quickly but that doesn't mean there isn't time to plan. Core made the cloud plunge early in the game and then recognized they had not spent enough time on designing an organizational structure that aligned with their cloud business.

# Analyze Your Profit Pools

Cloud can be a leverage point for earning highly profitable income from ancillary and complementary services and functionality. This is only possible if you understand the profit profile of your revenue streams. Profit pools are a way of looking at your distribution of revenue across activities and the relative gross profit of each. It helps you understand which activities have the biggest pools of profit dollars.

Cloud can also be a catalyst to reassess your business model, or in fact, an imperative to take a good hard look at things. It is extremely helpful to get outside help to lead executive retreats and planning sessions to make sure that everyone is on the same page with the new world order and the direction the business is moving.

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“There are a lot of opportunities for us to transverse from Profit Pool to Profit Pool within a client with cloud as the instigator. For instance we look at mobile systems management and SharePoint. We have effective solutions where we serve business applications to mobile devices through SharePoint online or through Azure where SharePoint is a tenant. Then we are exercising three Profit Pools at once with cloud as our leverage point.”

— **EMILY LYNCH, VP MARKETING, CATAPULT SYSTEMS**

## THE BOTTOM LINE

- ✓ The first step is to identify your profit pools, or the core activities in your business that generate gross profit. Next consider what your profit pools may look like in the future. This might require some outside help, but once you have a clear view of your profit levers you will have a very powerful focal point to rally around.
- ✓ Catapult Systems looked at the synergies between mobile systems management and SharePoint and determined that the sum was much more than the parts in terms of customer value. And higher value usually equates to higher profit.

Cloud oriented partners have been in the cloud for **3.5 YEARS** vs. 2.3 years for the others.

IDC found a direct correlation between length of time in cloud and revenue growth.

Source: IDC 2014, n=690 partners

Partners who have been in the cloud longest (top quartile) had almost **15%** revenue growth – over 5 points higher than those in the cloud the shortest amount of time (bottom quartile).

Source: IDC 2014, n=672 partners



*For us to compete in two years, if we don't have a few references, and a few case studies and a few, 'we've done it and here are the scars,' we're going to lose those deals.*

**Jeff Dunmall,**  
President, imason

## Don't Wait To Adopt Cloud

Partners who sold Microsoft's Business Productivity Online Suite (BPOS) in 2008 and on are clearly ahead of the game today. They have established cloud practices and have already integrated the necessary business model changes. They understand that recurring revenue is an advantage that reduces revenue fluctuations and provides a solid base to fund operations. These partner sales teams have already adapted and learned to lead with the cloud. They also have long standing reference accounts to demonstrate their expertise.

Every week a solution provider waits to get more deeply involved in cloud is another week that the early adopter partners are going to win more deals from you. However, the cloud industry, so to speak, is still very nascent. It's not too late to catch up.

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“So I think that's the first important hurdle, is to understand that customers are moving to the cloud. And it's up to the partners to decide whether or not they want to help them do it. Because it's not a matter of "if," it's "when," and who's going to help them do it. So I think coming up with a business model that puts the cloud first is number one.”

— **MATT MCGILLEN, DIRECTOR OF MICROSOFT INFRASTRUCTURE, PERFCIENT**

## THE BOTTOM LINE

- ✓ Although planning is important, don't fall into analysis paralysis. Currently there is about a one-year gap between cloud leaders and cloud followers. That means there is time to catch up if you move now.
- ✓ imason is focused on building up references and case studies to bolster its cloud credibility knowing that more and more of its customers will be asking for cloud in two years time.

# Business Model Considerations

There is no doubt that partner business models are rapidly evolving. For instance, in a recent IDC survey, about half of US-based partners said they were already offering managed services. And everybody from large banks to teenagers are creating cloud and mobile applications for sale. It's no longer enough to rely on resale and project services because that's not where the biggest profit lies. To truly accelerate as a cloud partner, consider starting or adding to these two practice areas.

## Managed Services

Managed services generates good gross margins because of the leverage factor of remote delivery, less expensive resources, automated tools, and repeatable methods. There are lots of opportunities to make money beyond a standard managed services fee. How about becoming a turnkey outsourced IT department or virtual CIO? Or maybe selling support and advisory services as a bank of retainer hours? The possibilities are endless.

[Click here to jump to the Managed Services section now.](#)

## Intellectual Property

Every company has the potential to capitalize on the value of its proprietary knowledge. Your intellectual property is a silver bullet that cloud makes economically feasible to monetize. If you do it right, you gain the potential for exceptional gross margin and a healthy recurring revenue stream that provides an annuity well into the future.

[Click here to jump to the Intellectual Property section now.](#)

***There is much more on each topic in this eBook. Read it later in the eBook, or feel free to jump to either one now by clicking on the links above.***

# Your Cloud Business Strategy

## Insights from successful cloud partners on business strategy

Depending on your what your goals in the market are, you may or may not have to turn your company upside down. This section helps you consider your cloud strategy from things such as the structure of your company to its potential market value. The decisions you make on your cloud strategy are critical to every other part of your business.

Partners on average  
are making  
**26%**  
of their revenue  
from cloud-related  
products and  
services.

Partners expect  
this to be  
**40%**  
in 2 years time.

Source: IDC 2014, n=690 partners

## You May Not Have to Change Everything

Not every partner will have to go through a massive business model transformation. For partners that were historically selling professional services (i.e. consultant days), to larger customers, there may not be a huge need to transform compensation or the skills required to sell cloud right away.

There can still be separate incentives (e.g. overall target # seats) where sales can be paid a certain amount of money for hitting that target. But this is not the same transformation another partner might have to make.

But don't rest... Most partners will have to go through a transformation, either large or small. So keep reading...

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“We haven't had to hire new people to sell cloud. It's basically an evolution of what we were doing previously... They're used to selling days and not products and licenses. Selling 100 days to go with those Office 365 enterprise licenses, that's where the real money is for us.”

— CONOR CALLANAN, CEO, CORE

**OVER HALF**  
of solution provider revenue comes from small and medium business (less than 1000 employees).

The partner community services the spectrum of customer sizes fairly evenly.

Source: IDC 2014, n=654 partners



*"You have to decide if you're going to do it the volume way or do it the fewer, larger customers way."*

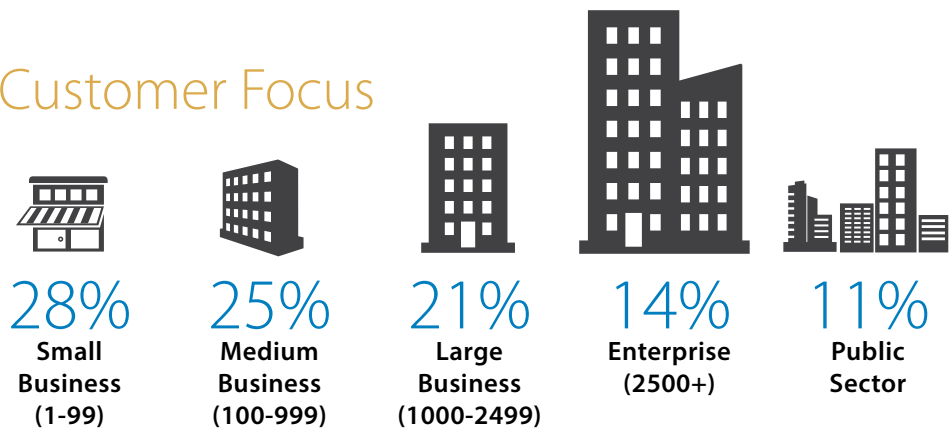
**Brian Cook,**  
Executive Chairman,  
Nintex

# Go Big Or Go Small. You Can't Do Both.

It is very tempting to try to be all things to all people and grab as much of the market as you can, but this can be very distracting. To target the mid-market and below, you have to get your customer acquisition costs down and generate lots of volume. It takes a lot of work to get it right if you aren't already starting out as a mid-market specialist.

It's a very different business model than targeting large enterprises to go deep rather than wide. Either way is a valid choice, just select the strategy that works best within your market and area of expertise, and stick with it.

## Customer Focus



Source: IDC 2014, n=654 partners

## THE BOTTOM LINE

- ✓ Consider your mix of small vs. large customers historically, and your best estimate going forward. An SMB cloud focus more often requires a volume approach – so consider how to shift sales people from depth relationships in the field, to volume sales through marketing and telesales.
- ✓ Core, a UK solution provider, will earn enviable revenues by going deep with fewer larger customers. Whereas, Perspicuity has completely overhauled its sales strategy to pursue volume SMB sales.





*“Our approach to incorporating cloud was the same as for anything new. We put on a ‘developer camp’ over a weekend to delve into a new technology and we choose a charity to do a project for.”*

**Kenny Young, Director,  
Cloud Computing and  
Development, Skyline  
Technologies**

## Use Cloud Internally, Share Your Own Best Practices

As a successful business, each partner has developed their own best practices. The most credible partners have maximized the internal use of the technology they are selling, and have learned a lot about how to leverage the solutions most effectively to run their own operation.

There are many best practices and examples of problem solving that can be shared, from how best to collaborate in Excel at budget time to using workflow on mobile devices to speed up purchase order approvals. Become your own best customer success story.

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“We are using a lot of business intelligence internally to drive how we make business decisions faster. It is not difficult to transition this from an internal focus to an external offering as the decision making improvements we have made through the use of smart technology resonates with all commercial businesses.”

— **MARK WILLIAMS, PARTNERS & ALLIANCES DIRECTOR, WAVEX**

### THE BOTTOM LINE

- ✓ Use what you sell internally, especially cloud products. Have your sales people share best practice stories of internal successes with each other.
- ✓ Wavex uses business intelligence to understand its operation better, and then leverages those practices in analytics solutions with its customers.
- ✓ Many partners use what they sell, but Skyline Technologies learns a new technology by building an application for a charity for free.



*I have to keep improving. Anybody who is not is not invested in continual improvement... I view this business like a Wiki. It can be updated by anyone on a daily basis and it needs to be better than it was and it needs to be validated, and vetted.*

**Ric Opal, Vice President,  
Peters & Associates**

## You Only Have To Stay One Step Ahead

The cloud is still fairly new, and the technology landscape is changing weekly if not daily. And hence there are still many “gaps” in the cloud space as compared to traditional technologies where there has been time for things to settle.

Successful partners tell us that often you just have to stay one or two steps ahead of your customer and your competitors to be seen as a leader in the cloud. So partners must strive to stay on the cutting edge. They must continuously be looking for the next new product/solution that complements their lines, provides differentiation and/or a better customer experience. If you don't someone else will.

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“There are gaps in knowledge, understanding and capability - but our job is to stay ahead of the curve. It's why we invest in this area. Customers want an answer to, “what's the solution to this?” And there is no track record yet. I think everything is maturing but it will take time and for now it's a little bit like the wild west out there.”

— **JEFF DUNMALL, PRESIDENT, IMASON**

### THE BOTTOM LINE

- ✓ Create a plan to keep on top of key developments in the solution areas where you focus. Build this into team meetings to share new findings.
- ✓ Pick one or more senior engineers who can research new findings. Peters and Associates assigns one engineer for 2 hours every day to discover new insights on Twitter and on blogs from technical experts.



*We decided to build a separate group as a national cloud sales team. Our account executives will continue to sell cloud up to 70 miles outside of their geography. Everything else goes to the national cloud sales team because that's going to be their focus."*

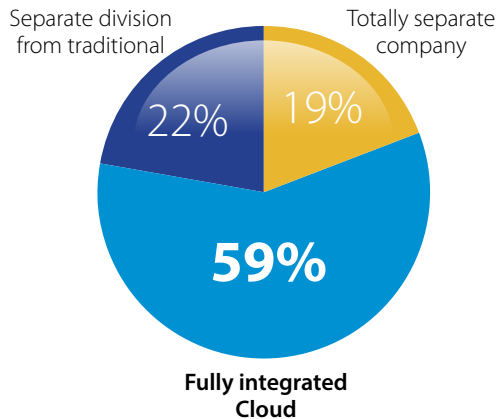
**Emily Lynch, VP Marketing, Catapult Systems**

# Consider Your Company Structure for Cloud

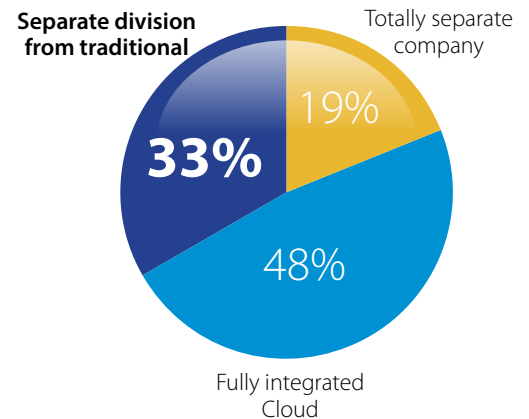
There are several different approaches to organizing your cloud efforts and no one 'perfect' approach has yet emerged. However, we do know that cloud partners tend to try to integrate their efforts more than other partners.

If you are using a 'white space' cloud approach to target geographies that are not currently well served by the market, you can do it by overlaying a specialized telesales team. This maximizes coverage by having the existing account team add cloud to their sales bag in their territories, while using lower cost resources to mine the untapped regions.

Cloud Partners Organizing for Cloud



Other Partners Organizing for Cloud



Source: IDC 2014, n=507 partners

## THE BOTTOM LINE

- ✓ Solution providers often start out with a separate division but move to an integrated strategy as the company acclimatizes to the cloud.
- ✓ Ensure there is absolutely no customer engagement conflict between existing vs. new teams when structuring your organization around cloud.
- ✓ Catapult Systems set up a national cloud sales team with a very clear 'ring-fenced' territory of 70 miles outside of each of their existing regional offices.

IDC predicts the rise of “Industry PaaS”. Look out for Platform as a Service offerings in your industry of expertise that you can build on top of.



*Zero2Ten focuses on mid enterprise manufacturing organizations. Many of them are looking to get started with CRM in a sales capacity.*

**David Kohar, Chief  
Customer Officer,  
Zero2Ten**

## Differentiate With Domain Expertise To Increase Profit

One option that leading partners take is to focus on well defined target markets, usually by business process (e.g.. accounting) or by industry vertical (e.g.. retail). After doing many projects in a few verticals, often not on purpose, partners begin to focus on one or more domains and develop deep customer relationships, specialized expertise or knowledge, and quite often, unique IP.

Hiring from industry is often one of the best practices to bring on specific expertise. Partners who have followed this strategy have often had customer contacts want to join their firms. But be careful not to rock the boat!

Something to watch out for is that many end user customers are developing powerful applications using cloud platforms, and then realizing they can become ISVs on their own. This may be your new competition.

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“Our presales technical guys, our architects that are working with the customers to then implement our software: 100% we have hired from the industry.”

— **ISA QURESHI, EVP, CLIENT SERVICES, QLOGITEK**

### THE BOTTOM LINE

- ✓ Benefits of a domain focused strategy include the ability to command premium rates or fees, which results in higher gross profit margins, as well as more efficient and repeatable projects overall. It also enables more targeted and efficient marketing campaigns. And finally it helps the sales and delivery teams gain expertise and confidence.
- ✓ Zero2Ten has a specific focus on sales automation within the mid-market manufacturing vertical, while QLogitek hires 100% of its pre-sales architects and delivery consultants from the industry to be able to speak the customer’s language.

Cloud oriented partners (>50% cloud revenue) reported achieving over **1.6X** the contractually recurring revenue than other partners.

Source: IDC 2014, n=690 partners

Top half recurring Revenue focused partners (those partners with more than 35% of their revenue from contractually recurring sources) reported **1.5X THE GROSS PROFIT %** and over **1.8X THE REVENUE GROWTH** of partners in the bottom half.

Source: IDC 2014, n=709, 686 partners

## Build Your Recurring Revenue, The New Killer Metric

IDC believes that recurring revenue is the new killer key performance indicator (KPI) for most IT solution providers. It doesn't actually have to be cloud related – any type of subscription or monthly offering can be contractually recurring revenue.

We are even seeing companies coming up with interesting ways of turning what would traditionally be a one-off sale into a recurring contract. For instance, some solution providers offer their clients a bundle of monthly support hours that are discounted if they pay in advance. The client uses these hours for support or custom work, but pays for them if they are used or not.

Why is it the killer KPI, you may ask?

Recurring revenue is attractive to owners and executives because of aspects such as long term customers, predictability, comfort, cash flow, and one more thing that's perhaps most important: company valuations.

Our survey numbers paint a strong picture about recurring revenue. Cloud oriented partners are generating much higher recurring revenue than their peers, while top half recurring revenue partners have higher gross profit and growth than the bottom half.

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“By 2015 our target is to no longer focus on up front software licenses. Both cloud and traditional offerings will primarily be sold on a subscription basis.”

— HANS PETTER DRAMSTAD, CTO, VISMA



*Like every ISV in the world you want to be seen as a SaaS company to Wall Street eventually.*

**Brian Cook, Executive Chairman, Nintex**

## Get A Higher Valuation With Recurring Revenue

Venture capitalists and the stock market, place a higher value on a company with strong recurring revenue. For most IT solution providers, a multiple can be placed on each segment of their revenue: resale, projects, intellectual property (IP), recurring revenue, and more. While IP can warrant a large multiple depending on what it is, recurring revenue is a solid path to obtaining a higher valuation for your company. This is why adding elements of cloud and managed services to your business may be a wise choice.

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“Sure, the valuation of the company is important to us and to our owners. And as a part of that we are actively transitioning to a recurring revenue business model – in addition to increasing the share of cloud services in our market offering.”

— **HANS PETTER DRAMSTAD, CTO, VISMA**

### THE BOTTOM LINE

- ✓ Start now to analyze the financial implications on your business of moving to a recurring revenue model, and put a plan in place for how much of your revenue will be recurring, and by when.
- ✓ Visma has publicly stated that by 2015, all of its software will be sold via a subscription model.

# Your Cloud Sales Strategy

## Insights from successful cloud partners on sales strategy

In analyzing over 500 pages of partner interview transcripts, IDC quickly realized that the majority of advice and best practice ideas were all about sales. Sales is truly the lifeblood of every IT solution provider organization and will make or break the company. This section covers many of the interesting and innovative practices from partners around the world as they use cloud to get in the door and drive new and recurring business.

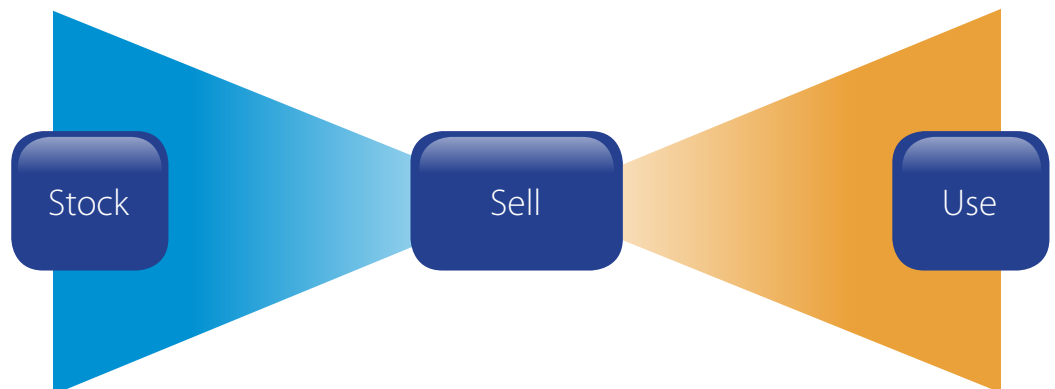
# Understand Why Cloud Sales Are Fundamentally Different

The selling motion for cloud and managed services is fundamentally different. Traditionally, IT solution providers are just trying get to the moment of the sale, and then move on to their next deal. By contrast, the moment of a cloud sale is only the beginning of that client relationship. By definition, cloud and managed services deals should be long term in nature. And it's only the ongoing use and deep engagement of the client that will ensure continuing renewals.

Unfortunately, this isn't always easy. And those salespeople good at the old motion may be the worst at the new.

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“As we evolved, we found ourselves with people who had been here a long time who hadn't evolved with the organization. Our ex-CEO used to run the sales function but he was very much, in my vision, a “lifestyle” sales director. Not one that was aligned to where we were going as an organization. He created a team around him, which were in his image. So those weren't the right people to be selling what we are now selling into the market. So we took the decision to refresh the entire new business sales team.” — **Anonymous, VAR**





IDC found a direct correlation between length of time in cloud and gross margin.

Partners who have been in the cloud the longest (top quartile) had a

**42%**

**GROSS MARGIN**

– almost 16 points higher than those that have been in the cloud the shortest amount of time (bottom quartile).

Source: IDC 2014, n=552 partners



*The 365 stuff is pretty easy. Most people are intending to move... By and large, it's like a land grab.*

**Ric Opal, Vice President,  
Peters & Associates**

# Open Doors With Cloud, Then Up-Sell

Partners repeatedly tell us, cloud offerings act as an effective way to meet new prospects and close new deals. Cloud is topical, companies are perplexed about options, and they need advice. And cloud deals are typically easier to purchase with smaller upfront fees paid over time, and usually out of operational expense (OpEx) dollars.

Based on the fundamentally different sales motion with cloud, partners find that they have the opportunity to develop a long term relationship with their client, increasing their own status as a trusted advisor. This new relationship really opens up opportunities for up-selling other cloud and on-premise offerings. Partners especially feel this is true with the Microsoft stack.

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“We’ll always tell a customer that the hardest part is doing all the planning and then that first connection between on-premises and Office 365... Once you’ve done that: Yammer, Sharepoint, Lync, Intune, all these things become more viable... You’ve already done the groundwork, and so it’s just a matter of turning on the capabilities in the cloud...”

— **MATT MCGILLEN, DIRECTOR OF MICROSOFT INFRASTRUCTURE, PERFCIENT**

## THE BOTTOM LINE

- ✓ IDC predicts that 70% of CIOs will embrace a “cloud first” strategy in 2016. Develop a “cloud first mentality” to open doors into new accounts. Then up-sell and cross-sell using the success of the first project.
- ✓ Perficient starts with Office 365 to show early success, and then up-sells customers into more of the Microsoft stack.

# Package Your Deal to Meet your Customer's Financial Needs

It's important to understand how your customer wants to purchase technology solutions. If your customer needs to purchase on an operational expenditure (OpEx) basis, then consider re-packaging the software and solution into a monthly invoice. This will often help customers make a faster decision. A monthly bill can eliminate the capital expenditure (CapEx) approval cycles and procedures that often slow down a project. Some partners manage the variable expenses by including an agreed upon amount for each service in the monthly bill, with adjustments for actual usage outside of an agreed upon range.

Other customers may want an annual contract to match their capital budgeting cycle. These customers may want to discuss a monthly cost, but they may prefer to pay by the year or even for the full term. So, find out what the budget is, where it sits, in which department and if it is CapEx or OpEx. Partners have found that matching proposals to a customer's financial needs increases your close rate and decreases your selling cycle.

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“I actually do bill monthly to facilitate their ability to make a decision and move rapidly. It obviously changes the economics for us. But that's okay - we'll manage that on our end.”

— **ALEX BROWN, CEO, 10TH MAGNITUDE**

## THE BOTTOM LINE

- ✓ Ask your customer what their budget constraint is and whether it is CapEx or OpEx. Build your proposal to meet their needs, not yours.
- ✓ 10th Magnitude has found that SMB prospects can be closed very quickly with a monthly billing proposal. They bundle Azure, support charges, and maintenance and enhancement charges into the monthly bill.

# Choose The Right Sales Structure For You

Perhaps the most common dilemma facing a solution provider selling both cloud and traditional offerings is whether or not to have one integrated sales team or two specialized sales teams.

It seems as though the default model is to separate out sales teams into one for traditional sales, and one for cloud or managed services sales. A key benefit of two teams is to eliminate the internal conflicts that can arise because compensation plans for each group are usually very different. If commission rates are the same, salespeople will likely promote the traditional solution which brings in more revenue up front, and thus more commission.

However, if compensation plans can be at least roughly equalized across cloud and traditional, then the solution provider is able to offer their customer a true choice in how to achieve the functionality they desire: cloud, hosted, or on-premise.

There is no one silver bullet here. Rather, partners must figure out if they have the maturity in their salespeople, and the correct compensation schemes in place, to go to an integrated team. The ultimate goal is to offer your customers choice.

## THE BOTTOM LINE

- ✓ Consider starting with a new, 100% cloud focused sales team. You might need to staff this with new hires to add skills currently missing internally. As cloud DNA grows, integrate cloud into all salespeople's portfolios with "equalized" compensations plans between cloud and on-prem.
- ✓ Perficient started with a separate Office 365 team to get momentum going, now they have integrated cloud into each of their working groups across all products.

Cloud-oriented partners (>50% cloud revenue) compensate reps more up front than other methods, which IDC believes is a smart route to take.

Source: IDC 2014, n=464 partners

## Carefully Architect Your Sales Compensation

Perhaps no other topic will raise more debate with partner owners and executives.

Cloud sales commission can be paid as a percentage of first year revenue and can also be a commission paid on recurring revenue after the first year. The first option tends to be more popular with partners to drive a focus on winning new customers and new deals. It also helps motivate a rep sell cloud deals who has previously sold traditional deals. Spreading commissions over time only serves to dilute motivation, though it is more money away from the bottom line in year one.

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“You drive a person’s behavior through the bonuses, of course, and the KPIs of the individuals. So we had to change the KPIs, and the bonus triggers for our salespeople that they get more percentage on the SaaS sales than they do from on-prem. And they also have to sell a certain percentage of SaaS in order to even get the on-prem bonus. That’s in order to drive the individual’s behaviors when it comes to sales.”

— ANONYMOUS, ISV



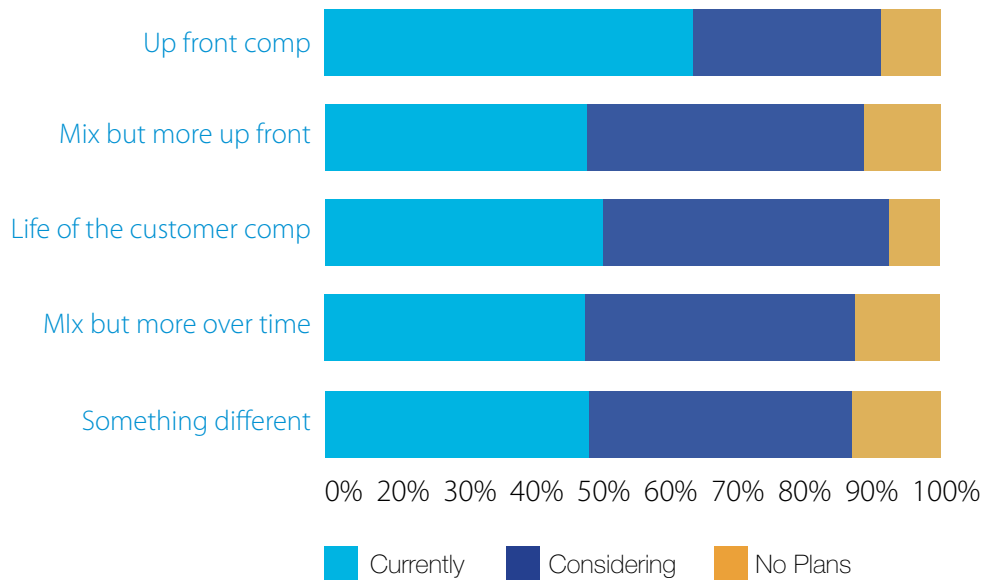
*You can't just comp them the way you've been doing it. It's not going to work.*

**Brian Cook, Executive Chairman, Nintex**

The following chart shows the Sales Commission strategies, and intended strategies, of cloud-oriented partners from our worldwide survey. Focusing on up front compensation is favored in the survey, which matches what we have heard in partner interviews.

And while your salespeople are incented to hunt, consider how to incent your "account managers" and/or "service delivery managers" to drive widespread adoption, usage, and ultimately renewals. Together the team drives the partner to success and profitability.

## Cloud Partners: What is Your Sales Compensation Strategy for Cloud?



Source: IDC 2014, n=464 partners

## THE BOTTOM LINE

- ✓ Do the math, make sure that your cloud compensation plan incentivizes your team(s) to bring on new customers and to support existing customers but also is affordable and sustainable. The current trend is to pay new business sales reps more commission up front and less over time.
- ✓ Several partners IDC interviewed are following this trend and have overhauled their sales compensation strategies with carefully thought out bonus plans.

## Hire Outside of the Box for a Volume SMB Play

Many cloud partners are hiring new types of salespeople. Some cloud-oriented partners aiming at the volume SMB market are hiring younger, less expensive talent, and building up their capabilities. This new generation of employees has grown up with technology and social media and can extol the benefits of it to customers.

Additionally, younger salespeople aren't as concerned about their compensation structure with cloud sales the way traditional IT salespeople often are.

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“He really didn't know anything about technology as his undergrad was in business transformation...He's gone from nowhere to everywhere in maybe twelve or fourteen months now.. The “kid” - because he is like 23 or 24 - is presenting in front of all the CIOs and they were all writing down what the kid is saying!”

— RIC OPAL, VICE PRESIDENT, PETERS & ASSOCIATES

### THE BOTTOM LINE

- ✓ Consider hiring eager, young grads with new perspectives. The connected generation just gets the cloud service model... and can convince your customers why it makes sense. Build up the capabilities of raw talent through inside sales roles.
- ✓ Perspicuity has tapped into a UK IT apprenticeship program and 8 of its sales force are aged between 16 to 21, a strategy that has earned fantastic success for the company.

Cloud partners have **50.0%** of their staff in sales and marketing vs. only 41.8% for other partners

Source: IDC 2014, n=647 partners

## Hire Outside of the Box for the New Model

Some cloud partners that are going after larger clients are hiring outside of the traditional IT “box” in order to get smart, customer savvy salespeople. Examples include hiring people out of the industry you are selling to, ex-industry analysts, and even educators.

Managed service and cloud providers aren’t always a fit for IT salespeople who are looking for big up front deals. Several partners we have talked to are hiring ex-telco salespeople who clearly understand selling a recurring service or utility model.

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“So, what we were looking at was, “who has to keep a bunch of people together, keep them enthused, keep them focused, and make sure that they can be quite attentive?” And we came up with school teachers.”

— **STEPHEN ALDERMAN, CHIEF TECHNICAL OFFICER, INVERSECURVE**

### THE BOTTOM LINE

- ✓ Re-think your hiring practices and understand that formerly “alternative” choices are becoming more and more the norm. Create a new hiring spec for cloud sales. Align your recruiting to the real requirements of the role.
- ✓ InverseCurve moved away from a traditional IT sales rep and hired a former school teacher to deliver customer seminars.

Each year, cloud partners generate **43.1%** of revenue from new clients (and receive 56.9% of revenue from existing customers) while other partners only bring in 33.1% from new clients (66.9% of from existing).

**CLOUD PARTNERS KNOW HOW TO GENERATE NEW BUSINESS**

Source: IDC 2014, n=660 partners

## Create a Lean, Mean Operating Model for Volume

If you do go down the volume route, it's critical that you get a 'lean and mean' operating model in place for the 'lead-to-cash' process around cloud. Whether your model is one-to-many selling or telesales, key metrics need to be tracked daily if not hourly. It makes sense to put targets in place for the number of calls or prospect contacts per day per sales person, the average time of calls, deal closure rate and most importantly, project delivery. All providing the data for end-to-end visibility of your lead-to-cash process.

“The top sales people, like Charlie, are making 50-100 calls a day. The sales cycle is a few days, and implementation is a matter of weeks. The focus is on high-volume.”

— BEN GOWER, MANAGING DIRECTOR, PERSPICUITY

### THE BOTTOM LINE

- ✓ Set measurable objectives and establish a goal tracking system that ensures that each member of the team is contributing to profitability. If you can track each element, you can calculate average profit per lead, average profit per sales rep, average profit per closed account, and more.
- ✓ Perspicuity and Catapult Systems have both successfully implemented a volume model with telesales, while Zero2Ten has done it with a one-to-many sales model.



# Consider Telesales In Order To Increase Your Reach

If you are looking to drive volume with SMB customers, telesales (coupled with effective demand generation) can be a cost effective strategy and also provides wide geographic coverage. But it is definitely a different skill set than field sales.

Take the role seriously and hire based on proven ability to qualify prospects over the phone and bring them to the next stage in the sales cycle. They need to be true sales people, not just appointment setters who will hand off to another salesperson once interest is confirmed. This is probably a stepping stone in their career, so ask yourself if they could one day make your field sales team.

Compensation is also different than for field sales. Typically, there is lower base pay with less bonus upside for telesales, but staff are typically younger so compensation expectations aren't as high. Partners executing on this model tell us their base to on-target-bonus is typically around 50 / 50. It helps to include competitions for SPIFs to keep things interesting and provide opportunities for peer recognition to foster a team environment.

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“Our telesales staff consists of skilled inside sellers. They are comfortable with the pressure of being on the phone. They're metric based and that is not what our traditional sellers are measured on. They're also younger.”

— EMILY LYNCH, VP MARKETING, CATAPULT SYSTEMS

## THE BOTTOM LINE

- ✓ Set an affordable, sustainable compensation plan and set of goals for the telesales team. Track goals and KPIs daily if possible to enable fine-tuning of programs and people.
- ✓ Catapult Systems' daily monitoring of telesales and demand generation metrics has allowed them to grow a substantial telesales business profitably from its early days.

Small business oriented partners (those who focus on 1-99 employee customers) had the fastest sales cycles but lowest average deal sizes of all partners.

Source: IDC 2014, n=665, 654 partners

## Sell One To Many In SMB

Selling cloud services to SMB can require a big investment in sales effort relative to the potential return, especially for the smallest customers.

At least one partner has partially solved this problem with a group selling approach. Picture it this way, if there are typically six meetings or interactions in a sales cycle, numbers 2, 3 and 5 can be done in a group setting. Things such as demos and workshops are done with multiple prospect companies at once. This group selling approach has a side benefit of creating user communities after the sales are closed. One cloud-only CRM solution provider, has gone a step further, creating a cross company community portal to facilitate these interactions.

“In our SMB segment of our business, we sell in a one-to-many fashion. Now, it isn't entirely one-to-many. At the end of the day, I've got to get on the phone with customers separately... We have developed a program called Learning Labs that invites SMB prospects to educate themselves through the sales cycle in a one-to-many environment. This has distinct advantages for sales costs but also gives these customers access to high quality resources and content.”

— DAVID KOHAR, CHIEF CUSTOMER OFFICER, ZERO2TEN

### THE BOTTOM LINE

- ✓ Consider doing demonstrations, hands on workshops and other common sales motions with multiple prospects at once.
- ✓ Zero2Ten has done this successfully in the SMB market, allowing them to pursue smaller accounts that would otherwise be cost prohibitive to pursue.



*We built a grid... In the social space, there's two axes. One of them is how cloud-friendly are you. The other one is how sophisticated are you from a social perspective. Where are you on that spectrum?*

**Jeff Dunmall, President,  
imason**

## Take Customers to the Cloud in Steps

Despite the fantastic growth that cloud solutions have seen, and will continue to see, many customers are still not ready to dive in fully. As such, it is important not to push customers with a vision around cloud that might overwhelm them. Otherwise there is a danger of lengthening the sales cycle unnecessarily.

Find out how cloud savvy the prospect is and match your sales presentation to their level of understanding and needs.

One partner developed a 2x2 grid to walk through with the client with the axes of 'Comfort with the Cloud' and also 'Sophistication with the Functionality'. This discussion helps to frame the product and solution approach.

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“A lot of these customers have never had professionally delivered IT services before... You've got to do baby steps with them. So moving from on-prem email onto exchange online is a nice step. Moving from Dropbox to Sharepoint is a nice step. You're not going to move someone from Dropbox to full blown intranet/extranet client portal... it's not going to happen. I think there are a lot of partners trying to do that. Personally, I think it's a mistake.”

— **BEN GOWER, MANAGING DIRECTOR, PERSPICUITY**

Successful solutions-oriented partners have found that a project goes more smoothly and customers are happier, if it starts with a simple basic design. There is no need to scope an entire project at once, since the cloud allows rapid deployment of additional features.

As the customer becomes more familiar with the possibilities of cloud, they will be able to articulate the additional features they need.

This approach also allows for fixed prices for the early stages of a project, when partners are building their relationship with the customer. Fixed price deals are often more palatable for the customer as they offer less risk and more comfort.

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“Once customers realize they can iterate and improve the Azure solution quickly and easily and relatively inexpensively - they go wild. There are no boundaries. The amount of overhead it takes for us to roll out a new set of changes is minuscule, it’s almost nothing.”

— **ALEX BROWN, CEO, 10TH MAGNITUDE**

## THE BOTTOM LINE

- ✓ The first thing to do is to assess the customer’s ‘cloud maturity’ – where are they in terms of adoption of emerging technologies? The sales approach should be largely dependent on the answer to this question.
- ✓ imason’s 2x2 matrix analysis has allowed them to quickly match their offerings to customers needs, while building credibility.
- ✓ Build up to your customer’s project goals in phases, start with the most basic functions, then add more custom or complex features once the earlier phases are assimilated.
- ✓ 10th Magnitude has found that projects end up bigger than what they would have proposed in a traditional one bid process.



*“When we started off... we were listening to the salespeople having hour long phone calls and two hour long phone calls. Not their own fault either, it’s just that we didn’t know how to explain it any better. And the customer didn’t understand it well. But we seem to have developed a good strategy in terms of explaining what it is using offline resources. FAQ’s with top ten objections and answers to those, videos, all of that stuff helps us. You could just talk forever about it. We found for all of those objections, you deal with them quite matter of factly.”*

**Ben Gower, Managing Director, Perspicuity**

## Speed Up The Sales Cycle by Sidelining Cloud FUD

Selling cloud solutions to SMBs requires you to have more customers and faster sales cycles than in the past to remain profitable. There is an opportunity to speed up the sales cycle by proactively arming the sales teams to deal with cloud confusion, also known as, “FUD” (fear uncertainty and doubt). This is especially relevant for data security / location / privacy concerns in regions such as Europe.

Successful cloud partners have learned to take the most common cloud objections during sales calls “off-line.” Some partners are making use of one-page FAQ documents that respond to typical cloud questions. Other suggestions are to point to large reference customers: “If they can do it, so can you.” There are many other resources from Microsoft and elsewhere to help shorten these otherwise long and unprofitable conversations. Find out what will work for you, and proactively prepare your salespeople.

### THE BOTTOM LINE

- ✓ Create offline pre-sales materials that address the most common objections to the cloud for SMB customers. Then make the consumption of this information part of the early sales process before prospects reach 1:1 conversations with your salespeople.
- ✓ Perspicuity has minimized the security conversation that once took hours by providing FAQ’s featuring the top ten objections with answers.

IDC predicts that  
by 2016,  
**80%**  
of IT investments  
will involve LOB  
executives, with  
half of those  
decisions coming  
directly from the  
business.



*We have successfully brought people on board from Industry and so it is one of the hiring channels that we look to in order to continue to grow our business and our expertise.*

**David Kohar, Chief Customer Officer, Zero2Ten**

## When the Business is the Buyer and not IT, Learn Their Language

More and more, in both the Enterprise and SMB markets, demand for cloud services is being initiated by line of business (LoB) executives. From requests for cloud based CRM to mobile customer service implementations, the LoB executives are often driving demand.

Leading cloud partners can talk with LoB executives in their own language and can understand their business plans and strategies. In order to get there, some partners have smartly held up their hand to say, we need help to speak to executives. Others are hiring from specific verticals to gain the necessary knowledge. And some are even hiring non traditional salespeople such as ex-analysts or even school teachers.

However, if the LoB executive is your client, keep IT in the loop. The courtesy may bring future business.

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“We brought in a consultant to work with us on selling to executives... The whole purpose of this exercise was to figure out how we could better sell to executives and part of that was changing the language and actually looking at what’s of interest to executives. How do we present ourselves in a way that they can understand the value that we’re offering, and how we can build relationships with them.”

— JEFF DUNMALL, PRESIDENT, IMASON

### THE BOTTOM LINE

- ✓ Enable your sales team to speak LoB’s language perhaps by hiring from the industry you target or by using a consultant to provide the necessary training. Joint selling with an LoB or industry expert can help your current sales team get up to speed quickly.
- ✓ Zero2Ten has had successfully hired from Industry, while imason has improved their sales capabilities by learning from a consultant.



*"It's very rare that, we do a pilot and we just stop... It's only happened one time as far as I can recall where they did the pilot and they said, "This isn't exactly what we want. We're just going to continue with Exchange on premises."*

**Matt McGillen, Director of Microsoft Infrastructure, Perficient**

## Take Advantage of Proof of Concepts

Demos are passive, and let's face it, they can be pretty boring. Proof of concepts (POC) are active, and in the cloud, they don't require a lot of investment. You can quickly light up a trial for a customer, set them up on a 30-day plan and let them loose to play. Very little pre-sales technical help is required compared to an on-premise demonstration or POC.

A customer can try out the functionality with some of their own data, which can be much more convincing than a demo with a make-believe company.

The best part is that if a customer doesn't like the POC, nothing is lost. However, many partners IDC spoke to said that it's rare for customers to walk away after they engage in a POC. It can be the ultimate sales tool.

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“In the cloud, we don't have the restrictions. We just have to create more accounts. We can take some of their test data and import it straight away. And then they're immediately active, they're live, they can see the actual data in their actual work environment. The customer may have a major headache because they can't keep up with changes being made in Excel spreadsheets at budget time. It's easy to show them how to solve that problem with Office 365.”

— **STEPHEN ALDERMAN, CHIEF TECHNICAL OFFICER, INVERSECURVE**

### THE BOTTOM LINE

- ✓ After qualifying a prospect or a particular project, consider creating a Proof of Concept (pilot) using actual customer data.
- ✓ Perficient has found that the vast majority of customers proceed with the project after a Pilot if the customer was well qualified to begin with.



*Those alignment workshops are what sells.*

**David Greve, Microsoft  
Cloud Strategy National  
Director, Perficient**

*“Whichever device they were working on that day or whichever one they showed a fancy for, we just let them take it back to their business. The salesperson is the person that goes to pick up the device in two weeks’ time. So they’ve had the experience, they’ve had the device. They’ve looked at it and said, “Oh, it’s doing this, and oh, it’s doing that.” The salesperson goes in and says I need to pick up the device, and “can we have a sit-down?”*

**Stephen Alderman,  
Chief Technical Officer,  
InverseCurve**

# Leverage Microsoft Workshops and Resources During Sales Cycles

Partners told IDC they were using two workshop strategies during their sales cycles, leveraging useful resources from Microsoft.

The [Office 365 Solution Alignment Workshop \(SAW\)](#) gives a customer a deep look at Microsoft’s cloud services and a thorough understanding of the breadth & depth of the Office 365 platform. It also provides partners an environment for reviewing the customer’s current capabilities, potential roadblocks and the alignment of goals to product capabilities. The workshop highlights for customers how they can drive down costs while improving service to their users, increasing the probability of closing the sale.

The [Customer Immersion Experience \(CIE\)](#) is a program that offers a facilitated, hands-on and real-world experience with a broad set of Microsoft technologies. Partners are able to deliver these “day-in-the-life” scenarios using scripts and resources from Microsoft.

The [Microsoft Experience Center \(MEC\)](#) is the US version of the CIE and offers an expanded scope and set of resources.

## THE BOTTOM LINE

- ✓ Use SAW, MEC, CIE, or whatever is available to you, to qualify and move customers through the sales process.
- ✓ Peters & Associates, Perficient and InverseCurve have all found that SAW and or MEC/CIE sessions are critical to qualifying accounts and to help focus project priorities.





*A lot of the Microsoft Experience Center (MEC) sessions are wildly successful then the deals wind up being huge. If I can get in front of the people and get them to commit to doing the MEC, we then do Executive Briefing Center (EBC) briefings.*

**Ric Opal, Vice President,  
Peters & Associates**

## Get Close To Microsoft Cloud Personnel

The most successful cloud partners have a strong relationship with Microsoft, keeping in constant touch with their various partner representatives.

The level to which any partner can get close to Microsoft usually depends on their size, success, and loyalty to their vendor. But at any level, there is usually more a partner can do with Microsoft. If you are a large systems integrator, then really push for a deeper relationship. If you are a local provider, then temper your expectations. Ask what it will take to get a partner sales executive (PSE). Or try to meet the right Microsoft people at events or conferences.

Wherever possible, make sure that both Redmond and the field understand your focus. What can you do to understand their goals / metrics and how can you impact the outcome?

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“Given that most prospects are more than 50% of the way through their buying cycle before reaching out to a vendor, and that they are often going to the software vendors first, it is important for us to make sure that the Microsoft sales team knows that our core focus is a ‘cloud first’ with a mid enterprise manufacturing vertical focus. When we do this right we can provide them the best support in winning the right customers in this segment.”

— **DAVID KOHAR, CHIEF CUSTOMER OFFICER, ZERO2TEN**

### THE BOTTOM LINE

- ✓ Connect with all Microsoft representatives available to you, and find out what local services are available. Attend all the Microsoft events you can to learn about new resources and to make connections. Make sure you have a quick and effective “Elevator Pitch” that explains why you are unique and why they need to work with you.
- ✓ 10th Magnitude has found that joint calls with Microsoft reps adds credibility to their company and can help provide specialized expertise, such as on Hadoop Azure Implementations.

# Your Cloud Marketing Strategy

## Insights from successful cloud partners on marketing strategy

When it comes to marketing, the key is to be heard above the noise. That often means doing something different than your competition. During our interviews, we were able to find some innovative ideas, but also some key themes that can be leveraged, while adding your own flavor.



*"We have a film crew and editing company that does Youtube videos for us. Obviously our goal is to always try to differentiate ourselves."*

**Brian Cook, Executive Chairman, Nintex**

## Shift Your Marketing to Digital

The buying process has fundamentally changed in the last ten years as buyers are more educated and clearly in a position of power versus IT vendors. In the past, your salesperson had the opportunity to shape the client's mind on their technology purchase. Today, especially on lower end products, customers have already done their homework online, and often know as much about the solution as you do. And if they haven't done their homework ahead of time, they can do it as soon as your first call is over.

This is why successful partners have invested in digital marketing, especially building (and continually re-building) their own web sites. Many partners tell us they focus on compelling educational material on their sites (text, blogs, webinars, video, etc) to attract potential buyers, and ensure that prospects aren't lured to other sites, and potentially to other providers.

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“We've directed the majority of our marketing budget to online versus the traditional marketing that we had been doing: newsletters, direct mails. You have to allow your prospect and your target prospect base to find you, right? Eighty percent of buying decisions in a B2B fashion start with a search engine. The buyer is now far more educated than he ever has been.”

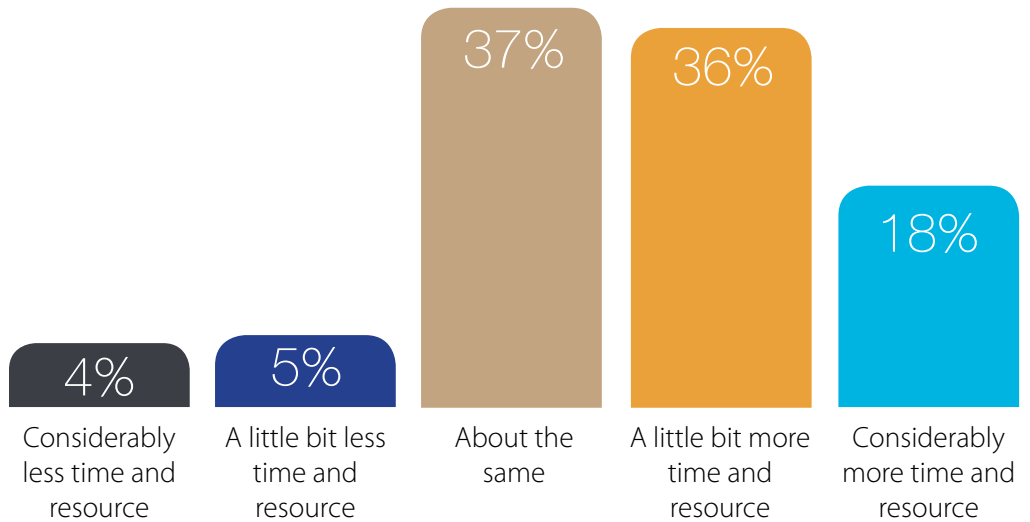
— **ISA QURESHI, EVP, CLIENT SERVICES, QLOGITEK**

Fewer than **9%** of ISV partners are spending less time and resource on their website for their cloud applications than in the past.

Source: IDC 2014, n=127 ISV partners

In order to drive prospects to the site, partners are typically focusing on Search Engine Optimization (SEO), search engine advertising, and prominent placement in online directories. For Microsoft's business, that's Pinpoint. While the vast majority of partners are not investing time into Pinpoint, several successful SMB focused partners we interviewed were doing just that. And finding many new leads each month.

How much time and resource do you spend on your Website promoting your SaaS/Cloud applications, compared to promoting traditional applications in the past?



Source: IDC 2014, n=127 ISV partners



*We're on our third website now. I think that's quite important.*

**Ben Gower, Managing Director, Perspicuity**

## THE BOTTOM LINE

- ✓ Digital marketing is one of the best ways for solution providers to reach a lot of prospects, but it takes skill to be successful. The key is to provide something valuable and not just a blanket sales offer.
- ✓ Qlogitek has shifted its traditional marketing efforts to digital marketing, Perspicuity is perfecting its web site through iteration, and Palmetto is investing in SEO and Pinpoint, where it is getting several leads a week.

Cloud partners (>50% cloud revenue) invest double the people resources in marketing than partners with <10% cloud revenue.

Source: IDC 2014, n=647 partners



*We encourage all of our consultants to blog. Often we have contests to help incent our consultants to blog more.*

**David Greve, Microsoft Cloud Strategy National Director, Perficient**



*Our website drives good activity. The reason we get a lot of leads is we're very active on Twitter and blogging. We provide fresh content that's relevant. When we email it's all around interesting knowledge leadership rather than the 'buy now' type messaging.*

**James Butler, MD, Cloud Business**

# Establish Your Brand With Thought Leadership and Social Media

Partners have found success with thought leadership campaigns using blogs, white papers, PR, editorials and speaking engagements. Not only do these campaigns help generate leads, but they also establish recognition and credibility for the partner's brand at a reasonable cost. Best practices are to incentivize your team to publish on a regular basis across all focused practice areas.

Some partners choose to focus on a single topic or theme and endeavor to be known as the go-to solution provider in that space. And while more and more the theme is around a vertical or a business process, good old technological thought leadership also works.

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“We do a lot of bylined articles. I had a bylined article in ‘Wired’ a little while ago, and we just had one in ‘Chain Store Age’ magazine. We typically, I would say once a month, we have some thought leadership piece out there. It continues to build presence and awareness and it drives some inbound traffic.”

— **ALEX BROWN, 10TH MAGNITUDE**

## THE BOTTOM LINE

- ✓ Create thought leadership content to build credibility in the marketplace. There still some uncertainty and doubt about cloud. The more you can demonstrate you are the 'go to' expert the better.
- ✓ Cloud Business places targeted free content on community websites and tech blogs about technical areas where they felt no one else had a lot of expertise. Obviously you don't want to give away the farm, but just enough to gain some traction with the techies at your clients and prospects.



*It's just a fairly simple assessment. The value comes in presenting a one-paged scorecard and with current state, your score and then high-level recommendations and all the conversation that goes around that, which is a CIO-level discussion.*

**Chris Day, CEO, Fully Managed**

*"If somebody downloads a total cost of ownership white paper, they immediately get the email that thanks them for downloading. We say, 'Hey, we've got a cloud consultant that would love to do a personalized cost analysis for your company. Click here to schedule it.' That's how we try to convert off of those white papers. We actually gain access to the prospects' systems, look at the health of their servers, and ask a lot of questions. It really builds credibility."*

**David Moore, Digital Marketing Manager, Catapult Systems**

## Design a Strong Call To Action for 'Digital Prospects'. Get Them To Take The Next Step

On top of digital marketing, many partners still augment their marketing efforts with tried and true lead generation tactics like webinars and white papers. But to really make them earn their value, you need a strong call to action to bump up the lead quality.

One example for a medium and enterprise-focused solutions provider was to use a polling question at the end of a webinar that offers a short, one-to-one discussion with a consultant to talk about a burning issue. Another option is to offer a readiness assessment, where a consultant will come onsite for an hour or two to use a checklist, compile some data to produce a readiness 'report card'. This provides an opportunity to provide the services that will help close the deal. The key, though, is that the door opener must provide real value. It has to be attractive enough that the potential customer will take the time to participate.

### THE BOTTOM LINE

- ✓ Digital marketing is clearly table stakes for cloud partners today. But you may be wasting your time if there's not a compelling offer for the prospect to take the next step.
- ✓ Catapult Systems uses polling questions at the end of webinars to engage the prospect with one of their consultants while Fully Managed offers a short readiness assessment and report card.



*"In our traditional consulting and in our traditional core campaigns we really look from marketing to get an opportunity qualified to 20%. What we have found for our centralized cloud team is we need to qualify to 40%, because we're seeing much more mature buyers. We were picking up highly qualified leads, highly educated leads who had a pretty good idea of where they were in terms of understanding Microsoft cloud and a bit of commitment to Microsoft cloud."*

**Emily Lynch, VP  
Marketing, Catapult  
Systems**

## You Need to Hand Off Higher Quality Leads to Sales Than In The Past

The good news is that online wide-reach marketing can net a lot of leads. The bad news is only a few of them will be worth following up. Successful partners say it is very important to be able to score leads to at least 40% probability so that effort can be spent appropriately and sales people will feel successful. This is much higher than might be appropriate for on-premise sales, partly due to the nature of cloud shoppers.

For example, an ongoing interest identifier campaign, based on a prospect's cues in the way that they find you and the way that they begin to interact with you, can then be linked with the most likely path to get them to take action.

### THE BOTTOM LINE

- ✓ The characteristics of a 'good' lead depend on variables specific to each partner. Does it fit the profile of your other customers? Is it in your industry sweet spot? Has the person spent a lot of time on your website and regularly downloads content? Considering these and other factors before approaching the prospect will really pay off.
- ✓ Catapult Systems has found that it needs to create more qualified leads today as prospects are self-educating more than in the past. The company uses marketing automation to reduce the cost of qualification while increasing accuracy.

# Your Cloud Managed Services Strategy

## Insights from successful cloud partners on managed services strategy

IDC is finding it less possible today to put solution providers into the traditional buckets of VAR, ISV, SI, MSP, etc. For instance, in a recent IDC survey, about half of US-based partners said they were already offering managed services. And on average, that group was only making less than 30% of its revenue from the activity.

We're seeing a mix of revenue generating activities that solution providers are taking on, including resale, professional services, software development, and more. And very clearly, managed services is an area that many partners will be offering soon if they aren't today. In the same IDC survey mentioned earlier, 43% of the group NOT offering managed services today plan to at some point in the next year!

The following are insights learned from pure Managed Service Providers (MSPs) as well as customer-focused solution providers using managed services to improve their businesses.



Our survey showed that companies with more than 35% recurring revenue had **1.5X** the gross margins compared to their peers and **1.8X** the revenue growth.

Source: IDC 2014, n=709, 686 partners

## Increase Gross Margins Through Managed Services

In our research survey for this report, we clearly saw higher recurring revenue and higher gross profit margins from cloud-oriented partners (50% or more revenue from cloud). And not a surprise, partners with the highest recurring revenue (many of whom are the cloud-oriented partners) also boasted higher than average gross margins.

Cancom is a Munich, Germany based solution provider with about 600 million euros in annual revenue. The executive team made a conscious decision around 2010 to move towards more managed services, and effectively helped to move their operating profit margin from a mere 2-3% before 2010 up to an estimated 7.1% in 2014 (source: Hauck & Aufhauser, financial analysts)

We learned from partners that there are many ways to increase profitability from a managed services model. They mainly boil down to being able to be more efficient at the delivery of the service for the same price that the customer is paying. The next few insights will help to explain this.

### THE BOTTOM LINE

- ✓ On top of numerous other reasons, consider adding or increasing managed services in your business to increase your gross and net profitability.
- ✓ Cancom substantially improved its net operating profit over the last five years by shifting to a managed services business model.



*The initial expectation that we could get away with, junior resources with maybe one senior resource over the top: there's been some truth to that... The complexities don't exist like they do on-site with the customer.*

**Greg Schlather, General Manager, Cloud, Managed Services, Catapult Systems**

## Create Efficiencies in your Managed Services

More and more partners are figuring out how to execute remote delivery of their managed services as the less they have to be onsite with the customer, the less expensive it is to run.

For one, the cost of the engineer delivering the service can decrease. When a resource has to be on-site, they have to be able to interact with the client, something normally rewarded with a premium as not all technical people can do it. When a service is delivered remotely, clients normally don't know who is on the other end of a managed service. They just care that they are getting the promised service or outcome. This means that partners can spread out their highest paid technical architects across more clients and used well-trained, but lower paid resources to execute on the bulk of the work.

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“We have what we refer to as a ‘Batman and Robin’ setup. Our architects, Batman, are supported by one or two consultants, Robin, beneath them. An architect may be attached to two projects and they very much provide a lot of high value at the beginning and in the planning stages of a project, but the experienced consultants beneath do the day to day hands on work within that migration project or setup.”

— **JAMES BUTLER, MANAGING DIRECTOR, CLOUD BUSINESS**

In addition, many partners that are more advanced in managed services are effectively using automation to increase their efficiency and therefore their gross profit margins. They are typically using popular software packages for dashboards, services delivery, professional services automation, and more.

Savvy partners are creating their own intellectual property (IP) in the form of best practice methodologies and even their own software to better run their business.

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“The key thing is what technology supports us. So having a proper professional services automation tool is important. And then we have a piece that plugs into that, which is a documentation platform. And that’s our own product, which is basically an IT documentation system for IT departments and IT companies.”

— CHRIS DAY, CEO, FULLY MANAGED

## THE BOTTOM LINE

- ✓ Consider leveraging one of many ways to improve your managed services efficiency and boost your gross profit. Can you build a remote delivery center? Can you automate? Can you shift some work from high paid architects to more junior resources?
- ✓ Cloud Business teams its expensive architects with capable engineers who end up delivering the bulk of the work in a managed services model.



*"So they actually hire us as the virtual CIO. We have three staff that cycle through that business so they don't have a traditional CIO, they use us as their CIO."*

**Stephen Alderman,**  
Chief Technical Officer,  
InverseCurve

## Become Your Customer's CIO or IT Department

Companies can effectively outsource their infrastructure and application management to cloud, but that doesn't mean they can do without an IT planning and stewardship role. There is an opportunity to offer a virtual CIO service along with cloud solutions, for companies that no longer need a full time CIO.

At the next level, where a company wants to maintain some of their own IT leadership, there are many alternatives a partner can offer their customer. And typically because of expertise, and especially because of scale and experience, a successful managed services provider can offer a better level of service at a reasonable price.

These are excellent ways to create recurring revenue situations and ongoing customer relationships.

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“For a company of 200 people, to build a service desk where their employees can call in and get kind of a reliable service level from IT, it's kind of expensive and it's pretty difficult. The probability of actually nailing it is low. Where for us, we do it for 120 businesses already, so I think we got it figured out.”

— CHRIS DAY, CEO, FULLY MANAGED

### THE BOTTOM LINE

- ✓ If you work with small and medium-sized customers, consider playing the role of their CIO or IT department, which will make you an indispensable advisor over the long term.
- ✓ InverseCurve has three senior staff that act as CIO across several customers, encouraging long term relationships with its customers.



*"There's a bucket of hours bought on a retainer, or use it or lose it basis, at a discounted rate. They can use it for whatever they require as the need arises."*

**Greg Schlather, General Manager, Cloud, Managed Services, Catapult Systems**

## Add Ongoing Retainer Hours to Your Projects

Many solution providers are getting proficient at creating and selling ongoing services with their customers. These were often services that were previously sold on a transaction by transaction basis. But, savvy partners are finding ways to sell the value of an ongoing service and relationship.

For instance, customers often have requirements for ad hoc professional services in conjunction with their SaaS or IaaS subscription. This could be for help with security or SharePoint administration or to help with workflow design. A pre-purchase of monthly discounted hours establishes a commitment to spend a certain amount, but also gives the customer peace of mind that someone will be available when they have a need. Retainer hours can be a profitable, ongoing revenue stream that in turn offers value to the customer.

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“Our customer will buy a block of hours that they use over a period of time. We have them in our CRM system so when they log in, or when they call in, we can do things for them on an almost immediate basis. One of customers signed a four-year contract for us to do all their support around Office 365 across five countries.”

— **STEPHEN ALDERMAN, CHIEF TECHNICAL OFFICER, INVERSECURVE**

### THE BOTTOM LINE

- ✓ Consider how you can turn previously transactional offers into recurring offers, such as a retainer or support agreement.
- ✓ Forceworks has found success in offering discounted support agreements that customers find comforting to have, but don't always utilize, resulting in a profitable add-on revenue stream.

# Your Cloud Intellectual Property Strategy

## Insights from successful cloud partners on intellectual property strategy

Another major trend IDC is seeing is that many solution providers of all types, not just ISVs, are creating their own software applications and intellectual property (IP). Some are packaging them up for commercial sale, while some are leveraging home-grown applications internally to accelerate their professional services or managed services engagements. Others are creating intellectual property in the form of methodologies and best practices that engineers can follow to offer their services more efficiently.

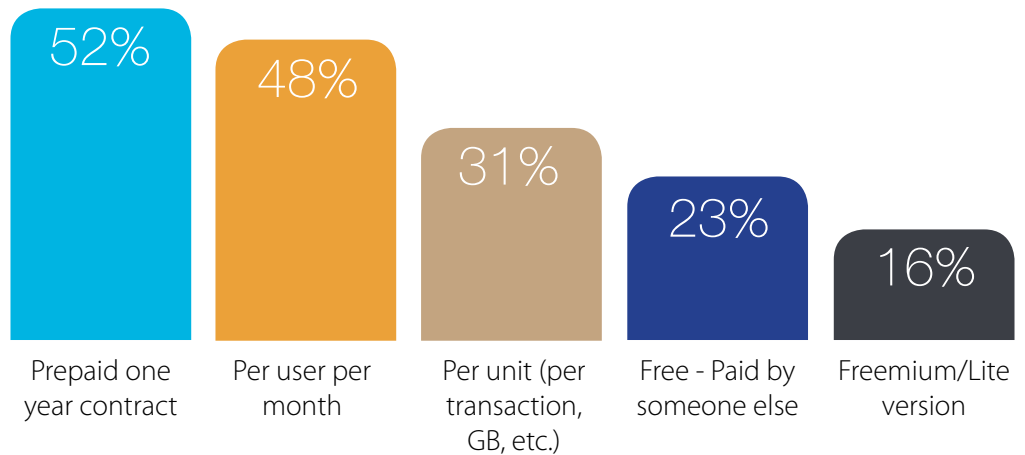
The cloud is certainly behind this trend for several reasons.

Prepaid contracts are the most popular pricing offering along with per user per month, though non-traditional pricing methods are commonly found.

# Leverage Cloud to Create Your Own IP

Importantly, cloud can be easier to develop on top of. In the on-premise world, an operating system or database upgrade could cause a solution provider's complementary application to break. With cloud solutions, there is less prospect of the application not working because of an underlying technology. Therefore, the effort needed to develop and maintain an application is more predictable than in the past, meaning that now various partner types can participate in developing repeatable IP. This is a key opportunity for an SI, for example, that has adopted an underlying cloud platform as it continues to do custom application development.

Which Of The Following Pricing Options Do You Offer For Your Cloud Applications/Solutions?



Source: IDC 2014, n=123 ISV partners



*We make sure we retain the rights to that IP in our contracts. We certainly don't maintain the rights to any proprietary unique business software. But it's standard generic: how do you log errors? How do you set up an account? Etc.*

**Alex Brown, CEO, 10th  
Magnitude**

Another reason solution providers are creating packaged offerings is that they are seeing similar opportunities arise repeatedly within their customer base. A common scenario where this is occurring is in the SMB market where solution providers are less able to scale custom services. Packaging repeatable software or solution offerings is an efficient way to sell to more SMBs more quickly.

Also, the emergence of marketplaces in the cloud world means a much simpler form of distribution for solution providers to a new broader audience. There is a much lower barrier to entry for this business model than in the past when physical distribution of CDs was important. A smaller software vendor no longer needs a channel partner in a new region to sell its wares when a Web site can do the job.

It is important to look ahead when creating professional services agreements with customers as you need to make sure you retain your rights to your ideas and technical assets. If you know you want to build a product in the future, be straightforward with any customers today that are asking for something similar. You may be able to offer a discount to your client in return for full ownership rights of any code developed.

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“Our founders saw an opportunity to start building IP and capturing IP because one of the things that's unique about SaaS platforms is that they don't actually change, right? So if I build a piece of IP at one point in time, it's not going to stop working in the future — unlike with on-premise, where it may work for the particular version of the platform and all the underlying infrastructure, but it may not work again. With SaaS, once we've built it, it's going to work every time.”

— **ANONYMOUS, ISV**



# Realize Higher Margins With Your Own IP

In many ways, creating and marketing your own software application is the holy grail of the IT industry. Compared to a classic “software on a CD” model, there is a higher cost of good sold with cloud offerings since there is the necessity to host the application in a data center. However, gross margins in this model can still be extremely attractive.

In evaluating the top software vendors in the market, such as Microsoft, Symantec, Salesforce.com and many more, a 75% gross margin is quite common. Compared to reselling hardware or software, delivering professional services or even managed services, marketing software applications can be the most profitable. Combine this with a recurring revenue model that is attractive to Wall Street, venture capitalists, and other potential suitors, and this is really the place where many solution providers strive to be.

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“I would probably say we are at about 85% gross margin in the cloud.” — **ANONYMOUS, ISV**

## THE BOTTOM LINE

- ✓ Consider what vertical or process expertise your company collectively has, and think about what application can be created. Typically, whether consciously or not, most solution providers have amassed a tremendous amount of process or vertical knowledge.
- ✓ 10th Magnitude makes sure it retains the rights to its intellectual property (IP) and re-uses anywhere from 20-40% on each new custom development project.
- ✓ Large software providers typically operate at 75% gross margin while some partners we interviewed were even higher.



*For us, renewals are everything. So that relationship with the customer being strong is everything. We are looking to hit the 92-96% renewal rates.*

**Anonymous, ISV**

*"One of the things that we hadn't intended on doing which was then a real success for us is the contact center. When we bring someone onto Office 365, the day they go live they have a 1-800 number.*

**Stephen Alderman,  
Chief Technical Officer,  
InverseCurve**

## Focus on New Customers, But Also on Renewals

For any type of recurring revenue business, whether a managed services provider or an independent software vendor, customer acquisition is critical, but so is keeping your existing customers happy and regularly using the software.

There is a land grab underway right now with many cloud ISVs. SaaS providers are trying to secure as many customers as possible and are often willing to forgo short term profits to do so. Their strategy is to grab as much market share in the early going, and they can profit in the long term with loyal, high-renewing, clients. Therefore high renewal rates are absolutely critical.

Successful partners are using various strategies to increase renewals. Some are separating sales people from account managers, where the former "hunts" for new business while the latter "farms" the existing customer base. Some partners are setting up specific organizations to focus on customer usage and satisfaction. This even includes creating call centers to take customer calls or to call out proactively to ensure satisfied users.

This is not an easy challenge. But top performing companies are succeeding on both fronts.

### THE BOTTOM LINE

- ✓ Determine a parallel strategy to both aggressively go after new business while ensuring high satisfaction and renewal rates.
- ✓ InverseCurve created a contact center to always give customers a person to call.

Average annual  
rate of churn  
of SaaS/Cloud  
application  
customers?

**8.9%**

Source: IDC 2014, 126 ISVs

Source: IDC 2014, n=126 ISV partners

# Manage Your Business Using New KPIs

Solution providers of all types have been focused for years on a base set of key performance indicators (KPIs). Services-focused partners are used to watching utilization rates, VARs on resale margins, and ISVs on new licenses sold.

The new world of cloud and managed services demands a different set of KPIs, especially for ISVs, our focus in this section. KPIs must be added as they relate to renewals and ongoing customer relationships.

## Consider these four KPIs:

### **Monthly Recurring Revenue (MRR):**

This is the combined dollar value of all current subscription revenue per month.

### **Recurring Revenue %:**

This is the percentage of overall annual revenue that is contractually recurring.

### **Churn %:**

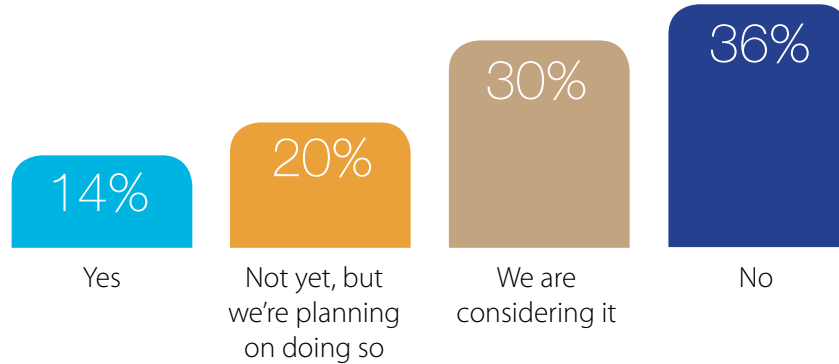
This is the opposite of renewal rate and looks at the monthly or annual percentage of your customer base that leaves your recurring service.

### **Lifetime Customer Value:**

This is a calculated dollar amount of the value of an average customer over their lifetime with you. It is the average amount of revenue you will get per customer over the lifetime of that customer before they leave your service.

There are additional important metrics such as cash flow, but these four represent KPIs that may not have been used in the past, but are critical in recurring revenue businesses.

## Are You Currently Using the Metric Lifetime Customer Value in your SaaS Business?



Source: IDC 2014, n=110 ISV partners

“We have a monthly number that we want to hit. That’s the only metric we actually present back to our staff - our MRR number. What’s our MRR number, our monthly recurring revenue? And that number is on the wall. If we hit our target, we fly 40 people to Las Vegas in October.”

— CHRIS DAY, CEO, FULLY MANAGED

## THE BOTTOM LINE

- ✓ Rethink the way you measure your business going forward.
- ✓ Fully Managed rallies it’s whole company around monthly recurring revenue (MRR). Every employee has extra motivation for the company to meet its goal.

# Conclusion

There are many different strategies you can take in the cloud. And providing unique value is critical to your success. But there are a few things that are common for every partner.

- » The rules have changed, and like it or not, recurring revenue models are slowly but surely replacing traditional project and transactional based models.
- » Most partners will have to endure some short term pain in order to achieve long term success, which could include higher margins and a higher company valuation.
- » Those partners who master a specific vertical or horizontal domain will be able to speak the language of the new power broker in the enterprise, the Line of Business executive.
- » The time to act is now. There is a land grab going on right now for cloud customers. In fact, there is not much time left before you find yourself in the bottom half of cloud partners.

Learn from the ideas and examples in this report and you will soon join the growing group of partners finding success in the cloud!



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