Successful Cloud Partners

HIGHER, FASTER, STRONGER

What IT Solution Providers Need To Know To Build High-Performing Cloud Businesses

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Analyze the Future

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In This Study

Cloud services represent a growing opportunity for partners of all types in a wide array of activities across resale, services, and development. However, it's of key importance that partners have an understanding of the what, where, how, and why of cloud services prior to embarking on wholesale business strategy change.

This IDC study, commissioned by Microsoft, examines the implications of becoming a successful cloud partner in 2013. Developed with insight garnered through in-depth conversations with leading Microsoft cloud partners and backed by supportive survey data (see methodology for further details), it provides a profile of the potential upside of integrating cloud to a partner's mix of solution offerings.

Finally, it concludes with guidance as a partner begins, or continues, their journey into the cloud.

Executive Summary

IDC has worked with Microsoft on understanding profitability and success in the cloud. Insight from IDC's research reveals the proven potential of leading with the cloud, and provides helpful advice from top-performing partners.

Top Partners Take a Hybrid Approach to Success

Cloud growth is 5X that of the IT industry overall. Though, the reality is that customers will continue to have on-premise technologies for a long time to come. Top partners take a hybrid approach to success.

Cloud Partners Are The Best Performing Partners

In multiple surveys, cloud-oriented partners significantly outperformed their peers: Higher Revenue/Employee, Higher Gross Profit, Higher Customer Acquisition, and Faster Growth.

Top Partners Tend to Embrace Cloud Trends Early

While cloud contributes to these metrics, it's clear that top-performing partners have taken on cloud first, incorporating cloud as part of their overall successful business model. Top partners have vision and tend to embrace trends early.

Cloud Can Improve Partner Business Models

Top partners agree that cloud helps open new doors, upsell other software and services, and generally grow revenue. Gross profit has improved for many partners, as they learn how to offer fixed fee engagements with optimized delivery.

Invest Now - Target 50% or More of Your Business in the Cloud

Make the journey now to join the successful cloud partners in this study. Aim for 50% or more of your revenue to be cloud-related. There is no more hesitation in getting on-board.

There are Still Risks and Obstacles Along the Journey

cloud partners have had to manage cash flow issues, replace old streams of revenue with new ones, and manage often longer sales cycles. No one is claiming you can sell one cloud offering and prosper.

CHAPTER 1

The Market Opportunity for Cloud

*"We're seeing a **paradigm shift**. Some of our customers are starting to get more comfortable **moving their data centers out to the cloud**."*
— Large Reseller, Canada, 24 years in business.

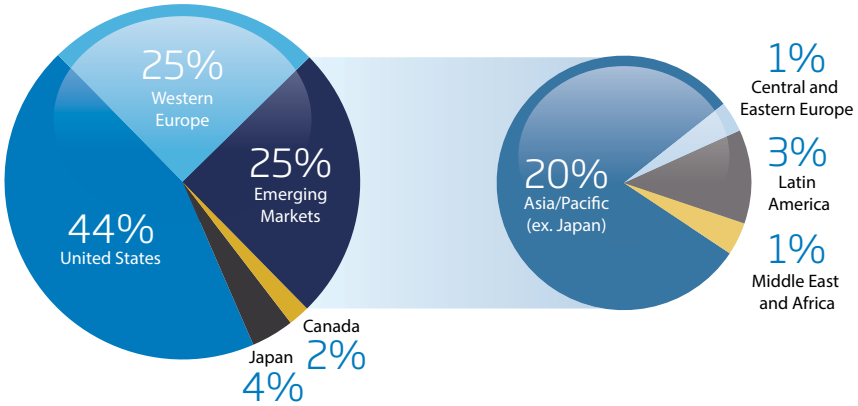
The Cloud Opportunity: Global Momentum Takes Hold

IDC has been tracking the steady progression of cloud revenue for a numbers of years. We have continuously needed to revise our estimates upwards as cloud takes hold in all regions.

- Public IT cloud services spending will reach $98 billion in 2016, with a compound annual growth rate (CAGR 2011-2016) **five (5) times the growth of the IT industry overall.**
- The United States remains the largest public cloud services market (44% share in 2016), followed by Western Europe (25%) and Asia/Pacific (excluding Japan) (20%).

Worldwide Public IT Cloud Services Revenue In 2016

$98.4B

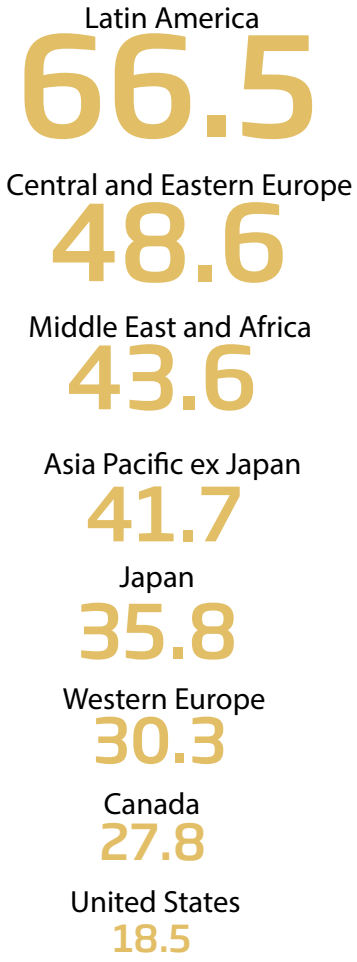


Source: IDC Worldwide and Regional Public IT Cloud Services 2012–2016 Forecast (IDC #236552)

The fastest growth will be in the emerging markets, growing collectively at 44% (2011–2016), compared with developed markets' CAGR of 23%. Emerging markets' cloud spending account for almost 30% of net-new public IT cloud services spending growth in 2016.

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).

2011–2016 CAGR (%)



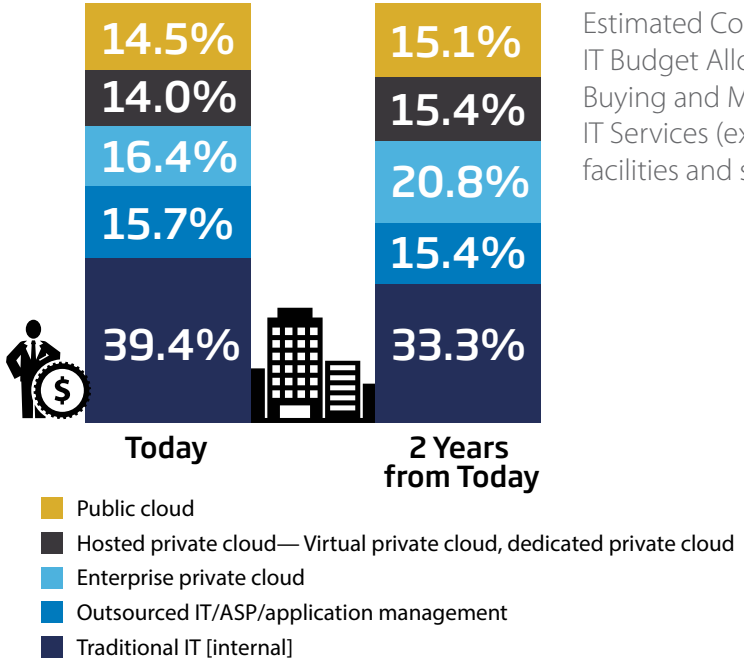
Source: IDC Worldwide and Regional Public IT Cloud Services 2012–2016 Forecast (IDC #236552)

The Hybrid Model: Cloud and On-Premise Working Together

While cloud growth rates are undisputedly stellar, a balance between on-premise and cloud spending is the reality. In fact, a partner's ability to offer hybrid options to customers results in optimal revenue capture opportunities.

- Buyers intend to selectively source more IT capability in the public cloud but will also focus on keeping a significant portion of their assets on premise. The total of "traditional IT" plus "enterprise private cloud" **equals 54% in two years versus 56% today.**

IT budget allocation today and two years from today, by development type.



Estimated Company IT Budget Allocated to Buying and Managing IT Services (excluding facilities and staff).

N=801, Source: IDC Cloud Track Survey, 2012

- IDC believes large customers especially will maintain a significant amount of their IT facilities and staff at their sites, and by 2020, **about 80% of the world's 2,000 largest companies will still have greater than 50% of their IT onsite.**
- They will also require new capabilities (automated provisioning, hybrid management capability, autonomous VM management capability, etc.) as they look to build enterprise private clouds, which combine their onsite resources with hosted private cloud resources, and SaaS/public cloud services, in a true hybrid fashion.
- Early-stage companies (less than five years in business) are the most eager buyers of cloud, concerned with start-up capital costs and less likely to build and staff a conventional datacenter, and **plan to increase their spend on public cloud by 24% over the next few years.**

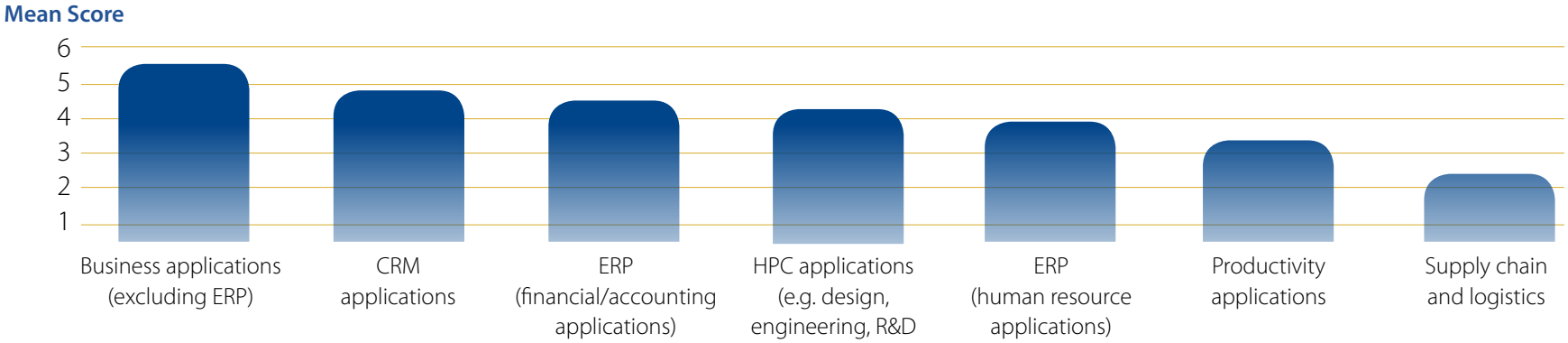
THIS HALO EFFECT OF CLOUD MOMENTUM PRESENTS CONSIDERABLE OPPORTUNITIES FOR PARTNERS OFFERING SUPPORTING SERVICES AND **HYBRID SOLUTIONS**.

What Workloads Are Most Suitable for the Next Wave of Cloud?

Obviously it is crucial to time the market and get a sense of which workloads are perceived as cloud-ready.

- As little as two years ago, there were only a few obvious workloads that were dominating the mindshare of customers' (notably collaboration and email).

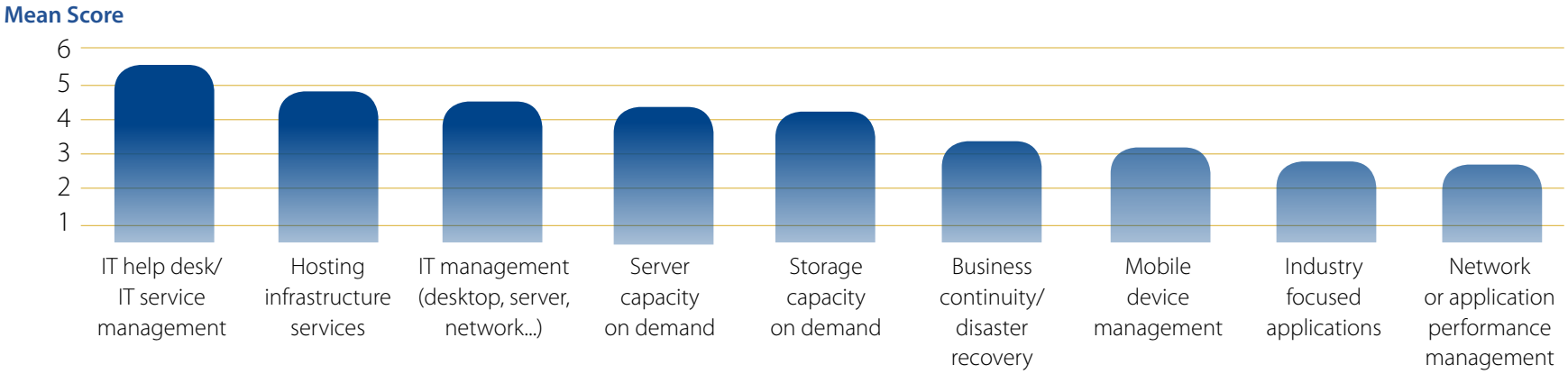
The next wave of applications suitable for the public cloud*



* excludes email and collaboration
Rank most suitable (9) to least suitable(1)
N=801, Source: IDC Cloud Track Survey, 2012

- Ultimately, IDC believes that collaboration and email will continue to have strong uptake — but we believe the suitability of a large variety of other applications that previously were not determined as "cloudworthy" early on by customers like business applications (including custom business process automation), device management, help desk, and marketing automation will penetrate into the market.
- Understanding the changes in customer perceptions will be critical to all partners to their mid and long-range solution planning.

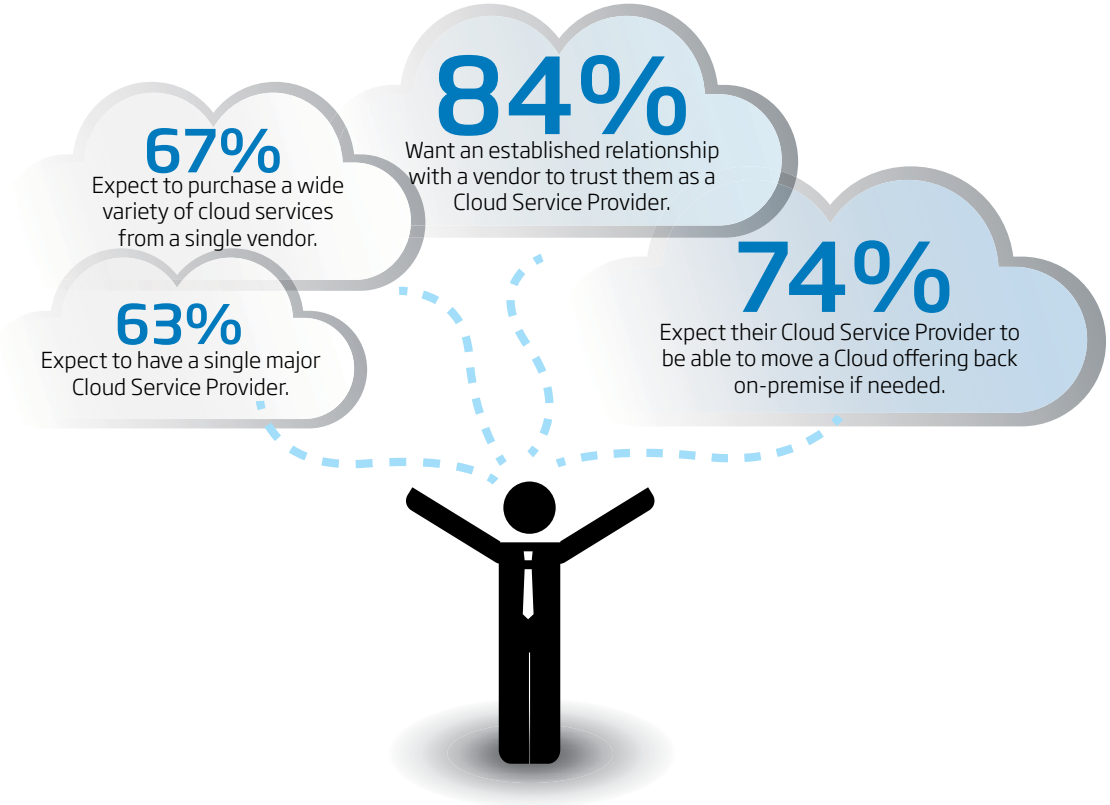
The next wave of Infrastructure and services suitable for the public cloud



Rank most suitable (9) to least suitable(1)
N=801, Source: IDC Cloud Track Survey, 2012

Customer Preference: Working With A Single Cloud Provider

We are still in the age of innovative cloud companies' coming on stream with solutions all the time. The question is - will maturity in cloud bring a narrowing of providers or will we see more of a long-tail effect, with many smaller providers? Customer responses to a survey question about relationships with their incumbent technology providers provide clues:



- A significant percentage of customers– 84% - said they agreed or strongly agreed with the statement that "we need an established relationship with a vendor to trust them as a Cloud Service Provider (CSP)."
- 63% said they expect to have a "single major CSP" (cloud service provider, which includes delivery of all kinds of cloud services, from applications to infrastructure." A relatively lower percentage expects to have 2 or more providers.
- This indicates that customers will not welcome managing a "long tail" of many providers - they will align with key incumbent providers and expect to have relatively few providers, so if small and very small provider businesses want success, they will need to build and sell on "PaaS" platforms, and as part of key vendor and industry marketplaces.

INTERESTINGLY, **74%** OF CUSTOMERS ALSO WANT THEIR TRUSTED CLOUD SERVICE PROVIDER TO BE ABLE TO OFFER COMPARABLE ON PREMISE EXPERTISE. ANOTHER VALIDATION OF THE HYBRID MODEL.

CHAPTER 2

Managing Your Business for Cloud Success

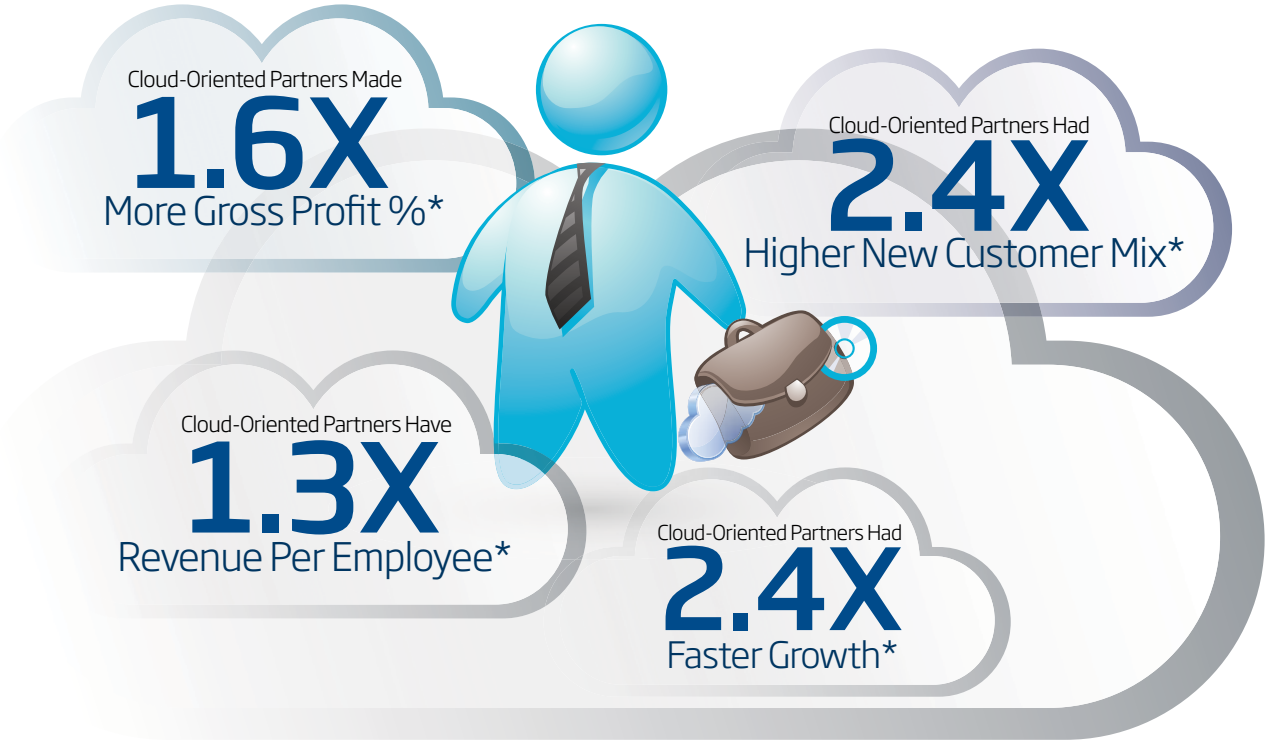
"Upsell is much higher now. If I sell Office 365, I may have an opportunity to talk about WAN optimization, mobile device management, total remote management services and more. So it's a lot."
— VAR, US, 24 years in business

Cloud-Oriented-Partners Outperform their Peers

As part of our ongoing research, IDC has tracked the performance of partners and compared the business performance of "Cloud-Oriented Partners" (ie. over 50% of their revenue is related to cloud offerings) versus "Non-Cloud-Oriented Partners" (ie. <50% cloud revenue).

- Despite assumptions to the contrary, cloud-oriented partners are showing more impressive business performance as compared to their non-cloud counterparts.
- Now to be sure, 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.
- Leading partners 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.

- The impressive business performance numbers on this page come from two different surveys, though we saw similar results. Cloud-oriented partners are outperforming their peers in gross profit, revenue per employee, new customer acquisition, and growth.



*Comparison of cloud-oriented partners vs. others. Cloud-oriented partners are defined as having over 50% of their revenue related to the cloud. Others are defined as having less than 50% of their revenue related to the cloud.

Revenue Expansion: Cloud As The Door Opener

Partners that **balance revenue expansion with risk mitigation (particularly around revenue replacement and cost) are best positioned to develop a sustained business model.** For revenue expansion we observed successful cloud partners who were following many of these key insights:

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

Cloud offerings act as an excellent way to meet new prospects, and close new deals.

- **Up-sell opportunity.** After acquiring new customers, partners find that their upsell opportunities, both for cloud and on-premise offerings, are materializing. Partners especially feel this is true with the Microsoft stack.
- **The hybrid model is the reality.** Customers will have a mix of on-premise, hosted and cloud solutions. An earlier statistic validates this - about 74% of customers want the ability to move a cloud offering back to on-premise, if necessary. Even Born-In-the-Cloud Partners are realizing that they need to enlist on-premise skills (acquire or partner).
- **Developing and marketing homegrown offerings.** Cloud enables partners to differentiate by bundling their own IP alongside other cloud offerings. Cloud software is easier to develop and take to market. Applications don't break when a new operating system or database version emerges. And with SaaS and marketplaces, distribution of software has become considerably easier than just a few years ago.
- **Azure opens the door to entirely new solutions.** Partners can now solve business problems in new, innovative ways not even considered before. Partners tell IDC that today it's both possible and affordable to use 100 servers for one hour once per week.

- **Net new annuity revenue.** If you sell your own cloud software, managed services, or third party software, you likely already know a lot about annuity revenue. Cloud solutions only augment these partners' recurring revenue. But it's a new model for many services-focused partners, whose CFO's welcome the net new, recurring revenue streams.
- **Market expansion.** Partners managing complex on-premise assets (i.e. software and hardware) at customer sites are constrained to work within geographical boundaries. With the ability to manage cloud services remotely, partners tell us about successes far beyond their traditional borders.

CLOUD SOLUTIONS ONLY AUGMENT THESE PARTNERS' RECURRING REVENUE. BUT IT'S A NEW MODEL FOR MANY SERVICES-FOCUSED PARTNERS, WHOSE CFO'S WELCOME THE NET NEW, RECURRING REVENUE STREAMS.

Risk Mitigation: Shifting Sources of Revenue

For a number of partners, the real threat of losing top-line revenue in the short term has prevented them from becoming a committed cloud partner. But successful cloud partners have provided us key insights on how they managed their business while making the transition.

For a number of partners, the real threat of losing top-line revenue has prevented them from becoming a committed cloud partner.

Managing for more balanced revenue streams.

Cloud's subscription-based pricing model can be disruptive to some partners, but it has the potential for longer-term benefits, specifically, a predictable revenue stream.

Reselling partners may find it toughest as their larger up-front license deals make way for smaller, recurring revenue, cloud deals where they may only receive a referral fee. However, many vendors such as Microsoft have adjusted programs to allow partners to resell, and not just refer, cloud solutions.

These risks can be managed by taking a hybrid approach to offering cloud solutions: Lead with the cloud, but maintain expertise in on-premise solutions. Partners who switch over too fast from the traditional to the subscription model may find themselves with cash flow issues. Though this is better than waiting too long to move to cloud, and losing customers.

PARTNERS WHO SWITCH OVER TOO FAST FROM THE TRADITIONAL TO THE SUBSCRIPTION MODEL MAY FIND THEMSELVES WITH CASH FLOW ISSUES. THOUGH THIS IS BETTER THAN WAITING TOO LONG TO MOVE TO CLOUD, AND LOSING CUSTOMERS.

Replacing revenue.

It's true that some activities will go away with cloud offerings. Resale could turn to referral, and a hardware sale may be replaced by Azure, or another cloud offering. So what can partners do to replace that lost revenue? Successful cloud partners are still attaching services to their deals, and are optimizing to do more deals. Some are adding business consulting services, or training and adoption services, as they sell more and more to line of business buyers.

Successful cloud partners are still attaching services to their deals, and are optimizing to do more deals.

Recurring revenue can lead to long term customer relationships.

In the old model, many partners would sell a solution, implement it and then move on. With a subscription sale, it's imperative to ensure that the customer is actually using the solution. While this can be additional effort, it can provide partners with a "hall pass" with your customer, allowing you to forge a deeper relationship, and look for more business opportunities along the way.

Cloud lowers the barriers to entry to offer managed services.

Current managed service providers are making the transition to the cloud more easily as they already have the required technology and account management in place (billing, provisioning, monthly pricing, possibly per-user pricing).

Still, cloud opens up a revenue activity avenue previously out of reach for many, and with substantially lower investment costs required (e.g. no hardware, infrastructure, etc.). IDC shows that 45% of infrastructure focused partners today offer managed services. Of those that do not, 45% intend to offer managed services in the next 12 months.

45%

OF INFRASTRUCTURE FOCUSED PARTNERS TODAY OFFER MANAGED SERVICES

Of those that do not, 45% intend to offer managed services in the next 12 months.

Managing for both faster and slower sales cycles.

In the long term, public cloud sales should naturally be faster than traditional deals. And many partners are already seeing this today, especially with smaller customers. However, customer education is still a slowing factor and can eat into margin. This can erode profitability quickly on smaller deals. IDC has witnessed a tremendous impetus to reduce the cost of sales.

- **Inside sales** can be very effective when coupled with outbound demand generation
- **Telesales** is being used more and more, especially for SMB companies. Smart partners are leveraging online technologies to improve the phone-based selling experience such as Skype and Lync.
- Some partners are encouraging small implementations of online services instead of doing free trials or proof-of-concept projects to ensure their customers are serious.

In the long term, public cloud sales should naturally be faster than traditional deals. And many partners are already seeing this today, especially with smaller customers.

Many Partner Metrics Improve in the Cloud

Partners typically look at a number of key measures of business health when assessing their own performance. While business models may evolve over time, including adding cloud to the mix, the same fundamentals of selling solutions to customers will remain.

SO WHAT'S THE IMPACT OF ADDING CLOUD OFFERINGS TO YOUR PORTFOLIO?

THE PERFORMANCE IMPACT OF A VARIETY OF COMMON BUSINESS MEASURES WILL CHANGE WITH CLOUD.

How Partner Metrics Change in the Cloud

Upsell Opportunity

Cloud is helping partners to open doors to both new and existing clients. They're curious. And partners are taking advantage. Cloud is also a smaller up front investment for customers, making it overall easier to buy. THEN, partners report that they are using that foot in the door to upsell customers on other cloud products, as well as on-premise products.

Gross Profit

Many partners are optimizing their delivery teams to take advantage of fixed fee engagements with more efficient use of resources to driver higher gross margins.

Overall Revenue

Successful cloud partners have uniformly told IDC that cloud offerings are helping to increase their revenues, much due to the upsell scenario listed above.

Number of Deals

The ease and functionality of cloud are encouraging more purchases. Successful cloud partners are enjoying a much higher customer acquisition rate than their peers.

Annuity Revenue

While cloud offerings fit right into a managed service provider's offerings, many solution provider CFOs are enjoying their introduction to annuity revenue streams through cloud software offerings.

PERFORMANCE IMPACT

Deal Size

Cloud deals are often smaller in nature as software revenues are spread over time. But enterprise customers can sometimes mean larger deal sizes, especially if consulting and integration time is needed.

Sales Cycle

Enterprise customers can introduce complexity and duration of sales cycles. There can be more stakeholders involved (more LOB), legal departments can scrutinize online agreements, and education can still take time.

Smaller customers can typically procure their expected business outcomes much faster than in the past.

Cash Flow

Partners selling third party or in-house software may begin to realize decreased cash flow in the cloud as they make the transition.

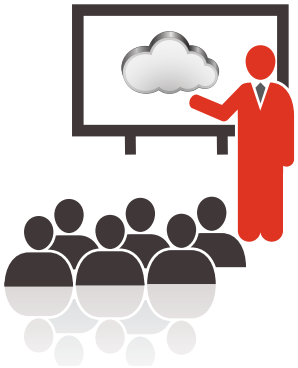
CHAPTER 3

Organizing Your Business for the Cloud

"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.****"*
—Regional Systems Integrator, UK, 20 years in business

Preparing for the Cloud: Ramping Up Is Easier Today

Is it tough to take on a cloud business? Not for competent partners. But we did learn some key insights from successful cloud partners about how they ramped up and organized their cloud business.



No such thing as a "Cloud Practice" anymore.

While we can't say no organization runs a dedicated cloud practice, IDC found cloud already an integral part of partners' businesses. Three years ago the trend was much more of a mix between integrated / separate cloud practice. An integrated practice means one fantastic thing for customers: Choice. The customer wins when their partner presents them choices of cloud, hosted, or on-premise models.

While we can't say no organization runs a dedicated cloud practice, IDC found cloud already an integral part of partners' businesses.

Low barriers to entry

Successful partners found that the ramp-up to take on cloud was not a huge challenge. Training time was the main investment, though **existing competencies and skills are very transferable to cloud.** Top partners claim that cloud is similar in a lot of ways to past changes they have had to adapt to (eg. virtualization, client/server, etc.).

Partners also found that there was very little capital outlay (especially hardware, software) to ramp-up in cloud, which is different than taking up a new technology in the past.

Successful partners found that the ramp-up to take on cloud was not a huge challenge.

Focus on getting enabled, AND experienced

Training is important, of course. But how about getting a little bit of cloud experience under your belt? Top partners agreed that using the products internally is a great way to learn them.

One top partner has used another method to ramp-up his team. When learning a new product, the company chooses a charity, and a technical solution that would help that charity. They learn the new product, but they solve a charity's business problem along the way.

Establish Your Time Expectations to Ramp-Up

Partners told IDC that their typical experience was about three years to ramp up fully. But it was their belief that it would be much faster today, perhaps even 6-12 months, because the market is more established.

PARTNERS BELIEVE THAT RAMPING UP TO THE CLOUD WOULD BE MUCH FASTER TODAY, **PERHAPS 6-12 MONTHS**

Projects in the Cloud: The Delivery Structure Evolves

Successful partners shared some insights on how they deliver their solutions differently in the cloud world.

Deliver Efficiency vs. Utilization

The cloud and Managed Services world still cares about utilization (the traditional metric of professional services companies), but is more focused on efficiency. With recurring fees already set, higher efficiency increases profit by using remote services and automated processes among others.

Delivery skillsets need to evolve.

Delivery teams are becoming smaller with many cloud projects. There's not the size and opportunity today to have dedicated resources on every deal such as project managers, architects, DBAs, developers, etc. Technical delivery people are having to be better-rounded and comfortable interfacing with the client. Not all architects or senior delivery people can make that transition.

Architects are more important today due to the complexity of marrying on-premise with cloud. In the past, the focus was on getting singular, but complex applications up and running.

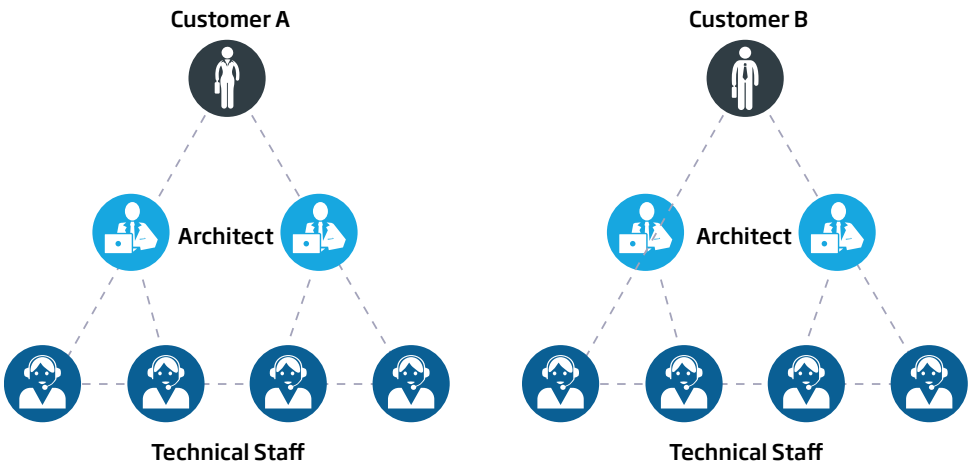
The central importance of the architect's role

Architects are more important today due to the complexity of marrying on-premise with cloud. In the past, the focus was on getting singular, but complex applications up and running. With cloud applications, the core functionality can be up and running in minutes. The opportunity then becomes integrating the different cloud and on premise systems together optimally.

Reallocate Resources for Higher Gross Profit

Several partners revealed that for one, they are confident enough to charge fixed fee prices on some cloud engagements. Next, they said they are now able to spread their senior technical staff across more projects and use less expensive staff on the projects. Partners said they no longer need to put a dedicated architect on a project for a long time.

On Premise Model



Cloud Model

Selling in the Cloud: Maintaining Relationships with LOB and IT

In the cloud model, it's increasingly evident that the evaluation and purchase of software applications and services is shifting away from IT to line of business (LOB) leaders. How does that affect IT solution providers?

Shifting From Technology To Domain Expertise

A partner's understanding of business processes and issues in combination with their technology expertise will become more important than their technology expertise alone.

The LOB often needs a partner who can speak both their language as well as IT's in order to implement a solution that will meet their business needs.

The LOB often needs a partner who can speak both their language as well as IT's in order to implement a solution that will meet their business needs.

Supporting IT's "Big Picture" Role

As much as a solution provider needs to shift attention to LOB, it is still important to leverage existing relationships with the IT staff as their role changes to provide more oversight of the procurement process and also the overall corporate IT strategy. The IT department will typically have to deal with the integration or interfaces between cloud solutions and existing on-premise applications and/or other cloud applications.

Sales Compensation: The Sales Commission Challenge

Sales compensation has been referred to by many partners as the most difficult transition of all in moving to the cloud. Successful partners shared their insights with IDC.

Sales Compensation Options

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. Spreading commissions over time only serves to dilute motivation.

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.

Some partners even give special rewards for the first 10 deals sold or at reaching the first $100K in cloud deals.

Creating Additional Motivation

Partners need to give salespeople as much motivation and incentive as possible to drive cloud deals. Some partners even give special rewards for the first 10 deals sold or at reaching the first $100K in cloud deals. These deals will in many cases include an additional services component (e.g. integration, consulting, training, etc.) that will increase deal size and commission for the salesperson, a key point raised by many partners.

Focus on Gross Margin

Partners are clear that commissions or rewards should be based on the gross margin of any solution. This ensures sales reps are focusing on the profitability of deals, and not just top line revenue.

Old Dogs and New Tricks

Many partners have told IDC that traditional IT salespeople can't make it in the cloud because they are too used to larger up front deals. Some partners are hiring salespeople from utilities and telcos, places where annuity structures are common. Other partners are hiring out of college to not have to deal with old paradigms.

CHAPTER 4

Insights and Profiles By Partner Type

IDC identified ways to expand the business model for four partner scenarios:

Systems Integrators

Managed Service Providers

Resellers/ LARs

Born-in-the-Cloud

Expanding the Business Model for Systems Integrators

	Path To Success	Description/Drivers	Business Impact	Operational/Go-To-Market Considerations
1	• Migrating customers to the cloud	• Preparing customers for migration to the cloud as a service offering	• Revenue	• Good medium-term strategy but limited long-term opportunity
2	• Moving up the value stack	• Focus on business outcomes, application-level services and support, and managing customers' business on cloud • Pivot to "trusted business advisor"	• Revenue	• Uplevel consultants' skill sets • Shift sales focus to line of business • Sell more managed services at end of implementations
3	• New (end to end) implementation stream	• WAN optimization, mobile device management, expanding services to "found" users in environment	• Revenue	• Increase emphasis on post-sale discovery • Get beyond customers' organizational silos
4	• Lower-cost implementations	• Sell implementations for fixed fee at existing rates, staff with less expensive resources	• Cost	• Shift staffing mix to lower-cost resources

Sample Systems Integrator Scenario

Move up the Value Stack

PROFILE

Region: Latin America
FY13 Revenue: $25-50 million
Cloud Revenue: 20%
Employees: 150
% Microsoft: 50%

Challenge

- Historically SI value has been in implementations; but with cloud the underlying systems have become a commodity
- Cloud-based integrations are smaller, less revenue than traditional (on prem) projects

Partner Goal

- Focus on the application layer (Exchange, SharePoint, etc) rather than servers and storage
- Shifting to higher-value added services enables partners to maintain healthier margins
- Change the focus of the conversation to business outcomes

Operational Issues and Impact

- Requires business development/consultants who can move the discussion to a higher level
- Need to build application expertise
- Developed targeted offerings (e.g. high availability for Office 365: federates between Office 365 and servers in customer rack; Azure ADFS to enhance connectivity to Office 365)

Key Learnings

- Partners need to figure out how to differentiate themselves: if everyone is reselling the same services it's a commodity
- Deep transition for the partner: "we need to understand the value we bring"
- Required significant investments including building out new consulting practice areas, new business development skills and staff
- Partner don't have to focus on nuts and bolts of infrastructure: "Cloud gives us an opportunity not to do what we don't like"
- Greater upsell and cross-sell opportunity: WAN optimization, mobile device management

Expanding the Business Model for Managed Service Providers

	Path To Success	Description/Drivers	Business Impact	Operational/Go-To-Market Considerations
1	• Increase efficiency, profitability in your managed services	• Charge same top-line rate for managed services • Cloud-based services enable management of more devices with fewer and/or less expensive staff at remote locations	• Cost	• Shift staffing mix to lower-cost engineering resources
2	• Expand scope of managed services offerings	• Opens door to discuss the rest of the Microsoft cloud portfolio (Office 365, Azure, SharePoint, InTune…)	• Revenue	• Practice land and expand models: follow up initial sale to identify and sell-in other opportunity areas • Consultatively identifying customers' business needs • Shift from low value-add infrastructure management to high value-add "business transformation" (e.g. redesigning business processes, supporting new business strategies)

Sample Managed Services Provider Scenario

Increase Efficiency and Profitability

PROFILE

Region: Europe
FY13 Revenue: $5-20 million
Cloud Revenue: 40%
Employees: 55
% Microsoft: 60%

Challenge

- Partners see market shifting to cloud
- Partners not already in cloud knew they had to adapt and embrace or lose competitive edge

Partner Goal

- "Cloud-first" model; always leads with cloud
- Remote cloud-based management lowers service delivery cost while maintaining top-line rates
- Increased customer satisfaction: cloud-based tools mean customers always have latest and greatest

Operational Issues and Impact

- Training staff on remote management and provisioning
- Downsizing staff: manage more accounts with fewer people; one system architect can handle 5-10 accounts instead of 2-3
- Identified and operationalized specific cloud expertise domains: data protection, security, backup

Key Learnings

- Enormous operational benefits with a single technology standard across all customers
- Requires sales patience; can be a process to make clients comfortable with cloud
- Dangers of going slow: delayed downsizing postponed benefits of the new model (re-assigned staff at first, eventually had to downsize to bring staffing profile in line with cloud model)
- "I would have made a lot of hard choices to downsize staff earlier in our transformation"

Expanding the Business Model for Resellers/LARs

Path To Success	Description/Drivers	Business Impact	Operational/Go-To-Market Considerations
• Expand services: managed services, support, implementation, consulting	• Adapt to inevitable market shifts • Recurring revenue partially makes up for lost SW resale revenue	• Revenue	• Shift staffing and operational mix to consultative sales and services, managed services, implementation support

Expanding the Business Model for Born-in-the-Cloud

Path To Success	Description/Drivers	Business Impact	Operational/Go-To-Market Considerations
• Expand to offer hybrid/on-prem offerings, implementation consulting	• Capitalize on opportunities where customer desires on-prem capacity	• Revenue	• Staff system engineers and architects with hands-on (on-prem) experience

Sample Reseller/LAR Scenario:
Expand Services

PROFILE
Region: North America
FY13 Revenue: $1 billion+
Cloud Revenue: <5%
Employees: 1000+
% Microsoft: 30%

Challenge
- With compute moving to the cloud, IT is losing influence and control
- Partners getting less on-prem hardware and software reduces traditional revenue streams

Partner Goal
- Help customers build out cloud adoption roadmap
- Trusted advisor to help IT become an enabler for cloud rather than an enemy to it

Operational Issues and Impact
- Buy-in at partner executive level
- First year: investment and implementation
- Build-out cloud delivery team, support staff, new business development resources
- New cloud portal enables higher-volume, lower-impact touch to customers

Key Learnings
- LOB "bypassing IT" to buy cloud services carries risk for customer (protecting data); need to keep IT in the loop so they retain control
- Add level 1 support offereings to customers; send escalations to cloud service providers
- Sell cloud services to and through IT (rather than LOB alone); examples include providing portal for IT to provision cloud services to users, enabling IT to federate cloud-based apps, and providing Tier 1 support (through IT) for cloud apps
- Made up for lost hardware/software revenue by developing new value-added domains including data protection/recovery, security, cloud backup, and cloud infrastructure

Sample Born-in-the-Cloud Scenario

Expand to Hybrid/On-Prem Offerings

PROFILE

Region: North America
FY13 Revenue: $1-5 million
Cloud Revenue: 100%
Employees: 5
% Microsoft: 100%

Challenge

- Not all solutions are best-fit for cloud
- Cloud adoption lags in certain industries (healthcare, finance)
- Partners who lack on-premise capabilities are leaving potential revenues on the table

Partner Goal

- Build out on-premise implementation and management capabilities in addition to cloud
- Provide hybrid/on-prem services to complement core cloud offerings

Operational Issues and Impact

- Build skillsets to deploy on-premise management solutions as a precurser to cloud deployments (e.g. deploy System Center 2012 on-prem to enable management of Azure virtual environment)
- Staffing model: on-prem deployments require higher ratios of systems architects and engineers

Key Learnings

- For larger enterprises, some on-premise work is necessary to bring their infrastructure up to snuff for the cloud deployment; one partner said "we had to get that done on the side before we could even turn on what we were focusing on"
- Greater breadth of services offered means more upsell opportunities
- Pure cloud services being adopted faster in SMBs than enterprises
- Many types of technologies out there; difficult to understand and offer them all. Benefits to select a single stack (Microsoft) and focusing on it

ESSENTIAL GUIDANCE

"Cloud is integrated into everything that we do. From a managed services perspective, every single one of our customers is a cloud customer. They are leveraging Windows Intune, Office 365, and more."
— VAR, USA, 10 years in business

Essential Guidance

As seen in this study, there is a lot to consider and internalize while planning for change. Here is IDC's guidance as you begin, or continue, your journey into the cloud. Happy selling.

EXPLORE AND DECIDE ON WHAT CLOUD OPPORTUNITIES TO PURSUE.

What workloads and what services do you want to specialize in? How will you differentiate?

INVEST NOW TO ADD CLOUD TO YOUR PRACTICE.

Most partners are somewhere on the cloud journey - Do not get left behind. Aim for 50% or more of your revenue to be cloud related. Commit.

GET TRAINED. GET REFERENCES.

Beyond getting trained, gain the experience you will need. Use the software at your company. Obtain some reference solutions, even if it's a free solution for a charity.

OPTIMIZE YOUR SALES AND DELIVERY APPROACH FOR CLOUD.

Consider how delivering solutions in the cloud can affect your project team structure, and how you can profit from it.

PREPARE FOR A POSSIBLE CASH-FLOW CRUNCH AND OTHER CHANGES.

Carefully consider how transitioning to the cloud may impact your cash-flow, and in what timeframe. Be prepared to educate your customers in the sales cycle.

Methodology

IDC employed a number of sources to produce this study including primary research and leveraging expertise for our cloud research practice. These include:

- Microsoft cloud Partner Roundtable: Conducted on February 27, 2013 with 13 Cloud Partner Advisory Council members. 3 hour session covering cloud business model, business impact, profitability and metrics.
- In-depth executive interviews with Microsoft partners: Conducted between February 28 and April 30, 2013 via telephone. 15 one-hour interviews completed (North America, UK, Europe, and Latin America). Focus on deep dive into key performance indicators, profit drivers, challenges and best practices.

IDC also incorporated findings from 2 relevant quantitative studies:

- Worldwide VAR Study - 2012. 750 IT Solution Providers Worldwide (US, Canada, UK, Germany, India). ISVs and IHVs excluded. Non-Microsoft specific.
- Microsoft NMP Study - 2012. 585 Microsoft Non-Managed Partners (US, UK). All partner types.
- From these two survey we constructed partner comparison metrics between partners with equal to or more than 50% of their revenue related to cloud ("cloud-oriented partners") and partners with less than 50% related to cloud ("Non cloud-oriented partners").