Transition Cloudward

Learn the best strategies for IT solution providers for starting up and securing a cloud practice, successful approaches to selling and marketing cloud, and why it is urgent for partners to transition now.

Which Side of the Cloud Are You on?

HAS YOUR COMPANY not yet begun to forge a path to the cloud, whether that means building private clouds for customers, enabling or integrating cloud services, provisioning cloud services, or managing or troubleshooting a customer's cloud-based systems? In SearchITChannel's 2014 Channel Directions readership survey, about 65% of 216 North American VARs, MSPs and systems integrators said they offer cloud services of some kind. If you're not part of that 65%, you're lagging behind your peers. And the longer you wait to add cloud-based work, the longer it will take to build up a customer base around that work.

Cloud services provisioning—in which you resell or white label a vendor's cloud services—in particular offers big rewards to those companies that can make the switch from traditional on-premises-based systems. (You might even host your own cloud services in your own data center, though analysts say there's limited opportunity in this, mainly for those with strong vertical industry expertise and a customer base that's not as price-sensitive as the majority of businesses out there.) The recurring revenue associated with cloud services provisioning can transform your business in a big way. That's because businesses typically adopt cloud services in small measures but expand existing projects and add others over time. As your customers expand and add to their cloud usage, your recurring revenue payments grow. And as you add customers, the effect is magnified over time.

For this handbook, we talked to experts about how IT channel companies that want but don't yet have cloud services-related revenue should make their way to the cloud. We have advice around changing your financial models and training salespeople, reviewing your training requirements, and understanding your transition time and lost-opportunity costs. We also consider lessons from successful cloud partners; their wins demonstrate why it's so important to get your business to the cloud. And for those that have already established a cloud-centric practice, we examine a weak spot that needs shoring up: sales and marketing around cloud services.

We hope you use this handbook to make your way to the cloud, if you haven't yet taken steps, or become more efficient in your marketing and sales efforts, if you're already offering cloud services provisioning. ■

Sue Troy
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A Solution Provider's Path to the Cloud

Experts generally agree that cloud-related services offer IT channel companies a lucrative business opportunity. Choosing the most logical path to the cloud, however, is not as evident. There are just as many paths to the cloud as there are solution providers, and the right path for a managed services provider (MSP) versus a reseller, for example, differs from one to the next. The good news: There are plenty of options for solution providers looking to break into cloud. The bad news: Regardless of which path you choose, there is bound to be some disruption to your business model.

"Most channel companies who resell products make most of their money on what they do after they sell that product," said Carolyn April, director of industry analysis at CompTIA. For example, a reseller may also offer any combination of consulting, integration, professional or managed services. It is therefore very difficult to make a blanket statement that a reseller can most easily transition to the cloud by doing x and an MSP by doing y. "I think that that's good news for the channel, because it means that firms are not pigeon-holed," April said.

TYPES OF CLOUD-RELATED SERVICES

There are a wide variety of cloud-related services that IT channel companies can provide customers. CompTIA divides them into four categories. The first is the most elementary and easiest transition, according to April. It is procuring and selling the hardware and software needed by customers to build private clouds. As a value-add, she said solution providers can provide upfront architectural design and assessments. "They can ramp up from straight reselling to doing consulting work as well," she said.

The next cloud-related business model is the providing and provisioning of cloud-based services. For the most part April said this involves selling software as a service solutions, which may be white labeled. "This is where the majority of the channel is playing today, which makes sense," she said. "A lot of firms already have relationships with developers that have added the cloud to their existing product lineup." It also offers an opportunity for recurring revenue, she said.

The third cloud business model identified by CompTIA is the enablement and integration of cloud solutions. It includes the implementation and integration work required to get solutions, whether on-premises or in the cloud, to talk to each other, April said. This particular offering is a high-profit area and where the majority of solution providers make their money in the cloud, she said.

Chirajeet Sengupta, vice president of management consulting company Everest Group, also sees integration work as a prime opportunity for solution providers. "For [an organization] to transform into a cloud-driven environment, there's a lot of tinkering and pre-work that needs to be done. We estimate anything between 10% and 15% of the global systems integration market to comprise cloud-related opportunities, and that's growing," he said.

The final category identified by CompTIA is management and support, "where the solution provider takes over ongoing management of the customer's cloud infrastructure and cloud applications. It's similar to a managed service provider taking over the customer's in-house IT," April said. She added: "It locks the solution provider into a recurring revenue with the customer, so this is a popular business model."

Terry Hedden, CEO of Cloud Guru, offers a similar but more granular breakdown of cloud-related services for his clients. He said, "The reality is, when it comes to making a killing in the cloud, it comes down to offering a complete solution. There are a lot of ways to make money in cloud, and those doing it right are not just picking and choosing. They are choosing all."

However, this doesn't mean that solution providers should attempt to transition their entire business model to the cloud. "In terms of making a transition, the most expensive and risky way is [to do it] all at once," Hedden said.

MAKING THE FIRST STEP

Ryan Morris, principal consultant of Boulder, Colo.-based Morris Management Partners, said, "Just because everything can be in the cloud doesn't mean you should be there all at once. Pick one or two very specific cloud offerings. Integrate them deliberately, get them to the point where they are viable, then add more things to the portfolio."

The solution provider's first step to the cloud—whether it identifies primarily as a value-added reseller (VAR), managed service provider, professional services provider, systems integrator or IT consultant—is a question of adjacency, Morris said.

Sengupta agreed. "If you look at the nature of market success that most companies have in the cloud world, there are logical adjacencies between their heritage and them driving the market as far as cloud is concerned."

For example, for a systems integrator involved with server hardware and management and the applications that run on them, a move to using infrastructure as a service is logically adjacent, Morris explained. Similarly, a move into cloud-based CRM makes sense for a reseller specializing in CRM. "The idea is there are infrastructure adjacencies, application adjacencies, tools adjacencies, security adjacencies, storage adjacencies—all the layers of the technology solution that have an alternative in the cloud. The key is to pick one and move that piece to the cloud, then the next, and then the next," he said.

TRAINING REQUIREMENTS FOR MOVING TO THE CLOUD

The adjacency approach reduces the need for technical skills training because the solution provider already has some familiarity with the technology itself. "Pick one and only one that's directly adjacent to something you already do so that [your] people can speak with confidence, and when you speak to the customer it doesn't sound like you're making it up," Morris said.

Referring to systems integrators specifically, Sengupta said, "From a capability standpoint, there is no significant fundamental change. Programming languages change all the time. New standards of technology change all the time. And successful systems integrators have delivery models in place that help them take into account those changes in the industry."

Morris agreed that if a solution provider of any business model has managed to survive in the IT channel for over five years, given the rate of technological change, then learning the technology piece of moving to the cloud won't be that hard. "Learning offerings from an implementation or integration point of view? That's not rocket science. What makes it difficult is that we're not just changing the products that we sell, we're changing the business model around what we sell. That's where it gets challenging," he said.

The challenge lies on the business side: changing financial models, training sales people, targeting a new decision maker, etc. "Business model changes are always more complicated and expensive, and [they] take longer than product changes," Morris said. "That's why it's so vital that companies don't try to do everything at once. They'll get started and realize the cost and complexity, and end it midstream."

These business model changes are minimized when solution providers deliberately choose a cloud offering that is adjacent to their portfolio. For example, a solution provider specializing in productivity and collaboration solutions that decides to sell Microsoft Office 365 changes only one element of the business, Morris explained. Office 365 introduces a new financial model, but it involves the same technology work, decision maker and sales persuasion.

"The solution provider's job with the adjacent offering is to change only one of those at a time," Morris said. "When people get into changing the customer and the technology and the sales process and the financial model at the same time, that's when they get themselves into trouble."

TRANSITION TIME AND LOST OPPORTUNITY COSTS

Choosing a path into the cloud that is adjacent to one's current business can help minimize the transition time and lost opportunity costs, but the ultimate timeline and dollar amount will differ from one company to another.

"What takes the longest is the decision to move. The de facto argument when you're fearful of something is to resist it. VARs and MSPs have dug in their heels because they have fear, uncertainty and doubt about how it will impact their business. Once they get over that hurdle and commit to it, they can make a tremendous amount of money," Hedden said.

Once the decision is made, the transition time depends on the size of the channel firm, its current business model, its willingness to invest and its willingness to commit resources to the effort. "Most channel firms are operating on thin margins and can't take away from the current business. ... They commit little resources and few people, so ramp-up time can be slow—not because it's challenging, but because they can't commit 100% to it. They need to keep paying attention to the legacy business that is keeping them in business," April said.

MSPs are likely to find the transition to a cloud business model easier than most. "They've already done a lot of the business model and financial model changes [that are required for the cloud]. They've retrained or hired sales staff who know how to sell contractual services. If you're a reseller, that's not going to be a strength of your sales, and if you do cloud, you'll have to do some retraining or recruit new people who know how to sell recurring services," April explained.

Experts acknowledged that the solution providers just starting on their path to the cloud have some work to do to catch up with their competitors—but that it is worth the effort. "They'll have to do some heavy hitting to get some heavy momentum, and that may mean more significant investments than most. If you give something enough time, you'll get it right. The market isn't going away anytime soon," Sengupta said.

Hedden summed it up this way: "It makes sense to be in the cloud, and you can make a lot of money [offering cloud services]. The people who have made that decision are uniformly doing well, and they are doing much better than their peers." —*Crystal Bedell*

A Wakeup Call for Lagging Partners

While vendors' previous efforts to get VARs and MSPs onboard with the cloud seem to have been friendly reminders that they should consider making changes to their business model, some of the cloud discussions at Microsoft's Worldwide Partner Conference in Washington, D.C., a few months ago seemed designed to scare partners into taking the message seriously.

Analysts from Gartner and IDC, as well as Alex Brown, CEO of born-in-the-cloud company 10th Magnitude, had dire warnings for attendees during breakout sessions this week.

"I wouldn't want to be on the back end of this trend," said IDC's Darren Bibby, vice president of channels and alliances, during a session at the event.

"We continue to manage the business as it always has been managed, and we get into trouble," said Gartner's Tiffani Bova, vice president and distinguished analyst of research, during another cloud-related breakout session.

"If you don't understand the cash flow of cloud, it'll whipsaw you during your transition," Brown said. Brown sat on the panel of Bibby's breakout session and led his own presentation, titled "10,000 Cloud Providers: Bumps, Bruises and Band Aids."

For those that make the transition early and successfully, the rewards are great. But the partners that lag behind or have trouble managing the transition risk the very future of their businesses.

Bibby's session at Microsoft's Worldwide Partner Conference, titled "Successful Cloud Partners 2.0," went in-depth on how successful cloud partners differ from partners that lag behind, dividing these companies into two categories: followers and leaders.

Successful cloud partners are more profitable than their less-cloud-savvy counterparts, Bibby said, citing a study this year by IDC of more than 700 Microsoft partners worldwide with cloud practices. He said channel partners that have 50% or more of their revenue coming from the cloud have 1.5 times more gross profit compared with other partners. They have 1.7 times more gross profit than those with less than 10% of their revenue from the cloud.

IDC's study showed a similar correlation in revenue growth. Those companies with 50% or more of their revenue from the cloud had a 14% revenue growth rate versus only 7% for those with 10% or less of their revenue coming from the cloud.

Successful cloud partners also get more new customers and more recurring revenue, Bibby said. The IDC research showed that companies with more than 50% of their revenue from the cloud have 1.6 times the recurring revenue—as a portion of total revenue—compared with other partners. They have 1.8 times the recurring revenue as those with 10% or less of their revenue from the cloud. The new-customer ratios were 1.3 times for those with 50% or more of their revenue from cloud, and 1.8 times more than those with 10% or less of their revenue from the cloud.

But why exactly does a cloud model mean a better bottom line for partners? According to the experts, customers typically move into the cloud slowly but steadily, one project at a time. They tend to add on cloud services project by project, and in greater volumes. As they increase their use of cloud services, recurring revenue payments to partners also increase. And as cloud partners add customers, the effect is magnified over time.

Reaching that nirvana seems a treacherous course for many companies. Bibby pointed out the basic problem that traditional VARs and MSPs face in transitioning to the cloud: Recurring revenue deals lack the big, upfront infrastructure purchases of on-premises purchases, yet it takes time to acquire enough recurring revenue to support the cloud portion of the business, so there's an inevitable cash flow problem to be solved.

"[We're beating] the folks … still doing elephant hunting, because we're coming in and proposing a right-sized engagement in opex [operating expenses] dollars," Brown said. "The challenge becomes, how do you live through three or four years to get … enough … revenue?"

The answer, Brown said, is to always be selling. "If you think about over a three-year period how many accounts you need to onboard, you need to keep building up these layers of revenue."

Bibby warned attendees that there is not an unlimited supply of potential customers in the new cloud order. "You've got to get in as soon as you can," he said. "One partner told me, 'Each of my deal sizes for what I'm going after on net-new cloud are half of what they used to be, so I have to get twice as many customers.' If you extend that out to the entire population, it's only going to be the first 50% of partners that get to cloud that are going to get those deals," Bibby said.

Bibby laid out some advice for those channel partners that need to plan for the transition to the cloud:

- **Manage short-term pain for long-term gain.** This means you need to delay gratification and plan for lower revenue in the first two to five years of your transition to the cloud. "Say no to the second-platform deal—the on-premise, the hardware, the license sale. And say yes to this ongoing stream of recurring revenue," Bibby said.

- **Understand the recurring revenue model.** Know that there is typically a cash flow "trough" during the transition to cloud services, as transaction-based revenue drops and recurring revenue starts out slowly before growing.

- **Stop what you're doing and figure out your cloud plan.** You may be comfortable with a transaction-based business in the short term, but things will get very uncomfortable for you as the pace to the cloud quickens and you're still on a transaction-based model.

- **Analyze your profit areas.** Understand which of your revenue streams have the biggest profits and consider what they will look like in the future.

- **Don't wait to adopt cloud.** The longer you delay transitioning to cloud, the more deals the cloud leaders will take away from you.

Bibby also shared some advice for creating a successful cloud strategy:

- **You may not have to change everything.** Not all partner types should feel pressured to adopt cloud immediately. Those relying on professional services to big enterprises can take more time developing a plan for the cloud.

- **Choose between going big and going small.** Being successful with small and medium-sized businesses requires different operational competencies than being successful with big companies. Trying to do both at the same time is distracting to the task at hand.

- **Use the cloud internally.** "We don't have any equipment. We have laptops, a printer, that's it. I can't credibly tell my customers that they can entrust me to run their highly proprietary data on [the cloud] if we don't do the same," Brown said.

- **Stay one step ahead.** Given how young the cloud market still is, being just a step or two ahead of the rest can give you a competitive advantage.

- **Consider company structure.** Some successful cloud partners start out with a separate division but integrate it with the on-premises division as the cloud group matures.

- **Differentiate by domain expertise.** Specialize your offerings with a focus on either business process or vertical industry. Vertical industry work can generate unique intellectual property that you can then leverage going forward.

- **Build your recurring revenue.** Recurring revenue doesn't have to be cloud-related to be good for your company.

- **Increase your company's valuation with recurring revenue.** Bibby said: "The stock market values companies with more regular cash flow more highly. The revenues are the same, the costs the same, the profits the same. Moving from a variable revenue stream, such as selling upgrades, to a more regular one, like subscriptions, will boost the value of the company." —*Sue Troy*

Cloud Demands a New Sales and Marketing Approach

RETHINKING SALES AND marketing isn't an option; it's a must for building a successful cloud practice. That's advice that traditional VARs and MSPs can take to the bank, according to Terry Hedden, CEO of advisory services firm Cloud Guru, who delivered a session on selling cloud services at CompTIA's ChannelCon conference in August.

Hedden's message isn't new but it's one that VARs and MSPs need to keep hearing as many of them transition their businesses and sales teams from break/fix and/or project work to a recurring revenue model for cloud.

Sales and marketing of cloud solutions, in particular, are the areas where most partners fall short. "A lot of VARs and MSPs are great engineers and service providers, but selling, architecting the offering, proposing it and closing the deal, maybe finding opportunity … all that is a mystery," he said.

In his presentation, Hedden set out to demystify how companies can make a lot of money selling cloud and how to tackle the unique operational challenges that companies face when selling cloud.

For starters, he noted that the basic reason partners' cloud profitability may be lagging is because the level and skills of the person selling cloud are fundamentally different from those of the person selling on-premises products.

Companies have to revisit the cloud sales team structure and do one of two things. "You can teach an old dog new tricks, or you can get new dogs," Hedden said.

Creating what he called an integrated team—consisting of cloud staff and on-premises staff—while challenging, can work, he said.

"If the organization is primarily focused on solution selling, sees business consulting as a core business and views cloud as a viable deployment option, then the integrated sales team approach can work," Hedden said.

On the other hand, creating a brand-new cloud sales team allows companies to start from scratch and select a sales team with a net-new profile, with a higher level of business acumen than technical skill.

Hedden also outlined four sales roles that need to evolve to be successful at selling cloud:

- **Consultative sales executives.** These people know how to listen to customers.
- **Inside salespeople.** These staff members need to evolve from being a slinger of transactions to wrapping value-added things around a cloud sale.
- **Account managers.** These people are responsible for recurring revenue streams.
- **Solution engineers.** They're the technical complement to sales executives and can help salespeople simplify the complexity of the cloud.

To get their businesses to be self-sustaining, Hedden said, business owners must invest in a separate salesperson or sales team, compensate to motivate and instill confidence, and do demand generation.

For both managed services and cloud, Hedden stressed that sustaining sales is easy but growing sales volume is difficult. To get growth, companies must market—whether outsourced or insourced.

Sustaining sales is easy but growing sales volume is difficult. To get growth, companies must market—whether outsourced or insourced.

"You've got to develop a demand generation capability, not just with existing customers for add-on projects, hardware and software, but for net-new customers," he said.

Sales compensation for cloud solutions is a new beast for traditional VARs and MSPs. Helping the sales team make a lot of money is in a partner's long-term best interest.

"The reality is that you've got to motivate your salespeople to do what's in the best interest of the customer and what's in the best interest to your company," he said.

What does that mean to partners? You've got to front-load your commission program, according to the speaker.

Partners can wrap a lot of value-added services around their cloud offerings, which add up to a lot of revenue for the business and offer the sales team commission based on that type of sale; or offer the sales team a straight commission, meaning no base salary but with roughly double the commission.

All the talk about sales is empty without marketing to achieve sales success.

"Marketing creates leads, leads create sales and sales create clients, then clients market on your behalf to create more opportunity for you," said Hedden.

Channel partners have a difficult time investing in marketing, he said. Why? Because marketing is a repetitive and continuous job.

—Lynn Haber

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