2015

State of Partnering Study

Driving
CLOUD
transitions

partnerpath

Contents

Introduction

Are your channels cloud-ready?

We have all seen the data for several years. End customers are continuing to adopt on-demand consumption models, driving an increased IT market opportunity. IDC indicates public cloud services sales will near $70B in 2015 and the "greater cloud market" – including public, private clouds and enabling IT and services – will hit $118B*. However, as we will show in this report, the majority of partners' revenues and profit from cloud is minimal. **We conducted an online survey with 107 vendor and 240 solution provider respondents to answer the questions of what impact the cloud market is having on channel partners and what vendors should do to increase channel success.**

The on-demand consumption model is producing new challenges for both vendors and partners. Partners will need some significant help developing profitable and sustainable businesses that not only adopt but also highly leverage cloud computing technologies.

Six key areas that will affect how vendors engage with partners in 2015 and beyond are:

1. With a very crowded technology marketplace, differentiation is growing in importance. Vendors need to differentiate from their competitors not only their products/services but also their partnering model/program.

2. Partners need to get better at differentiating their offer in the market as they face more competition from new sources like digital marketing agencies.

3. Successful vendors will pay attention to partner profitability as partners awake to evaluating and measuring their profitability per vendor line.

4. Vendors are looking for partners who are able to make the transition into cloud business models and need to help partners learn to be profitable in this new consumption model.

5. Both partners and vendors should see services as key to differentiating and creating partner profitability. More focus will be placed on partners' professional services capabilities, business process consulting in addition to implementation/integration.

6. In the end, it's all about the soft side of the relationship: do vendors do what they say? Can they minimize channel conflict? Can they build effective relationships at the field level?

To address these key areas, we have segmented this report into five sections:

1. **Overall trends around partnering,** *including several years of data on channel spending, program priorities and the most common mistakes vendors make in engaging channels.*

2. **The partners' role in cloud offerings** *and how that is changing from the traditional reseller activities.*

3. *How to* **engage partners** *a cloud offering.*

4. *What partners need to be* **empowered for success**.

5. **Measurements, metrics and management** *for a cloud partner ecosystem.*

TIP >> In addition to dozens of solution provider interviews, we had over 200 solution provider responses and over 100 vendor responses to dozens of online survey questions. Throughout this report **vendor responses are indicated in orange** and **solution provider responses are indicated in blue**.

Overall Trends

Focus on What Partners Care About

As solution provider business models get tested from lower margins on hardware, cloud delivered infrastructure and software to more complex partner program structures, solution providers are getting more particular about the vendors with whom they partner. They are examining their areas of profitability to determine where and with whom they will continue to invest. Will partners make the necessary investments to transition to an on-demand business model or will they remain entrenched in the traditional resale model? Well, that depends on how they assess the profitability of that opportunity.

Partnerships are relationships. And in any relationship, if the other party is not thinking about you, they are thinking about someone or something else. The more profitable your partners are, the more partner mindshare you have. In order for a vendor to grow their cloud business with a partner, the partner has to be thinking of them and their cloud offerings. So what are partners thinking about when a vendor is on their mind? There are several factors they ponder when evaluating the overall profitability or value of each vendor relationship.

Opportunity is everything that supports the partner's growing revenue and profitability. Partner respondents ranked these groups by priority:

1. **Market Demand.** Solution providers ranked this the highest priority in their opportunity to grow revenues. Vendor brand recognition, industry reputation, product strength and level of innovation, financial health and installed base all contribute to the demand in the marketplace.

2. **Financial rewards** ranked second. This bucket includes product margins, deal registration discounts, incentives such as rebates and promotions, varied engagement models (refer, resale, bundle) and services opportunity.

3. **Program support elements** round out the top three. These reduce partners' operational costs by providing technical and sales people, field mentoring and marketing resources.

Of equal importance, **investment** includes all the costs to a partner in their vendor relationship. Partners ranked investment components in the following order:

1. **Relationship issues** ranked as the most costly to their overall partnership with vendors. These issues include channel conflict (with other partners and/or the vendor's internal teams), effective account managers, executive level support and trust which affect the partners' time, effort and energy and thus the cost of working with a vendor.

2. **Ease-of-doing-business** is next in priority. Solution providers say process complexity distracts from revenue-producing activities, slows customer responsiveness and demands too much staff and support, detracting from overall profitability.

3. **Enablement activities** such as sales and technical training, formal certification, services methodologies and staff were ranked the lowest priority for eliminating investment. Partners seemed to understand this investment as a necessary element in the partnership.

[The Gist]
Evaluate these different elements in your channel relationships. Can you provide a significant return on investment for your cloud offerings by making the partner's opportunity as large as possible while minimizing their investment (without making it zero)?

Do What You Say

The top two reasons the solution provider respondents regretted joining a partner program are both tied to relationship elements. This really drives home the point that the health of the relationship with your solution providers is a key element to their profitability and thus their mindshare. Also, it's worth noting technology dissatisfaction has grown as a primary factor for regret. Last year, conflict took the top spot, followed by other relationship elements, with the technology having a much lower impact. Our interviews with solution providers indicate this dissatisfaction is primarily due to new and unproven cloud-based solutions. Either the technology doesn't work as advertised or the vendors didn't properly communicate how the technology should work. Understanding the problems the technology aims to solve, the outcomes expected and the effort to implement a solution are reported by the solution providers as their top three complaints.

Why have you regretted joining a channel program?

Vendor failed to deliver on promises

Too much direct conflict with vendor's direct-sales

Technology did not perform as advertised

■ 2015 □ 2014

From our work with solution providers over the past three years, we have seen the partners cull their vendor ranks at about 10% per year. Partners are becoming much more savvy about their vendor relationships and the investments and opportunities of those partnerships. They are not afraid to terminate a poorly performing vendor relationship. Here's a story[1] of one solution provider – vendor partnership that the solution provider chose to end for relationship reasons:

Steve J. Roux, president of 25-year-old systems integrator Innovative Computer Systems Inc. (ICS) based in Farmington, Conn., admits that breaking up is hard to do. Last year he split from an over decade-long relationship with vendor partner SonicWall, which was acquired in May of 2012 by Dell Inc.

"There's a bunch of reasons why we shouldn't split, but at the end of the day the relationship is so broken," he said.

Roux had a registered deal on SonicWall products, worth about $75,000, when a Dell rep stepped in and offered the ICS customer a Dell bundle that combined servers with SonicWall routers and undercut ICS on pricing.

"They crushed us," he said.

On top of that, Roux sought feedback on the issue but it fell on deaf ears. Roux said that the ultimate sting, however, came in an icy blast email from Dell SonicWall that addressed revenue goals, partner tiers (preferred and premier) and revenue requirements.

[The Gist]
Do not overlook or ignore the relationship issues such as trust, channel conflict and executive sponsorship. Vendors that are eager grow their cloud sales with partners, should formally and consistently poll the solution providers on the underlying health of the relationship.

1 As reported on: http://searchitchannel.techtarget.com/feature/Managing-vendor-relationships-When-to-fire-your-vendor
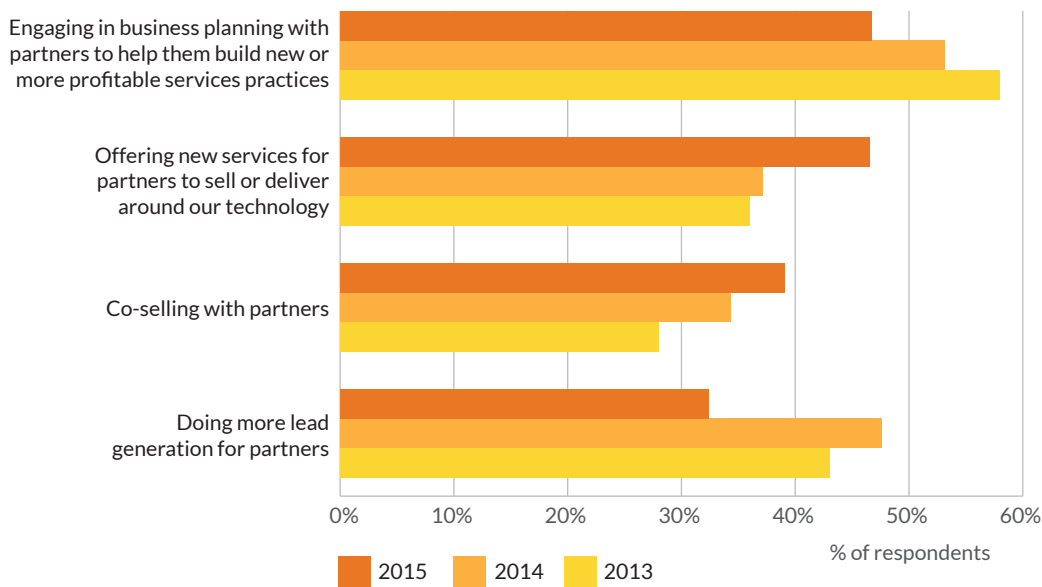
Develop Services to Drive Partner Profitability

Although business planning eked out the top spot as the vendor respondents' major plan to grow partner profitability, the growth of the response around service offerings is very telling. From our conversations with partners and vendors, it is clear that even the business planning is focused on partners growing their businesses through profitable services practices. Nearly 50% of the vendor respondents indicated their priority for growing partner profitability was to offer new services for partners to sell or deliver. These are considered both professional services the vendor offers the solution provider for resale and delivery as well as new growth in managed services.

With a move to cloud and the commoditization of hardware, services are the future profitability centers for both vendors and solution providers. Unfortunately, we are seeing much more conflict between vendors and partners around who delivered what services to the customer. Solution providers view services as their primary profit-maker and, in addition to the profit margins goals, vendors also want to ensure customer satisfaction with effective service delivery. We expect formalized processes to be put in place to solve this conflict around services similar to the way deal registration solved the conflict around product resale in the last ten years.

[The Gist]
Services are the primary driver of future profitability for your channels. Ensure your business value proposition with your partners includes a healthy opportunity for services development and delivery.

What are your major plans to grow profitability in 2015?

Engaging in business planning with partners to help them build new or more profitable services practices

Offering new services for partners to sell or deliver around our technology

Co-selling with partners

Doing more lead generation for partners

0% 10% 20% 30% 40% 50% 60%

% of respondents

■ 2015 ■ 2014 ■ 2013

Overall Trends
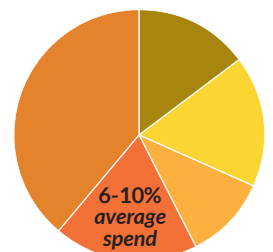
Deal Registration Incentives
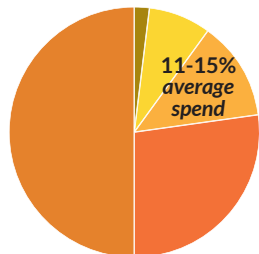
Reselling Discounts

Marketing Funds
(MDF or Co-op)
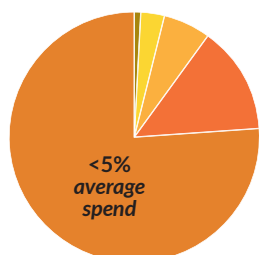
Rebates
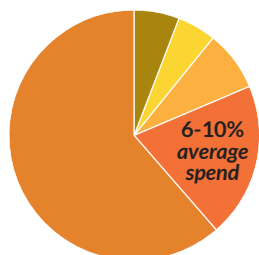
Sales Influence/Agent Fees

Legend:
- <5%
- 6-10%
- 11-15%
- 16-20%
- >20%
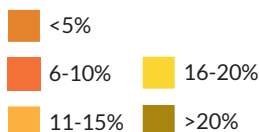
What percentage of 2014 partner revenues did you spend on ...?

Increase Incentives for Desired Activities

It is impossible to answer what the industry best practice is for a vendor's financial value proposition to the partner ecosystem. There are too many variables to consider, including market positioning (that market demand we mentioned earlier), history with the channel (do you have a history of conflict you have to overcome?), solution complexity (there are margin opportunities in mystery), average selling price (if your price point is $5 even 50% margin isn't enough money to live on) and what role you're expecting partners to play (finding opportunities, transacting, maintaining customer satisfaction for the life of the subscription). However, we have some averages for you to evaluate where you might land in your financial incentives.

▸ **Deal registration** is in the 6 to 10% range on average. We see the range really depend on the length of the sales cycle, the competition solution providers face and the number of activities expected by the partner (demos, proof of concept, etc). Check out more considerations in our report *10 Priorities for Deal Registration Success.*

▸ **Discounts** are still in the 11 to 15% range which is a decline from previous years' 16 to 20% range average. That's likely due to ve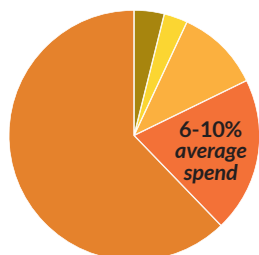ndors shifting from straight discounts to a margin build-up model. Cisco is a good example of a build-up model where the partner can increase margin through deal registration (Opportunity Incentive Program), creating a full solution (Solution Incentive Program) and hitting volume sales targets (Volume Incentive Program) over their standard discounts for program level attainment (Gold, Master). Read more about Cisco's partner model changes.

▸ **Co-marketing funds** are in the 6 to 10% range on average, which is up from the less than 5% range in years past, and reported to be on the rise in 2015. This is also likely due to vendors shifting to rewarding partners for the roles they play and thus actions they take.

▸ **Rebates** have slid to the less than 5% range (thank goodness!). We believe rebates have a place in the channel incentive model when they are tied to growth and not just a "thank you" for sales a partner would have completed anyway.

▸ The average **agent fees** crept up a bit from last year into the 6 to 10% range. This is due to the number of vendors that are engaging partners as agents for their cloud models. It seems the easiest way to engage partners in the vendor's cloud business is to offer them a finder's fee when the vendor closes the client subscription. The challenge with agent fees is that most solution provider businesses can't survive on these nominal payments.

[The Gist] Look at your overall discounting/compensation model and ensure it's aligned with your corporate goals. Do you know your partners' profitability with your product line? Is it enough to motivate? Is it in line with the industry – not only your direct product competition, but adjunct technologies and solutions? What else could partners be selling if they're not making money on your solutions? What do you want partners to do in the marketing, sales and customer satisfaction lifecycle?

Drop the Labels

The vendor respondents' primary partner-set is still traditional partners – those not yet making the transition to cloud business models. This aligns with what we hear through most of our vendor engagements. The primary bulk of the partners in their ecosystem are traditional resellers, unless of course the vendor provides only cloud solutions (like Salesforce.com or Google). Vendors expect growth in their ecosystems among two partner types: transitioning partners and born-on-the-cloud partners. This is not at all surprising. Many large vendors including Microsoft, Cisco, IBM, SAP and NetApp have invested significantly in training, tools, materials and coaching to help partners transition to selling cloud-based solutions.

These born-on-the-cloud partner growth expectations are interesting. How are vendors expecting to attract and engage this partner type? These are organizations that do not behave in the traditional reseller way and thus the standard value proposition of discounts, incentives, rebates and MDF don't produce the same mindshare and loyalty the industry is accustomed to. Most vendors don't know what compels these partners and instead of using traditional methods for a new model, they need to communicate how their products fit into the overall solution of the partner and how the partner will make money.

Ultimately, the IT channel industry focuses on labels too much. Most vendors like to classify partners into types: resellers, system integrators, solution providers, distributors, service providers, developers, etc. However, as the industry shifts to a cluster model (we will dive into this topic in the next chapter) these types are rapidly blurring. Rarely do we see a company that is strictly a reseller and isn't doing systems integration, software development and providing some level of service. We suggest vendors begin to look at what roles the channel partners are performing with the customers and classify and reward them for those roles.

[The Gist]
To build an effective demand-channel model, you need to understand your target customer – what they care about, where they learn about solutions and how they buy. Then identify the trusted advisors your customers are talking to and craft a value proposition that is compelling to these trusted advisers. Provide incentives, support and training they will find relevant.

What do the partners look like in your channel ecosystem?

- 2014
- projected for 2016

Sell Differentiation

Since the majority of vendor respondents expect their partner ecosystem to shift to transitioning (or transformed) partners through 2015, we're not surprised to see the top three expectations for skills improvement are all related to new cloud models. Over the past three years, we've noticed a subtle shift in the expectations of vendors. Three years ago, cloud was still in the early days of the hype cycle and vendors wanted their partners to be able to sell and market a cloud (or subscription-based) solution.

Last year, the focus shifted slightly from "just" selling cloud, to understanding the line of business person's needs. Back in 2012, Gartner analyst Laura McLellan predicted that by 2017, CMOs will spend more on IT than their counterpart CIOs. The vendors' focus slightly shifted to understanding the needs of the business line, and selling and delivering on outcomes instead of simply selling a cloud solution. It's not that solution providers were seen as successfully selling and marketing a cloud solution – but rather that vendors recognized the bigger picture. It's understanding the needs of the business (increased productivity, decreased overhead costs, etc.) that make marketing and sales successful.

Now in 2015, vendors seem to have dropped the rally cry for "sell my cloud" and want partners to understand and position value and differentiation. This is not to say that cloud solutions are not important to the vendor community. On the contrary, we see that cloud solution sales continue to grow as an overall percentage of the vendor's total sales. However, the core capability of understanding the product and solution's value to the customer – how those products might lead to business outcomes for customers – is what vendors are currently concerned with.

[The Gist]
We expect to see much more focus on sales and marketing training around business outcomes in the coming year – regardless of how the products are actually purchased (on-premise or via subscription). Vendors should stay persistent in enablement tools, materials and resources to help partners transition to subscription-based models. These enablement activities are a great strategy to keep your partners loyal, healthy and focused on your products and solutions.

Where do you feel your channel partners have the greatest need for skills improvement?

- Selling the value and differentiation of our products — #1 in 2015
- Selling and marketing a cloud solution (managed services, SaaS application, cloud infrastructure) — #1 in 2013
- Selling value to line-of-business decision makers — #1 in 2014

Legend: 2015 | 2014 | 2013

16–25   **26+**

11–15

1

6–10

2–5 strategic vendors

Become Strategic

Which partners should you focus your enablement activities on? Our data shows if you're not one of the top ten vendors to your solution provider, getting their mindshare is going to be a constant challenge. They might sell your products when a client asks for them, but the partner isn't likely to develop a solution around your products, actively market your technology or create any differentiation in the market.

If you want to become a priority, start by understanding and creating a compelling value proposition – a way for them to make money on your solution. Not all vendors can be strategic to a solution provider, just as not all solution providers can be strategic to a vendor. Due to the time and attention dedicated to these important relationships there must be a hierarchy of primary partnerships. However, becoming a strategic vendor isn't exclusively about a technology solution. Vendors who provide a product that works as expected, solve a business need for customers, provide a significant opportunity to make money and isn't an absolute hassle to work with end up being very strategic to the solution provider's business.

[The Gist] *Become strategic by not only producing a rock-solid product but by offering your partners a way to make money on your products and engage with you easily. Strategic vendors are profitable vendor lines for solution providers.*

Align with Partner Challenges

Partners realize they are facing tough challenges with the continued growth of cloud consumption models. Their customers' needs are changing, prompting a **business model transition** from traditional resale to a recurring revenue model. The partner's internal processes, model and mindset are all changing as they transform their services to adoption, management, optimization and outcomes.

Educating prospects and customers on the benefits of cloud is one of the key challenges solution provider respondents expect a need to overcome. We will show later in this study that creating end-user demand, identifying qualified leads and connecting with prospects at the decision-maker level are all core challenges partners are experiencing in their shift to the cloud.

Partners report they are seeing **increased competition** from their vendors, new competitors such as digital marketing agencies and even more competition from industry peers. All these competitors put pressure on pricing and their profitability models, making differentiation and marketing capabilities even more important.

Solution provider respondents also report they are challenged **finding, acquiring, developing and retaining talent** who understand cloud models. This business model transformation to recurring revenue streams requires everyone in the solution provider organization to change. Marketers need to adopt new digital tools and processes. Sales people need to learn to sell on business outcomes. Technologists need to learn new provisioning and implementation processes. Services teams need to focus on providing technology as managed services. Even accounting and finance need to learn new ways of revenue recognition. The entire company needs to adopt new ideals and keep revenues up and cash flow up.

[The Gist]
Partners find it extremely challenging to swiftly transition out of a traditional reseller mode into a subscription mode if they cannot find and attract the right people to uncover prospects and fight off competition. How can you help them embrace new forms of marketing, relationship-selling and also differentiate against various competitors?
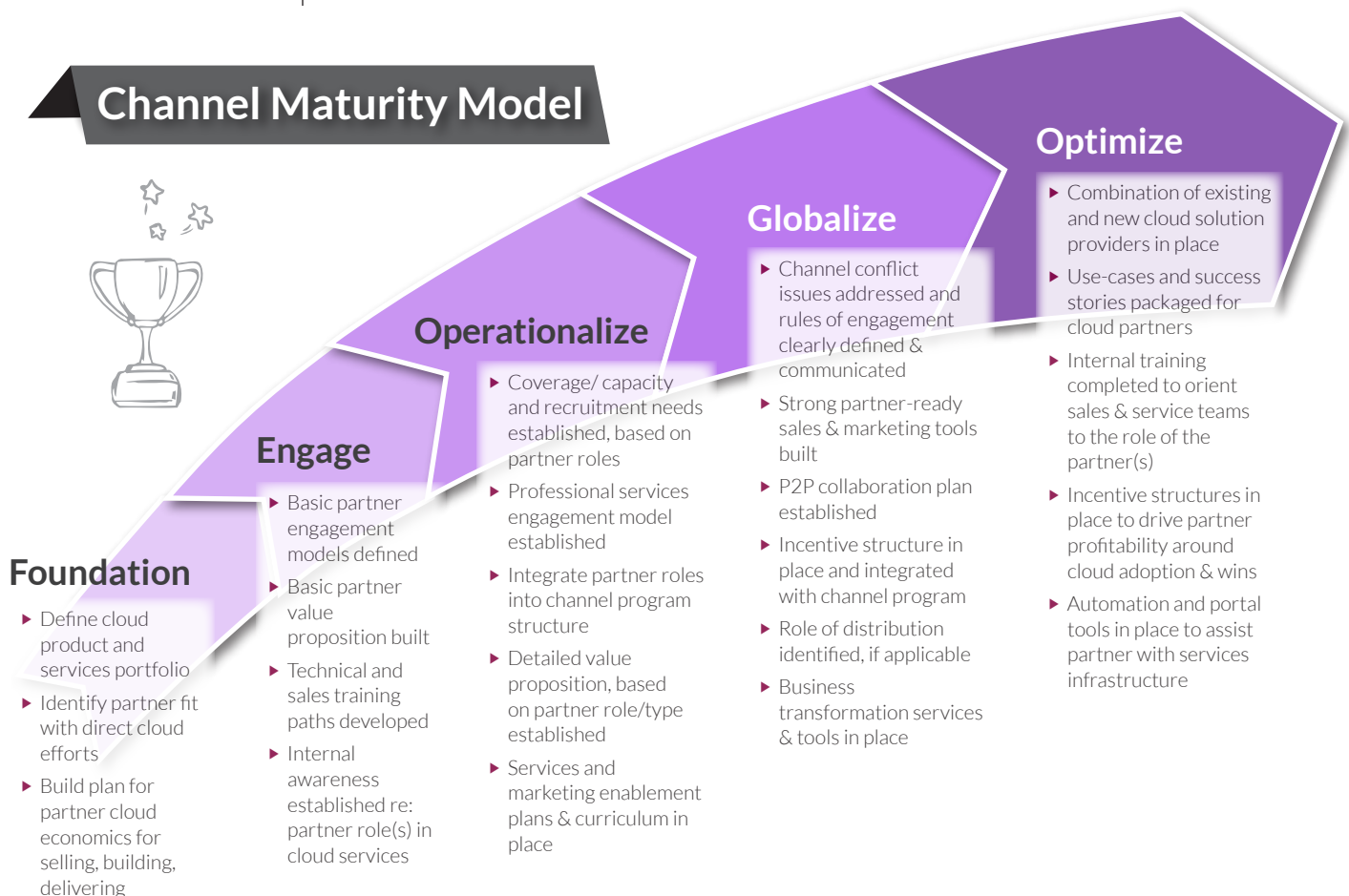
Assess Your Readiness

The matter of partner–vendor engagement in pursuit of the cloud opportunity can be viewed along the continuum of our Channel Maturity Model. Vendors are investing at different speeds and to different degrees. Some are simply treating this market-wave as an opportunity to build new products to be sold by their infrastructure VARs. Many of these resellers will then go build private, hybrid or public cloud solutions themselves. Other vendors are treating this cloud trend as a whole new dimension in their go-to-market strategy, which redefines the way they work with their channel partners from pre-sales prospecting through transaction management and on into post-sale professional services.

We have defined the core initiatives vendors must execute as they move from building their foundation to optimizing their routes-to-market for cloud consumption. These steps include creating a basic value proposition to the market around cloud offerings and an intent to use partners in some way to meet that market all the way up through combining the product, services and support strategy into a whole new way to go to market while reorienting the roles partners play in their overall sales cycle.

Where do you fit along this continuum? Take our online Cloud Readiness Quiz and determine where you are now along with the next steps to grow your partner impact.

Channel Maturity Model

Foundation
- Define cloud product and services portfolio
- Identify partner fit with direct cloud efforts
- Build plan for partner cloud economics for selling, building, delivering

Engage
- Basic partner engagement models defined
- Basic partner value proposition built
- Technical and sales training paths developed
- Internal awareness established re: partner role(s) in cloud services

Operationalize
- Coverage/ capacity and recruitment needs established, based on partner roles
- Professional services engagement model established
- Integrate partner roles into channel program structure
- Detailed value proposition, based on partner role/type established
- Services and marketing enablement plans & curriculum in place

Globalize
- Channel conflict issues addressed and rules of engagement clearly defined & communicated
- Strong partner-ready sales & marketing tools built
- P2P collaboration plan established
- Incentive structure in place and integrated with channel program
- Role of distribution identified, if applicable
- Business transformation services & tools in place

Optimize
- Combination of existing and new cloud solution providers in place
- Use-cases and success stories packaged for cloud partners
- Internal training completed to orient sales & service teams to the role of the partner(s)
- Incentive structures in place to drive partner profitability around cloud adoption & wins
- Automation and portal tools in place to assist partner with services infrastructure

Partners' Role in Cloud Offerings

Be Aware of the Cluster Model

We all realize there is a transition happening in the way companies consume technology. But what is the opportunity for the channel in this subscription-based world?

We used to have a nice linear channel model where vendors sold primarily to two-tier distribution, who then sold to the VAR (several large VARs might have had direct relationships with the vendors) and the VAR sold to customers. All participants knew their role and value in the demand channel: vendors made great products, distribution was a bank and warehouse (pick, pack and ship), resellers sold and installed the product.

Vendor ➤ **Distributor** ➤ **VAR** ➤ **Customer**

We now see more of a cluster model where everyone is selling to each other. The role and value of each player in the channel is not clearly defined. For example, distribution partners are offering services directly to end-customers. Everyone in the demand channel is now chasing the customer. Thus, the role of a partner, even the definition of a partner, is changing. The challenge for vendors is to identify and communicate key roles and thus differentiation for their channel structure. Currently, there is not a lot of differentiation between what AT&T or Amazon Web Services say they can provide for cloud services and what their local resellers are offering. However, price points from these channels can be hugely different thereby confusing the customer.

Partners' Role in Cloud Offerings

Evaluate Your Cloud Growth
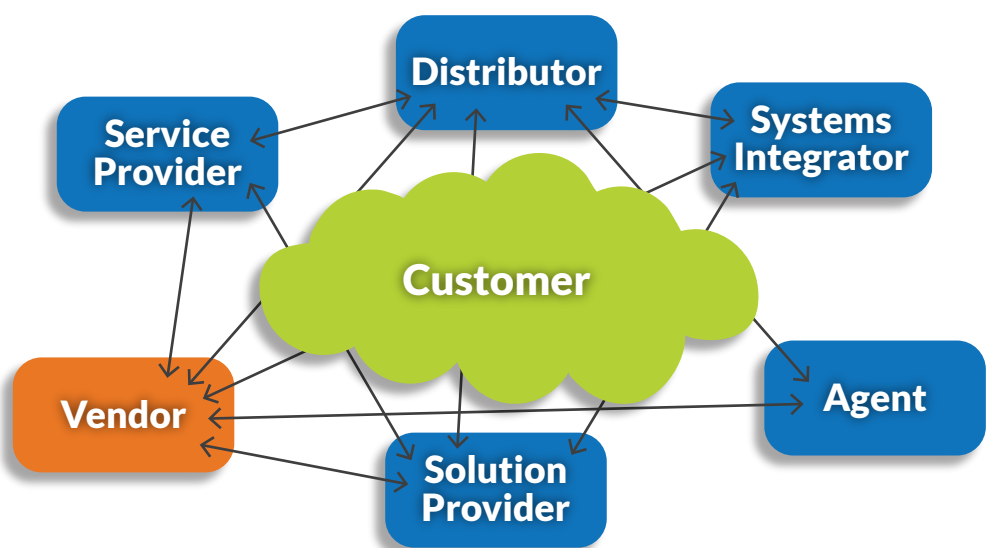
[The Gist]
Vendors have unrealistic expectations of the percentage of revenue to be driven by their partner ecosystem. Vendors will need to invest deeply in business transformation activities to help partners transition and define partner roles and rules of engagement to reduce channel conflict.
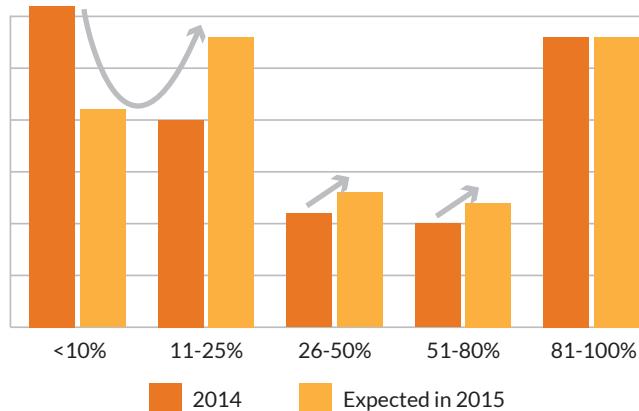
Vendor respondents expect an increase in revenues from cloud solutions in 2015. The data indicates the primary vendors' movement is from less than 10% of revenues to the next bracket of 11 to 25% of revenues from cloud. They indicate this movement comes from shifting their business from on-premise to cloud-based sales. (Note, this is not necessarily a reflection of growth expectations for 100%-cloud companies.)

They also expect growth in cloud revenues driven by partners. In 2014, vendor responses seemed to be diametric – either indicating most of their cloud revenues were driven by partners or having less than 10% of their cloud revenues driven by partners. More than likely the 2014 responses were due to vendors that are 100% cloud learning how to engage partners to drive leads, opportunities and sales for their solutions (regardless of how the technology is delivered). However, most vendors that are transitioning from on-premise to cloud solutions are struggling to shift their compensations, engagement models and programs, thus resulting in less than 10% of cloud revenues driven by partners.

Vendor respondents have high hopes to grow the level of partner engagement in their cloud solutions. Nearly half of the vendor companies that reported less than 10% of cloud revenues driven by partners in 2014 expect to increase that engagement to 11 to 25% or even 26 to 50% within 2015. That is very ambitious and will take an extraordinary effort in changing the models, programs, policies and activities over the next twelve months.

What percent of your overall company revenues is considered cloud?

<10%   11-25%   26-50%   51-80%   81-100%

■ 2014   ■ Expected in 2015

What percent of your cloud revenues is driven by partners?

<10%   11-25%   26-50%   51-80%   81-100%

■ 2014   ■ Expected in 2015

Partners' Role in Cloud Offerings

Prioritize Profitability

Vendor respondents have been very consistent on the role they expect partners to play in cloud offerings. For three years running, vendors first and foremost want partners to resell cloud services (sales) followed by customer evangelism (also sales) and acting as a formal referral partner (yes, also sales).

However, these sales activities aren't driving the lion's share of the partner's gross profit margins, services are. We realize the primary reason vendors have ever invested in a channel ecosystem is to grow sales leverage, but it doesn't look as though there is any money for the partner in playing these same roles in a cloud consumption model. A partner's mindshare follows the money. We've mentioned this before, but it bears repeating. Partners care about their profitability with your vendor line and have three primary concerns:
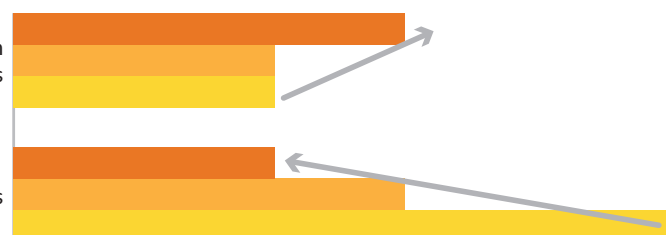
1. **Does the product work as advertised?** In other words, is the customer going to be happy or unhappy with the partner recommendation after all is said and done? You might get a partner to sell your product once, but if it doesn't work as expected in their client's environment, they will never sell it again. This is often the reason one and done solution providers litter some vendors' programs. Either the product didn't work or the solution provider didn't know how the product should work. Either way, the partner sold it once and never again.

2. **Will the partner make any money on this product/solution?** Even if the product bakes, slices and toasts bread perfectly, if the solution provider cannot make any money on the toaster they aren't going to invest any time in marketing or selling it. In our hundreds of partner interviews they regularly quip, "we're not non-profit organizations." This seems to be the biggest stumbling block for most cloud-based offerings. The vendor either hasn't developed a valid model for where and how the solution provider makes money, or they haven't clearly communicated all the complementary services that will drive a profitable solution.

3. **Is it easy to place an order and get a product?** Without the ability to work through your processes to transact, the partners are just selling vapor. These are the ease of doing business components like quote-to-cash processes.

So, while vendor expectations have remained constant, there are two notable changes over the past three years to the roles the vendors expect partners to play in the cloud. One is the vendors' increased interest in having partners work with the carriers. And the other is a slight demotion of the importance for the partner to build cloud-delivered applications.

[The Gist]

Vendors want their partners' primary role in cloud solutions to be sales. However, solution providers do not make enough money on rewards from sales activities alone. Vendors should look more deeply into the value proposition they provide partners, specifically understanding and communicating where the partners can generate revenues and profits from services.

What roles do you expect your partners to play in your cloud offerings? *(Ranked order)*

Acting as an agent for services from our large service providers/carriers

Build cloud-delivered applications

■ 2015 ■ 2014 ■ 2013

Temper Expectations

We believe vendor expectations of the percentage of cloud revenues driven by partners is unrealistic. Why? Because it doesn't align with the 240 solution provider respondents who indicated cloud revenue and profits were growing more slowly for them. 39% of solution provider respondents reported that cloud solutions represent less than 10% of their overall business in both revenues and profits. Although this is down significantly from the 69% of partners that reported less than 10% of revenues from cloud last year, it's still a significant percentage of partners. Granted, 70% of partner respondents were from small firms (less than $20m annual revenues). However, we believe that sample is representative of the overall solution provider population in the U.S. The vast majority of solution providers are small companies. The good news is that most small customers also buy from small solution providers. Thus, there should be a bigger opportunity for these small resellers to sell more cloud solutions, much of the growth in cloud will come from SMB customers.

Even though the overall percentage of cloud is still small, we do see the percentage of partners reporting a significant percentage of their revenues coming from cloud more than triple from last year. The data went from 3% of solution providers indicating 26% to 50% of their business from cloud to a whopping 16% of respondents in this same range. The two categories above this one saw 400% and 300% growth respectively. Encouraging as these numbers may sound, we're not overly enthusiastic as far too few partners saw any significant revenues or profitability from cloud in 2014.
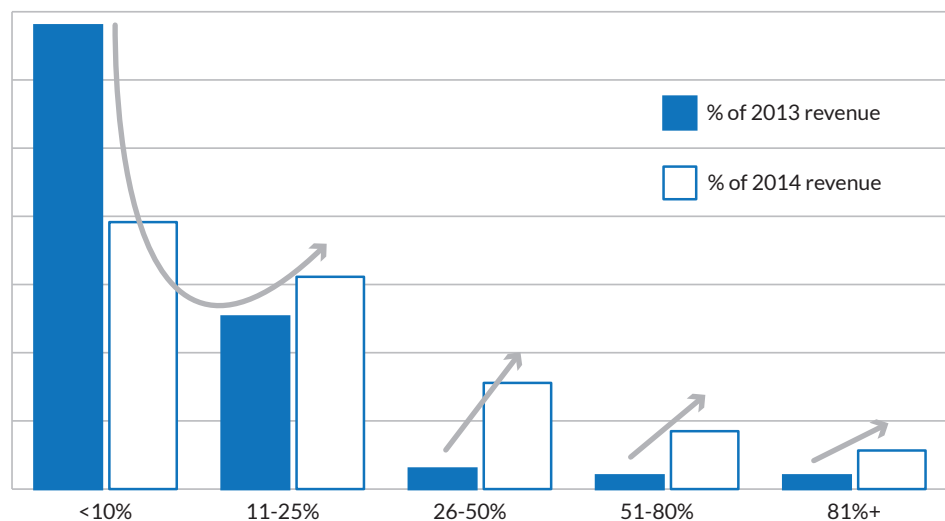
[The Gist]
The cloud market is growing (as evidenced by analyst firms IDC[1] and Gartner[2]). Vendors are bullish about their cloud sales growth and their partners' participation in those opportunities, but partner business isn't keeping up.

What percentage of your business will come from cloud services this year?

- % of 2013 revenue
- % of 2014 revenue

<10%   11-25%   26-50%   51-80%   81%+

1 IDC Cloud Research
2 Gartner Report: 2015 Planning Guide for Cloud Computing

Partners' Role in Cloud Offerings

[The Gist]
Partners see the numbers from the industry analysts, field questions from their customers and they want to participate. The shift in their businesses is challenging – they already have customers and employees to take care of. Smart vendors would help support this move by providing business transition education, resources and operational support.

Encourage Partner Investment

Even though partners might not yet be seeing the payoff of a shift to cloud, they are still interested in continuing the shift. 54% of solution provider respondents indicated it was 'very likely' they would increase their investment in cloud solutions in 2015. Partners are investing in sales and marketing talent, operational systems and new services offerings. What activities can vendors off-load from their channel partners to increase the partners' funds available for cloud-related investments?

Surprisingly, a full 14% of respondents indicated 'not very likely' or 'not at all likely' they would increase investments in cloud. These partners are likely to ride out their businesses in a traditional resale model with a heavy emphasis on professional services. Even without shifting their businesses to address opportunities born from the cloud, traditional solution providers are finding decent margins and profits in professional services and traditional hardware resale and are managing successful businesses. Just because cloud computing is all we talk about in the technology sector doesn't mean other sectors aren't profitably engaging solution providers in the traditional resale way.
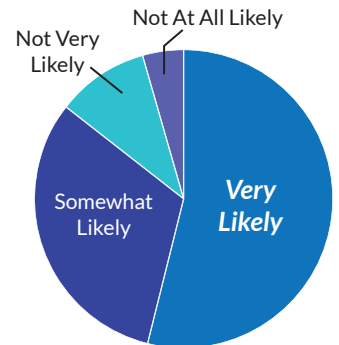
How likely is your company to increase your investment around cloud solutions in the next 12 months?

Introduce New Technologies

When solution providers are marketing and selling cloud-based applications and services solutions, we most often see back-up, telephony, storage (particularly in SMB), security and email in their portfolios. These are technologies the partners were comfortable with in the on-premise world and they are simply extending that technological knowledge into cloud-consumption models.

True partner traction and success in the cloud will come when solution providers adopt new cloud-based applications and services to deliver customer value – not just change how they transact on the old-favorite technologies. Partners will need new resources with new skill sets to grow out of the old technologies into new truly innovative solutions that are purpose-built for on-demand models. Partners realize they will need to invest in new people, as 55% of solution provider respondents plan to hire for positions requiring cloud expertise in 2015. Helping partners find, acquire, grow and manage this talent is an innovative way to support a partner's transition to the cloud.

[The Gist]
Solution providers' initial forays into cloud offerings are to take the on-premise solutions they know and love and sell them in an on-demand fashion. Increased cloud computing adoption and profitability will come from helping partners see new and innovative uses of technology that just happen to be delivered in a subscription model.

What are the top 10 cloud services offered by partners?

1. Back-up
2. VOIP
3. Storage
4. Security
5. Email
6. Unified Communications
7. Infrastructure
8. Virtual Desktop
9. Productivity Software
10. Collaboration

Shift the Partner's Business Model

In last year's study, vendors agreed that the solution providers' ability to secure the right talent was the major obstacle to the solution providers' growth in cloud. Not only will solution providers need talent to address the technical innovation opportunities we just discussed, but they will also need people with different marketing and sales skills. Industry analyst firm Gartner indicates that 65% of all purchasing decisions will be made before the prospect is ever connected to a sales person. Most of the product and solution information will be collected by the prospect through online research. Thus, success in creating awareness, interest and even part of the decision will be reliant upon great digital marketing.

Solution providers worldwide aren't known for their marketing savvy. Most tend be more focused on their technical know-how, having been formed by a technology enthusiast (also called a geek), than their marketing strategy. Not only will solution providers need to invest in hiring new types of marketing gurus, they will also need a different kind of sales team. Sales people in most solution providers are used to working with their SEs to sell a couple of products, that maybe go together, to a customer and then getting paid a percentage of gross margin of the sale. In a cloud world all that changes. Sales folks need to understand how the solution addresses a customer's business needs – increasing efficiencies, reducing costs or producing additional business outcome. They also need to be compensated very differently, which seems to be an enormous stumbling block for vendors and solution providers alike.

However, this year, both vendor and solution provider respondents vehemently agree the ability for partners to shift their business model is the greatest barrier to success with cloud solutions. There are a myriad of changes that have to transpire for a solution provider to shift this business model – from hiring different types of marketing and sales people, to rethinking compensation, to creating managed services, to developing IP and even talking to the bank differently. There are entire books written on the challenges solution providers face in shifting their business model.

[The Gist]
The top focus of any vendor eager to shift to a cloud consumption model must be the bigger picture of the partners' business model transformation. Vendors should choose one enablement to focus on each year. Is business model transformation your enablement priority for 2015? It should be.
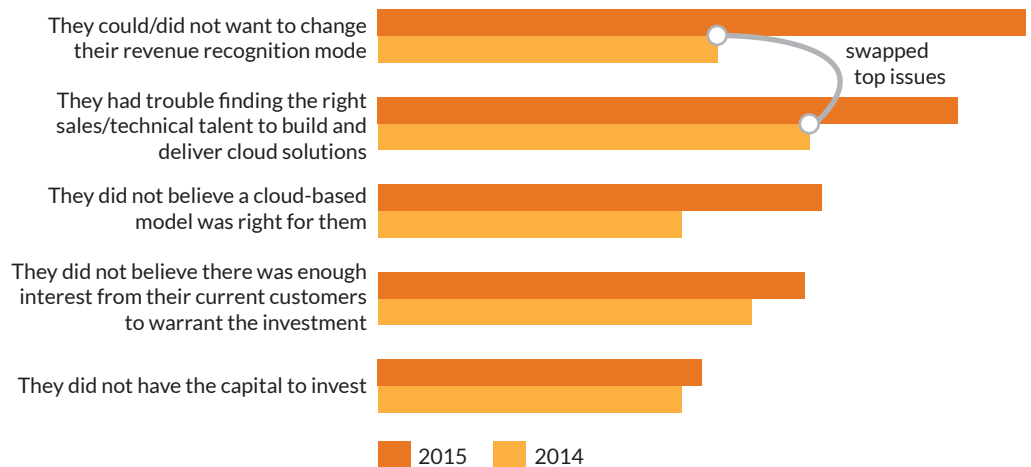
As we've said many times and in many ways (check out our blogs), vendors must choose one enablement topic a year to provide the cross functional focus that is necessary to gain awareness and action in their partner ecosystem. Discover where you should focus. Check out *The New Enablement* report.

What issue did you experience relative to your partners building a more cloud-centric business model or practice?

- They could/did not want to change their revenue recognition mode
- They had trouble finding the right sales/technical talent to build and deliver cloud solutions

swapped top issues

- They did not believe a cloud-based model was right for them
- They did not believe there was enough interest from their current customers to warrant the investment
- They did not have the capital to invest

■ 2015   ■ 2014

Engaging Partners

Plan Your Ecosystem

Developing a cloud partner ecosystem takes much thought, a little research and many decisions. We have included two models in this report to help you frame the larger decisions for a cloud channel initiative. This first model outlines the steps we take in developing a partner ecosystem.

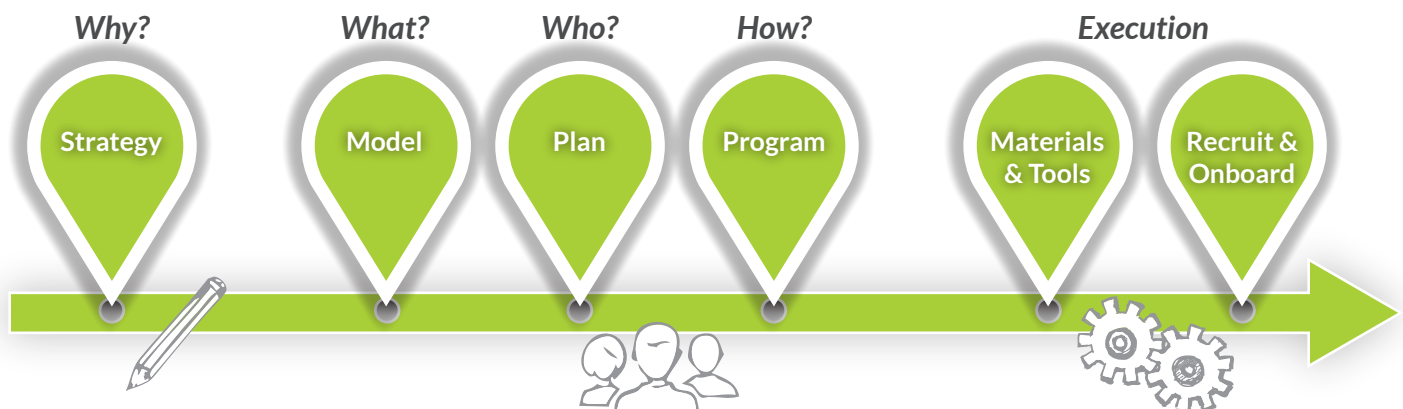The initial step is to decide **why you want to develop partnerships for your business**. At 18 pages into this report, you might chuckle that we're bringing this up now. It's not a straightforward answer and certainly not a given. Many organizations that have been leveraging a channel for their traditional product resale move blindly into a cloud-delivered product and equally as blindly follow the same route-to-market they've used for decades with their traditional model. Most of the time this is an emotional decision – someone either likes, or dislikes channels. Often you have both proponents and detractors in the organization. Perhaps several executives want to leverage channels while other executives think it's a waste of time and money. You need to shift the conversation from emotional bias to a business conversation. Develop an ROI evaluation by calculating the return channels will provide you – the opportunities for sales leverage, growth into new markets and creating solutions that address customer needs – against the costs of investing in the people, processes and programs to drive a channel ecosystem.

Once your organization agrees a channel strategy is right for you at this stage of your market maturity and technology adoption, the next phases determining the partner types, roles, internal staffing and program elements are all mashed together. It sometimes seems like a linear process, you have to know what roles you want partners to play before you can determine the target partner profile, but you also need to know what kind of resources you will have at your disposal before you can define your organizational model. We're consultants, so we like to think of things as phases, but most of the time we're solving the what, who and how for a market segment or opportunity all at the same time. The execution of your channel initiative needs to wait until you have those three elements determined. You'd be surprised how many companies ask us to recruit partners before they've determined how to engage, empower and manage those partnerships.

[The Gist]
There are a lot of moving parts in developing a partner ecosystem. After you decide your go-to-market strategy, the partnering model, plan and program are all designed in tandem and well before you begin recruiting partners.

Why? — Strategy

What? — Model

Who? — Plan

How? — Program

Execution — Materials & Tools · Recruit & Onboard

Program

Engage
Empower
Manage

[The Gist]
After you have decided you're going to leverage partners in your go-to-market strategy, defined what role you want those partners to play, who might be most appropriate to engage as partners and the financial investments you're willing to make in partnering – you're then ready to develop your partner program.

Design Your Program

We take the Program Design phase of the previous model and further define it in a partnering lifecycle. As you decide what role you want partners to play in your cloud models, you also need to determine how you're going to attract, enroll and motivate them, how you're going to enable and support them to be successful and how you're going to manage them and report on your successes. We leverage this framework to build world-class partner ecosystems and will use it to review the rest of the data on driving cloud channel transformations.

Partner Lifecycle Framework

Engage
- ▶ On-boarding and enrollment processes
- ▶ Communications
- ▶ Discounting and incentives
- ▶ Lead registration and management program
- ▶ Rules of engagement

Empower
- ▶ Sales and technical training
- ▶ Certifications & specializations
- ▶ Marketing to, with and through
- ▶ Deal registration and incentives
- ▶ Pre- and post-sales support programs
- ▶ Partner-to-partner initiatives

Manage
- ▶ Automation and infrastructure
- ▶ Business planning & review process with partner
- ▶ Internal performance metrics & dashboard
- ▶ External partnership scorecards & assessment tools

Reminder >> Throughout this report **vendor responses are indicated in orange** and **solution provider responses are indicated in blue**.

Compensate to Motivate Behavior

As we have mentioned, beyond the cloud-delivered solution (product) working as intended, partner concerns turn to how they make money on the solution. The key to attracting partners to your organization is ensuring sufficient compensation for them to engage in marketing and sales. The 104 vendor respondents are clearly compensating channels for cloud offerings the same way they have always compensated partners: providing a resale discount. We primarily see this as a discount on the seat licenses. If the list price is $20 per license, the vendor will provide a 10 to 20% discount to the partners, meaning they purchase it for $16 a seat. Unfortunately, partners can rarely sell at list price, so they probably sell it at $18 a seat and make $2 per license per month on that product. This is why we see "cloud resale" fairly low on the stack ranking of partner gross margin profit models on the next page.

The final SaaS or IaaS transaction is typically between the customer and the vendor as there isn't a product that changes hands. Unlike in a traditional model, the partner doesn't buy licenses, keep them on the shelf and then sell them later. Thus in cloud, a resale model often feels like a referral fee, since the money that changes hands is the difference between the channel discounted price and the final sell price. And the solution provider respondents indicated "referral fees" are the least profitable model.

A recurring revenue stream for the life of the customer, whether resale or referral, is a core tenant to any cloud compensation model. The challenge is that many solution providers' business models aren't yet transitioned to the subscription model, so a recurring revenue stream actually becomes a financial hardship for them. During the transition, while a solution provider has a foot in each camp – project-based sales and subscription sales – there will be a continuous tug-of-war with the vendor's compensation models. Solution providers want the predictability and scalability of recurring revenues, but they need the upfront cash to fuel their businesses.

[The Gist]
To effectively attract and engage partners in marketing and selling your cloud solutions, ensure you have a compensation model that effectively motivates. A recurring revenue stream is attractive to a cloud solution provider or MSP, but many traditional resellers aren't yet sufficiently funded to forgo the upfront cash of a discounting model.
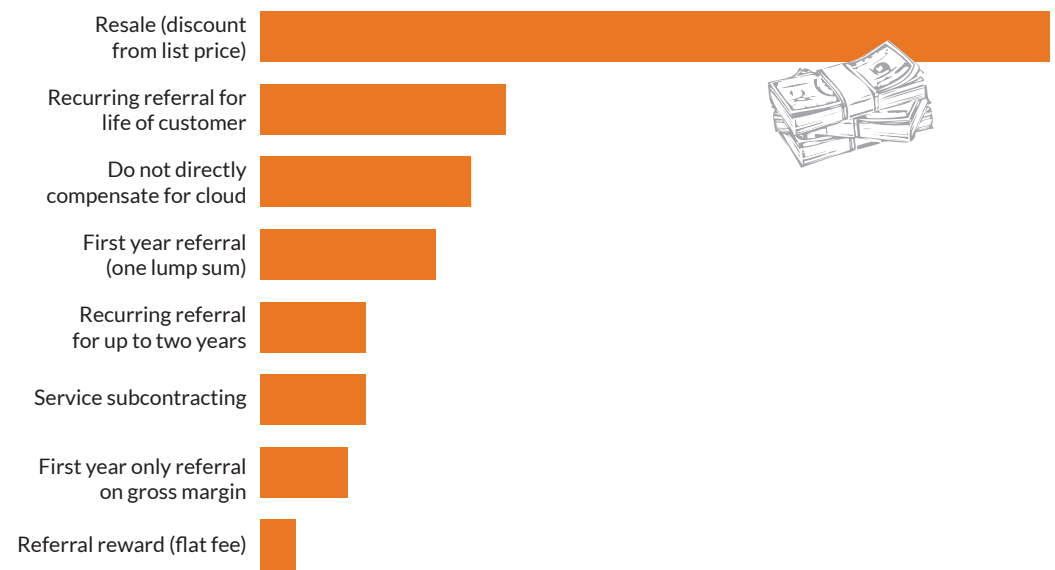
How do you compensate your partners for cloud?

- Resale (discount from list price)
- Recurring referral for life of customer
- Do not directly compensate for cloud
- First year referral (one lump sum)
- Recurring referral for up to two years
- Service subcontracting
- First year only referral on gross margin
- Referral reward (flat fee)

Engaging Partners

[The Gist]

If you want more partners involved in marketing, selling and supporting your cloud-based solutions examine the gross margin profit from those solutions. Do partners make enough money from either your licenses or services surrounding your cloud solutions to warrant the investment? The first step is to know that answer. The second is to increase it.

Examine Gross Profit Options

Partners haven't cracked the code on how to drive profits in this new cluster partnering model. We weren't surprised to see professional services topping the partner ranking of services producing the greatest gross profit margin. Professional services have been solution providers' bread and butter for several years. In the last five years we've seen these lucrative services become the engine of most conflict in the vendor and solution provider relationship. Deal registration programs and automation systems solved the intense conflict over product sales that we saw in the late '90s and early 2000s and we're now seeing a new wave of rules of engagement to address the professional services conflict. However, we haven't yet seen the deal registration tools and systems leveraged to also automate the processes for professional services.

The ranking of traditional hardware sales supports the point we made in previous pages that even if solution providers are not transitioning to a cloud model, they are still driving significant margins, producing profits and managing successful businesses. As everyone in the industry is proselytizing about cloud there is certainly a need to continue to drive the transition toward cloud for vendors and partners alike. Cloud has not fully arrived yet though, so there is still time to get on board.

We've all come to believe and expect that there is no margin in traditional hardware resale. However, the 240 solution provider respondents ranked hardware resale higher than both software resale and cloud resale. It is understandable that the partner respondents see less gross profit margin from cloud resale than from hardware resale, as there is very little margin in the typical $5 per month seat license for most SaaS solutions. It is interesting though to see these solution provider respondents ranked traditional software resale margins even lower than cloud resale.

Rank your average gross profit margin across these solution offerings:

Partner Gross Profit Margin Ranking

Highest

- **Professional Services**
- **Managed Services**
- **Traditional Hardware Resale**
- **Cloud Resale**
- **Traditional Software Resale**
- **Agent / Influence / Referral Fees**

Lowest

Engaging Partners

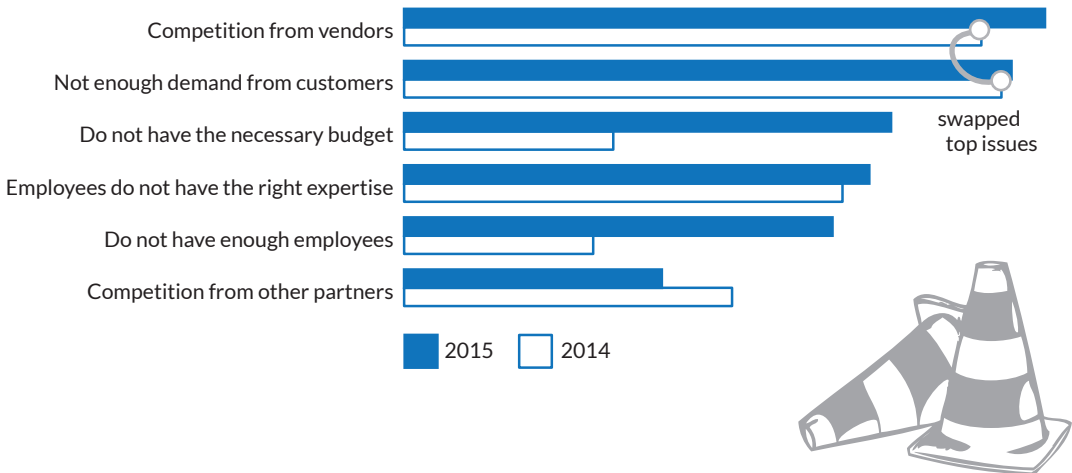## Reduce Direct Conflict

As we saw in our study, *The What and the Why of Partner Profitability,* a rough relationship can put the brakes on a partner's success. Vendor conflict and trust issues apply the foot pressure. The solution providers in this year's study aligned with the findings in our profitability report. Competition from vendors was the #1 issue impeding solution providers in growing their cloud revenue. This roadblock was selected nearly three times as much as competition from other service providers. That's a shame. If vendors are trying to grow adoption of their cloud solutions, there's no better way than to engage an army of partners who are talking daily to thousands of potential customers. Leverage and scalability are two primary benefits of engaging a channel.

The good news is that lack of customer interest/demand has fallen from the top spot as the primary issue partners face in growing their cloud revenue. For two years, solution providers complained their customers didn't see the value in cloud and they were struggling to communicate the benefits. In our opinion, a too high percentage of partners still point to this as the primary challenge, but we're glad it has fallen. It's just disappointing that conflict has taken over the top spot.

What issues have you faced when trying to grow your cloud revenue?

Issue	
Competition from vendors	
Not enough demand from customers	
Do not have the necessary budget	
Employees do not have the right expertise	
Do not have enough employees	
Competition from other partners	

swapped top issues

■ 2015 □ 2014

Connect at the Field Level

For both the vendors and solution providers the primary engagement method is face-to-face through partner account managers and the field sales team. We find it is very important to connect the organizations at the field level. Vendors spend a lot of time thinking about partner models, structures and program frameworks, but the key to establishing a long and profitable partnership is developing trust at the field level. The vendor's support organization plays a larger role with partners than they typically expect or budget for. Even in a cloud model, partners are looking for those connections into the services team and the field SEs.

According to the survey responses, the vendors put more emphasis on distribution to drive their engagement with partners than do the solution providers. The vendors are looking to distribution for scalability and leverage and, while the partners also see value in their distribution partners, they want their primary connection with the vendor at the field level.

We are seeing a trend from both vendors and partners to rely on portals and community groups to engage with cloud solutions. However, the partner account managers and field representatives need to invest in establishing and maintaining relationships with the solution provider sales, marketing and technical teams.

[The Gist]
We've said it 100 times before – the field is where the rubber meets the road; it's how sales happen. Vendors want solution providers to drive sales (reselling cloud solutions, customer evangelism and referrals were the top roles on page 14). To drive these sales motions vendors need to invest in activities that integrate and align field teams such as face-to-face training sessions, conference meet-ups and social outings.
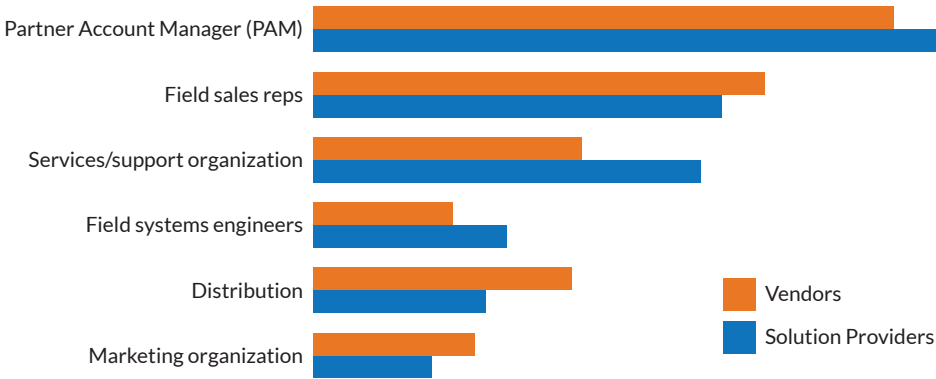
What is your primary engagement structure with cloud partners (vendor's organization around cloud)?

	Vendors	Solution Providers
Partner Account Manager (PAM)		
Field sales reps		
Services/support organization		
Field systems engineers		
Distribution		
Marketing organization		

Engaging Partners
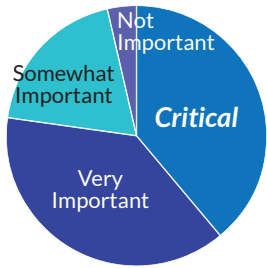
How important is it that vendor reps understand your business model?
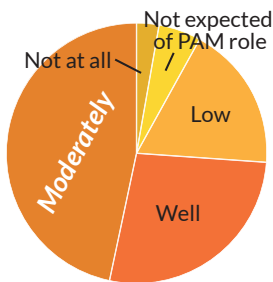
How well does your PAM understand cloud partners' business models?

[The Gist]
There are a lot of services partners need to operate cloud business models. If neither the vendors or distributors are providing the services partners need to be effective with cloud offerings, partners will look for other sources (like Autotask). This could diminish the value of distribution to solution providers and put that channel at risk.

Know Your Partner's Business

To make these field relationships happen, the vendor's partner account managers must understand the partner's business model. 40% of solution provider respondents indicated it was 'critical' and 38% responded it was 'very important' that the vendor representative understand their business model. It is only logical that the best way to engage a partner is to understand their business so you are able to represent your products and solutions according to what they care about.

However, less than 30% of vendor respondents indicated their channel management team (PAMs) understood the cloud partner's business model well enough to have a deep conversation about profitability and growth options. **We cannot stress enough how important this understanding is in building trust and developing a strong business relationship.** If the people who are the primary engagement conduit don't understand how the partner makes money and the challenges they face in transforming their business to a cloud model, how are they expected to be a trusted advisor in helping the partner grow their success?

[The Gist] *Training your PAMs on having a business-relevant conversation with partners must be a primary internal engagement initiative in 2015. Before you spend time and money creating programs to engage and motivate partners to sell your cloud solution, make sure the people chartered with their success understand how they become successful.*

Leverage Distribution for Key Activities

Only a handful of vendors are leveraging distribution to support the key cloud initiative activities such as solution aggregation, customer billing, provisioning and remote infrastructure management. These are services solution providers need as they move to a cloud business. However, the traditional distributors are lagging way behind in offering these crucial elements. Partners are struggling to find sources for these services and are beginning to engage with non-traditional partners to source these key business elements. Distributors have decades of deep relationships with solution providers and are the de facto source to extend the support vendors can offer partners at scale. If the distributors don't quickly invest in providing these capabilities to their solution provider customers, they will find their core base of partners, those less than $50m in yearly revenues, creating partnerships with other service bureaus that can provide what they need to operate in the cloud.

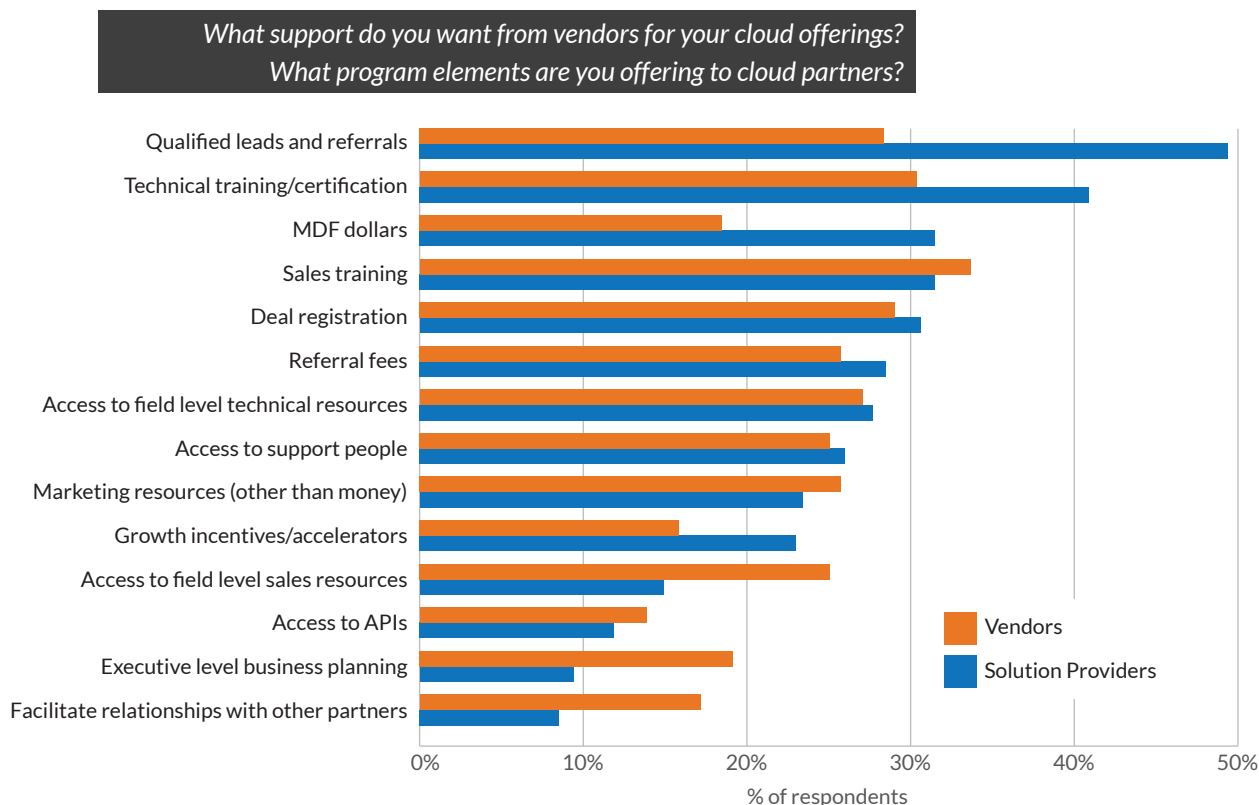*How do you leverage distributors for your cloud solutions?*

Empowering Partners

Provide Leads and Training
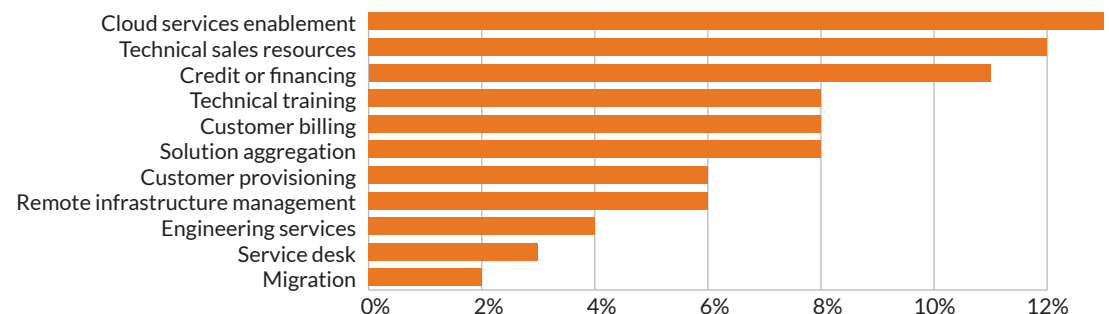
[The Gist]
As our industry transitions into the cloud, invest in enablement activities as you would with any new product introduction: some technical abilities closely aligned with sales skills, then marketing campaigns and the processes and policies to manage ongoing sales activities.

As we transition from the resources to engage solution providers in a healthy partnership, to empowering partners to be successful with cloud solutions, we see a fairly distinctive, albeit understandable difference between what solution providers report they want and what vendors report they provide. Solution provider respondents first and foremost indicated they want leads and referrals, then technical training/certification. This makes sense. Solution providers need the technical skills to understand how the solution addresses customer needs; and who doesn't like a warm introduction to any sales relationship? But with regards to leads and referrals, we're going to put that priority aside for the purposes of this conversation. Solution providers are like commission-only sales people – they only get paid from the vendor when they sell. As the iconic movie *Glengarry Glen Ross* hails, everyone wants the qualified leads – contacts that know what they want and are ready to buy.

The next three solution provider priorities all rank about the same. Sales training barely edges out marketing dollars and deal registration. We see the standard progress as a need to position the products and solution before creating compelling marketing campaigns or working on deals. It is great to see that access to field resources are far down the list of wants/needs from the solution providers. In following up with respondents on that question, we were delighted to hear they feel those connections are strong, for the most part, and saw other gaps that we've highlighted here.

What support do you want from vendors for your cloud offerings?
What program elements are you offering to cloud partners?

Legend: Vendors, Solution Providers; % of respondents
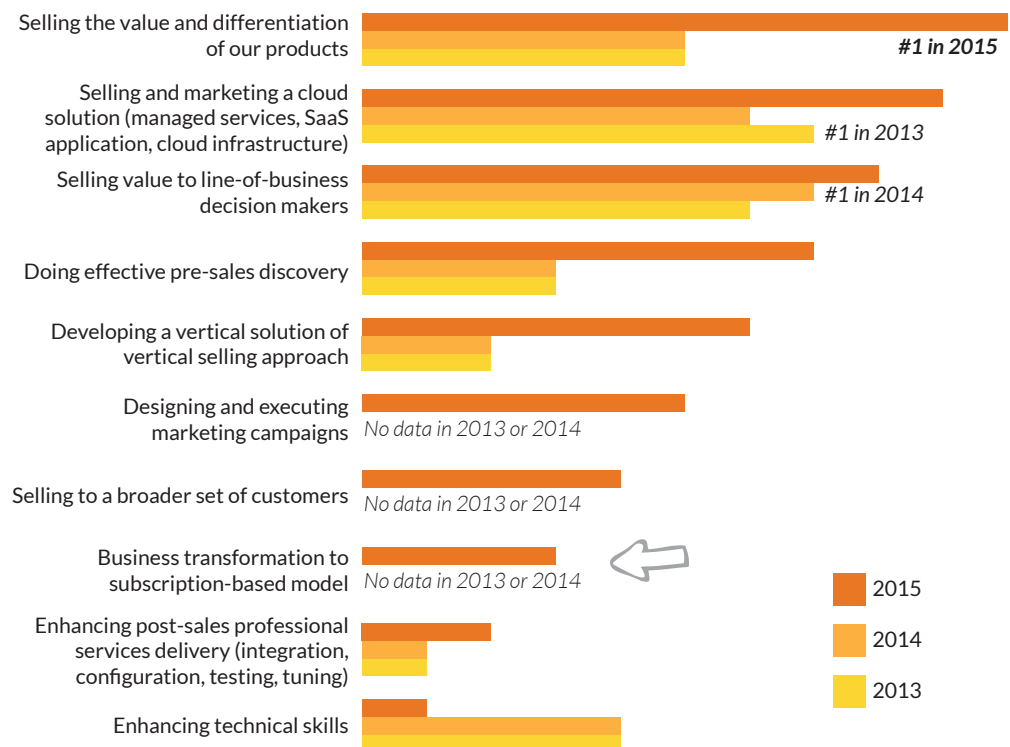
Empowering Partners

[The Gist]
Even though you might have made significant investments in the education and tools to help partners transition their business models to cloud solutions in 2013 and 2014, don't give up on these enablement activities. We would advise vendors of all sizes to provide whatever assistance they can to continue to help the solution providers transition.

Educate Partners on Selling Differentiation

As we mentioned in the "Overall Trends" on page 9, vendors seem to have dropped the rally cry for "sell my cloud" and want partners to understand and position value and differentiation. This is not to say that cloud solutions are not important to the vendor community. On the contrary, we have seen that cloud solution sales continue to grow as an overall percentage of a vendor's total sales.

It might seem a bit surprising the majority of vendor respondents have deprioritized these transformation trainings. As we saw earlier, vendors are looking to grow their partner ecosystem ranks with transitioning partners and vendor respondents believe business model transformation is the key reason partners weren't more successful with cloud in 2014. As we also noted, many large vendors have made significant investments here. Several with whom we have spoken are taking a wait-and-see attitude, hoping the investments they've made over the past two years pay off as solution providers slowly make the transition to cloud-oriented business models. With all the priorities in training and enablement, many vendor respondents are focused on driving sales and marketing their solution, regardless of the consumption model or the partner's business model.

Where do you feel your channel partners have the greatest need for skills improvement? *(Ranked order)*

|	
Selling the value and differentiation of our products	**#1 in 2015**
Selling and marketing a cloud solution (managed services, SaaS application, cloud infrastructure)	*#1 in 2013*
Selling value to line-of-business decision makers	*#1 in 2014*
Doing effective pre-sales discovery	
Developing a vertical solution of vertical selling approach	
Designing and executing marketing campaigns	*No data in 2013 or 2014*
Selling to a broader set of customers	*No data in 2013 or 2014*
Business transformation to subscription-based model	*No data in 2013 or 2014*
Enhancing post-sales professional services delivery (integration, configuration, testing, tuning)	
Enhancing technical skills	

Legend: 2015, 2014, 2013

Empowering Partners

Enable Line-of-Business Selling

If vendors are looking for partners to understand the value and differentiation of their solutions, they should start by enabling partners to sell to a line-of-business contact. We've all heard the industry analysts profess that 60% of the IT buying decision will be driven by the marketing organization in the next five years, since they are large consumers of SaaS offerings within their organizations. And there are other groups such as finance, HR, sales and support that are also buying SaaS solutions directly for their business needs. IaaS and PaaS offerings are still expected to be driven by customers' CIO and IT groups, but there is no doubt the availability of on-demand solutions has created new buyers in all our customers.

Over 75% of vendor respondents indicated that it was either "very important" (40%) or "critical" (38%) to promote their products within the line-of-business or vertically-relevant solutions. As we have seen, moving to on-demand and cloud-based offerings has driven a focus on providing business-relevant outcomes. And to provide those business-relevant outcomes requires knowledge of the businesses growth needs, opportunities and challenges. Understanding the customers' needs – be that a marketing person looking for a strategy advantage with CRM solutions or an HR manager trying to increase efficiency in managing talent acquisition, development and retention – is paramount for success in reaching these potential customers.

Only 26% of vendor respondents feel they engage well with the vertical or industry practices of their solution providers. Vendors know they need to reach customers with solutions specific for them, and we've seen the vendors want their solution providers to understand and sell value; however, this data would indicate vendors aren't focused enough on enabling and empowering their solution providers around these opportunities.

How important is it to your company to promote your products within line-of-business or vertically-relevant solutions?

Not Important 4%

Somewhat Important 18%

Critical 38%

Very Important 40%
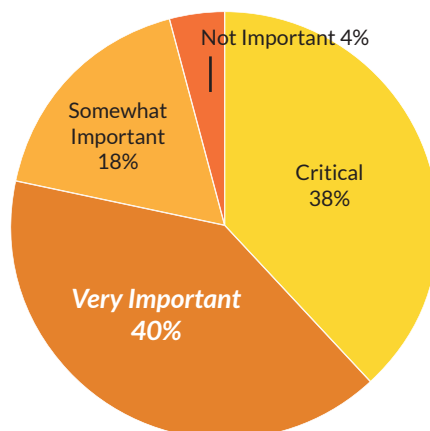
How well have you historically engaged with the vertical or industry practices of your solution providers?

Poorly 18%

Well 26%

Average 56%
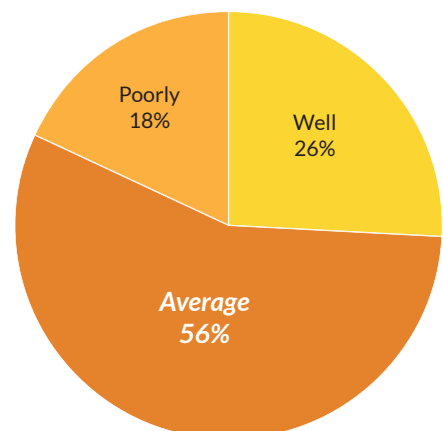
Empowering Partners

[The Gist]

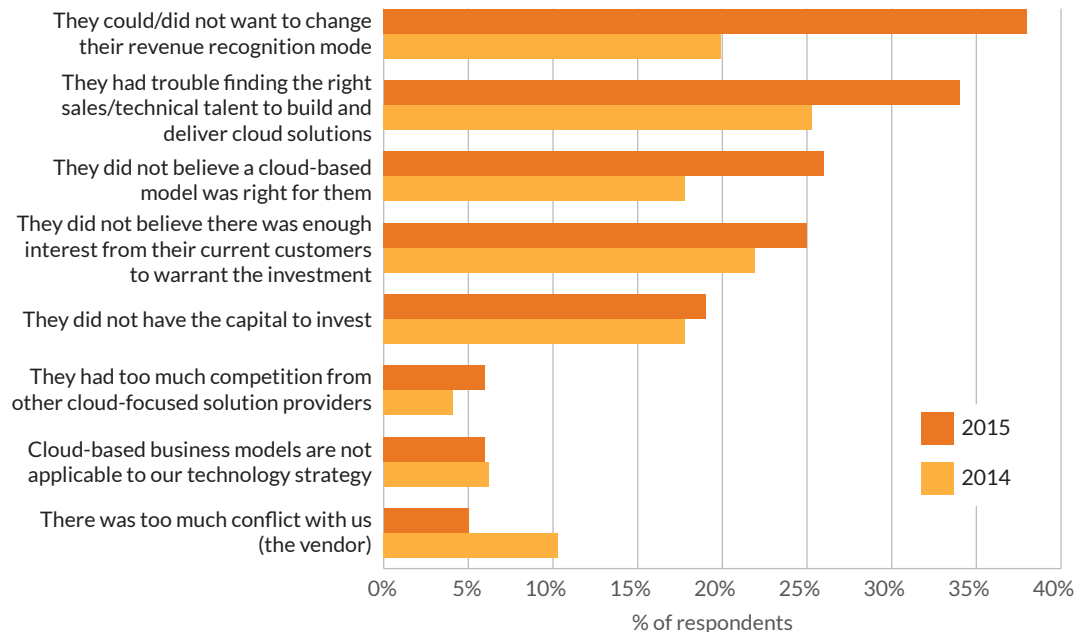*Help your partners transition their business models to align with recurring revenue streams of on-demand models, but don't discount the issues you create for partners with direct teams selling against them and a wide variety of channel partners offering your solutions with limited differentiation.*

Recognize the Disconnect on Conflict

The vendors overwhelmingly responded that solution providers' inability to change their revenue recognition or business model was the primary inhibitor to solution providers' success with a cloud practice in 2014. Partners admit the revenue recognition model is a key challenge to subscription services, but listed the vendors' direct selling efforts as their key roadblock (on page 22). The vendors all but discounted conflict and competition as a factor in the lack of partner success, ranking them both last in this list. This is a huge disconnect that needs to be recognized and addressed. The partners believe their major roadblock is direct conflict with the vendor, but the vendor ranked conflict as last (out of 8 options).

Access to talent fell just one spot from the primary issue vendors pointed to last year into a close second this year. And customer interest also fell a position in vendors' explanation of solution provider issues with adopting a cloud-centric business model. We could argue inexhaustibly whether revenue recognition or talent or customer demand are the primary challenges of the partners' business model changes. All three are significant hurdles for the partners to overcome as they transition to cloud based solutions. However, the disconnect on the assessment of the level of direct conflict and competition from other solution providers needs to be more closely evaluated and addressed by the vendor community.

What issue did you experience in 2014 relative to your partners building a more cloud-centric business model or practice?

Legend:
- 2015
- 2014

Categories (top to bottom):
- They could/did not want to change their revenue recognition mode
- They had trouble finding the right sales/technical talent to build and deliver cloud solutions
- They did not believe a cloud-based model was right for them
- They did not believe there was enough interest from their current customers to warrant the investment
- They did not have the capital to invest
- They had too much competition from other cloud-focused solution providers
- Cloud-based business models are not applicable to our technology strategy
- There was too much conflict with us (the vendor)

X-axis: % of respondents (0% to 40%)

Empowering Partners

Train on Transition

With all our emphasis in this report about how important it is for vendors to provide assistance to partners in their transition to a cloud-centric practice, the data is inspiring and disappointing at the same time. It's inspiring to see that many vendors are providing training, resources, materials and funds to help and encourage partners to transition their business models. It's disappointing that only 40% of vendor respondents are providing assistance in any element. Yes, some of the vendors who responded they are not providing any assistance are likely small companies and can't afford a lot of enablement investment. 43% of the vendors completing the study had less than $500 million in annual revenues. However, in developing a partner ecosystem, we don't believe size of company excludes you from supplying your partners with the help they need to grow and prosper.
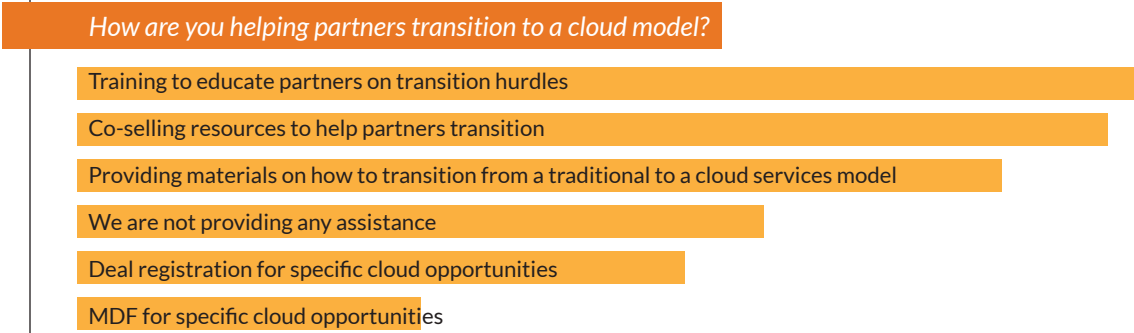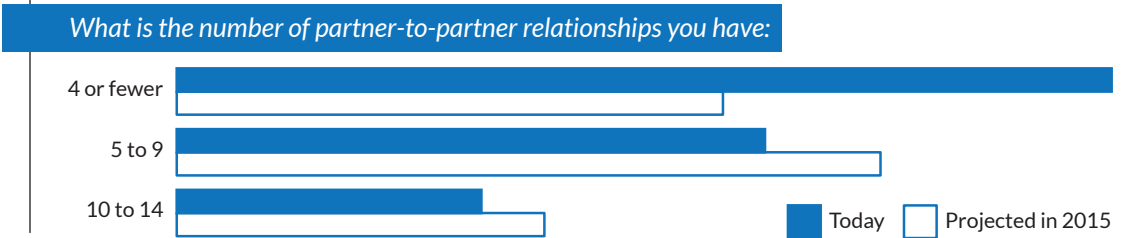
[The Gist]
25% of vendor respondents are providing no assistance in helping partners transition to a cloud model. No matter the size of your company, you should be providing some proportional investments in this key initiative.

How are you helping partners transition to a cloud model?

- Training to educate partners on transition hurdles
- Co-selling resources to help partners transition
- Providing materials on how to transition from a traditional to a cloud services model
- We are not providing any assistance
- Deal registration for specific cloud opportunities
- MDF for specific cloud opportunities

Foster P2P Relationships

Another way vendors can enable solution providers' success in cloud solutions is to facilitate partner-to-partner (P2P) relationships. The nature of cloud solutions requires solution providers to seek out and engage with other solution providers for technical capabilities, vertical market expertise, service support and business operations. This cross solution provider partnering is proliferating the cluster channel ecosystem we discussed on page 12. 84% of solution provider respondents indicate cloud is increasing their need for partner-to-partner relationships. The majority of the solution provider respondents have four or fewer existing partnerships with other solution providers. By the end of 2015, the majority of partners will have between five and nine partnerships. Each collection of partner-to-partner relationships is expected to grow through 2015. That is going to lead to more complexity, unclear roles and potential conflict within the ecosystem, making it even more important for vendors to reign in the cluster model.

[The Gist]
Cloud is increasing the need for solution providers to partner with each other. Vendors can help enable partners for cloud by facilitating partner-to-partner relationships.

What is the number of partner-to-partner relationships you have:

- 4 or fewer
- 5 to 9
- 10 to 14

Today   Projected in 2015
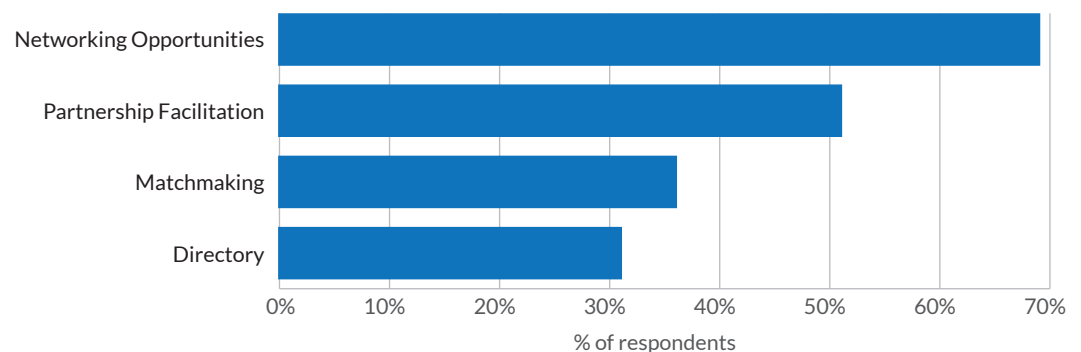
Empowering Partners

[The Gist]
After discussing the opportunities to develop partner-to-partner relationships between solution providers for nearly a decade, the move to cloud business models is generating renewed interest and speed around these initiatives. Solution providers want help that extends beyond a directory and into matchmaking between appropriate partners and facilitating the relationship. A great place to start supporting solution providers' P2P efforts is with more networking opportunities between partners.

Extend Beyond a Directory

73% of solution provider respondents want vendor help with their partner-to-partner relationships. The help solution providers want from vendors is focused around finding and connecting with potential partners. Most vendors provide a partner locator or directory on their company site to help potential customers find solution providers. You might not be surprised to learn that other solution providers looking for potential partners are the largest users of those directories. Think of these types of directories as the Match.com of partner-to-partner relationships. Many vendors already have them, thus that request is fairly low to our solution provider respondents. However, like on Match.com, no one is going to get married before they at least have coffee together – so opportunities to meet face-to-face at conferences or local networking events is highly desired by solution providers. New this year is the growth in partnership facilitation, meaning helping the solution providers define roles, rules of engagement and even legal agreements. The request in help with matchmaking has also increased significantly from two years ago when we last polled on this data.

What help would you like from a vendor in developing partner-to-partner relationships?

Category	% of respondents
Networking Opportunities	~70%
Partnership Facilitation	~51%
Matchmaking	~36%
Directory	~31%

% of respondents

Empowering Partners

[The Gist]
Solution Providers are looking for help in developing partner-to-partner relationships, but the vendors seem focused on initiatives that help their solution provider ecosystem connect with ISVs and Service Providers/Telcos. These are important relationships to help solution providers create a full cloud offering that addresses customers needs, but they are also looking for connections to other solution providers.
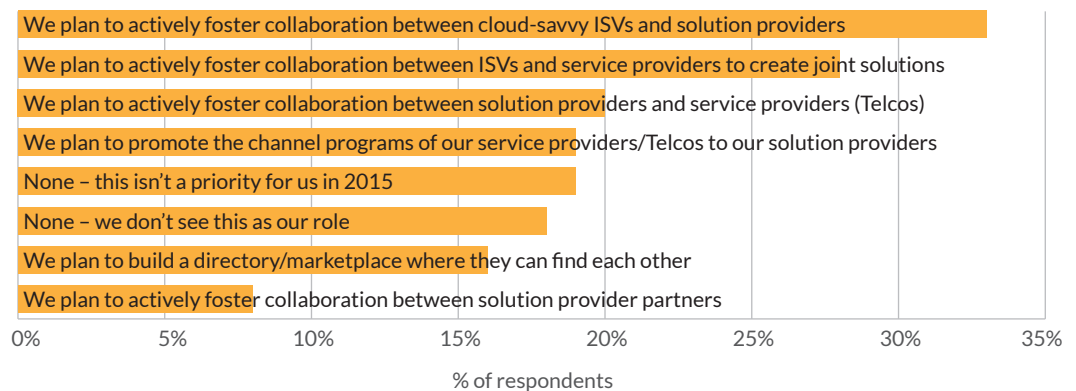
Introduce Partners to Each Other

Many of the vendors participating in this study plan to foster collaboration between partners in 2015. Less than 20% indicated they felt that enabling partners to develop P2P relationships wasn't their role. Most of the vendor initiatives are focused around fostering collaboration between their ISV partner and their current partner ecosystem – either resellers or service providers. This isn't really a partner-to-partner initiative, but it is an investment in enabling partners to develop full solutions for cloud offerings. About 20% of respondents expect to foster collaboration between resellers and their Telco partners. But just as many don't have this as a priority for 2015. It's not surprising, but a little disheartening, to see how few vendors are expecting to create initiatives for their traditional reseller partners to collaborate together in cloud solutions for 2015.

How do you plan to foster collaboration between your resellers, service providers and ISVs around cloud solutions in 2015?

We plan to actively foster collaboration between cloud-savvy ISVs and solution providers	
We plan to actively foster collaboration between ISVs and service providers to create joint solutions	
We plan to actively foster collaboration between solution providers and service providers (Telcos)	
We plan to promote the channel programs of our service providers/Telcos to our solution providers	
None – this isn't a priority for us in 2015	
None – we don't see this as our role	
We plan to build a directory/marketplace where they can find each other	
We plan to actively foster collaboration between solution provider partners	

% of respondents (0% – 35%)

[The Gist]
Enablement now crosses all aspects of helping a partner be self-sufficient – from service delivery skills, to sales and marketing expertise through to business acumen (transition). As long as partners want and need your help, enablement (or empowerment as we call it) will never be over. You're never done enabling partners!

Continue Enabling Partners

The vendor community has shifted from enablement being viewed as an end-game, where a partner is enabled when they can accurately sell and successfully implement your products, to an ongoing activity. Enablement no longer means "just" the technical skills and certifications it used to mean. Long gone are the days when a partner hits a threshold and you say, "Voilà! They are enabled!" (if you ever could). Now, just when we think we have the partners self-sufficient, new needs like business transformation to a cloud model, partner-to-partner facilitation or talent acquisition come along. This often means everyone at the vendor is in some part responsible for some enablement activity. It takes a whole company to continue to empower partners for increased success.

Partner Self-Sufficiency

Service Delivery Skills **Sales/Prospecting Skills**
Technical Skills **Marketing Skills**
Industry Expertise **Business Acumen**

Managing Partners

[The Gist]
MRR, lifetime customer value and churn are the three key metrics of success with subscription models and should be part of your regular conversations with solution providers. Measuring new customers and percentage of overall business that is recurring revenue will help you understand a solution provider's ability to transition to a cloud model.
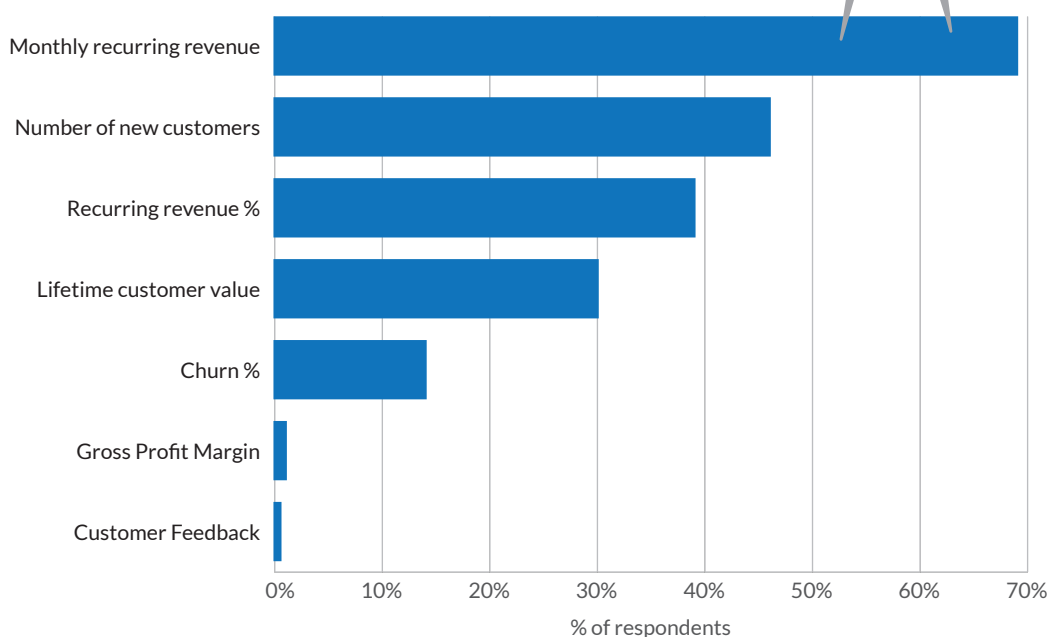
Implement Cloud Metrics

We've seen significant investments in this report from both solution providers transitioning their business model to cloud and vendors engaging and empowering them to drive that transition. We now examine how both sides are evaluating their success.

Most solution provider respondents are measuring their success in cloud by their monthly recurring revenue (MRR). Net new customers and overall percentage of the business as recurring revenue are two strong measures of a partner's transition to a cloud model. The key metrics of anyone's success not only selling but supporting and maintaining a subscription-based business are: MRR, lifetime customer value, the amount a customer spends with you over the time you have them as a customer and churn (the percentage of customers lost in a period). It is a bit surprising that less than 1% of solution provider respondents are measuring their cloud success by the gross profit margin earned or through customer feedback. This is likely due to the limited and recent success partners are having selling cloud. They don't have enough historical data to accurately measure these two numbers. True success and profitability with subscription models comes from keeping a customer over multiple years. It's not the sale or implementation that drives success but customer satisfaction.

How do you measure your cloud success?

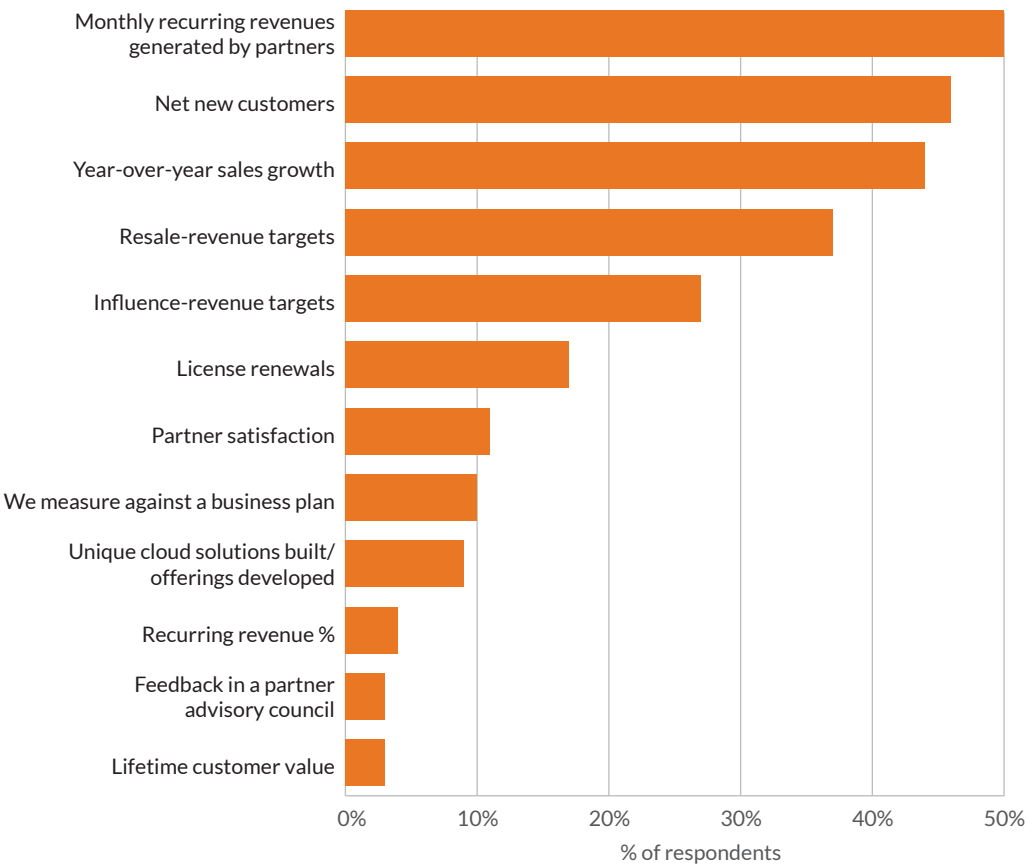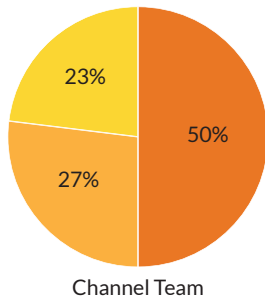| Metric	% of respondents
Monthly recurring revenue	~69%
Number of new customers	~46%
Recurring revenue %	~39%
Lifetime customer value	~30%
Churn %	~14%
Gross Profit Margin	~1%
Customer Feedback	~1%

% of respondents

Measure MRR

It is great to see that 50% of vendor respondents are also measuring monthly recurring revenue (MRR) generated by partners as an evaluation of their partners' success. Both solution providers and vendors are focused on this key recurring revenue metric, which is fairly easy to capture. However, it could be argued that after MRR, the next three categories of measuring the success of cloud partners listed here are more aligned to a traditional resale model than a cloud model. Net new customers, year-over-year sales growth, resale revenue targets and influence revenue targets are all metrics vendors have used to evaluate partner success for decades, in the traditional resale models. It isn't until license renewals, coming in fifth, that we see a possible cloud-centric metric, and we could still argue that is still a traditional software licensing metric. Less than 4% of vendors respondents indicate they evaluate the lifetime customer value or the overall percentage of business that is recurring revenue to determine the success of their cloud partners. We believe it is difficult to put the focus and attention needed to partner engagement and enablement in cloud solutions if you're not evaluating the partner's success in the transition or the health of their overall cloud business. You measure what you value and so far that still looks like net new customers and year-over-year sales growth.

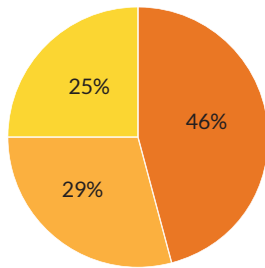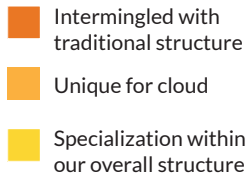**What do you measure with regard to the success of your cloud partners?**

23%

50%

27%

Channel Team

25%

46%

29%

Partner Program

■ Intermingled with traditional structure

■ Unique for cloud

■ Specialization within our overall structure

[The Gist]
It's a tough choice to determine whether you should have your cloud partner initiatives intermingled with your traditional program or kept separate. The decision should be based on your channel history, market positioning, program complexity, current partner ecosystem and company goals.

Organize for Cloud

We are often asked which is better: to have your cloud initiatives intermingled as part of the overall partnering program, or to create a separate program specifically tailored to cloud partner needs? It's a difficult question to answer without knowing more about a vendor's history, market opportunity and goals. Intermingled programs reduce the partners' complexity as they don't have to sign up and belong to multiple programs with a vendor. On the other hand, intermingling cloud program engagement models, enablement activities and measurements alongside your traditional programs isn't easy for the vendor to manage. For example, interlacing the requirements and benefit for being successful in the cloud isn't going to naturally align with the expectations (typically certification and revenue) and benefits (typically discount, deal registration and MDF) of a traditional model. Approximately 45% of the vendor respondents report their cloud channel programs and team are intermingled together.

In a more combined approach, around 25% of vendor respondents have created a cloud specialization within their overall program framework. In this model, the solution provider still belongs to the overall traditional program but then also qualifies uniquely to participate in the cloud initiatives. Microsoft has this structure; all partners belong to the Microsoft Partner Network and then several qualify for the specialized cloud competencies through their proven cloud performance. Partners who attain the new cloud performance competencies additional benefits on top of the standard Microsoft Partner Network levels (Gold, Silver, etc).

On the other end of the spectrum are around 30% of vendor respondents who have created a unique program, and separated the channel team, for their cloud opportunities. Other than for the vendors that are 100% cloud solutions, this separate model can create complexity and redundancy for both the vendor and solution provider. Both the vendor and the solution provider have to manage the engagement, enablement and management activities of the cloud program uniquely from the traditional program. To the solution provider, it's similar to having another vendor in their line-up, with all the accompanying additional administrative and management processes. Way back on page 10 we mentioned solution providers had fewer than ten strategic vendors, primarily due to the management and oversight needed for each vendor. With a separate program that looks and acts like a separate vendor to the solution provider, unless they are producing significant profitability, the solution provider isn't likely to treat that relationship as strategic.

There are some benefits to a separate program though. The separation provides the vendor the ability to focus their resources on a strategic initiatives and offers a vehicle to provide partners exactly what they need to be successful in the cloud. As a separate program, vendors can create a unique value proposition that is targeted at engaging and supporting partners transitioning to the cloud. Look at Cisco for a good example. Cisco recently created an entire cloud division and named Edison Peres the channel chief, who reports up through the cloud team, not the Worldwide Partner Organization.
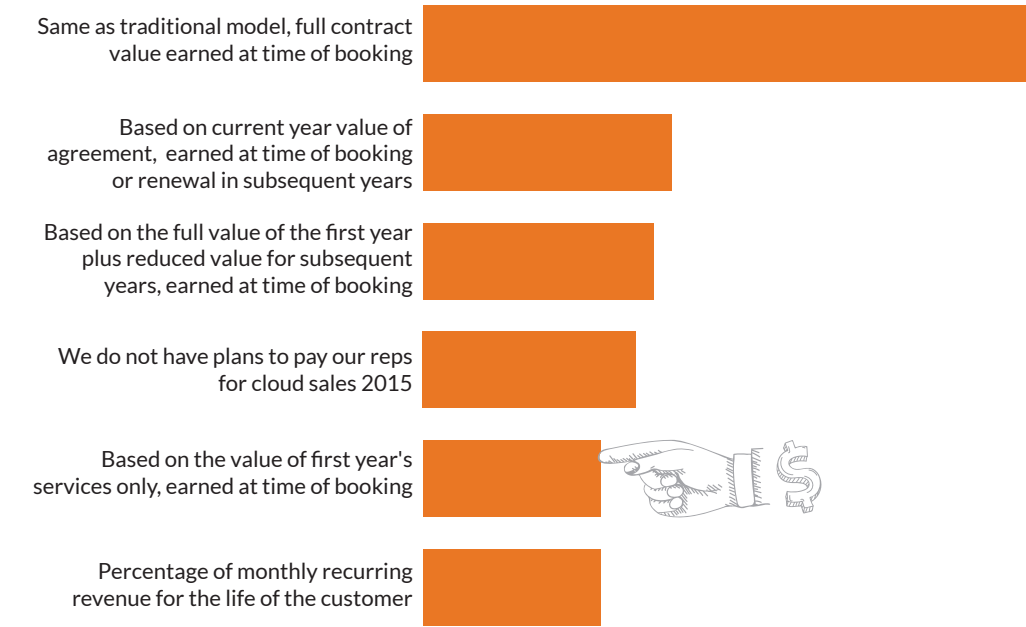
Managing Partners

[The Gist]

If you're going to spend time and money engaging and empowering partners to be successful in the cloud, ensure the field teams that connect with those partners on sales and customer needs are also motivated to be successful with cloud solutions. If you compensate your field in a traditional way, they will act in a traditional way; nothing will change if you don't change the motivation in the field.

Pay Your Field Team On Cloud

As we mentioned on page 23, partners want to engage at the field level, through their partner account managers and sales people. If the primary connection point to engage partners in your cloud solution is at the field level, we would suggest those field teams should be motivated and managed to help build the channel partner's cloud business. The vast majority of vendor respondents (35%) compensate their field teams for cloud solutions the same way they compensate them for a traditional model, full contract value earned at the time of booking. Only 10% of vendor respondents have created a compensation model for their field teams that aligns to the way the partner makes money in cloud, by monthly recurring revenue for the life of the customer.

Every vendor company we talk with has a cloud strategy. Even headset manufacturer Plantronics has a cloud (device-as-a-service) model and plan. Yet 12% of vendor respondents indicated they had no plans to compensate the field teams for cloud sales in 2015. How do you plan on driving a successful cloud model if the people that are talking daily to customers and partners are not compensated to sell the cloud solutions? A vendor can have the best technology delivered in an on-demand business model, craft a compelling value proposition about how partners can make money on the adjacent services and invest tons of money in enablement and transition activities, but it will all produce far less results if the field team isn't also compensated to get on board with the subscription model.

How do you compensate your field sales teams for cloud solutions?

- Same as traditional model, full contract value earned at time of booking
- Based on current year value of agreement, earned at time of booking or renewal in subsequent years
- Based on the full value of the first year plus reduced value for subsequent years, earned at time of booking
- We do not have plans to pay our reps for cloud sales 2015
- Based on the value of first year's services only, earned at time of booking
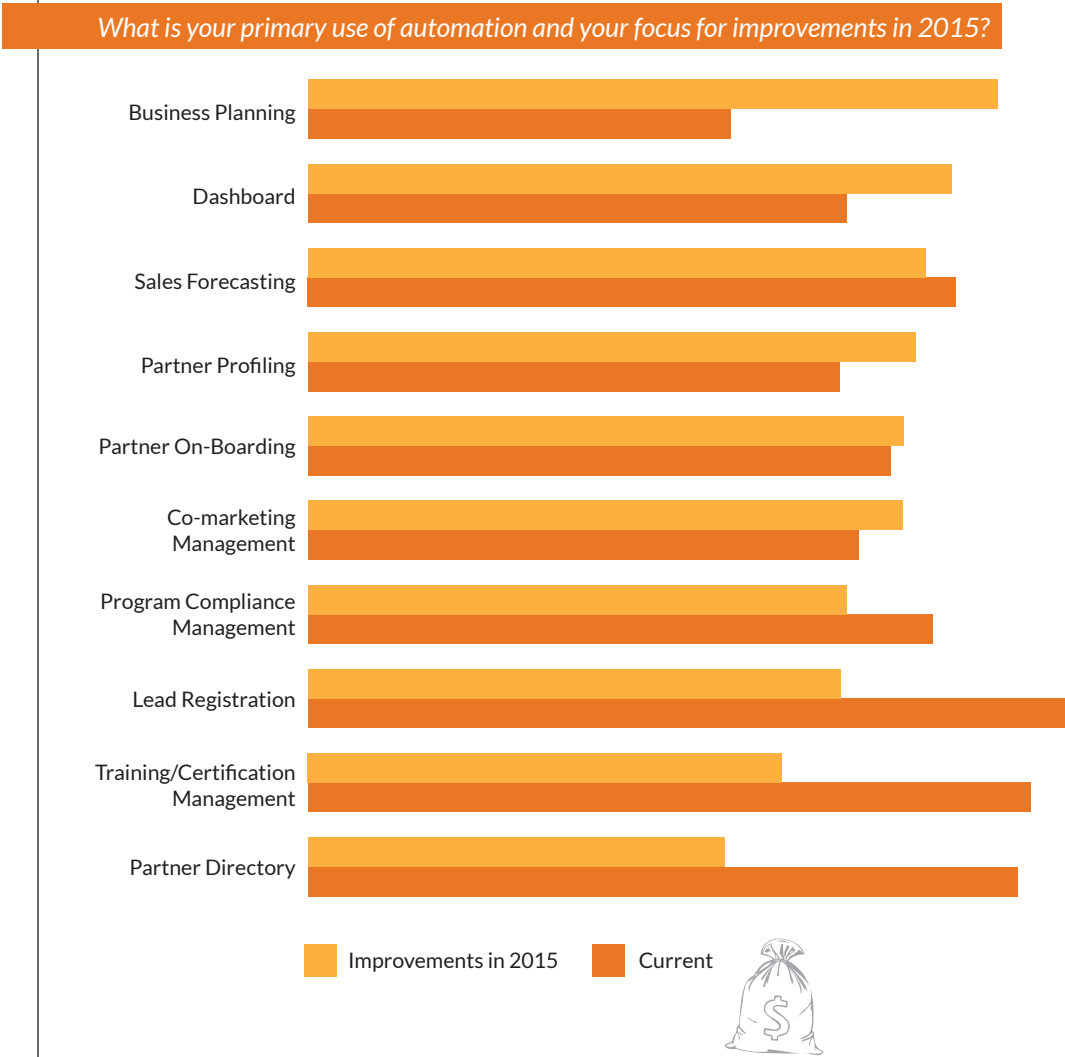- Percentage of monthly recurring revenue for the life of the customer

Invest in Business Planning and Dashboard Systems

Luckily, vendors reported significant focus on automation to manage partner engagement and enablement and to enhance ease-of-doing-business with partners. Lead registration, training management and a partner directory are all currently well-automated by most of the vendor respondents. Forecasting, profiling, compliance management and business planning were at the top of the list for automation enhancements in 2015. We're excited to see business planning automation as such a priority. Hopefully vendors will teach the partner account managers how to have a business-relevant conversation with solution providers before they go off to build a business plan. Automation systems are important, but don't forgo the field resources to engage partners with a human touch in favor of electronic portals.

[The Gist]
Automation is a key component of effective partner management. The investment in partner relationship management (PRM) systems might seem excessively high to vendors, but we often see upwards of 3000% return in increased partner engagement, enablement and sales along with a reduction in human resources expenses.

What is your primary use of automation and your focus for improvements in 2015?

- Business Planning
- Dashboard
- Sales Forecasting
- Partner Profiling
- Partner On-Boarding
- Co-marketing Management
- Program Compliance Management
- Lead Registration
- Training/Certification Management
- Partner Directory

☐ Improvements in 2015   ☐ Current

Avoid These Common Mistakes

[The Gist]
Sure, partners are going to complain if you provide the opening for them to do so. But just because they are vocal, doesn't mean they are wrong. Listen to your solution providers' major concerns about your cloud models and choose one or two to address each year.

When we asked solution providers the top mistakes vendors make around cloud partnering models, they unleashed a thunderstorm of opinions in volumes we haven't seen since the product-conflict days when we started this research ten years ago. Their top complaint was that **vendors' engagement models are too complex**. The solution providers communicated it was difficult to understand and navigate the vendor's partner program as it related to cloud. They didn't know who to contact, how to access materials or how they would be evaluated and compensated. We heard comments like, "[the program] makes it too hard to do business with them. Ordering and provisioning needs to be easy," and, "[It] makes information difficult to find/access/understand," time and time again.

The second top mistake solution providers reiterated was **differentiation**. The comments they provided were along the lines of, "[Vendors] don't sell differentiation, they all sell the same thing and want *me* to differentiate their offering," and, "Selling the same services that are on-premise but doing them remotely doesn't add enough value to me or the end customer," and, "Not demonstrating how we convey value to our customers [is a top mistake]."

A close third complaint is that **vendors focus on themselves too much**, instead of engaging, enabling and managing partners. We heard comments about vendor mistakes such as, "Not allowing partners to retain ownership of customers," and, "Assuming the partner is going to market with their solution as the solution, not realizing they are likely a piece of the solution stack," and, "Not enough research regarding the cloud needs. They look after their income not the client fit!"

*What are the top mistakes vendors make around their cloud partner program/model?*

certification levels
poor sales-pitch tools shifting models
provisions
no trial or demo no integration **cloud strategy** lack of integration
enablement communicate value insufficient focus on apis immature channel personnel
communicate security **responsiveness**
sales processes smb **implementation** differentiate
billing
communication
technical messaging **complexity** free trial or demo
differentiation information **lack of follow-up**
not delivering on promises lack of adoption/engagement assistance
part of solution stack **customer ownership** trust **focus on themselves**
stability
unrealistic goals **program changes** **security** **customer knowledge** smb solution sizing
cloud not stable
sales tools not enough channel personnel field level engagement making information difficult to find/access/understand
too much direct focus communicating value ordering and provisioning too hard **customer needs**
trial or demo
unattainable incentives understanding market needs internal technical expertise
lack of communication education white label strategy
too many partners financial rewards smb market sizing
communications

"High cost, requirements to use the whole program vs. some 'a la carte' features that apply directly to our business, offering programs that aren't tailored to the needs of small businesses – there has to be something in between a consumer version and an enterprise version that we'd find useful enough to pay for, and would show an immediate and impactful ROI."

Resolve These 5 Partner Business Transformation Issues in 2015

There is no doubt that cloud-consumption models are here to stay. At some point in the future we might not even distinguish between resale and on-demand models because both will be so transparent and easy. As of early 2015, both vendors and solution providers are struggling with the channel model for on-demand or subscription-based services. Vendors are challenged with creating a compelling and differentiated value proposition for customers and channel partners. They are struggling to answer the partner query, "Why should I work with you?" Proprietary technologies and partner profitability used to be the clear answer to that question. With less differentiation in solutions delivered via the cloud, more focus on customer outcomes and an unclear financial model for partners, vendors are struggling for cloud channel successes.

Even without seeing significant returns from their cloud efforts over the past several years, solution providers continue to invest in transitioning their models. Progress may be slow-going as they are reluctant to give up their traditional models. It is difficult to grow both traditional resale opportunities for hardware, software and professional services and outcome-based solutions focused on vertical market business needs delivered via an on-demand model simultaneously. When push comes to shove, cash flow will always make the decision for the majority of solution providers.

Ultimately, there are five specific areas vendors can focus on to help accelerate a partner's progress into cloud success:
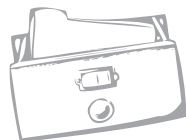
1. **Help partners source new talent for their cloud practices.** Your company probably has experience with job descriptions, interview questions and sources of next generation talent. Help the partners learn what you know from filling your own organization with cloud-savvy technologists, marketers, sales and operations teams.

2. **Identify, specifically, the services available to partners around your solutions.** Define what services options you're going to drive directly and where your partners can add value. Also, consider what adjacent services the partners might consider adding to the overall solution.

3. **Reduce conflict through defining and documenting rules of engagement.** On your cloud services and solutions, who leads and who follows in a sales situation? Who is responsible for implementation, provisioning and billing? What roles do you want your partners to play in the marketing, sales, and services lifecycle of a customer?

Managing Partners

4. **Stop running over partners in the field.** Work together to divide, conquer and learn. Create networking and social opportunities at the field level. People collaborate better with people they know and like. Part of doing business together is being social.

5. **Communicate your differentiation.** Educate partners on how your cloud offerings are different from your competitors. Show your partners how profitability options in your partner programs are different and greater than your competitors. If you don't have competitive advantages, build them. Are you easier to do business with? Are you more responsive? Are you more open with your road map and business directions? There is something special and unique about each vendor's technology, market opportunity, brand strength, company positioning and go-to-market model. Find your strengths and communicate them clearly and regularly.
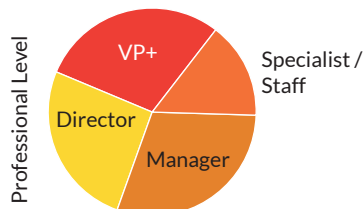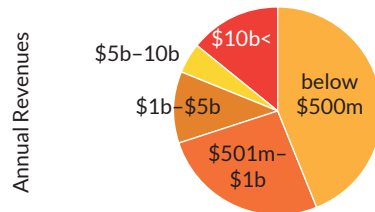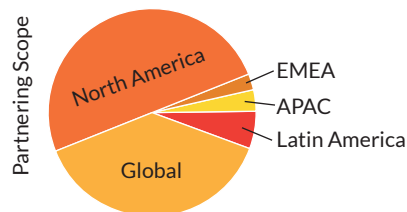
All in all, don't worry, the cloud isn't moving very fast in the channels. You still have time to make an impact and do it right. Get in the car, buckle your seat belt, grab the steering wheel and press the gas pedal. We will be here next year, probably with a slightly different message and metaphor.
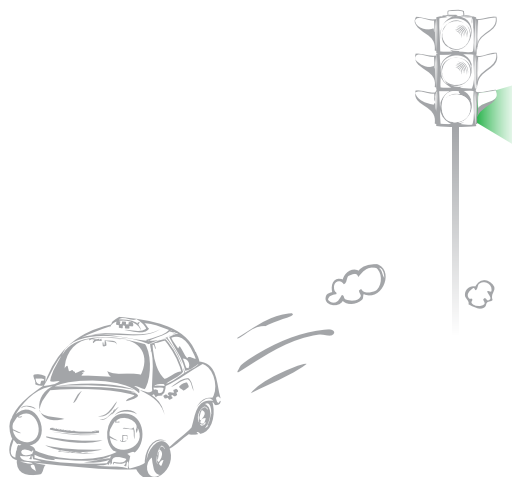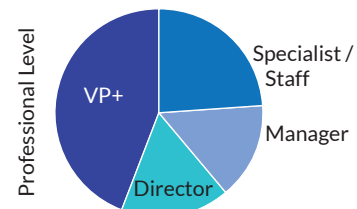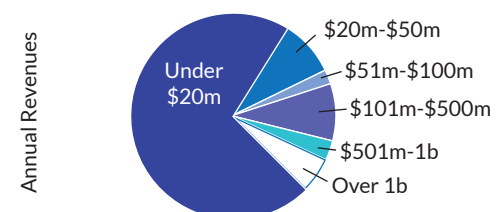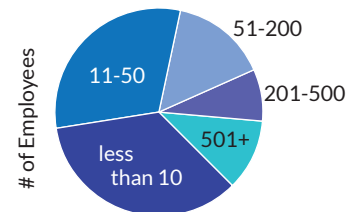
Who Are the Respondents?

In addition to dozens of solution provider interviews, we had over 200 solution provider responses and over 100 vendor responses to dozens of online survey questions. The survey was open for one month in November/December of 2014 on the PartnerPath website. We are grateful for Penton's support in helping to gather respondents for this report.

Partnering Scope
- North America
- EMEA
- APAC
- Latin America
- Global

Annual Revenues (Vendors)
- $10b<
- $5b–10b
- $1b–$5b
- $501m–$1b
- below $500m

Professional Level (Vendors)
- VP+
- Director
- Manager
- Specialist / Staff

Vendors

# of Employees
- 11-50
- 51-200
- 201-500
- 501+
- less than 10

Annual Revenues (Solution Providers)
- Under $20m
- $20m-$50m
- $51m-$100m
- $101m-$500m
- $501m-1b
- Over 1b

Professional Level (Solution Providers)
- VP+
- Director
- Manager
- Specialist / Staff

Solution Providers

About Us

partnerpath

PartnerPath, LLC is a partnering development firm based in Silicon Valley, California, wholly dedicated to helping companies elevate the impact of partnering. We achieve this by effectively designing, implementing and automating channel and alliance models and offer services ranging from channel models and program development plans to partnering operations and program execution. Learn how to grow your partner program at every stage of your business. For more information visit partner-path.com.

Penton
inform · engage · advance

Penton drives performance for more than sixteen million professionals every day. They deliver insights, information and workflow tools to inform critical business decisions. Penton Technology's channel titles include The VAR Guy, MSPmentor and Talkin' Cloud. Each is a leader in its respective niche, focusing on technology trends and useful information for a wide-reaching audience that includes value-added resellers, solution providers, managed services providers, independent software vendors and cloud services providers, to name a few.