HOW PARTNERS CHANGE THE GROWTH EQUATION IN A CLOUD-BASED WORLD

On October 14, 2014, Leverage2Market Associates and Phoenix Consulting Group hosted a partner executive breakfast to explore how partners change the growth equation in a cloud-based world. The event was attended by a dozen senior partner leaders from a diverse cross section of Silicon Valley companies and featured guest speakers Jim Chow, Head of Enterprise Cloud Ecosystem Partners from Google, and Chris Hansen, Senior Director Strategic Alliances from Marketo.

The discussion was lively and insightful, and dealt with the most relevant issues of cloud transformation and the role of partner management across the partner ecosystem of ISV's, channels, and system integrators in helping partners and customers make the leap to the cloud.

Here's a summary of the discussion, as well as our thoughts for how this may impact your business moving forward.

"Half of the VARs will be gone."

This ominous prediction was expressed by **Jim Chow**, who has spent the last five years building the cloud channel around the Google enterprise applications. He explained how many traditional VARs will simply not even attempt the transition. "*Their owners have made a very nice living in the transactional resale model. They have their expensive cars, nice homes, and yachts and will opt to exit the business or retire.*" Certainly the decline in the number of VARs over the past ten years through consolidations reflects that trend. But what about those who want to transition to a cloud business model? The challenges are many – and so are the opportunities.

Christine Hansen is a leader in building the cloud ecosystem at Marketo. She remarks, "*We can train an army of partners that can deliver Marketo through the channel. Many are delivering managed services. This is not something to give to an intern to do. It takes some sophistication and becomes an ongoing revenue stream. Those that are agile are shifting their businesses effectively. Digital Agencies are doing a great job. SIs*

JIM CHOW, former Head of the Google Apps Global Partner Program, was responsible for the overall Apps partner business and success of the 10,000+ Apps resellers worldwide. Jim's focus is building a vibrant, next-generation partner program that enables partners to build thriving businesses around Google Enterprise's cloud solutions.

are moving that way by adding digital services. It's challenging for traditional IT VARs with technical expertise that cling to the old ways."

Other partner executives shared their views on how they see partners approaching the challenge, and what they are doing to enable the transition within their ecosystems.

"Some of our partners will be successful to moving the cloud, some will not. We provide subscriptions to the cloud and enablement in business transformation and marketing transformation. We need to do a lot work in transitioning."

One key aspect is how do you compensate your partner—by total contract value up front or a recurring model? What does that do to your economics and theirs? We do a lot of financial modeling and risk analysis. We also have to look at how we roll our programs and incentives—how they will impact the partners' businesses."

"Success begets success. If they are not transitioning to the cloud, it gets harder and harder. You have to have some success; a couple wins to get market verification. Get two in a row. People in prairie-dog-land will lift up their heads and begin to sniff at it. Once they see this works, you pick up momentum. "

CHRISTINE HANSEN, Senior Director of Strategic Alliances at Marketo is responsible developing strategic partnerships with major brands and companies in order to extend Marketo's marketing, sales and services reach. Previously at PayPal, she managed the partner communities contributing to the most profitable and growing segment of PayPal's business.

Is it possible to be half in; half out?

Jim Chow has roots in the enterprise software world, coming from Siebel Systems and Oracle. He related that Salesforce.com, the gold standard of SaaS companies, *"started out by recruiting Siebel VARs. That didn't work because of the investment those VARs had in the old business model. SFDC had to go to new partners without the baggage of traditional IT, but of course those partners did not have the established customer base."*

Christine Hansen added, *"Deloitte, a systems integrator and advisory services consultant, has a different business line that focuses on cloud. Cap Gemini has a division focused on M&A that supports the integration of the merged company by transitioning their IT systems to the cloud. Big systems integrators want a more agile model. System integrators (Sis) can't get the huge integration/implementation projects that*

were the hallmarks of on-premise computing, so they are moving up the value chain to more business consulting."

Jim noted, *"You cannot mix the cloud model with the traditional. You need to separate and manage each business model separately."* He sees three critical steps to make the transition:
1. Executive team support for the cloud strategy.
2. Strategic alignment with the cloud model
3. Is the business set up for success?

The New Breed of Applications Requires a New Breed of Business Model

The cloud is creating a new breed of applications. This results in new ways of thinking about solving problems enabled by the new delivery platform, but also requires a new business model. Here are observations from the executive attendees:

"Healthcare informatics is switching to digital health platform. Today, everyone in the industry is in a silo and health care is very costly. The current costs are 15-20% of the US GDP and that is not sustainable. We are creating a standard platform in partnership with Salesforce. Your medical records will be on the cloud accessible anywhere you are"

"The price point for resale is a lot lower. Partners need to supplement their offerings. For example, they need to be comfortable doing a lot of API work, and to adopt an overhead structure that can cope with recurring revenue – a light overhead structure."

"My company is a large SI with a huge overhead structure. We have not been able to figure out how to monetize the cloud; we haven't cracked the code. We are undergoing violent restructuring: 50% turnover in sales; decreasing overhead; streamline our internal structure."

"You almost have to have a startup structure and enough longevity financially to survive to profitability."

One partner manager from a late-stage startup data visualization company notes that they currently bill their services on an annual subscription model. Yet they are *"still*

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experimenting with the bill-out model. We need to understand how to run our business on an Amazon.com cloud where we will need to be able to bill hourly or daily so customers can pay only as they consume."

Survivors and Thrivers will create new revenue streams around the cloud business models.

According to one born-in-the-cloud SaaS Provider, *"All clouds are not the same. You have consumer, department, and enterprise. Who plays in each of those places? You have to be brutally honest in where you are and which high orbit prospects are best to partner with. You may not choose to partner with a company, just because they are a Global 2000 or a Fortune 500. You have to ask, do they see that their business opportunities are in services? Can they build offerings? Can they integrate?"*

"As a SaaS provider the IP is yours; you're not granting that to anyone. So when looking at partners, ask what services do they sell and how do they make money. They can take their services bookings for practices in governance, risk and compliance. They have experts in industry advisory. They can offer people, process, change and on top of a technology enabler."

"Just because you have an on-premise offer doesn't mean that you can just put that in the cloud. You end up replacing antiquated manual processes. This should be eliminated as you move to the cloud."

In the cloud model, customers *"shift the business process to work with the platform. Customization has to be constrained OR built on top of APIs to add new functionality. It's easy to swap out a cloud application, but the more API extensions the app has, the more sticky it becomes. We all know that it is easier to retain than gain new customers*."

There is opportunity for partners to build on those APIs to create differentiation for themselves and a recurring revenue stream leveraging the market might of a major SaaS player.

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With the shift to cloud also comes a shift to a new empowered buyer.

Line of business (LOB), or functional buyers, are becoming more dependent upon technology to deliver on their goals and are taking more control of the technology purchase. Hence partners who only have the expertise to sell to the CIO will be outflanked by those who have developed the expertise to sell to the line of business buyer and can translate the language of technology to the language of business growth.

"LOBs get it. They know their businesses need to be more agile. The IT organizations have been entrenched in the traditional model and are not up to speed on the new technologies and business models that are required. They're hurting the business. We spend a lot of our time educating to bridge that gap, getting strategy and execution to match. Boots on the ground can prolong or delay success. Often the obstacles are unspoken and you have to politically address it."

"CMOs need to meet the IT people. So much of their function is technology-based and VARs need to look beyond IT and develop relationships with the functional buyer."

"It's important to recruit vendor sales reps to call on LOB buyers. Then coach the LOB to work with IT. The technology is additive. IT is not well funded to maintain the old stuff and you are adding new. Focus on creating an internal win."

"In the traditional IT channels, you focus on technology; now you focus on changing the business model and selling to the LOB leader; technology is only 50%."

"It also goes back to aligning compensation models. From a sales perspective, 'I get that this makes sense but show me how it is going to make sense for ME. You're telling me to go talk to a customer I've never sold to, learn a new language and my comp is changing to something not as attractive.' "

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The cloud we have today is not the cloud we'll have tomorrow.

This is still an evolving market. Today's industry leaders may not hold their dominance as emerging leaders rise. Those who are successful in this new model are those who are investing in educating their partners and building an ecosystem to ensure customers realize the full benefits of the cloud.

"People are trying to figure out where they fit. Still a lot of fear on the buyer side with security, regulations. People know it is coming. They see it. Vendors are all over the map in addressing the cloud model and how we engage our partners. We need to break through this chaotic spot."

"There is so much more than enabling the partner. There is also education of the customer. Cloud consumption is different. We are looking at dropping customers and there are customers that are not going to be there. Not just enabling the partner. This is different than buying a product."

"Minimizing churn is critically important. Switching costs are lower for cloud. We must be proactively managing renewals and do retention marketing."

Some Parting Thoughts from our Guest Speakers

"The cloud is here to stay. The tough question: Is this partner going to make it over the hump? You can make the change yourself or someone will eat your lunch and can find yourself out of business," warns Chow.

"Where do we go from here? Qualify your partners. Qualify your customer. Focus on those who are most agile and have relationships with LOB," advises Hansen.

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Creating New Futures

Phoenix Consulting Group and Leverage2Market are seasoned partnering and marketing experts, having worked with clients in creating a strategic vision for the cloud economy and developing the tools for execution.

Making the transition to the cloud model is indeed a disruptive change that requires change management. Here are our recommendations.

1. **Change takes commitment from the top**. Top executive leadership is required. Leadership paints the vision of a successful future and guides the way.
2. **Business model engineering is core to the transition.** With shrinking product margins and discontinuous revenue flow, rethink how the business can create new value for customers that will drive new revenue streams and profit through services.
3. **Show me the way.** Companies seeking to enable the transition either within themselves or within their partner ecosystems need to provide the tools, processes, training, and economic motivations and capitalization to weather the transition.
4. **Compensation and rewards need to be aligned to the new business model.** Rewarding people and partners for behaviors that were successful in the old business model will not motivate a change to the new.

LINDA POPKY, CEO & FOUNDER **Leverage2Market Associates**, are experts in using marketing to improve organizational performance. We've helped organizations like Cisco, PayPal, NetApp, Sun Microsystems, and others leverage their resources to get the maximum return on marketing initiatives.
http://www.leverage2market.com/

5. **Celebrate success.** People need to see that change is possible and repeatable.
6. **Constant and consistent communications is key.** It's critical to provide the reinforcement required to sustain change until new behaviors, new thinking and new recurring revenue take root.

We have helped many clients through these journeys and are eager to help you

- We have worked with born-in-the-cloud clients, such as PayPal and Amazon.com, to develop new business models for growth through partner ecosystems.
- We have worked with Century Link, a Platform as a Service provider, in enabling their channel to resell public, private, and hybrid cloud services creating a compelling value proposition and messaging, training programs, collateral, and sales tools.
- We have advised a major Advisory Consultant on how to better leverage their transformational SaaS partners by adjusting their partnering practices to their business model.
- We worked with a VCE, converged cloud infrastructure company, in designing their developer community to encourage innovation to enhance and manage cloud operations.

Contact us for a complimentary discussion on how to change the growth equation in your favor in the new cloud-based world.

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Phoenix Consulting Group, are experts in partnering and collaboration. We've helped companies such as Cisco, SAP, and PayPal build the model to create new markets and scale growth through partners.
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