CAPTURING CLOUD REVENUE: 
Transforming and Adapting Your Approach

As part of its deep commitment to the channel, Intel (with the Intel Technology Provider Program) developed this white paper. It will inform and guide resellers when they are grappling with the challenges and opportunities presented by cloud computing. Successful members of Intel’s partner channel combined their knowledge and best practices when creating this paper. It will serve as a resource for resellers exploring a cloud-based business. The Intel Technology Provider Program consists of partners with widely different business models, including system builders, cloud providers and traditional resellers. Our goal is to develop a community of partners (that rises above the competition) that will exist in every market and that shares experiences. This will foster a network where organizations can find opportunities to work together. We invite solution providers (with a keen interest in reaching the next level of cloud computing) to leverage the best practices documented here, engage our members, and join our community.
THE CLOUD REVOLUTION

Solution providers of all sizes are feeling and seeing the seismic shifts in the IT market triggered by cloud adoption. Cloud computing is fundamentally altering how customers acquire computing resources—and how vendors and service providers deliver those same resources. While forms of third-party hosted computing are decades old, the cloud’s new end-to-end provisioning model is accelerating the uptake of pure Software-as-a-Service (SaaS) deployments. Now, companies must, from competitive need, weigh the potential benefits of acquiring holistic on-demand IT service packages. Customer IT and business managers deploy these services without actually buying the solutions and rolling them out in their own privately managed and owned corporate data centers.

The cloud shift poses both challenges and opportunities for solution providers. Naturally, customers look to you in the channel as a guide and trusted adviser through the nuances and challenges inherent in this new cloud paradigm but, simultaneously, as a channel partner, your entire relationship with your technology vendor is also changing. Many vendors now offer cloud-based offerings, whether SaaS- or Infrastructure-as-a-Service (IaaS)-based, which requires solution providers to look closely at their own go-to-market strategy. Cloud service providers are still debating if the channel is friend or foe. Traditional hardware/software vendors typically balance a mix of offerings, hedging against declining sales by offering services. They also remain in the business of being “arms merchants,” supplying technology components to companies rolling out their own public/private cloud backbones.

Besides the public cloud, there is also a private cloud-enabled deployment model. The increasing maturity of virtualization technology and the growing availability of prepackaged cloud infrastructure mean customers can build cloud-style services in the comfort and security of their own private networks. For midmarket firms, in particular, and the solution providers servicing them, prepackaged solutions have become a viable alternative to public cloud.

So, companies of all sizes are embracing the cloud in its various forms. This includes pure public/private deployments, as well as a blend of these models, dubbed a “hybrid” system. The client, here, can retain a non-cloud-based internal computing network, but completely offload some functions, such as backup and storage, to a public cloud provider. Or the client can establish an internal private cloud-enabled infrastructure within its own walls but not connect these systems with public cloud services—or they can leverage public cloud only in the case of an emergency spike in demand. And so on. In this way, a company can retain key confidential information (such as personnel or customer or patient records) inside its own data center. But company staff can open up non-mission-critical workflows (such as CRM) to a reputable third-party cloud solution provider who specializes in configuring and supporting such systems.

This may sound a bit confusing and a difficult sell to the end user. Nevertheless, preserving the customer’s right to choose is always important. Insisting the client go on a forced march from the traditional on-premises model to an exclusively public/private cloud is simply unrealistic. And the channel partners that can support all three cloud deployment models are increasing their chances to earn more revenue, garner stronger margins, and personalize their services to the end user.

In any case, cloud is not going away. Forbes claims more than half of all enterprises see cloud as an “essential part” of their business model. They are willing to spend 50 percent-plus of their IT budgets on both private cloud deployments and third-party SaaS subscriptions.

Over the next two years, the number of large companies using public cloud will surge by 52 percent annually, says a report by CloudEndure Ltd.

PUBLIC CLOUD TRENDS

Today, 21 percent of computing workloads of companies with 1,000 or more employees are in the public cloud today.

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But, in two years, these companies expect half their workloads to be running in the cloud.

**$204 BILLION**

In 2016, the global public cloud services market value will reach $204 billion, forecasts Gartner, up 16.5 percent from 2015.

Private cloud is gaining traction as well, driven partly by customers’ security concerns over leveraging a shared infrastructure.

**PRIVATE CLOUD TRENDS**

11%

Percentage of growth of end-user spending on private cloud from 2015-2016, says IDC.

**$14 BILLION**

The actual spend on 2016 private cloud deployments will be about $14 billion, says IDC.

**TACKLING THE OPPORTUNITY**

To profit from cloud, solution providers must address core issues within their own business and adapt approaches based on their own goals and customer requirements. The core issues fall broadly into four key areas: Business Model, Differentiation, Choosing the Right Partners and Go-to-Market Strategy.

**BUSINESS MODEL**

There are two obvious paths for solution providers to take. The first, a focus on private cloud and integration, means keeping the business model similar to a traditional reseller business. Alternatively, a focus on public cloud services means adjusting many aspects of the business to become aligned with sales that generate monthly recurring revenue versus discrete transactions. It’s important to understand the trade-offs and implications of each.

**Private Cloud—Transaction-Based Integrator Model**

Because of security concerns, many customers either shun the public cloud altogether or only selectively migrate to it. But even customers wary of exposing their critical data in a shared public infrastructure still see the cost and flexibility benefits of adopting cloud-based service models for their internal IT customers. This means building a private cloud infrastructure and leveraging partners to help build it. For many solution providers, maintaining a transaction-based business model to support these customers is the right choice.

In this model, solution providers focus on helping others build and integrate cloud environments by selling the building blocks and offering services around cloud integration. While this approach requires an investment in training to understand virtualization and cloud integration from a hardware and software standpoint, it is still driven by selling the components and the associated integration services required for cloud to the end user. This means compensating the sales team in the same transactional model and simply treating cloud as a new offering.

**Public Cloud—Recurring Revenue Business Model**

While some resellers have chosen to become cloud services providers themselves and own infrastructure, most have chosen a route of reselling or white-labeling the cloud services of others. This type of transition is driven largely by a desire to move to a business, which generates monthly recurring revenue versus one that relies on monthly and quarterly transactions.

This business model is substantially different from most current reseller businesses. The biggest change is often felt in the sales model. Sales teams used to selling a project and getting a big commission check will now be selling multiyear, monthly subscription services that pay the company in small increments over a long period.
of time. This can cause challenges for both sales goals and motivation. In addition, the metrics used to forecast and measure sales teams change as well. Goals must be oriented toward incremental monthly/quarterly billing increases and acquisition of new clients. Along with changes to compensation, many solution providers selling public cloud solutions decide to split their sales team into “hunters” and “farmers.” In this approach, one team focuses on bringing in new customers, and another is tasked with upselling existing customers and handling renewals.

**DIFFERENTIATION**

Differentiation is the lifeblood of the solution provider business. As the cloud business emerges, the shift in buying patterns will create an imperative to differentiate in more meaningful ways. For public cloud, in particular, a shift away from building solutions on-site to subscribing to computing services means a shift in the value and revenue opportunities for solution providers.

*Many public cloud providers offer “one-size-fits-all” services, which are difficult to customize.*

The trend in the market today for many solution providers is to adopt a more formal and deeper orientation to a vertical industry or application. For example, there are many providers of cloud-based backup and recovery services, and thousands of solution providers who are able to resell these services to their clients. But how many resellers know how various forms of backup, remote storage and archiving impact a hospital’s need to comply with HIPAA regulations? Solution providers have the opportunity to differentiate themselves from the competition by gaining the expertise around industry challenges and translating this expertise into value-added services.

In addition to vertical industry expertise, solution providers are seeking success in the cloud through a focus on applications. While opportunities to install and configure hardware diminish, the opportunities to customize SaaS-based offerings and deal with the security issues posed by cloud offer solution providers new consulting revenue streams. These new services can come from software configuration and customization, use-case analysis, or from billable consulting to evaluate the cost benefits of moving to a cloud solution.

**CHOOSING THE RIGHT PARTNERS**

Investing in the right partnerships is critical to building a successful cloud business. Today, most public cloud providers offer minimal channel programs or channel incentives and their primary go-to-market model is direct. For resellers who embrace reselling or white-labeling public cloud services, choosing the right partner must include assessing the level of technical support, as well as how the partner can help them differentiate. Many public cloud providers offer “one-size-fits-all” services, which are difficult to customize.

For those pursuing a private cloud approach, be mindful of the conflicts of interest that can exist with vendors that sell solutions both directly to end users and offer their own cloud services. Often, partnerships fall down when a vendor sales team steers customers directly to their own cloud services and away from the reseller. To avoid this, resellers should partner with vendors that do not offer cloud services themselves, and ones who can offer a high level of customization in private cloud versus pushing customers toward higher-cost, prebundled integrated solutions.

In either scenario, the rules of engagement must be fully understood before inking a partnering agreement. There are many questions to consider such as: Who owns the customer relationship? Who is responsible for renewals? What protection do I have against a vendor salesperson selling against me? All these issues must be addressed and a joint go-to-market strategy developed with any new partner.
GO-TO-MARKET STRATEGY

At a high level, going to market with cloud solutions is no different than any other solution. But when you peel back the onion, the tactics and execution can be quite different. For public cloud solutions, in particular, resellers have seen that the average selling price is generally lower than the solutions they currently offer. Solution providers must generate a higher volume of transactions to make up the difference. To generate more demand and larger sales pipelines, many solution providers turn to aggressive teleprospecting and telesales to increase pipeline. Expanded use of telesales also provides the opportunity to acquire customers outside your traditional geographic area.

From a pure marketing standpoint, cloud solutions demand a high degree of customer education. Many customers do not understand the benefits of cloud computing or are fearful of the issues around giving up control or how their data will be secured. This is an opportunity to provide thought leadership in the form of seminars and white papers and to distribute content via social media to help educate customers. Providing guidance and education puts you in the position of trusted adviser to your client.

ROADBLOCKS AHEAD

Entering any new business is often an exercise of trial and error. Cloud is no different. But in the emergent years of cloud computing, many solution providers have learned valuable lessons in some of the areas that are most challenging. Three areas, in particular, have emerged as some of the key challenges.

Sales Compensation

It’s not an easy transition for a salesperson to willingly forgo a large commission check in favor of 36 small payments over three years. While your business model and pay structure must be aligned to the cash flow of the business, consider bonus compensation or commission acceleration in the early days to ensure sales teams are acting in the customers’ best interest, not their own. Look at accelerating three to six months or more of commissions up front on cloud contracts, and amortizing the balance of commission payments over a shorter period of time. This will minimize the personal motivations of your sales team getting in the way of the desire to grow your cloud business.

Training and Hiring

The skills needed to succeed in cloud are different and span both the sales and technical teams. On the sales side, don’t assume your current sales team will be able to succeed. The cloud conversation is more of a business- and capabilities-focused one and less technical. Do you have salespeople who will be comfortable having a conversation with a CFO about the advantages of opex versus capex in an IT purchase? If not, consider training or hiring from the outside. For the technical teams, succeeding in cloud may require a better understanding of the applications unique to your customers’ industry.

Jack-of-All-Trades (Master of None)

Focus is critical for the long-term success of any business. As the business model differs for various cloud approaches, it’s difficult to see how a reseller could operate over the long term with an equal mix of both monthly recurring revenue and a transaction business without running separate P&Ls. While this is a completely viable approach, many solution providers mix cloud business models without measuring and resourcing them separately, thus failing to see and track where they are succeeding and unable to identify investments that are not paying off. This is a formula for failure. It may lead to exiting businesses that are actually successful or further investment in areas that are not producing profit. Careful consideration must be given to splitting the businesses or focusing on only one model.

Intel Cloud Leadership

Intel believes that the next-generation data center is the cloud architecture’s heart. Virtualization technology will drive the transition from traditional data centers to the cloud-based computing model. Intel is investing (both internally and externally) millions of dollars to make this migration a reality. In this endeavor, Intel is committed to
Virtualization technology will drive the transition from traditional data centers to the cloud-based computing model.

providing the resources and guidance for channel partner cloud success. As part of its cloud commitment, Intel created Intel Cloud Builders, a cross-industry initiative to simplify the building, enhancement, and operation of cloud infrastructures. This program provides partners access to reference architectures and implementations, and to the Cloud Builders webcast and podcast series.

The program also offers partners the opportunity to join an ecosystem of firms all working to bring cloud technology to the customer.

CONCLUSION

Embarking on business transformation to succeed in the cloud can be daunting. There are many obstacles along the way, but the potential rewards can be great. Even more compelling, the cost of doing nothing can be painful. As you lead your firm into the cloud era, align your offerings with the needs of your customers, tune your business model based on your chosen path, and carefully pick partners who match your goals and objectives. There are many resources to help you succeed. Partnerships are one of the most important. Choose partners who add value to your business and provide the right foundation for you to accelerate your business. And lastly, stay focused. Choosing to focus in one area and doing it better than anyone else helps you differentiate your business and can lead your customers to let you take on new projects for them as well. 

- Virtualization technology will drive the transition from traditional data centers to the cloud-based computing model.