Cloud Channels & Distribution: The Solution Provider Perspective

Cloud Solution Providers See New Possibilities in Partnerships
About the Report

The GTDC commissioned The Channel Company’s IPED research organization to conduct this independent study of 180+ technology solution providers who are already well established in the cloud with significant revenues coming from cloud and/or managed services. Additional information on the GTDC and The Channel Company can be found on page 17 of this report, which gauges solution provider views of technology distributors relative to their strategic directions in the cloud.

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Executive Summary

There have been numerous transitions in the IT products and services market that put the role of the wholesale distributor in question. When we shifted from traditional boxed software to software licensing, from commodity PCs to custom configured servers, from products only to support contract sales and renewals, from horizontal solutions to vertically oriented products – each time solution providers and vendors adjusted their expectation for what kinds of services a traditional wholesale distributor could effectively provide.

More recently, the role of the distributor in an IT solutions market led by software and services versus high volume hardware has been the lively debate, at least among the IT vendor community. Despite their historic focus on transaction management, partner recruitment, training, onboarding and longer-term field sales support, the newer “built in the cloud” community, both solution providers and products/services vendors, sometimes struggle to see the future value of wholesale distributors. And, as IT technologies increasingly converge with traditional telco voice and network services, the question of which point of aggregation, IT distributors or telco master agents or brokers, will have the greatest value and influence with the solution provider of the future.

In this study, we dispel those myths by going to the source and exploring the needs of our industry’s next-generation cloud-centric solution provider. We reveal this community’s sales, marketing, technical, operational and financial needs as well as their perceptions about the value IT distributors can have on the growth of their business.

Through this analysis, a number of key ideas become clear about the relationship between built-in-the-cloud solution providers and today’s IT distributors:

The Good News

- Nearly 70% of cloud providers feel IT distributors do already or can add meaningful value to their business
- IT distributors are perceived to have increased their value to cloud solution providers in the last 12 months (72% agree), and even more cloud providers (76%) expect distributors to add even greater value in the coming 12-18 months
- Nearly 50% of cloud solution providers will add a new SaaS and/or IaaS service in 2015; about 30% will take a referral from their distributor(s) for that new offering
- Several of the top areas cloud solution providers are looking to enhance relate to existing distributor services, including sales training, technical training, marketing support and peer-to-peer collaboration
- One quarter of cloud providers feel participation in a distributor’s cloud marketplace would be a strategic area of focus in the coming year

The Challenge

- More than 50% of cloud providers say they aren’t fully aware of the cloud services and support distributors offer
- Only 33% of cloud providers are currently listening to recommendations from their distributors when choosing new cloud services (IaaS or SaaS) in which to invest; although this is consistent with their decision making process for products as well
- Cloud solution providers aren’t taking advantage of distributor services automation tools (provisioning, contract management, billing) today; however, one third say they’re either very willing or willing to work with distributors on these systems in the future

This report will discuss the relationship dynamics that must be achieved between cloud-centric solution providers and IT distributors in order for both to benefit from a well-rounded long-term relationship — a relationship that leverages not only distributors’ legacy operational and financial services but, more importantly, those new services-based sales, marketing and technical support offerings distributors are building to support the financial health and growth of annuity services-based cloud integrators. We will also suggest some imperatives for IT and cloud vendors to better leverage distributor’s market position and appetite for investment as they enable and recruit their future cloud channel partners.

Cloud Solution Providers’ Business Models

The data represented in this study is based on the input of 184 cloud solution providers in North America. An average, forty-one percent (41%) of their revenues are derived from cloud and managed services. All respondents with less than 10% of annual revenues coming from cloud services were eliminated from these results. They have a blended business model, offering some resale services but also a formal MSP practice, systems integration services and IT consulting services. In total, an average of 59% of their revenues are from a combination of cloud, recurring and project-based services (Figure 1).
Equally important to their revenue mix are their specific functional roles around cloud services. Of the standard eight cloud business models tracked by IPED’s research team, our respondents indicated their top three primary business models are as follows:

#1 Cloud Consultant - Primarily focus on the business process and financial drivers of their customers’ move toward cloud computing. Typically do the design and architecture of private and hybrid cloud solutions, but may resell some cloud services also.

#2 Cloud Agent/Reseller - Leverages their customer relationships and insights to influence and transact the purchase of various cloud services. Agents and resellers sell the value of the third-party’s cloud service and broker the relationship and transaction in exchange for a commission or resale margin.

#3 Cloud Service Provider - Primarily focus on building and managing the infrastructure (server, network, storage) for providing public or hybrid cloud solutions. Requires a significant capital investment to support a data center and a high degree of technical capabilities for service delivery.

Infrastructure as a Service Adoption

Our cloud provider respondents are sourcing IaaS offerings from multiple sources. Since only 23% of them actually have their own cloud hosting infrastructure as Cloud Service Providers, they depend on scalable, affordable IaaS offerings in the public market. Over 50% source IaaS from public cloud vendors who are also IT manufacturers such as HP, Cisco, IBM, Microsoft and VMware, while 44% source cloud infrastructure from the large IaaS providers such as Amazon Web Services (Figure 2). Only one third today source their IaaS offerings from their primary distributor(s). However, with the addition of lines such as Rackspace, Amazon Web Services and IBM SoftLayer through distribution, we expect to see that trend shift.

Point IaaS solutions such as disaster recovery and back-up, email management, storage and security management services are prevalent in the cloud portfolios available through distributors today. However, the large public IaaS providers who didn’t have a previous product relationship with IT distributors (e.g., Cisco, HP, IBM) have not yet embraced the value distributors are striving to offer. In fact, there is still some degree of competitive collision in the market between these two titan forces battling for mindshare of next-generation cloud solution providers. We expect to see further collaboration between public IaaS companies and distributors, but expect it will take another 2-3 years to be fully realized.

Software as a Service Adoption

On the applications front, the cloud solutions our respondents are selling and/or implementing align nicely with the choices distributors have made for their own cloud portfolios. Half of our cloud providers are supporting email/messaging and office productivity cloud applications, which points to the longstanding enablement work Microsoft has done with its authorized distributors around their Office 365 and Azure offerings and their two-tier cloud licensing model (Figure 3).

CRM solutions such as Salesforce.com or NetSuite have not used distributors to recruit, train and manage transactions for their core SaaS applications to date, as their channel community has been primarily focused on professional services delivery. However, Salesforce.com did sign a relationship with Ingram Micro in 2012 for sale of their Force.com development platform, indicating their desire to use the reach of distributors to compete with Microsoft’s Azure platform.

Although our respondents may take part in traditional resale transactions of some cloud-related hardware, as it relates to the growth of their cloud business, their primary focus is the unique services capabilities and intellectual property of the IaaS and SaaS solutions they represent in the market. Their value is their ability to build, integrate and then, most importantly, maintain and expand the cloud services they influence with their recurring high-touch services optimizing their customers’ cloud environments.
Either because of low service volumes or lack of awareness, the majority of our study’s respondents chose to build their own management systems or bought a packaged application or cloud service from a source other than their distributor. It’s our experience that any solution provider, cloud focused or not, that has been in business for a decade or more and/or has a material services business will have a pre-existing billing and provisioning system. One $4m cloud provider described his decision to build his own billing system by saying, “There’s just too much customization in our contract terms and associated billing for state and local governments. Once I get more commercial clients and higher volumes, I’ll look more closely at the distributors’ systems.” PSA and RMM systems are the two automation platforms most often sourced through telco master agents or carrier/service providers by our respondents, indicating these legacy voice providers’ desire to lock IT providers into their ongoing service management tools and systems and continue to build their IT services portfolio and channel.

**Top Investments**

Distributors have long been known to supplement and simplify the relationship solution providers have with their leading suppliers. That is no different with cloud services. The type of activities our respondents indicated they will be investing in most in the coming 12 months to grow their cloud businesses are services they can obtain in the open market, not only through distribution. However, in our conversations with cloud providers, it’s clear they expect help from their distributors to streamline, clarify and accelerate their involvement in leading public cloud providers’ channel programs.

For example, their number one priority (with a 44% response) for cloud growth is creating a better relationship with their cloud service provider(s), whether they be vendors such as Microsoft and IBM or newer market entrants such as Amazon Web Services, Verizon or AT&T (Figure 5). Take for example, navigating vendors’ cloud channel programs and training curriculum. As one Microsoft Cloud Champion partner expressed it, “Certifications are the hardest. Every year they change and the curriculum changes. I rely heavily on my distributor to demystify this for me and help me get access to the core training I need, locally.”

**Cloud Growth Plans**

There’s a cultural dynamic among born-on-the-cloud solution providers that highly values having the best-of-breed point solutions to complete a well-rounded cloud service portfolio. Although many of our respondents support basic business productivity applications from Microsoft, for example, keeping a diverse portfolio of innovative solutions in front of their customers is important. As such, 58% of our respondents expect to add a new SaaS offering this year and 48% expect to add a new IaaS service. Their primary source of determining which cloud services to invest in comes from their customers, secondly from peers and their own research and lastly from existing distributor relationships, with distributors influencing new cloud services 29% of the time.

**Operational Capabilities**

Selling and managing cloud services is an inherently systems-intensive business. Cloud solution providers recognize they have to not only manage the adding and provisioning of new users and capacity to a cloud service, but also have to offer predictive capacity management services to maximize their cross-sell and up-sell revenue potential and customer stickiness.

The top three automation systems both in place today and planned for future investment by cloud solution providers align nicely to systems IT distributors have themselves been building and/or adding to their portfolio from other cloud vendors (Figure 4). Remote monitoring and management (RMM) systems, professional service automation (PSA) and invoicing/billing systems are their top three systems investments. Today’s cloud distributor programs include providers of these services, either for the cloud partner to use themselves to run their business and/or resell to their customers, including brands such as N-able, ConnectWise and Autotask. These vendors’ automation systems now include complete contract management, billing and project management functionality as well.

**Existing and Future Service Automation Investments**

<table>
<thead>
<tr>
<th>Automation System</th>
<th>Plan to build/enhance in 2015</th>
<th>Currently have</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remote monitoring and management systems</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td>Professional services automation system</td>
<td>37%</td>
<td>39%</td>
</tr>
<tr>
<td>(billable services tracking)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invoicing and billing systems</td>
<td>35%</td>
<td>29%</td>
</tr>
</tbody>
</table>

**Figure 4**

**Top Cloud Investments in Next 12 Months**

<table>
<thead>
<tr>
<th>Investment</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating a better relationship w/cloud service providers</td>
<td>44%</td>
</tr>
<tr>
<td>Further sales or technical training</td>
<td>44%</td>
</tr>
<tr>
<td>Additional technical staff</td>
<td>36%</td>
</tr>
<tr>
<td>Co-selling with core cloud vendors or service providers</td>
<td>35%</td>
</tr>
<tr>
<td>New or enhanced demand generation</td>
<td>32%</td>
</tr>
</tbody>
</table>
This explains the second most highly ranked investment in growth as further sales and technical training. Despite the plethora of vendor training on new cloud services and supporting delivery methodologies, distributors continue to supplement the vendors’ own offerings with both authorized training center capabilities as well as local training bootcamps, playbooks and technical knowledge bases focused on cloud design and delivery success.

"Certifications are the hardest; every year they change and the curriculum changes. I rely heavily on my distributor to demystify this for me and help me get access to the core training I need, locally."  
Microsoft Cloud Champion

One of the biggest growth challenges we hear from cloud solution providers is their ability to manage effective marketing. They subscribe heavily to the notion of inbound, content-based marketing focused on their ability to solve business problems. That approach, however, oftentimes requires a shift in how they may have previously marketed on-premise solutions. Or, if they’re a built-in-the-cloud provider, the challenge is more likely standing out among the crowd of new cloud solution providers, with enough customer referenceability to be credible.

Nearly one-third of our respondents want help from distributors and their market analytics and demand generation services. This is especially true when they’re trying to aggregate funding and resources from multiple cloud vendors into an integrated campaign. We regularly hear an expectation from solution providers of all types that the distributors’ help in getting access to and managing marketing funds is one of their greatest value-adds. One $3m cloud provider in Florida shared: “The biggest problem we have as a company is that nobody has heard of us. We need help significantly enhancing our brand equity, and we think our distributor has a lot to contribute in this area.”

**Perceptions of Distribution**

Cloud solution providers, especially those with no sizable legacy on-premise business, are more prone to be unaware of the requirements around channel program participation from their service providers and/or vendors. Beyond finding the right cloud services to represent, it’s easy to underestimate the administration involved in placing orders, managing contracts, registering deals for incentive payments and enrolling in training courses across multiple suppliers. And now with channel programs being available from both legacy IT vendors, telco carriers and SaaS and IaaS cloud companies directly, the noise level is even higher.

Given that their business is not steeped in traditional hardware resale transactions, cloud-centric providers admit to having only a moderate awareness of what cloud services and support distributors offer. In fact only 36% indicated they were involved in one or more distributor cloud programs. Nearly 2/3 responded that they know only a moderate or very little about these programs (Figure 6).

On the contrary, however, 68% of our cloud providers indicate their belief that distributors can add value to their cloud business, with another 26% suggesting that maybe they could derive value but they were unsure of the distributors’ programs and cloud support.

The Cloud Broker business model, one of our eight standard models, is still emerging as a well-identified model in the channel (with only a 12% respondent self-identification in this study.) With a focus on aggregating multiple cloud services, sometimes white-labeled, and providing overriding operational services, we expect the Cloud Broker role to continue in its growth and significance in the market. As such, the partners’ ability to get help with training, billing, channel program administration, and pricing models across multiple cloud vendors will become increasingly more important over time. This is exactly where distributors are currently focused, and frankly, have always been.

**Today’s Services**

When asked what services our respondents are currently taking advantage of from distributors’ cloud programs, we see a variety of responses, representing a cross-section of services (Figure 7). Top on the list is sales and technical training, largely, we assume, those courses required by the leading vendors and service providers’ cloud channel programs. However, we see market research and demand generation services ranked highly as well, pointing to the continued need for cloud solution providers to establish clear market differentiation and actively recruit new customers – a high priority for many cloud solution providers as they grow their monthly recurring revenue services.
Another dimension of distributors’ core services of interest to cloud providers is partner-to-partner collaboration with other solution providers. Through our interviews, it became clear that built-in-the-cloud solution providers find value in networking with both other cloud solution providers as well as with legacy VARs and SIs who might assist with private cloud design and/or post-sales hardware and application integration. The distributors’ long-standing collaboration groups such as Ingram’s Venture Tech Network (now called Trust X Alliance), TechData’s TechSelect organization and SYNNEX’s VARNex, now have strong cloud content and introduce members to new cloud service providers and other cloud industry trend makers. One cloud provider shared, “The ability to network with my peers in that environment is really valuable. We need visibility and access to a broader set of partners. Cloud really opens up the geographic borders of who we sell to and forces our issue of scale.”

Beyond engaging in training, marketing and collaboration activities, there’s still some doubt in cloud solution providers’ minds about the value of actually transacting cloud services through IT distributors. For cloud services that are sold both direct and through distributors, there is no apparent significant pricing advantage to buy these indirectly in the minds of our respondents. Of course, sale price is only one dimension of partner profitability, and their expressed interest in getting help with training, marketing and partner collaboration can clearly offset costs. To the extent, however, distributors offer cross-vendor special pricing, volume discounting or deal registration, cloud providers would be willing to get the significant benefit of that “one-stop shopping” legacy distribution value by actively participating in one or more distributors’ cloud programs.

68% of cloud solution providers say distributors can add meaningful value to their business.

Future Support Needs

Looking ahead, cloud providers need a variety of supports to grow their business, many of which they’re open to obtaining from distributors. Training is still high on the list, and extends beyond traditional vendor product and program-required curriculum for certifications (Figure 8). Distributors are offering a variety of business model transformation sessions and courses that help traditional IT salespeople reorient their approach to selling based on business value and recurring services.

We also see marketing-branding and demand generation services remain high on the cloud solution providers’ future wish list from distributors. In that way, the potential impact of distributor multi-vendor cloud marketplaces seem attractive to cloud providers. With the ability to attract attention from vendors, other solution providers and potentially end-users as well, distributors’ multi-vendor cloud marketplaces are growing in breadth and depth of offerings with the promise of much greater “pull” marketing value in the future. Lastly, because many cloud solution providers are smaller, more niche providers with smaller topline revenues (versus their on-premise focused counterparts), they can fall below the radar in traditional IT vendors’ programs, making it harder to get access to market development funds. “Since we are small, we have a lot of trouble getting MDF from our vendors. I think the distributors carry a lot of weight here and could help us with this a lot,” noted one $5m cloud provider.

As mentioned earlier, breadth of portfolio continues to be a key driver for cloud providers as the cloud application and infrastructure market continues to grow and diversify.
The cloud marketplaces being built by distributors demonstrate the distribution community’s commitment to seek out, screen and actively promote a diversity of cloud solutions for both legacy solution providers and those built-in-the-cloud who may be uniquely focused on the cloud platforms from Google, Salesforce.com or Microsoft. Ensuring the cloud offerings have strong scalability and technical efficacy plus supporting contract management and provisioning systems is an invaluable market development service distributors currently fill.

We were surprised to not see technical support or technical staffing augmentation ranked higher by cloud providers for future distribution support. At least at the pre-sales level, many solution providers we talk to place high value on distributors’ technical teams for support. As one cloud provider shared, “I can make more money going through distribution versus going direct. In fact, pre-sales support all the way through to problem resolution with our distributors is quite superior to that of the vendor.”

The bottom line? Despite a relatively shallow level of visibility and understanding of the depth of distributor cloud services beyond transactional management, there is a distinct air of perceived future value with distributors among our cloud respondents. Nearly three quarters have seen increased value from distributors through their cloud programs today versus one year ago. And, another 76% expect continued increased value in the coming 12-18 months (Figure 9).

As a reminder, this entire data set represents the views of those cloud providers that have the most mature practice and are, therefore, likely the most discerning around cloud support plus the least likely to have a deep knowledge of traditional distributor services.

So, it stands to reason that the distributors’ existing cloud services are more visible and satisfying for the smaller, more product-centric VAR who is still on a journey to discover the benefit of a cloud investment. For either community, at the rate distributors are enhancing their cloud portfolios and adding cloud support services, it’s likely these future expectations for value will be met.

**Vendor and Distributor Imperatives**

If distributors want to remain as relevant to the IT channel food chain as they have been for decades with traditional on-premise software and hardware, we see several critical success factors for their growing cloud practices:

1. **Breadth of portfolio** – In a market focused on innovative, new, best-of-breed point solutions, distributors need to continue to build their breadth of both infrastructure and application solutions, beyond those offerings from the large traditional public providers and IT vendors. Disties need to reduce the barriers to entry for smaller cloud vendors, to experience the power of their reach and services.

2. **Refine “volume” metrics** – When monthly recurring revenues weigh in at a fraction of their on-premise resale transaction counterparts, distributors need to refine loyalty and performance metrics based on a services-led model to ensure emerging cloud providers don’t get lost in the volume shuffle.

3. **Actively recruit cloud solution providers** – Distributors are not known today for having the same breadth of reach with cloud solution providers as they do for legacy IT VARs. Disties must continue to cultivate a cloud following, profile and enable partners, even before they realize any transactional revenue, in order to attract both the right legacy IT vendors or SaaS and IaaS innovators.

4. **Continue to build service-enablement automation** – Basic billing and contract management services are table stakes for distributors now. However, PSA and RMM automation tools, enhanced and priced aggressively for the entire MSP and cloud community, would attract both more built-in-the-cloud solution providers and suppliers, who each have to stand up their own automation services today. And, the more inherently standardized and cross-vendor they can be, the more costs are removed for solution providers.

5. **Build bridges to leading service providers** – The debate of “friend or foe” between distributors and large service providers is a moot point. Both need each other and have complementary capabilities. Distributors should actively partner with leading IaaS and voice/data telco carriers to bring the power of the IT channel to a new converged IT offering.

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**Cloud Solution Provider**

“They say they’re going to have 25 more cloud services in their portfolio by the end of the year. It becomes much more difficult for our clients to disengage when we’re providing this breadth of cloud services.”

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Figure 9

Distributor Value - Today vs. One Year Ago

- Yes: 72%
- No: 10%
- Not Sure: 18%

Distributor Value in Upcoming 12-18 Months

- Yes: 75%
- Not Sure: 16%
- No: 9%
Vendors eager to attract the support and loyalty of cloud-centric solution providers can leverage the cloud investments being made by distributors globally in the following ways:

1. **Build pre-sales skills** – Continue to invest in pre-sales skills based on business outcome and financial ROI-selling plus pre-sales professional design services; utilize distributors to extend your reach on this enablement plan to smaller, less cloud-invested partners.

2. **Require marketing competency** – Make marketing skills really matter in your programs. Whether it be a formal accreditation, bootcamps or field mentoring, the ability to establish brand differentiation and do next-generation inbound and content-based marketing isn’t a luxury for solution providers building a cloud business, it’s an imperative.

3. **Redefine distributor metrics & rewards** – The days of measuring distributor performance solely based on sell-in revenue or technical training are long gone. In a services-based market, new metrics that measure services contract length, renewal or upsell combined with breadth of customer reach and services mix are the new indicators of solution provider success.

4. **Collaborate on IaaS and SaaS partners** – IaaS and SaaS vendors will likely continue to experiment with various direct and indirect routes to market as they grow their business. As you build your cloud ecosystem, collaborate with your distributors on strategic ISV and Service Provider partnerships. Even if these partners are distribution novices, they’ll benefit from early investment by all three parties on your joint channel success.

**Contributors**

**About The Channel Company**

The Channel Company is the channel community’s trusted authority for growth and innovation, with established brands including CRN, XChange Events, IPED, and SharedVue. For more than three decades, we have leveraged our proven and leading-edge platforms to deliver prescriptive sales and marketing solutions for the technology channel. The Channel Company provides Communication, Recruitment, Engagement, Enablement, Demand Generation and Intelligence services to drive technology partnerships. Learn more at www.thechannelcompany.com.

**About The Global Technology Distribution Council**

The Global Technology Distribution Council is the industry consortium representing the world’s leading tech distributors. GTDC members drive more than $135 billion in annual worldwide sales of products, services and solutions through diverse business channels. GTDC conferences support the development and expansion of strategic supply-chain partnerships that continually address the fast-changing marketplace needs of vendors, end customers and distributors. GTDC members include: AB S.A (WSE: ABPL), ABC Data, ALSO (SIX: ALSN), Arrow Electronics (NYSE: ARW), Avnet (NYSE: AVT), Computer Gross Italia, D&H Distributing, Esprinet (PRT.MI), Exxelis, Ingram Micro (NYSE: IM), Intomax, Logicom (CSE:LOG), Officer Distribuidora, Redington (BSE: REDL), SiS Technologies (HKSE:0529), ScanSource (NASDAQ:SCSC), SYNNEX (NYSE: SNX), Tarsus, Tech Data (NASDAQ:TECD), Westcoast LTD and WestconGroup.

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