

DRIVING RECURRING REVENUE BUSINESS MODEL IN AGE OF THE CLOUD

Like it or not there will never be one single business model that dominates the channel ever again. In place of the capital expense approach to acquiring IT products and services for decades there are now multiple approaches to acquiring those products and services that treat IT as just another operating expense.

The reason for this shift can be traced back to the rise of software-as-a-service (SaaS) applications. Not only did many customer prefer to pay for IT applications as they went along, the majority of them also came to appreciate the flexibility provided by only paying for applications they actually used; as opposed to buying licenses for software that wound up going largely unused. Not too long after the rise of SaaS, the IT industry began to apply the same concepts to IT infrastructure under the collective heading of cloud computing. Of course, there wasn't really much new there in terms of essentially providing access to IT infrastructure under what amounts to a lease. But in the wake of the rise of SaaS, the term cloud computing represents an idea whose time has finally come.

The good news for solution providers in the channel is that over the long haul these "pay-as-you-go" models for consuming IT tend to be more profitable. The real challenge is making the transition in a way that provides the least amount of disruption possible to business while waiting for those more profitable recurring revenues to actually arrive.

At this point the question of the day is not so much whether to embrace these new business models, but rather how best to go about it. After all, in terms of all things cloud customers have already made it clear there is no going back. The primary issues facing channel chiefs today is how best to enable this transition to actually occur.

THE PROFITABILITY TRAP

When it comes to SaaS applications in particular and cloud computing in general the single biggest expense most providers incur is the cost of acquiring new customers. The majority of SaaS application and cloud service providers are still unprofitable because it often takes two or more years of charging monthly fees to offset the cost of acquiring customers. For example, after 14 years of pioneering SaaS application adoption, Salesforce is just now starting to turn a profit. Similarly, Amazon Web Services is just starting to provide a return on millions of dollars in investments in IT infrastructure.

Given the fact that most of the providers of SaaS application and infrastructure-as-a-service (IaaS) are not recouping their costs on servicing any given customers until the second or third year of a contract, many of them have recently discovered the value of the channel as a mechanism to lower their customer acquisition costs. For that reason many of the companies that initially focused on selling these services directly are now building out channel programs that reward partners for not only bringing in new customers, but also for

making sure those customers renew their existing licenses.

Clearly, leveraging the relationships that many solution providers already have dramatically reduces the cost of acquiring new customers can be substantially less. In market segments where a solution provider may not have had much presence, SaaS applications can be a blessing because they expand the total size of a market that any solution provider can address. For that reason alone, many solution providers have discovered that SaaS applications in particular tended to be more a positive than a negative.

But as more application workloads move into the cloud, many solution providers are also starting to see core elements of the IT applications and services that were once deployed mainly on premise or in a hosted data center facility starting to move into the cloud. It's still a relative trickle when viewed in the context of the trillions of dollars spent on IT every year. But it's clearly soon going to span billions of dollars in IT spending; a significant portion of which would once have been deployed on premise.

For channel chiefs the issue then becomes how best to leverage the channel in the age of the cloud. Beyond the obvious benefits of reducing the total cost of acquiring new customers, solution providers also provide a critical first of customer support. Instead of having calls about topics and issues that might only be related to their service tangentially, solution provider partners reduce the volume of those calls by tackling those issues themselves whenever possible.

The end result is not only fewer support costs for the provider of the service, but also less churn because customer are not only increasing activations of a service, but also make it more likely customers will renew licenses because they are getting more business value out of the service.

Given those marketing, sales and support benefits, it almost behooves channel chiefs working on behalf of these service providers to create a robust channel.

THE RECURRING REVENUE TEST

Of course, when it comes to selling IT as a service not all channel partners are created equal. There is often an unfortunate tendency for some solution providers to want to bundle IT services with an on premise sale. While clearly IT applications and systems that run on premise are not going away any time soon, all too often the compensation structures in place at a solution provider result in sales people often selling on premise solutions at the expense of IT as a service offerings.

Before partnering with any given solution provider, channel chiefs that are tasked with generating specific amounts of recurring revenue need to take a hard look at the compensation models being employed by that partner. After all, compensation still drives behavior. If the sales team does not have incentives in place that reward renewals, chances are they will treat anything that looks like a renewal fee as yet another "French Fry" to be bundled with whatever core meal they are trying to serve.

Obviously, there's nothing wrong with selling on premise systems in a world that IT solution almost by definition is going to be based on hybrid clouds. But alignment of business models that are deliberately designed to generate high volume of recurring revenue over multiple years is nothing less than critical. In fact, partners that generate a high volume of services revenues on their own already are more than likely to take better to reselling a service than those that rely heavily on product margin.

Once business models are aligned the channel chief then needs to make sure that their partners become

expert in all things relating to their service. Even though solution providers are close to their customers, the discovery of the business value of any given application is more of a journey than an event. As such, channel partners need to train customers over an extended period of time on how to get the most out of that application. That is only going to occur if channel chiefs turn their channel partners into chief advocates for their applications and services.

To that end, channel chiefs need to not only provide all the traditional pre-sales tools that channel partners need, but also a rich portfolio of post-sales tools that help partners understand how best to engage a customer. For example, suggestions relating to best practices or how to use a certain feature are generally welcome. Generic marketing literature not so much. The end goal should be to drive deeper adoption of the application or service in a way that provides a faster return on the investment in acquiring that customer in the first place.

Partners also need tips on not only the content to be shared, but also what vehicles are more appropriate for delivering it. Content that lends itself to mobile devices is very much different from content that is meant to be consumed via a Web interface. In an omni-channel universe, solution providers need to employ a diversity of communications methods to engage customers.

Channel chiefs also need to make sure that the analytics data that they gather from all their customers is shared with their partners. The insights from that data can be crucial in terms of enabling partners to help their customers get the most of their investments.

Finally, the ultimate goal should be to inspire those solution providers to build applications that extend the value of the core service in multiple directions by invoking open software development kits and application programming interfaces (APIs) that are well-documented. It's incumbent on the channel chief to make sure that partners understand the full range of potential opportunities they should be tapping into over the lifecycle of a customer engagement.

TRAINING FOR SUCCESS

In an ideal world, every solution provider in the channel would have already made a transition to delivering IT as a service. In reality, there are still plenty of solution providers in the channel struggling with making this transition. While these partners might not represent as rich an opportunity as partners that have already embraced IT as a service, channel chiefs should take care not ignore these partners.

By providing partners with the business training needed to profitability make this transition, many of those solution providers will develop an affinity for the vendor that helps them become more profitable. That generally means that when push often comes to shove in the field, those solution providers will reward vendors that they perceive have their best interests at heart. Challenges those solution providers need to address span everything from financing deals to managing their balance sheets.

In short, it's in the best interests of providers of IT services to make sure their channel partners will be able to cross the proverbial chasm that exists between reselling products to generating recurring revenue.

For example, many of those solution providers may need help simply navigating the multiple types of recurring revenue models that exist. In fact, channel chiefs may have to spend some time on not only educating partners about those models, but also different dynamic pricing models that might be attached to those revenue streams. After all, when it comes to a service levels partners need to understand how

availability of the service directly impacts pricing. A service that is guaranteed to be available 24/7 on a global basis might cost substantially more than a “best effort” service.

Just as significantly, many partners will need help identifying the multiple types of distribution models that have emerged in the age of the cloud. For example, there is now no shortage of online stores that emerged through which software and services are marketed directly to line of business users and internal IT organizations. In fact, a big part of the opportunity for solution providers is reconciling the competing interests that often emerge between those two camps. As a result, it's often in the best interests of channel chiefs to arm their partners with the soft skills required to reduce tensions that otherwise could lead to an application or service being de-provisioned altogether.

CONCLUSION

Channel chiefs today are at the center of the largest transformation of business models ever undertaken not only in the history of IT, but for that matter any other industry. The degree to which partners successfully make that transition will depend heavily on well engaged they are with not only their customers, but also their vendor partners.

The challenge and opportunity facing channel chiefs is arming partners with the right information they need at the right time to succeed in each of those customer engagements. In fact, where the channel marketing efforts of the vendor ends and the sales effort of the partners begins needs to be so seamless as to be indistinguishable from one another. That means providing a digital sales motion that partners can easily consume; it means establishing relationships with channel partners at a much deeper levels than ever before.