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PART THREE

Show Me the Money

Part Three in a Four Part Series:
Everything You Always Wanted to Know About Reselling Cloud Computing But Were Afraid—or Didn't Know—to Ask

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Channel Education

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PART THREE

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> Whenever you see a successful business, someone once made a courageous decision.
>
> PETER DRUCKER

In this series of four whitepapers we are looking at how cloud computing is changing the historic landscape of the channel as we know it, what to expect, what to consider and what can you do about it. The intention is to give you the knowledge required to lead your channel business into the new world where cloud solutions are a necessity to your customers.

In parts One and Two we covered why and how the cloud is changing our channel landscape, areas of cloud technology you can resell and how to appraise vendor partnerships.

In this third paper we shall cover how cloud solutions are changing the licensing and billing models; how this may affect the way you need to compensate your sales people; what effect they will have on your services and support delivery models; and how cloud affects your business metrics.

In the fourth and final paper we will discuss transitioning to selling cloud; adding value; becoming a cloud trusted advisor; and cloud versus product delivery models.

In the previous papers we discussed the importance of the cloud and why the channel needs to take part. We also evaluated the different areas of cloud technology and provided a process to help you discover which types of vendors will be most effective for your business.

For channel, the cloud is the elephant in the room. With so much going on and the IT sector always having something new to talk about, it's easy to ignore the buzz and turn attention back to the status quo. Resellers resisting the sale of cloud solutions will lead vendors to be tempted to go direct and end users finding the benefits of cloud attractive will find a way to procure the services they want.

HP's EMEA channel head Klaus Rumsauer recently stated, "The cloud will mean a major shift in the way IT is sold, with many customers abandoning the traditional bid tendering model. It is a different play and he must deliver services and a different concept. It is a different positioning of the reseller in the future[1]."

End users will be pressured increasingly to consider cloud solutions (be they private or public sector) as their budgets are restricted and as success stories in cost savings and efficiencies are passed on from peers—or even from higher ups who have visited events and met others who have put cloud on the agenda.

"The big vendor names are getting behind the cloud and your customers will undoubtedly be asking you about it."

Regaining a Voice

One of the challenges for the channel, many of whom have engaged and sold to the IT department through the years, is that many cloud decisions or directives are coming from the business and not the IT department anymore. In fact many cloud deployments are happening without IT's involvement at all, departments finding it easy to license an application off a web site, get their logins and to start using it quickly. This poses challenges for the customer's IT dept as well as the channel. A customer sooner or later will ask a reseller about the cloud and they will need to have an answer otherwise facing losing that client and its business.

Microsoft recently to stated, "We estimate that this year, 60% of the market will still be traditional servers, while 30% will be virtualised and 10% will be in private Clouds. By 2015, however, we expect to see just 10% as traditional servers, 20% virtualised, 40% will be in private Clouds and 30% will be in the public Cloud[2]."

In early 2011 Hewlett Packard's new CEO Leo Apotheker stated, "The world is connected, people to people. People want information where and when they need it … We intend to be the platform for the Cloud and connectivity … Everything that we do in the future will be delivered as a service. It's the first time HP is trying to put all of the elements of what it's doing together[3]."

The big vendor names are getting behind the cloud and your customers will undoubtedly be asking you about it.

New Approach to Business Models

Once you have made the careful decision to partner with your chosen cloud vendor(s) there are still key decisions to be made, specifically when it comes to the effect the cloud will have on your billing model.

If previously you dealt predominantly in software, the business model was relatively simple. Customers bought licenses from you and paid you for them accordingly and you hence paid your sales people a % cut upon receipt of those orders or payments.

Renewals were treated pretty much the same with a salesperson or renewals individual owning these and the commissions.

Cloud solutions bring new approaches to these factors. For the customer cloud is a new model for delivering and consuming IT more efficiently, in turn reducing Capex and switching spend to Opex by making use of economies of scale. For the reseller this means extended subscription cycles of up to three years or longer and higher renewal rates, but with varying new billing models to contend with.

1 IT Europa: Cloud means an end to tendering process, 5 May 2011
2 BusinessCloud9: A Cloudy Enchilada, 15 March 2011
3 BusinessCloud9: It's not where you start, it's where you finish, 15 March 2011

Traditionally supporting software has been a complicated process and although it is one that many resellers have made a comfortable living off of in the past, customers are beginning to hear about new models of delivery and are eager to find ways to reduce costs of acquisition and ongoing maintenance. Regardless of this billing method, it does mean one thing for the channel: strong annuity incomes.

Guaranteed income means you have a safety net to utilise once you have signed enough cloud customers to the fold. Take, for example, that you sold £200,000 of cloud in year one, and then in year two you sell £300,000 more. This will give you an exit of £500,000 of total annuity revenues in year two. We know this is true because many resellers have already been building their cloud annuity revenues for 3 - 4 years and have regular income exceeding several million pounds sterling in a very repeatable and predictable invoicing cycle.

Renewal rates are another important factor to consider. Not every customer will renew every year, but signs are thus far that cloud vendors have high renewal rates in comparison to many software vendors and customers are becoming used to signing into multiyear cloud contracts.

Making the Leap

There is an expectation from the channel that at least 1/3rd of its revenues will come from cloud services by 2014 (see below). A clear indication that this is an important revenue stream to be considered, and certainly not ignored.

What percentage of your revenue do you feel will come from cloud services by 2014?

Only asked of respondents who offer cloud based services	Total	Distributor Volume Reseller (LAR)	Specialist Reseller	Technical VAR	IT Consul-tancy	Managed Service Provider	IT Outsourcer	IT retailer	Systems Integrator
0 - 5%	**1%**	0%	0%	0%	4%	0%	0%	0%	0%
6 - 10%	**7%**	14%	10%	0%	4%	3%	7%	29%	17%
11 - 15%	**12%**	0%	10%	33%	8%	9%	14%	29%	0%
16 - 20%	**20%**	29%	40%	25%	29%	6%	14%	0%	33%
21 - 25%	**12%**	0%	30%	8%	8%	11%	29%	0%	8%
26 - 50%	**31%**	43%	10%	25%	42%	34%	14%	43%	33%
More than 50%	**17%**	14%	0%	8%	4%	37%	21%	0%	8%
Average %	**32.87%**	33.29%	20.00%	26.50%	27.65%	45.89%	33.07%	22.29%	28.17%
Base	**121**	7	10	12	24	35	14	7	12

Source : Cloud Industry Forum: Cloud—The Impact Upon the IT Supply Chain Survey 2011

Sitting back and doing nothing is not an option, especially if licensing is your main revenue generator. As mentioned in Part One, IDC research has revealed that the rise of on-demand models will contribute to a $7bn (£4.5bn) decline in global software licensing revenue in this year alone. The SaaS market is projected to see compound annual growth of 25.3 per cent until 2014, bringing its worth to more than $40bn. Interestingly IDC forecasts that by 2012, some 85 per cent of new market entrants will not ship a packaged product.

CLOUDY-SHAPED SPANNERS IN THE WORKS?

Of course, the cloud billing model will also throw up another set of issues for channel players who are already struggling to get their heads around this new concept. Sales compensation and financial planning are important factors to consider.

With sales compensation in mind, you might ask the following questions:will my sales team need to undergo a complete change? Is a cloud sales rep a different animal to a traditional product/service sales rep? Will my team be able to adjust? How do I get them involved in the cloud?

Sales teams will have to focus on communicating a different set of value propositions, with more emphasis on business credentials, levels and quality of service, total cost of ownership and quality of ongoing customer support, rather than features and functionality or speeds and feeds.

Having a clear strategy and commission models from the outset will save headaches in the long run. You will need to work out whether sales reps are paid on an annualised contract value (ACV) or total contract value (TCV). Are they paid upfront or as their customers are billed/pay? Are targets set annually or quarterly? Does a percentage of sales each year go to ensuring staff retention? These are legitimate questions to consider in the planning stages.

The Road Ahead

Unfortunately there is no one solution or a one-size-fits all approach to the transition to the cloud—it is a case of finding the strategy that works for you and your sales team. Bear in mind that sales people may be worried and potentially resistant to start with; however, a shift in mind-set will be crucial to the development of cloud-based initiatives and compensation that they receive. Sales people will have to learn to work differently, building up their own renewing client base to ensure they receive their commissions.

> "**Not every customer will embrace the cloud**. You will need to provide a mixed model for the provision of on network, private and public cloud solutions."

Also factor in utility billing at the early stages so it is not a shock when it does come into play. Customer bills can go down as well as up in this model and therefore deliver less predictable commissions and billings than in today's world. It is important you find ways to accommodate these models as telecom resellers and xSP-type providers are starting to move to the cloud. These providers are adept to these billing models and will adopt them alongside their existing billing systems quickly. This should not come as a surprise, however. You will face new competitors who are familiar with these varying billing models in the cloud world as the channel develops.

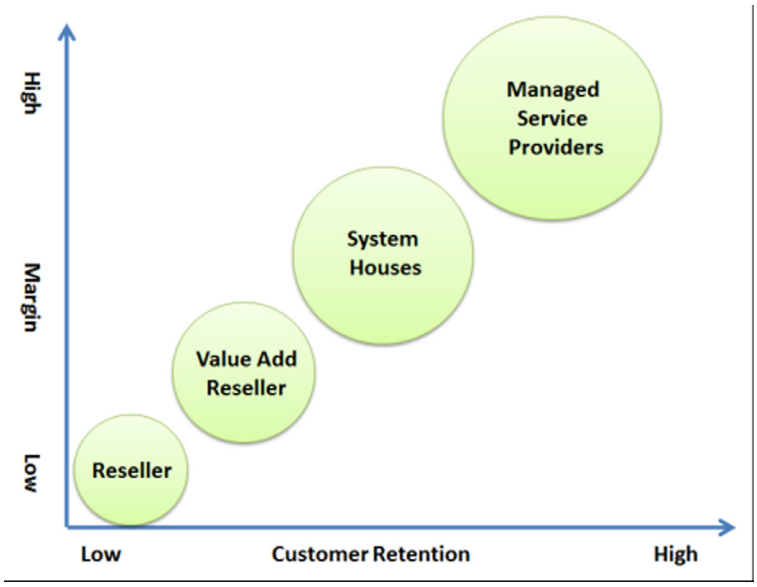
It is better to think about all these potential obstacles now rather than leave it too late and have the problem holding your business development back down the line. The cloud is disruptive and it is possible that some of your existing offerings will be cannibalised. Services and support delivery *will* change, but not every customer will embrace the cloud. You will need to provide a mixed model for the provision of on network, private and public cloud solutions.

Developing a Sound Financial Model

With this new model and its rapid promotion comes new challenges, the greatest of which for the channel are the financial changes that will certainly shake up the traditional commercial model. The change in form factor, customer expectations, vendors go to market strategies and how we adapt from the past are all going to impact with their own pressures.

As cloud sales grow, we will see more models emerge with billing in arrears and on-usage billing, shifting pressures of cash flow from the customer to the provider. As old models are compared to new, this will impose pressure on a reseller's cash flow and financial models. For that reseller, this process needs to be thought through well in advance. For those reliant on existing software renewals and legacy delivery methods, this shift in alignment combined with the recessive market place could add more uncertainty and risk. For those embracing and planning for the market balancing brought about by cloud solutions this could prove a lucrative time for growth and customer acquisition. It will be wise to be the provider that takes a competitor's customers from their traditional software solution to a service delivered model before someone does it to you.

It will become increasingly important for the channel to provide something of value in order to retain customers and margin, even as the routes to market and competitive landscape change and customer price point expectations lower. Customers are expecting more for less now as computing power accelerates and the demand for on-tap technology with low setup costs grows.



Many resellers have already started adding value as the margins on hardware by reduced, and many have stepped into providing more service management and support services by becoming the customers' virtual IT department. As cloud offerings grow in popularity, understanding how to wrap value around your finacial models will be key.

How Cloud Solutions Are Changing the Licensing and Billing Models

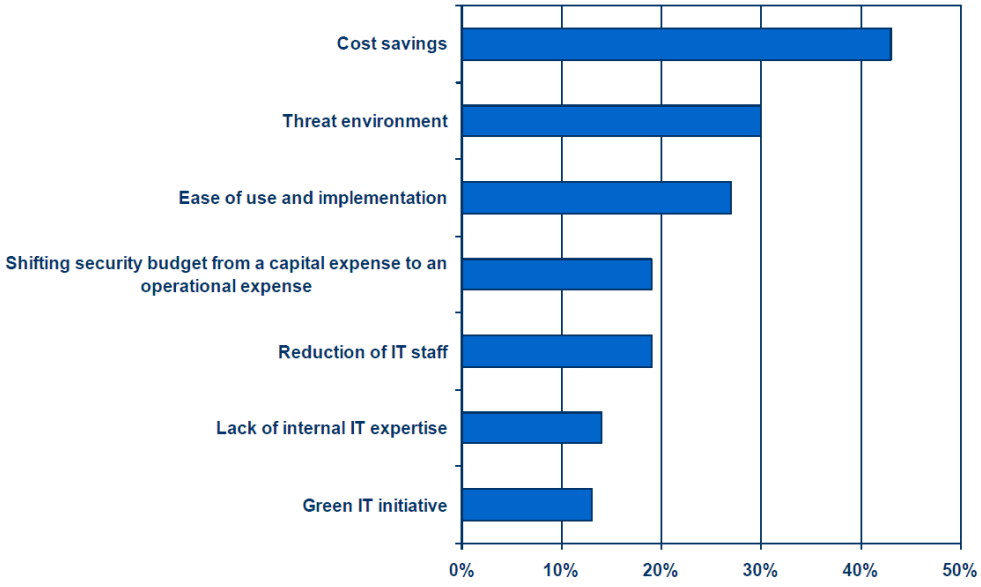
End users have long struggled with the licensing and billing models of software, the myriad of variations and complexities of billing by user, PC, CPU usage MIPS (million instructions per second), concurrent licensing, perpetual licensing and now licensing for cloud applications.

Large capital outlays for unused software licenses are no longer acceptable and businesses have been driven by recessive need to get their houses in order.

How many IT staff fully understand (or indeed read) all the legalities behind software license agreements? Software licenses are written for a legal audience and they may not always be as clear as they could be to the IT audience. Software licensing and maintenance is a feat in itself; it is costly, complex and administrative. No matter which of the many different licensing mechanisms and approaches you take—be it volume, site, or concurrent licensing—the path is not always straightforward. In fact, this is an area where the reseller has often wrapped services and products to provide a customer with license management, a necessary evil to stay compliant with usage agreements.

In today's challenging times, businesses are looking to simplify process and minimise cost. One area where savings can be made, with respect to license-numbers minimised and the responsibility of licensing shared with the vendor, is that of Software as a Service (SaaS) and cloud utilisation. In a nutshell, cloud and SaaS solutions can minimise the technical burden for businesses and maximise budgets. They remove the need for software installation and maintenance, enabling shorter deployment time alongside the ability to deliver not just a local, but a global, solution. SaaS can allow businesses to focus their technology investment on delivering competitive advantage rather than maintaining infrastructure. Cost savings are consistently reported by customers as one of the leading drivers to consider SaaS as an option.

Q: Please rate the importance of the following as drivers in your organization's SaaS investments



Source: IDC 2010

> The licensing advantages of the cloud have the ability to **simplify ownership, liabilities and costs of licensing for the customer.**

Service Licensing and the Role of SaaS

Whilst SaaS will not completely replace traditional licensing models, its role in simplifying licensing complexity and reducing the costs and overheads associated with managing traditional licenses will become more widely understood. So what are the differences between software and service licensing—and how can gains be made?

Software licensing is undergoing change. The days of purchasing a licensed copy on CD ROM are becoming a distant memory. With the majority of today's computers connected to the web, it has become simpler for software vendors to electronically distribute and update software (and perhaps even keep an eye on how often their software is used).

First came the ability to download software from the internet, followed by the capability to subscribe to automatic software and signature updates. SaaS takes the model a step further. The core licensing difference of SaaS is that it is provided as a subscription-based model (such as per user per month licensing contracted over a set license period) rather than the traditional single up-front license fee with software sold for perpetual use with an ongoing maintenance free for support and upgrades.

Many cloud vendors are already starting to introduce new models of licensing depending on their technology sector and capability to measure usage. These include feature and function models, usage-based transaction models, time-based subscription models, transaction charging, or even more creative advertising funded and shared revenue models. Another advantage is that SaaS vendors can also allow customers to administer and monitor their licensing centrally, removing the burden of managing software by installed usage.

The licensing advantages of the cloud have the ability to simplify ownership, liabilities and costs of licensing for the customer. With cloud licensing you will also discover that customers start to do more diligence and ask more questions around where data is held, what quality of service guarantees are contracted and what the flexibility of up or down licensing is.

Establishing a Billing Model

The greater challenge for the channel is that of the billing models and variety that will be faced. First, cloud solutions are built on a recurring revenue model and not an upfront approach as with typical product solutions. For the end customer this means an OPEX (Operating Expenditure) approach compared to a CAPEX (Capital Expenditure), meaning the business can recognise its spend in a different financial model more beneficial to cash flow and financial reporting. Most end users are now

familiar with this and it aligns with their leasing of buildings, photocopiers, company cars and the like, digesting business costs in a way that allows the financials to be accounted for more effectively.

For the channel, however, this has a different implication. It requires the reseller to understand revenue recognition, deferred revenues and a cost to cash model that is very different from product selling. There are a number of billing models you may come across with cloud vendors and in your adoption of selling cloud it will be important that you not only understand these, but that you can support them and pay your sales people against them.

Models may include variants such as:

- Billed annually up front
  - You sell the customer a year's contract and bill them for a year and collect the payment now. Much like selling a product to the client.
- Multi-year up front
  - You sell the customer a multi-year contract and collect the full payment for the term up front—e.g. sell a 24-month contract and get paid for 24 months service now.
- Multi-year annualised billing
  - You sell the customer a multiyear contract, but bill them annually in advance.—e.g. you collect only the initial 12 months service payment up front and then bill again in 12 months time, and so on.
- Quarterly and Monthly billing
  - Similar to the annualised billing. You may sign a 12-month contract, but only bill quarterly or monthly during the term of the contract, collecting monies across the year, so the customer pays for the month or quarter ahead before using it. This can also be combined within a multi-year contract.
- Utility-based billing
  - This is where the customer pays for what they use as they use it, typically on a monthly basis, billed in arrears. The service provider reports on and produces a bill each month for clients, based on what they used in the previous month.
  - This has good and bad implications to consider such as the administration required around billing and collecting monies in smaller more regular amounts. Also the fact that the end user and reseller will get unpredictable bills that may go up as well as down. It can end up with customers querying their bills compared to fixed contract billing that is agreed up front.
- Aggregated billing
  - A billing method whereby you as the channel partner of the cloud vendor simply resell licenses each month and pay the cloud vendor for your total users in use at the end of each month. Often used where you are providing managed services to the end clients and you are the aggregator for the vendor.

- Vendor Referral Commission Models
  - Many vendors are adopting a direct end user customer billing model and paying a reseller anywhere between 5 - 15% margin on initial contract sales. The vendor bills the end user directly and paying a commission to the reseller when the customer payment has been made. Renewal years often pay between 5-8% commission to the reseller in these models. Thus treating the reseller as an agency with the vendor performing the support services and provisioning of the services.

> Pricing models will encourage customers to consider cloud solutions as viable options when under commercial pressures internally.

The Business Implications of Cloud

It is important to understand that licensing and billing, whilst linked, are not necessarily in alignment. For example you may sign a 3 year contract for a cloud service, with annualised billing. Therefore the license is a 3 year license, but you only bill the client on an annualised basis at one third of the total contract fee. The same could be applied to an annual contract with monthly billing.

Vendors are already changing the billing methods and approaches and this is likely to be something that as a reseller you will need to support, whether you would prefer to or not.

For example, Microsoft with its BPOS route to market has initially adopted a "billing the customer direct" model and paying the reseller a commission. This has not been welcomed and pressure is on Microsoft to allow customers to bill their own end users. Google already provides end customer billing capabilities to its partners and it is expected that Microsoft will follow suite when it delivers Office 365[4].

Hewlett Packard announced recently with its cloud strategy that it will provide monthly and then utility billing for customers:

"Partners will be able to white label the service or resell it to customers under the HP banner on a monthly basis. He said: "We're starting with that [pay monthly] model today, but we are planning to introduce pay-for-use, pay-for-consumption, grow-as-much-as-you-like models as part of the upgrades to the service. The percentage of these subscriptions that partners receive will depend on how involved they are with the service's delivery[5]."

These pricing models will encourage customers to consider cloud solutions as viable options when under commercial pressures internally. Paying monthly for an end user has attractions such as cash flow benefits, more control and hold over the provider and typically cheaper cost, when annualised, than a comparable on network solution.

With so many possible billing methods you will find vendors adopting different and varying of these approaches. This will mean resellers may have to adapt to handling a variety of billing models for customers and could involve you billing customers monthly and on differing amounts as reported by the service provider. This can involve you raising a far higher number of invoices for smaller amounts than today in selling product solutions.

4 Talkin' Cloud: Microsoft Channel Chief Responds to Cloud Billing Again, 2 February 2011
5 CRN: HP unveils hybrid cloud vision, 25 January 2011

Also with less revenue collectible up front it requires a greater number of customers to be sold, to generate the same monthly incomes as compared to selling up front product solutions. It is important, especially when delivering to the monthly billing model, to understand that it is all about driving customer acquisition to drive a repeatable annuity revenue stream. For example Salesforce.com, one of the market leaders in the cloud computing industry, had over 52,000 customers in 2009.

It will be increasingly important to sell multiple cloud customers to collect the same return that would come from a single on-premise transaction. Over time as you build your repeat revenue cloud customer base, the revenues will grow to the levels required. However the transition to this model may be a painful one if you do not have cash reserves in the short term.

Not all services at this time are available in monthly or quarterly plans and very few offer utility-based models. For the short term there is a transition period where cloud can be resold and collections mostly made in a similar model as product sales are made today. However with cloud being a rapid growth sector with vendors vying to become the leaders, such flexibility in billing will not take long to appear and competitive pressures will demand that vendors compete on these terms.

One benefit this competition will bring is increased customer adoption, which will bring the channel who commits a raft of new customers and billings. Customers who might not be addressable before will become so, and an increased rate of new customer growth can be achieved.

For the business the impact on cash flow in the short term will be a key change metric caused by the growth of cloud in the market, which can be offset by a focus on new customer acquisition. There will also be some dramatic changes in how salespeople are compensated in order to motivate the resale of cloud based services.

How Sales Compensation Will Be Affected

With billing models and cycles changing, combined with some cloud vendors billing direct and paying commissions to the channel partner, there is a need to evaluate how sales commissions are structured and consider new models for reward.

For example a salesperson faced with selling or renewing an on-network solution with some installation services and an up-front invoice value of £15,000, and where they get paid their commission on the full amount in the short term, they may not be attracted to selling a two year contract with quarterly billing for a total of £24,000 where only £3,000 will be billed up front for the first quarters payment. Commission on £3,000 each QTR for the next two years may not be as attractive as full commission right now!

If a salesperson is unmotivated financially to proposing cloud, they may shy away from offering it to the client until someone else does and you are put on the defensive. Stories are growing of resellers losing incumbent and relied upon renewals to new solutions in the cloud from competing resellers, quite possibly because their sales person did not want to risk a lower value or use a differently billed solution.

This compensation challenge is one that many vendors are already struggling with as they add cloud solutions to their portfolio and it proliferates down through distribution and the reseller channels. A pure cloud vendor and new salesperson can easily adopt such commission models, but changing the mindset from an existing legacy model is more challenging. Paying commissions on cloud is a key factor that needs to be thought through and built into your sales plans. You will need to be able to scope for a variety of billing models as outlined above.

The straight resale model is simple and your product commission plans can apply. However, when longer contracts or different billing periods are introduced, it is important to have clear rules and payment plans around these.

> This compensation challenge is one that many vendors are already struggling with as they add cloud solutions to their portfolio and it proliferates down through distribution and the reseller channels.

Some suggested commission plan outlines to consider:

- Billed annually up front
  - Here you can pay the sales rep. in advance, the same as when a product sale is made.
- Multi-year paid up front
  - Will you pay your sales reps the full commission on the multi-year deal up front? As you will be collecting the full customer payment in advance, sales people will expect this and it will allow you to align with a product commission selling model.
- Multi-year annualised billing
  - This is where differences in commissioning need to be considered.
  - You can pay your sales people annually on the Annual Contract Value (ACV) as the monies are collected, building in some level of staff retention. As annuity starts to grow sales will have more accrued commissions due to them in future terms. Paying them full commission each year for the term they contracted.
  - You can also consider paying the sales rep. an accelerator up front for the Total Contract Value (TCV), meaning they will get all the commission at the start of the contract.
    - E.g. pay a % such as one year = 100% commission of TCV value, two year deal = 80% of the TCV, three years being 60% of the TCV
    - E.g. Assuming a reduced customer price of 5% for a two year contract and 10% off for a three year annually billed contract then:
      - One year at £12,000 customer price, assuming reseller sales person is on a 10% commission plan = £1,200 commission paid
      - Two years at £11,400 per year (5% discount) to the customer =£22,800 TCV * 80% produces a commissionable value of £18,240 * 10% commission = £1,824 commission paid to sales rep
      - Three years at £10,800 per year (10% discount) to the customer = £32,400 TCV * 60% produces a commissionable value of £19,440 * 10% commission = £ commission paid £1,944 commission paid to sales rep
    - The % of commission and yearly accelerator rates can be varied to your liking to establish a model that incentivises multi-year contracted revenues to your business whilst maintaining motivation to your sales force.
- Quarterly and Monthly billing
  - This poses a greater challenge to your sales teams motivations. For example, a yearly commission plan of 10% on a deal billed annually in advance ACV (Annualised Contract Value) for £12,000 would produce commission of £1,200
  - However if monthly billed at the same prevailing total value then a monthly commission of 10% on a £1200 monthly transaction would deliver a monthly commission of £120
  - Again here you may consider paying against the contracted value instead of the billing values—perhaps paying a reduced rate so that if annually billed in advance the salespersons compensation resulted in 10% of the sales value, but that on a yearly contract monthly billed perhaps you would pay 7.5% of the year's total contract value (in this example producing 7.5% of £12,000 producing a commission of £900 up front). Thus in this way a salesperson is incentivised to drive for payment up front, but if utilising monthly billing is still paid up front a lower payment is received (to scope for the business's risk and financial model).

Your sales people will have to work differently as these new models develop, establishing a good run rate of commissions by building up a renewing billable client base. If commissions are paid monthly on monthly billing sales made, then it will be essential that sales reps build up and own the renewals base, allowing them to build an accrued base of annuity that once established enables them to drive a repeatable commission base. With contracted fixed monthly bills this enables a salesperson to establish a growth into a strong commission base once enough customers are signed to the services.

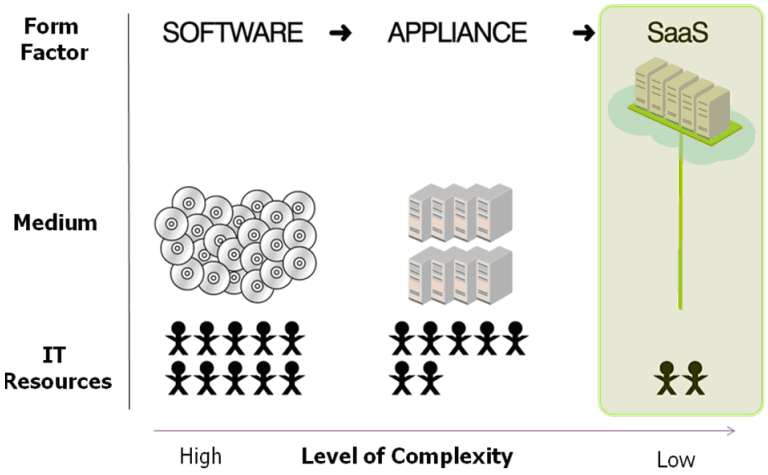
As utility billing comes into mainstream play this will become even more critical as the monthly billable amounts are allowed to vary. Here the sales rep will not have such a predictable monthly revenue to bill and will require a greater breadth of signed customers to cover for any dips in usage that lower that month's commissionable revenues.

Due to these changes in commission models, establishing a separate sales team may become applicable and a new breed of sales rep may be required: one who understands the cloud proposition as well as accepting the billing and commission models that go hand in hand with this developing form factor.

> "Setup charging models have reduced slightly with the advent of appliances, but **with cloud this model may change greatly**."

What Effect Cloud Will Have on Your Services and Support Delivery Models

With product sales, the norm has been to establish a percentage of revenues against services and wraparound sales values. It has been the reseller's prerogative to procure hardware, software and networking/connectivity components and bring them together, charging for deployment, installation and configuration as well as support. Setup charging models have reduced slightly with the advent of appliances, but with cloud this model may change greatly.



Public cloud solutions require no installation and charging for provisioning will be difficult in a competitive world where an all inclusive price for the service is virtually the norm. The value to the client and the area to add chargeable services will be in business configuration. Taking the 'vanilla' cloud setup and configuring it to the specifics of the customers' requirements will maximise the value the client gains. There often is also the opportunity to provide migration services for the client as their data moves from a historical in-house solution to the cloud.

With product sales not only do you recognise the sales up front and have services/installation wraparounds, but often you also gain sales from upgrades of software versions resulting in a customer requiring hardware refreshes, upgrades to memory or new technology purchases. With cloud not only are updates maintained by the cloud provider, but refreshes will not be chargeable to the customer as the value proposition will likely include a fixed service fee for the end result, with no dependency on how the provider delivers or enables the service.

With Public cloud solutions often the vendor includes the support in the standard package, with the customer having a strong 24x7 support line provided from the vendor directly, removing the burden on you as a reseller from providing the infrastructure support. It still remains that if you bring local business value to the client by configuring the solution to their requirements, you can front the support based on the business application in use and not the technicality of the infrastructure's typical break/fix support which the vendor will own. With private clouds there will likely remain the need for the support requirements delivered previously for in-house installed equipment.

As customers adopt more mixed private and public cloud solutions, requirements for assistance around integration, data migrations and technical consultancy for managing the solutions remotely will be an opportunity presented to the channel.

It would be wise to view cloud as a sales growth enabler, where you can sell more clients without requiring a great increase in manpower or technical resources. The fact that it does not need the labour intensive setup brings benefit to the clients, and encourages rapid deployments and trials, and eases customers into the factor of change. Cloud removes hurdles normally faced such as the cost of change. It also enables you to play into larger clients than perhaps you could before.

> **Outside of the commissions for your sales teams there are some key fundamentals that cloud solutions will bring into your business.** It will change the way you measure customers and how they measure the solutions you provide.

How Cloud Affects Your Business Metrics

Outside of the commissions for your sales teams there are some key fundamentals that cloud solutions will bring into your business. It will change the way you measure customers and how they measure the solutions you provide.

Key measures for cloud sales are *contracted revenue* (what do you have already contracted as guaranteed renewals for the next billing period), *annuity revenue* (what do you have in total expected renewals including contracted) and *renewal rates* (the predictability of the renewals revenue you have to be billed and renewed into a new contract on the next due renew date). For the customer they will likely measure the service level performance during the term of the contract which affects both your renewal rate and any service credits they may claim.

It will be key that you understand some new terms and become familiar with their meaning and use.

These include:

- **ACV**: Annualised Contract Value (what is the contract worth per year?)
  - For example on a three-year deal priced at £30k total, the ACV would be £10k.
  - On a 12 month contract billed at £2k a month the ACV would be £24k.
- **TCV**: Total Contract Value
  - For example on a three-year deal priced at £13k a year (ACV) the TCV would be £39k (TCV is the same whether billed annually or up front of monthly. It is the total you will be over the contracted period).
- **PPUPM**: Price Per User Per Month
  - This is a way to compare pricing between contracts and vendors on a like for like basis.
  - E.g. A service priced at £22,500 for 500 users for a 12 month contract would calculate down to £3.75 per user per month.
  - E.g. A service priced at £13,500 over a 36 month term for 230 users would calculate out to be £1.63 per user per month.
  - Without breaking these down to PPUPM comparing the £22,500 for 500 users for 12 months to £13,500 for 230 users for 36 months is not an easy comparison to make, as the terms and user variables are different. Bringing pricing back to a common currency of PPUPM allows for like for like comparisons to be made easily.

- **CapEX vs OpEX**: (Captital Expenditure vs Operating Expenditure)
  - This is more relevant to the end user as a financial factor of cloud solutions.
  - CapEx refers to an investment made in assets that will be used over a long period of time (typically several years). CapEx assets are usually depreciated in value over time on the company's accounting balance sheet being decreased every period based on certain financial rules. Servers bought outright, but paid for over a payment plan still sit on the CapEx budget line.
  - OpEx refers to expenses incurred in the course of ordinary business, such as general administrative expenses or bills for services provided to the business. Paying for a three-year cloud service upfront still sits on the OpEX budget line and is accounted for over the three-year period.

It is also important that you consider some of the new implications of cloud billing and financial liabilities and contracts that may vary provider to provider and service contract to contract.

Examples here that you would not have experienced with product based solutions include:

- If a customer is late in paying in a cloud model, you often have contractual availability to be able to suspend services to the client for overdue payment. This is leverage not available in the product world, but familiar in the utilities world. In other words, if you don't pay your phone bill, you might expect a suspension of service. This means a reseller can call upon the service provider to help them leverage payment from their customer.

- The end user pays the reseller in full and the reseller does not pay the vendor. Thus the customer is receiving services that are unpaid. Does the vendor have the right to suspend the end users service for the reseller's negligence in payment?

- What if your customer signs with you a three-year annually paid contract and you back this contract off to the cloud provider. Then 14 months into the contract your customers business fails. Are you still liable for the remainder of the three years worth of contract payments to the cloud provider?

- What if a reseller takes a multi-year payment from a customer and only licenses back to the provider for a single year? The reseller then goes bust. Is the cloud provider obligated to provide the end user the service for the duration of the contract or only the period they have been paid for?

As you can see the risks and implications work in both directions and the answers to these questions will vary from vendor to vendor and are dependent on the cloud provider's contractual terms. They also explain some of the reasons why cloud vendors are billing directly and changing the payment models known from the product world. Expect these questions and others to emerge and models to evolve further as the channel and cloud billing models evolve in the coming few years.

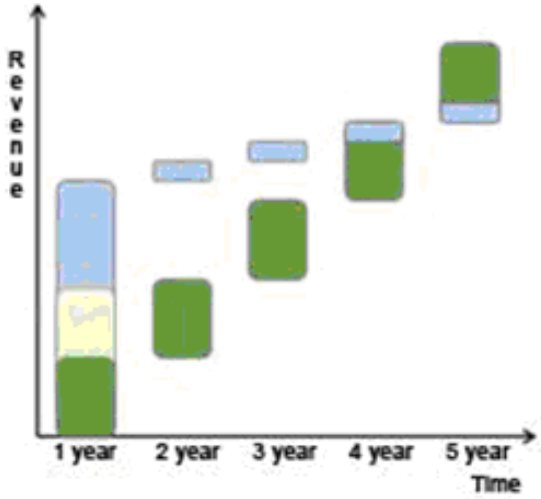
You also need to be averse of the service credit approach, should your chosen vendors apply. If they fail to perform against Service Level Agreements (SLAs) do they issue service credits (which can delay your renewal date cycle) or do they allow for actual financial credits? If this is the case and you billed the customer, does this credit have to go through you and affect your revenues mid contract?

Where a cloud vendor bills a service upfront they will show deferred income on their books over the term of the service contract, much like a services or support contract. These patterns of cash flow vs. income recognition are not new, but may affect your business and you need to consider how you will recognise the revenues billed in these models.

You will also need to factor in that many providers provision for failure of SLAs (with service credits). For example, should a provider fail, it will be likely that a customer was eligible for a one month service credit, meaning that when renewal time came your renewal would come one month later than previous. This is something that can affect your revenue stream and yet be outside of your control.

The cloud model with its strong annuity streams brings a different financial recognition to your business than typical product-based solutions. For example, when providing a product-based sale you can see below in column one a larger initial revenue (green and yellow), followed by a smaller (blue) revenue each year for maintenance.

With the cloud/SaaS consider the green belt of revenue each year only. In this example year 1 is smaller, but by year 4 - 5 you will be recognising a higher revenue to your business than on the product sale; and hence forward, you will be in a strong financial position. Many times this overtaking point is reached by year 2 or 3, dependent on technology sector and price differentials between on network and service.



Green: Yearly licensing

Light Green: Installation/setup charges

Blue: Maintenance charges

Source : Novastor Whitepaper - Managed Services: How to Adapt to the Channel Model of the Future.

Thus playing the cloud game is a longer more strategic financial play than the shorter term tactical selling of products. Essentially you need to start building your cloud annuity now, to ensure that a few years down the line, when the growth of the cloud's impact is known, you are not left in an exposed position.

SUMMARY

The hardest part of the cloud evolution that we are experiencing is the financial impact. With some fundamental changes that can affect cash flow and commissions, this is an important area to understand if your business is to partake in growth.

The cloud is the incubator for the introduction of more flexible billing models and it is inevitable that these will be upon us in the short term. Customer pressures (end users becoming used to models from other sectors) and the vendors introducing new models to bring competitive edge will drive competitors to match and offer similar terms. These models demand that a channel adjustment will be required and it is critical that thought is put into the adoption and processes to support these approaches before they are upon us.

The changes upon us all will bring changes in 'who bills who', the size and regularity of the billing, how and what commissions are paid, financial liabilities, revenue streams and margins applied. There will be a mix of vendor approaches and margin variations on new and renewal business, as well as go to market differences such as billing via distribution to direct models. The channel's prerogative is to rebuke certain models, ignore the challenges and delay addressing these changes. But not doing it now only delays the inevitable change. It may not be the path you would chose to walk, but ignoring the direction signs could leave you incredibly lost in the coming years.

In the final part of this four part series we shall cover transitioning to selling cloud, adding value as a reseller, becoming a cloud trusted advisor to your customers and cloud vs. product delivery models and how to address selling a mixed portfolio.

End of Part Three

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Glossary of Terms

PRIVATE CLOUD

Sometimes referred to as internal or corporate cloud, private cloud uses a cloud-like infrastructure to enable hosting of applications and virtualised machines behind the corporate firewall and under the control of the IT department, creating a cloud infrastructure accessible by only one organisation.

Private cloud brings the values of cloud in terms of virtualised servers, up and down scaling of computing power, utility computing and shared hardware costs to the users within the corporation. With virtualisation and distributed computing becoming commonplace, it has enabled internal IT staff to become service providers who can emulate cloud computing on the private network. It removes common cloud objections and worries such as the loss of control over enterprise and customer data, worries about security and issues connected to regulatory compliance.

With a private cloud, however, the customer may have to buy, install and manage the hardware unlike with the public cloud; therefore, they would not gain all the benefits of a cloud solution: the lower up-front capital costs and the removal of infrastructure management responsibility. Private cloud may be managed by the organization or a third party and may exist on premise or off premise, but is dedicated to the organisations own private user base. It can also be seen as delivery of IaaS to a restricted set of customers, usually within a single organization.

PUBLIC CLOUD

Also called the external cloud, represents the traditional meaning most people take of the 'cloud'. The services provided in this cloud infrastructure are available to all & any subscribing members. Meaning services/resources are provisioned over the public Internet via web applications from third party companies who share their data centre resources and power across a wide range of customers, billing for services used or licensing users for their remote login capabilities. Many Public cloud services are freely provided to the consumer home user and examples of what can be considered cloud applications are Facebook, Hotmail and Flickr.

HYBRID CLOUD

This can be used to have several meanings. One is meaning the joining of separate clouds together such as a private and public cloud joined implementation where both communicate and link to each other. Another use is of where a locally based and installed application connects and utilises a cloud backend host for its power or intelligence (examples here include Apps such as iTunes where the application runs locally but its data and intelligence such as track names and content is provided from the cloud).

The most common meaning by vendors today combines a locally installed physical hardware and software with a cloud service to provide a common installation and management platform of both form factors.

SaaS SOFTWARE AS A SERVICE

The delivery of a software application over the Internet medium. It represents a provider licensing an application to customers, with access being given through a web browser, replacing the need for the customer to purchase, install and maintain the application locally. Generally SaaS is a term associated with business software (such as Salesforce.com) although many consumer applications can also be considered SaaS in their format such as Facebook and Hotmail.

While commonly associated with CRM, ERP and Email Management systems, SaaS is vast and is continually being applied to a vast array of other applications for the business and consumer. Independent Software Vendors are seeing the need to diversify to maintain strength in this consistently evolving market. SaaS is not just a buzz word, it is a reality and many are now offering SaaS versions of their solutions available today, or considering for the future.

PaaS PLATFORM AS A SERVICE

The delivery of a computing platform and solution stack as a service and provides all the facilities necessary to support the complete process of building and delivering web applications and services, for availability over the Internet.

These offer full software development and operation capabilities as well as providing for the integration of OS, API's, middleware and applications. They often include facilities for application design, application development, testing, deployment and hosting as well as application services. Platform as a Service is most viable for organsations who prefer a chosen application, but see the benefit of a more managed service deployment platform. PaaS starts to move beyond SaaS to encompass the entire operating environment.

- **aPaaS** the platform for hosting and managing individual application services and data Integration PaaS
- **iPaaS** the platform for intermediation and integration of the application services hosted and point-managed by aPaaS
- **Knowledge PaaS (kPaaS)** the platform for access and analysis of broad data resources in context
- **User experience PaaS (uxPaaS)** the platform for multichannel, multidevice user-facing applications
- **Data PaaS (dPaaS)** the platform for hosting and serving data.

IaaS INFRASTRUCTURE AS A SERVICE / **HaaS** HARDWARE AS A SERVICE

Also called Hardware as a Service, Infrastructure as a Service delivers a basic set of storage and computing capabilities remotely as a service. It concerns the delivery of servers, network equipment, CPU, memory, storage and data centre facilities, combining automated load balancing and scaling of resources.

Infrastructure software is irrelevant in the delivery as this is part of the virtual applications internally. This is a benefit for businesses who wish to take advantage of utility storage or capacities from the cloud and allows them to capitalise on virtualised equipment and avoid the capital expenditure costs (the investment still comes as an operating expensive despite it being licensed hardware).

CaaS COMMUNICATIONS AS A SERVICE

An outsourced enterprise communications solution that can be leased from a single vendor. CaaS can include voice over IP (VoIP), instant messaging (IM) and videoconference services.

It allows small and medium-sized business businesses to afford levels of communication technology and sophistication that could prove cost prohibitive otherwise. It enables them to selectively deploy devices and modes on a pay-as-you-go, as needed basis. CaaS eliminates the large capital investment and ongoing overhead for a system whose capacity may often exceed or fall short of current demands.

SECaaS SECURITY AS A SERVICE

This is a subset area of SaaS and delivers security products and services in an on-demand model. The leading areas in this space are anti-virus, anti-spam and anti-spyware, with email and web security the strongest areas of delivery today. Security as a Service brings the advantages of keeping the vast amount of malware sourced from the Internet at the Internet level, with scanning happening in the cloud and removing the need for customers to perform the volume of constant security updates that the industry demands today (as these are done by the vendor).

SECaaS can also be extended to traditional in-house security products such as firewalls, IDS and IPS, which can normally require specialized expertise to configure and manage.

Other terms you may hear include:

EaaS EVERYTHING AS A SERVICE

DaaS DESKTOP AS A SERVICE

MaaS MONITORING AS A SERVICE

BCaaS BUSINESS CONTINUITY AS A SERVICE

STORAGE AS A SERVICE

DATABASE AS A SERVICE

SLA SERVICE LEVEL AGREEMENT

QOS QUALITY OF SERVICE

Author Biography

IAN MOYSE, EMEA CHANNEL DIRECTOR, WEBROOT

Ian Moyse has over 25 years of experience in the IT Sector, with nine of these specialising in security. With over 23 years of channel experience, Moyse currently heads up the channel partner programme for Webroot in EMEA.

Starting as a Systems Programmer at IBM in the mainframe environment, he has held senior positions in both large and smaller organisations including Senior Vice President for EMEA at CA and Managing Director of several UK companies.

Moyse has been keynote speaker at many events and runs one of the largest Channel Discussion Groups worldwide on LinkedIn. He sits on the board of Eurocloud UK and the Governance Board of the Cloud Industry Forum (CIF). Moyse was recently awarded global 'AllBusiness Sales AllStar Award for 2010' and The 'European Channel Personality of the Year Award for 2011'.

Further Information

For more information, please visit http://www.webroot.co.uk or call +44 (0) 20 3349 2499.

Read the Webroot Threat Blog: http://blog.webroot.com and follow Webroot on Twitter: http://twitter.com/webroot.

To help facilitate further discussion around the content of these papers, there is also a LinkedIn group. We encourage you to join it called 'Cloud Resellers Network' available through the search groups function on LinkedIn, or directly at

http://www.linkedin.com/groupRegistration?gid=3722225

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Extra Reading

There are also many useful third party cloud and channel sites that provide invaluable background reading when deciding which vendors to consider cloud partnership with such as;

- http://www.cloudindustryforum.org
- http://www.eurocloud.org
- http://www.mspalliance.com
- http://www.mspmentor.net
- http://www.saas4channel.nl
- http://www.talkincloud.com