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INSIGHT

Steering a channel
through the cloud

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Introduction
The key questions that vendors should be asking themselves as they transition their channel to the new world

The impact of cloud-computing and its effect on the channel has been a much debated topic over the last 2 years. Although some of the hype may have preceded the reality (no change there then) there can be little doubt now that:

- Cloud-based solutions (whether its SaaS, PaaS, IaaS or any other 'aaS' you can think of) are becoming the mainstream and having a transformative effect on the technology industry, and
- As a consequence the traditional IT channel is itself having to undergo radical transformation as a response to the new paradigm.

Although the cloud is firmly at the centre of most vendors' development strategies, it's probably fair to say that their channel strategies have been slower to adapt. There are some good reasons for this, after all the majority of revenues still come from traditional on premise sales. However, with the increasing pace of adoption of cloud-based solutions, vendors need to start taking action now if they're not to be left behind. While no-one has a crystal ball to predict exactly what the channel will look like in 3 years time, one thing we can be sure of is that it will look different from the way it does today.

So what steps should vendors be taking to ensure that they emerge from this current disruptive period as winners rather than losers? Here are a few key questions that vendors need to be asking about their channel strategies if they're not already.

## 1. Do I have the right partners for a cloud-based world?
The valuable characteristics for the channel partner of the future will be different – financing inventory and physical distribution of product will be significantly less important, business process consultancy, integration, education and support skills will be more valuable. Channel business models are evolving and new categories of company are emerging. Vendors need to keep their channel strategy and partner base under almost permanent review during this time of rapid change, to ensure that they're investing in the partners that will be important in 2 years time, not the ones that were important 2 years ago.

Revenues can no longer be the key metric in deciding which partners to invest in. A smarter approach is required, akin to portfolio planning in a large enterprise.

Which partners are the cash cows, which are the rising stars? Resources need to be allocated accordingly. A partner currently generating £500k p.a., that has shown clear strengths in consulting, education and integration services may be a far better target for future investment than a £5m partner whose competencies lie in financing and fulfilment.

If vendors just sit back and rely on their traditional partner base to carry them forward, they're likely to find the market has moved on and they're left with a declining partner base joining them in a slide to oblivion.

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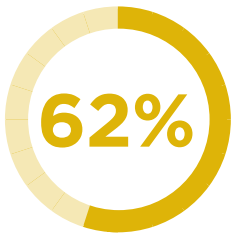
62%

62% of senior business decision-makers and 24% of IT professionals in the UK had either never heard of cloud computing.

2. What support can I provide to my channel partners to help them through the transition?

The cloud has a massive impact on the business models of traditional channel players and presents them with many challenges. New skills need to be developed and financial models need to change; gone are the big upfront slugs of cash to be made on product sales and easy services revenues from implementations.

However the channel still has an important role to play in many areas, not least of which is educating the market and helping customers along the transition path. A recent survey found that 62% of senior business decision-makers and 24% of IT professionals in the UK had either never heard of cloud computing or did not understand the term.

It's in vendors' own interest to support their partners and help them through the transition. This isn't just about product training on the vendor's new cloud-based solutions. It's also about helping the reseller work out how to restructure their business around different revenue streams, and helping them provide their staff with the different skills they'll need in cloud-land (not to be confused with cloud-cuckoo land). Those vendors that are pro-active in providing broader business support to partners are likely to benefit from greater commitment and increased market share.

Having said all that, with reference back to point 1, the support and investment needs to be targeted selectively. As with any major market shift, some resellers just won't have the will, or the ability, to adapt, and will eventually disappear. Vendors will need to make hard decisions and in some cases be ruthless about where their resource is directed.

3. How do I create the right eco-system around my service?

If we accept that no vendor out there has either the resources or the imagination to anticipate and address every customer requirement, then it follows that partners will continue to play a vital and 'value-adding' role by tailoring solutions to meet individual customer needs. Often this will require the combination of applications from multiple vendors and it may also require the development of additional tools and utilities to enhance the core applications. Application integration skills are becoming more important, whether we're talking about private or public cloud implementations. This creates opportunities for both legacy SIs and newer SaaS or cloud-integrators. However, rather than accepting £multi-million 2-3 year long integration projects, customers are expecting more 'out-of-the-box' integrations with reduced customisation requirements and 3-6 month deployment cycles.

The leading vendors have been successful in developing eco-systems of partners that not only resell the core product but significantly enhance it as well, so that the needs of individual customers can be more effectively met. Salesforce.com's AppExchange boasts over 1,000 apps now, with an estimated eco-system of 230,000 developers.

The challenge for all vendors is how to enable the right eco-system to develop around your product, so that it becomes the logical, and easy, choice for a partner to build a customer solution around. This isn't just about functionality and technology (e.g. standards-based APIs, out-of-the-box connectors), it's also about having the right commercial models in place and a Partner Programme structure that allows partners to play the role that the market requires today, and not the role that the vendor found convenient yesterday.

4. What's the right customer ownership and relationship model for my service?

There's no one-size-fits-all answer to this question, however in general it's true to say that in the SaaS-world it usually makes more sense for the vendor (service provider) to contract directly with the customer than has traditionally been the case in the on-premise world.

The nature of SaaS means that unless the partner is an integral part of the ongoing service delivery (either because they're delivering on a managed services basis or as part of a package of applications), then having the partner contracting directly with the customer introduces considerable additional complexity (e.g. back-to-back Service contracts, SLAs etc) and cost (e.g. duplicate billing systems) with no great benefit to the client. History tells us that sub-optimal models inevitably fall prey to market forces eventually, and trying to force a SaaS service into a legacy customer relationship model just because you're afraid of upsetting existing partners, is an example of sub-optimal working.

This doesn't mean that there isn't an opportunity for the reseller who traditionally provides sales/pre-sales type services, but it's more likely to be on an agency basis, rather than as the owner of the customer contract. Salesforce.com, the pure-play SaaS poster-child has over 2,000 sales agents worldwide. The challenge for vendors is to support a direct contractual model, without undermining the valuable work that partners will still continue to do as consultants, educators, relationship managers etc. A lot of this comes down to effective communication and information sharing between vendors, partners and customers. The traditional linear relationship model of vendor-distributor-reseller-customer will inevitably break down anyway in a world where social media is becoming such an important part of the business landscape, and vendors need to be leading this change rather than reacting to it.

That's not an exhaustive list and there are plenty more key questions to be addressed (e.g. compensation models) but the 4 questions raised above are fundamental in the shift to a cloud-based channel and vendors need to be thinking about them now.

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> More on the individual topics in future posts.
>
> Article posted by Phil Brown via OneGTM's blog.
> For more channel insight go to **www.onegtm.com**

About the author

Phil Brown

Phil has more than 20 years sales, marketing and general management experience in the technology, telecoms and online sectors. His career includes launching a new, online business for a major telco, building a SaaS business from the ground up, closing multi-million pound sales, helping create a global partner programme for a leading software vendor and running a successful consulting company. As OneGTM's strategy and planning expert, Phil works with clients to ensure they have the right strategies in place to achieve their goals and effective plans to execute them.

About OneGTM

OneGTM specialises in helping B2B technology companies to deliver integrated go-to-market programmes that drive profitable growth. We have delivered successful results for a range of clients in the ICT sectors, including Symantec, Cable & Wireless Worldwide, Telstra, Sanyo, Tools Group, Admiralty and AboveNet.

Our end-to-end capabilities, from strategic planning through to market positioning and demand generation, help our clients succeed, by ensuring that all go-to-market activities are fully aligned and highly effective.

We have a particular focus on channel enablement. Our experienced team understand how channels operate and what they require to be successful. We can help define the frameworks, methodologies and programmes to ensure sales channels are fully engaged – and we can create the toolkits they need to deliver.

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