



Advancing Cloud Sales and Operations

WHITE PAPER

Prepared for



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PARTNER PROGRAM



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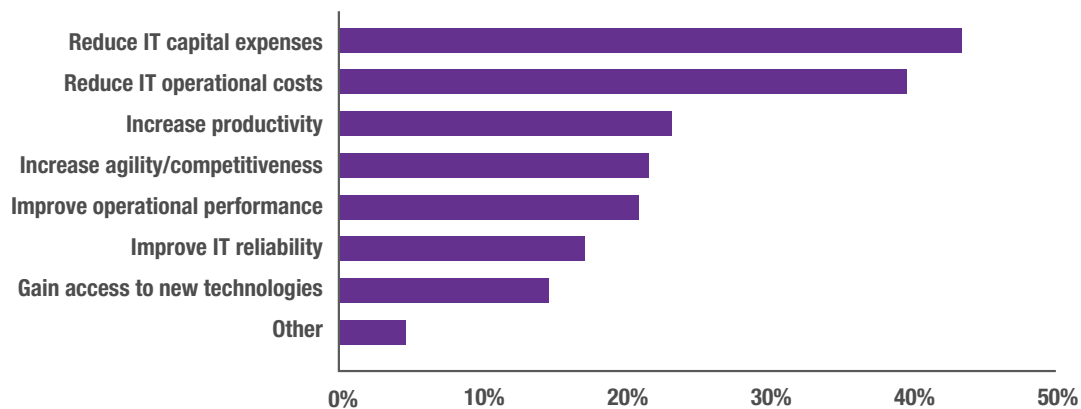
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Cloud Computing’s Evolving Disruption

Cloud computing is evolving in the IT marketplace and the channel, with analysts believing it will represent more than a quarter-trillion dollars in IT spending by the end of the decade. Organizations are adopting infrastructure, platform and application services to augment and replace legacy IT hardware and software.

Some believe cloud computing is disruptive, as it is a different approach to technology, often through a services business and recurring revenue model. From a technology perspective, it affords service providers a technology offering more scalable at a lower operating cost with fewer assets. For customers, cloud computing offers agility, scalable and elastic resources, and a predictable IT cost. (See *FIGURE 1: Customers’ Goals in Adopting Cloud Services.*) For solution providers, it offers recurring revenue and predictable profitability. From every angle, cloud computing is different than legacy IT business and consumption models.

FIGURE 1: Customers’ Goals in Adopting Cloud Services



Cloud computing is not just disruptive to legacy technologies, though; it is disruptive in the channel. The technical and sales skills required for cloud computing, as well as the associated recurring revenue model, challenge solution providers. Cloud computing is a product unlike anything with which VARs, systems integrators and managed service providers (MSPs) have dealt. Cloud platforms for delivering services are complex and expensive to develop. Even after cloud services are operationalized, as much as 12 months can pass before an account makes meaningful contributions to the business. All the while, a cloud business — or a business with a cloud practice — must cover operating expenses with a fraction of the revenue normally derived from hardware sales and software licensing.

Solution providers need not think that adopting and developing a cloud computing practice has to come at the exclusion of existing hardware, software and professional services sales. Cloud services are often sold as a component of larger deals. Hybrid clouds are an example of hosted services being integrated with technology deployed on the customer’s premises, creating a holistic system that carries higher price

tags and greater value. While integrated and hybrid clouds have higher value to solution providers and customers, they have a higher barrier to entry that requires investments in technical aptitude, resources and support.

To address these technical and financial issues, many solution providers choose to work with their vendor partners and/or service providers on approaching and selling cloud products to mutual customers. By teaming with vendors in a “sell with” sales model, solution providers expedite their time to market and leverage the expertise and resources of their vendors to overcome deficiencies in cloud sales, marketing and service delivery.

The “sell with” sales model is effective since it presents a low barrier to entry and a faster rate of return. However, solution providers should not stop there as it is not a framework sustainable in the long term for solution providers, vendors or even customers. To capitalize on the cloud computing evolution, solution providers must develop their own sales models and capacities, leveraging vendor support but not relying on it. The risk they face if they do not is threefold: the customer going directly to the service provider for cloud services; displacement by other solution providers with greater cloud capabilities; and reduced interest from cloud vendors that see greater value and lower cost of sales associated with partners engaged in a “sell as” model, or working independently.

In this report, sponsored by SunGard Availability Services, we review cloud computing trends in the channel, and examine why solution providers need to adopt and innovate around cloud services and the services business model, create their own “value add” propositions, and develop independent cloud computing practices for go-to-market and customer engagement support. By creating independent cloud capabilities and resources, solution providers will have a far greater chance of achieving scale, operational efficiency and profitability through the services model.

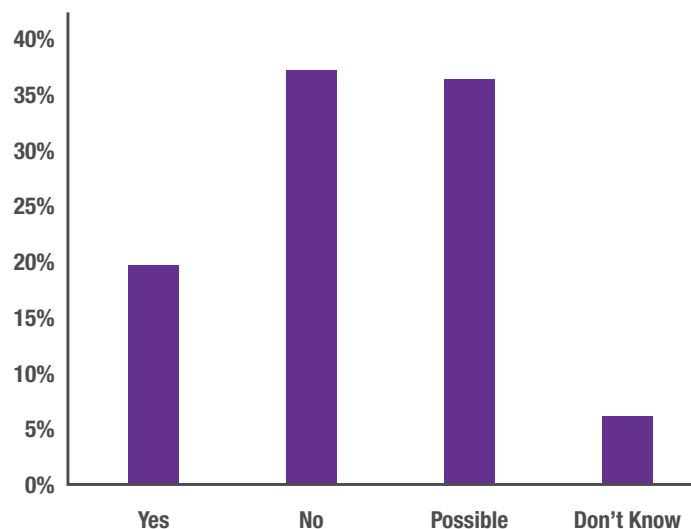
Risk of Disintermediation

The shift to cloud computing is systemic. What was once a novelty of discrete services delivered over the Internet has become a segment of parallel IT products. Not all things IT will be replaced by the Internet — people and businesses will need endpoints such as PCs and tablets to access Web-based applications — yet it seems inevitable that cloud computing will dominate IT architectures, value propositions and business models.

Avoiding or ignoring the cloud computing evolution will put solution providers at a competitive disadvantage. Solution providers run the risk of disintermediation by vendors and peers that have invested in cloud capabilities, go-to-market strategies and value propositions, and by customers who do not see the value in working with a solution provider for cloud services. Operating outside the cloud is possible, as some solution providers choose to do, but it requires a strategy and unique value proposition as difficult as cloud adoption and maturation.

Most solution providers recognize the need to adopt some form of cloud computing. Less than 5 percent of the channel population earns no revenue from the sale of cloud products and services, yet few channel companies are wholly devoted to cloud computing. The average solution provider struggles to keep up with the cloud evolution because of the cloud’s business models, sales philosophies and resources. One in five solution providers says it is losing sales because it cannot deliver a cloud service or product. Another one in three suspects it is losing sales because it cannot meet customers’ cloud service or product needs. (See *FIGURE 2: Are You Losing Sales Because of a Lack of Cloud Services?*) The need to fulfill market demands for cloud services causes solution providers to look for expeditious means to expand cloud capabilities, and that makes the “sell with” model attractive.

FIGURE 2: Are You Losing Sales Because of a Lack of Cloud Services?



Security concerns remain at the top of solution providers’ list of cloud development challenges. Customers are worried about the confidentiality and integrity of data processed and stored in cloud environments that are out of their control. However, solution providers cannot overcome security objections because they lack the engineering, sales and support resources to capitalize on the cloud computing evolution.

Solution providers say the top two obstacles to developing cloud computing practices are their lack of technical and sales expertise. (See *FIGURE 3: Solution Provider Challenges in Developing Cloud Practices.*) Cloud computing is built on a services model in which customers pay for access to infrastructure and applications through a subscription, otherwise known as a recurring-revenue model.

FIGURE 3: Solution Provider Challenges in Developing Cloud Practices

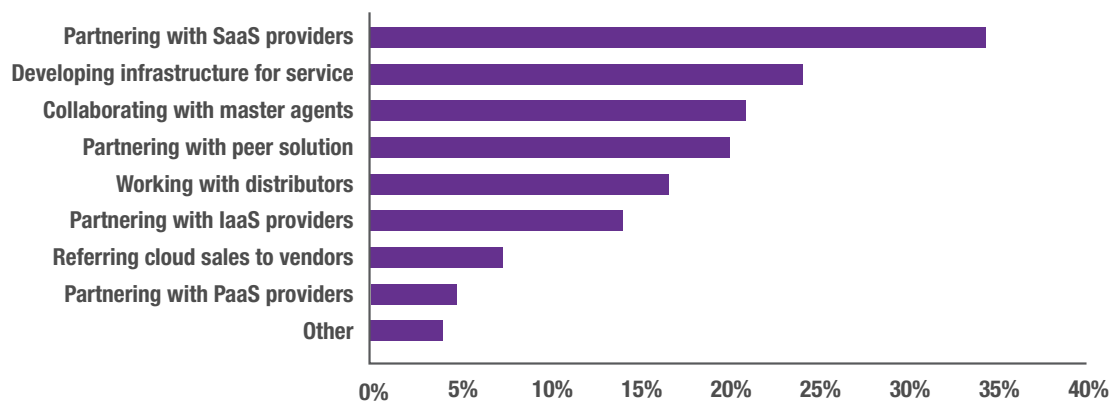


While the recurring-revenue model provides predictable revenue and profits, switching to it is not an easy transition for organizations used to selling and supporting on-premises hardware and software products. Solution providers’ revenue models are built around one-time capital sales; cloud sales produce revenues that are fractionalized, meaning the customer pays a portion of the total cost on a recurring basis. The total value of a cloud contract is greater than a conventional product sale, but solution providers have to wait longer to reap that reward.

Managing recurring revenue requires solution providers to transform their sales and support organizations, which in turn requires new sales and compensation plans, plus technical staff to understand and support cloud services. Unfortunately, salespeople do not change their stripes easily, and it can be competitive and expensive to recruit and retain technical talent with skills in leading-edge cloud technologies.

Solution providers are adopting cloud computing, but taking a different approach to market: Most are partnering with cloud service providers, or collaborating with peer companies that have cloud capabilities, rather than developing their own. (See *FIGURE 4: Solution Provider Approaches to Developing Cloud Capabilities.*)

Figure 4: Solution Provider Approaches to Developing Cloud Capabilities



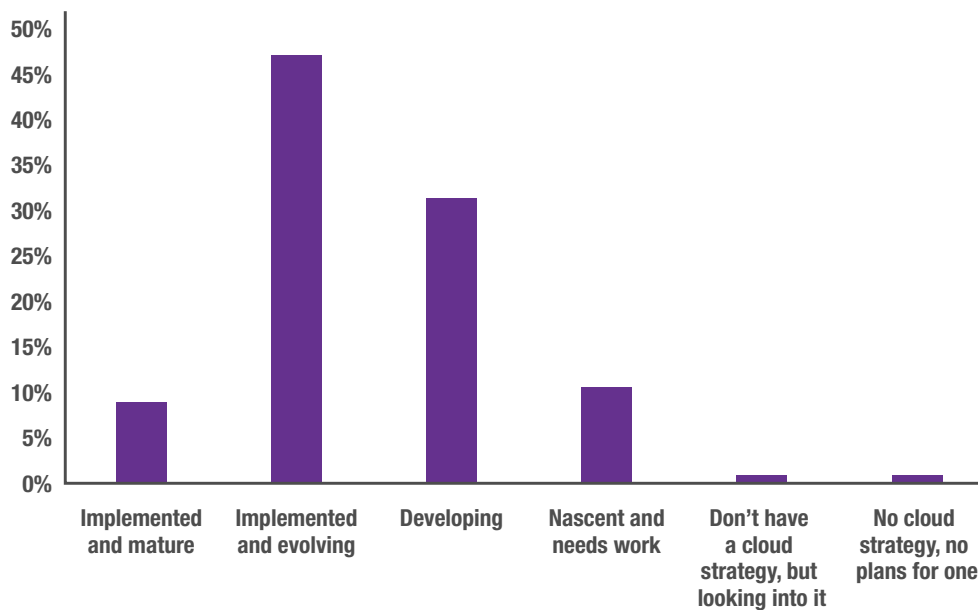
This collaborative partnership goes beyond reselling products; it is an embracement of the “sell with” model in which solution providers rely on their host supplier to cultivate and win sales. In the “sell with” model, solution providers work hand-in-hand with vendors to interact with customers when presenting products, conveying value propositions and closing sales. “Sell with” is not a new model, as vendors and solution providers often collaborate on sales, particularly in complex and large engagements. In the past, “sell with” was about the augmentation of resources; in the cloud era, it makes solution providers dependent on vendors for sales support.

Many cloud providers are promoting the “sell with” model as transitional. They see it as a way to teach solution providers the methods of selling cloud services, build expertise for independent sales and generate revenue to underwrite the partner transformation process. Most cloud service providers want partners to adopt a “sell as” approach, in which they act independently on behalf of the vendor with little direct support in selling products and services.

Many vendors are willing to engage with partners in a “sell with” model, as it does deliver the benefit of quick and immediate sales. Nevertheless, value follows value. Cloud vendors will apply greater resources and rewards to partners that adopt and evolve a “sell as” approach to cloud sales. Value and rewards will follow those solution providers that develop and mature cloud practices in which they have sales and support structures that add value to the go-to-market equation.

Today, most solution providers assess the maturation of their existing cloud practices as “implemented and evolving” or “developing” (see *FIGURE 5: Maturity of Solution Provider Cloud Practices*). The majority of solution providers focus on acquiring access to cloud products and vendor channel programs rather than developing their own cloud capabilities. For many solution providers, reselling vendor-branded services is an easy point of entry to cloud computing. However, solution providers with their own cloud capabilities, services and value-add propositions have greater returns on their cloud strategies.

FIGURE 5: Maturity of Solution Provider Cloud Practices



The ultimate arbiter of disintermediation is the customer, which can move purchasing away from traditional VARs and resellers to purchase cloud either directly from service providers or from cloud-ready solution providers. Customers are aware of cloud options, but are not turning to their traditional suppliers to inquire about cloud solutions. The reason: They associate legacy resellers with legacy technologies; they look to new suppliers to guide, acquire and implement cloud solutions. In many cases, customers are turning to vendors when they cannot get the cloud guidance or support they need from incumbent solution providers.

The most prevalent cloud sales model in the channel is referral: Solution providers earn compensation for convincing customers to adopt a service delivered and administered by a vendor. While this is an effective means for meeting the market’s need for cloud services and generating revenue, it produces less revenue because the vendors’ commissions/margins are lower than product sales or white-labeled cloud services. At the very least, the referral model doesn’t produce protracted, engaged customer relationships in which solution providers have the opportunity for attached and horizontal sales.

The “sell with” model presents a similar problem. Cloud service providers and vendors reward partners for access to their accounts, or help with market sales coverage. Partner compensation under the “sell with” model is higher than it is under the referral system. This will not last, as market penetration will give way to competitive pressures, forcing service providers to reduce compensation and direct resources to partners that generate independent sales.

Solution providers need to think beyond having cloud products and services on their line cards; they need to evolve their businesses on multiple levels — sales, marketing and technical support — to ensure customers understand their capabilities and value propositions.

Redefining Value-Add in the Cloud Era

Some people in the channel mistake the cloud computing evolution as the end of the “value add” era. While it is true cloud computing makes consumption of IT simpler and more affordable, it does not eliminate complexity. Cloud consumers, regardless of size, struggle to select, integrate and operate cloud services. Enterprises and small businesses are tested in translating the potential of cloud computing into true value through better outcomes. The need for value-added services around cloud services is still great.

Solution providers must think beyond just reselling cloud services and incorporate cloud capabilities into their value proposition. This can be done in the following ways, none of which are mutually exclusive:

1. Cloud Assessments & Selections

A mistake many cloud consumers make is buying a cloud service without appreciating their needs or service capabilities. Complicating matters is the abundance of overlapping, redundant cloud services; there is no shortage of cloud resources for any discrete service. Solution providers can add value by helping customers understand their needs, establishing goals and expectations for cloud adoption and return, and recommending the right products and services. Cloud assessments and selections can be applied to a brokerage and referral model, but they are more valuable in the reseller and integrator model as it could lead to attached sales that increase sale scopes.

2. Cloud Migration & Operationalizing

Even the most mundane cloud computing service requires an effort to implement – particularly in enterprises. Email services require the migration of mailboxes, accounts and archives. Backup and data availability services require the identification of data stores, classification of data and restructuring of storage frameworks to ensure data is not lost and will be available once the migration is complete. Solution providers play a vital role in ensuring cloud adoption goes smoothly and produces the expected outcomes.

3. Cloud Systems & Integration

No one technology or product can solve all of an enterprise's computing needs. Businesses require multiple services, many of which do not interoperate or communicate. Solution providers can offer valuable, integrated cloud systems packaged for resale, or integrate disparate cloud services to maximize value. Conventional hardware and software will exist in on-premises environments; integrating those resources with cloud services is a tremendous opportunity.

4. Cloud Hosting & Service Delivery

Solution providers may host their own cloud by developing infrastructure or application services. Many software vendors offer service provider license agreements (SPLAs), which allow for the distribution of applications "as-a-service." Many hardware vendors have programs — including technical support and discount product pricing — through which solution providers can build infrastructure for hosting customer resources.

5. Cloud Monitoring & Management

An emerging cloud opportunity is monitoring performance and managing services on behalf of customers. As more businesses adopt cloud resources and services, they need performance metrics to ensure they're getting the level and benefit of services for which they subscribed. Solution providers can play a valuable role in monitoring quality of service, availability, security and billing accuracy.

Sungard AS Building Clouds and Solution Partner Expertise With Cisco

In 2014, Cisco Systems took a major leap with the introduction of Cisco Intercloud, an architecture of cloud services that offers enterprises private, public and hybrid cloud capabilities within business applications. Cisco's Intercloud is more than just technology; it is a business collaboration model that enables technology vendors and solution providers to deliver management and support services in the cloud.

By thinking beyond raw cloud computing capacity, Cisco enhances the power of cloud computing to make applications and data more accessible and valuable. Securing that vision makes data integrity, availability and reliability paramount. Sungard Availability Services is working with Cisco to provide reliable tiered backup and data recovery services integrated with the Intercloud architecture, delivering the security foundation that makes the advanced cloud strategy possible.

Sungard AS and Cisco solution providers can leverage this architecture, plus dedicated sales and marketing enablement support, to do more than just deliver data recovery and assurance services. Apt solution providers can leverage Intercloud and

Sungard AS services to build holistic cloud practices that deliver needs assessments, implementation services, maintenance and management, and consultative support services.

Architectural and technical guidance are not the only resources being provided. Sungard AS has developed marketing, sales training and business development support to solution providers. Further, Sungard AS is applying its mature channel framework and tools, such as deal registration, to minimize channel conflict. The goal: Give solution providers the best opportunity to build recurring revenue and succeed with Intercloud.

Together, Sungard AS and Cisco Intercloud offer solution providers a way to establish a valuable market proposition for enterprise and midmarket customers through the delivery of applications, scalable architecture, logical tiered storage and recovery protocols, and operational integrity. The combined offering shows how solution providers can leverage the technology resources and hosted infrastructure of vendor resources to build value-added cloud offerings.

Crafting the Integrated Cloud Practice

Cloud computing is not an all-or-nothing proposition. Companies can choose to deal exclusively in cloud services – such as hosted infrastructure, applications, backup, storage or security – but the majority of solution providers pursue a hybrid approach, integrating cloud services into their hardware, software, professional services and managed services portfolio.

The issues facing solution providers in adopting cloud services are overcoming the investments, transitioning organizations to accept cloud and services models, and developing the technical and human resources to market, sell and support cloud computing. The cloud evolution does not happen overnight. According to research by The 2112 Group, the average solution provider that executes a well-constructed cloud development plan will take three to five years to make the transition.

Solution providers approaching services are doing so in the context of five factors:

1. **Vision:** an idea or goal of what a solution provider business will look like, in the form of capabilities and value proposition, at the end of its evolutionary journey
2. **Capabilities:** technical and business acumen that describes how the legacy experience is translatable into a services context
3. **Market:** customer demands, or the ability to see success in expanded markets; the potential of converting or capturing customers with services
4. **Capitalization:** the ability to invest in infrastructure, supplier relationships, skill sets and market development
5. **Risk Tolerance:** a willingness to spend capital and resources to develop services

Solution providers should consider a cloud development plan along the following lines:

1. **Define Cloud Scope:** A mistake is venturing into a part of the cloud alien to legacy technical disciplines and practices. Solution providers need to focus their cloud efforts on familiar technologies and services.
2. **Identify the Customer:** Before a service is released for sale, the solution provider should have a good idea of to whom they intend to sell the service. They should test service concepts, business models and price with existing customers to determine market viability.
3. **Develop a Sales Model:** Compensation in cloud computing flows to solution providers that develop the greatest competencies in selling and supporting cloud services. Selling with vendors is a good start, as it helps transfer knowledge and jump-start market penetration. Over time, solution providers should develop independent lead-generation and sales capabilities.

- 4. Catalog Staffing Needs:** Cloud computing automates many processes and computing resources, but cloud operations remain human-driven endeavors. Solution providers need to inventory their staff to understand internal capabilities and identify staffing needs for sales, marketing, technical support and operations.
- 5. Draft Evolution Plan & Targets:** The cloud is not a destination; it is a journey of discovery and evolution. While it is wise to start with a focus, solution providers should have plans for expanding cloud capabilities and portfolios. Evolution should follow expertise adjacencies in which a solution provider builds on the success of complementary services.
- 6. Identify Resources & Vendors:** No one is going at it alone in the cloud. Solution providers should identify vendors that can supply the products, infrastructure and technical support to align strategic plans and market needs. Programs such as Cisco's Intercloud initiative demonstrate how vendors develop resources, training and products to enhance the value of cloud computing and ease solution providers' way into services.
- 7. Budget & Invest:** Evolving into a cloud player requires more than just access to services and technical expertise; it requires investment. Some cloud strategies, such as the development of a hosted infrastructure, need more investment than others. Solution providers should determine their cloud investment requirements so they can set ROI targets and earmark funding from existing resources. Solution providers will need to invest in staffing, training, marketing and support resources.
- 8. Market & Publicize Cloud Capabilities:** Solution providers are called "trusted advisors" because their customers buy products and services based on relationships with and recommendations from IT experts. Customers now use search engines to research cloud services and go to new suppliers rather than their traditional resellers. Solution providers need to make marketing an integral part of their cloud development and go-to-market strategies to ensure customers know their capabilities.

Drafting a Cloud Future

Cloud computing is an enduring collection of products and a sustainable business model. It is because of cloud computing that other trends – Big Data, mobility and machine-to-machine – have such high value. Offloading computing and storage processes to the cloud, and providing applications and resources as a service, makes computing and information nearly ubiquitous.

Moreover, cloud computing makes costs more predictable and affordable. Services are sold as subscriptions, with the total cost broken up into recurring increments. Over time, cloud computing generates more revenue than conventional IT product sales and requires less support, which lowers costs – making cloud services attractive to vendors and solution providers.

Transitioning to cloud computing, though, is not easy. Solution providers need to identify market opportunities, craft plans for and make investments in cloud practices, implement sales strategies, and execute marketing plans. They also need to make a fundamental decision: Which go-to-market model should apply to their cloud practice? The choices are as follows, and a combination can be used:

- **Sell Through:** Cloud vendors sell products through solution providers, and solution providers receive a percentage of the sales revenue. In this case, solution providers earn more on cloud sales because they are acting independently and adding value in the way of services and support.
- **Sell With:** Solution providers and cloud vendors approach the market in a collaborative sales model. Solution providers sell additional value-add services, which is more important because this model often has lower margins because of the high vendor involvement.
- **Sell As:** Some cloud vendors allow solution providers to white-label their cloud services. The solution provider appears to be the source of the service, which often carries greater value in the eyes of the customer.
- **Referral:** Solution providers pass customers to service providers and vendors for account activation and management. Solution providers earn a percentage of the revenue. While solution providers can earn money through referrals, this model isn't as lucrative as developing cloud practices with integrated products and services that accrete more value.

Regardless of which approach a solution provider takes to adopting and maturing its cloud practice, it is essential to establish a clear vision. Cloud computing is no different than other products: It is not the end, but a means to an end. And, like conventional IT products, cloud computing can shape a solution provider's reputation and brand identity. Solution providers need to establish what they want to get out of the cloud, and build programs and vendor relationships that will produce the most optimal outcomes for themselves and their customers.

About

The 2112 Group is a business strategy firm focused on improving the performance of technology companies' direct and indirect channels through our portfolio of market-leading products and services. We leverage proprietary intelligence with qualitative research, market analysis, tools, and enablement programs. Our industry experts approach each engagement by applying innovative solutions customized to meet the needs of our clients. By looking at the technology market from the viewpoint of vendors, partners, and end users, The 2112 Group is uniquely positioned to develop go-to-market strategies that are beneficial to all parties from both a channel and enterprise perspective. For more information, visit us at The2112Group.com.