

Channelytics[®]

ROUTE TO MARKET PLAYBOOK

Cloud Marketplaces

In this RTM Playbook

We will be addressing the cloud platform Marketplaces that are relevant to IT vendors with the purpose of outlining the landscape, the trends and the leading players.

We will discuss the Marketplace options, what are the value drivers and what an IT vendor needs to consider as 'barriers to entry' for any given Marketplace.

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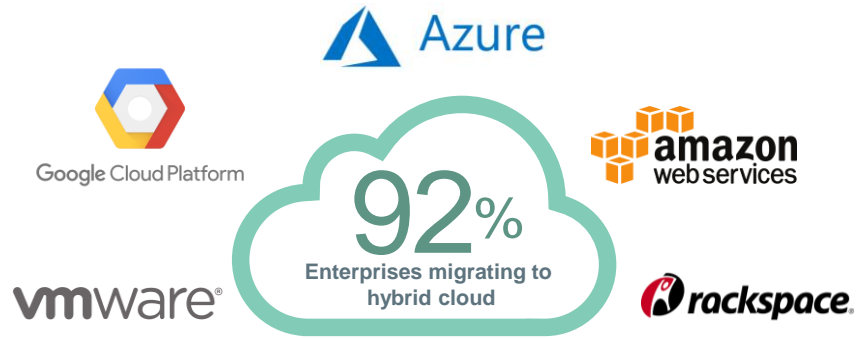
IPED Consulting

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INTRODUCTION

The Cloud Marketplace



With the shift underway from on-premises to the cloud, we are witnessing a tectonic shift as cloud platforms become ubiquitous.

Roughly 92% of enterprises are in some form of migration to a hybrid cloud model, according to Accenture.

Companies look to leverage the power of cloud for IT efficiency and business agility. As enterprises are rushing to leverage cloud platforms such as Amazon Web Services (AWS) or Google Cloud Platform they are still finding that their full IT management needs are not being met with just the services in their selected cloud platform.

There are critical 'last mile' services and applications that are an absolute requirement (examples include security, monitoring, management, health and billing services).

In order to get a complete set of functionality, customers are looking to the Marketplaces of the cloud provider to access the services and applications integrated to that cloud platform.

As the number of new XaaS start-ups multiplies every day, companies are looking for simplicity and flexibility in one-stop sourcing. A cloud platform Marketplace provides the ability to trial, source and scale the acquisition of third parties in the Marketplace of their chosen cloud platform from the same account and budget they use to source instances of the cloud platform. Therefore, these cloud platform Marketplaces are rapidly growing as a single source store for enterprises to acquire their cloud platform, services and third party products.



The result of this Marketplace growth represents big opportunities for IT vendors as an incremental channel. However, fully leveraging Marketplaces may cause opportunity, disruption or friction to other channel types. A Marketplace and the ease with which a customer can use it to source third party product is likely to cause disruption with traditional reseller models.

However, those resellers that build “resell” of the cloud platform into their business models including third parties can mitigate that risk. SI’s are also seeing large growth from customers needing help with hybrid cloud migration services. Marketplaces will complement those efforts. Similarly, MSP’s are benefitting with customers not wanting to manage the infrastructure (by handing it to the MSP to manage) and instead focus on the agility of their business applications. Marketplaces support those efforts. The bottom line is that Marketplaces are here to stay and need to be integrated into the IT community’s indirect go-to-market strategy, and quickly.

Cloud Computing Adoption

Whether your customers are using apps to book a hotel, download a song or running the critical operations of their business, a cloud platform provides rapid access to flexible, scalable, low cost IT resources.

Cloud computing avoids the large, upfront investments typical with running and managing any data center privately, which many enterprises have historically had to do.

Cloud computing delivers on the promise of removing the burden of managing and running the infrastructure enabling companies to focus on their business and the apps that best help them compete and grow.

Some of the main benefits customers have experienced using the cloud for IT infrastructure and applications include:

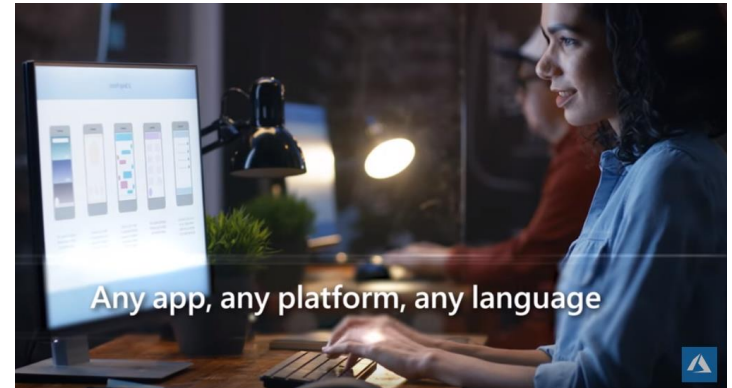
Freeing Budgets – Shifting spending from capital expenditures to operating expenses.

Only Paying for What's Used – Leveraging a utility based subscription model.

Speed & Agility – Speed to market and the ability to switch on new services quickly.

Focus on the Business – Apply resources on growing the business not on running it!

Globalization – Delivering business value to customers globally and instantly.

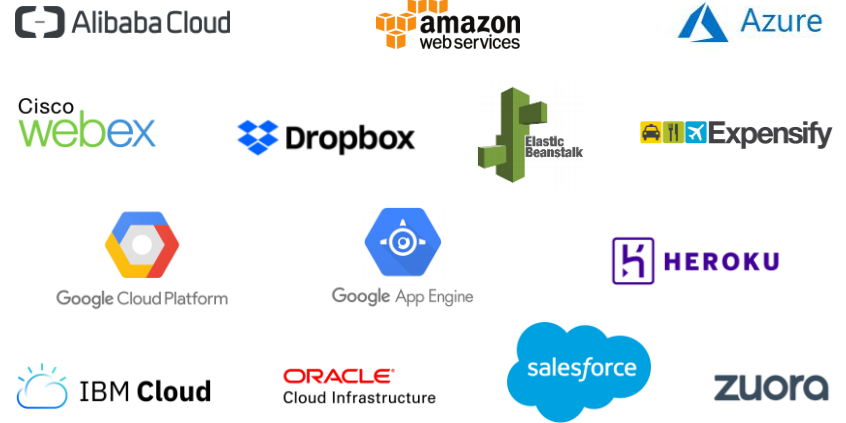


Amazon Web Services (AWS - part of Amazon) started in 2006, born out of the computing resources needed to power Amazon's fast-growth ecommerce business. Recognizing the potential for selling those computing resources to other companies, they started by selling rent-by-the-hour computing resources and cloud storage mostly to cloud start-up's (example AirBnB). The result is that a new category has emerged called Cloud Computing, disrupting many categories that have traditionally sold "on-premises" IT resources to customers including hardware, storage, virtualization and networking.

As enterprises are rushing to leverage cloud platforms such as Amazon Web Services (AWS) or Google Cloud Platform they are still finding that their full IT management needs are not being met with just the services in their new cloud platform.

There are many critical applications or services that are an absolute requirement for an enterprise to fully leverage these platforms, including security, monitoring, management and billing services. The number of these services provided varies widely between the large cloud platform players such as AWS, who recently announced they had over 100 services and latecomers to the cloud platform party.

That is where third party SaaS providers can help by offering fully integrated applications through the cloud platform providers' Marketplaces to help a customer easily fill the gaps. Marketplaces, therefore, are rapidly growing as an important source of 'last mile' capability for an enterprise on a cloud platform.



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We will discuss the Marketplace options, what are the value drivers and what an IT vendor needs to consider as 'barriers to entry' for any given Marketplace.

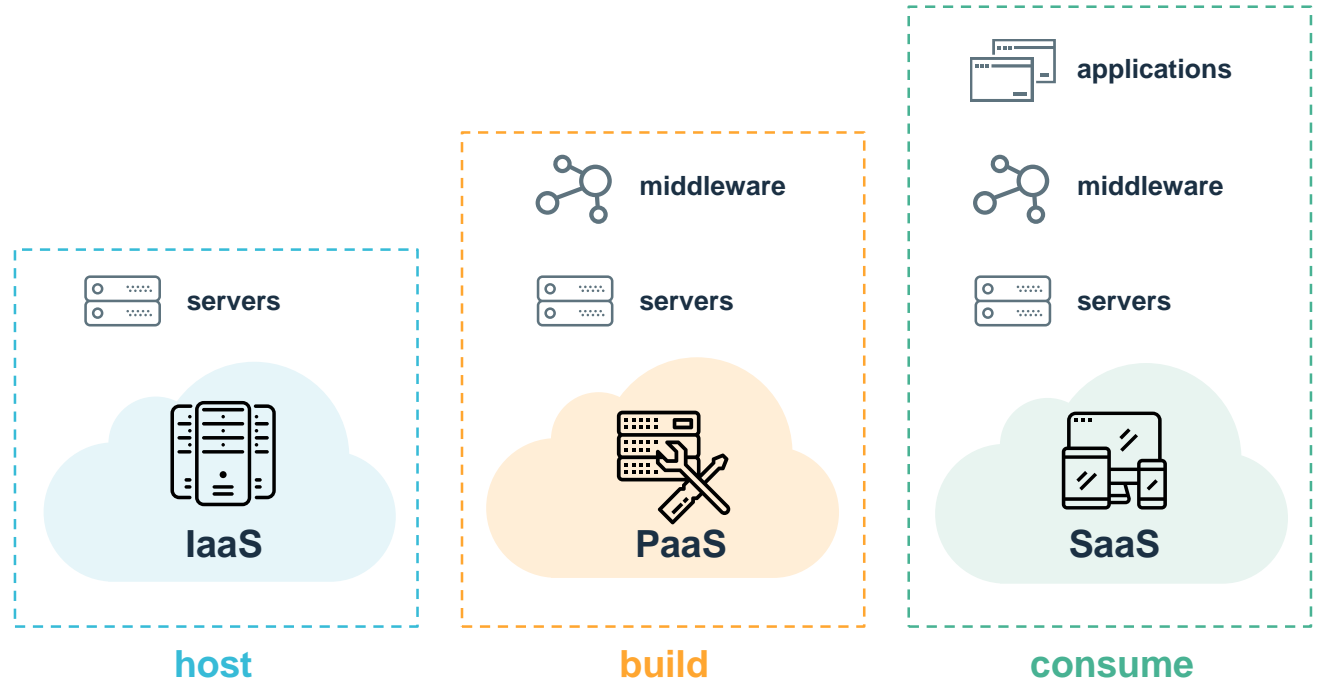
Note: we will not be addressing ecommerce B2B or B2C Marketplaces such as Amazon.com.

Cloud Platforms Defined: IaaS vs PaaS vs SaaS

The landscape of cloud computing breaks into three major categories:

- IaaS
Infrastructure as a Service
- PaaS
Platform as a Service
- SaaS
Software as a Service

And, the Marketplaces we are discussing here offer third party solutions in all three areas.





The same providers that provide IaaS are most often the same providers for PaaS, including AWS, Google, IBM, Oracle and Salesforce.com, all of whom cover and provide both IaaS and PaaS platforms. As such, the Cloud Platform Marketplaces that we think are most relevant to focus on in this Playbook are those that focus on SaaS applications that third parties are integrating to and using as a sales and marketing platform to promote their applications.

IaaS (Infrastructure as a Service)

Cloud infrastructure services (IaaS) highly scalable and automated compute resources. IaaS is fully self-service for accessing and monitoring compute, networking, storage, and other services. Resources purchased on-demand and as-needed instead of having to buy hardware outright.

Examples: AWS, Alibaba Cloud Platform, Microsoft Azure, Google Cloud Platform, IBM Cloud Platform, Oracle Cloud Platform

PaaS (Platform as a Service)

Cloud platform services, or Platform as a Service (PaaS), provide cloud components to certain software while being used mainly for applications. PaaS provides a framework for developers that they can build upon and use to create customized applications. All servers, storage, and networking can be managed by the enterprise or a third-party provider while the developers can maintain management of the applications.

Examples: AWS Elastic Beanstalk, MS Windows Azure, Heroku (part of Salesforce), Force.com, Oracle PaaS, Google App Engine

SaaS (Software as a Service)

SaaS utilizes the internet to deliver applications to its users, which are managed by a third-party vendor. A majority of SaaS applications are run directly through the web browser, and do not require any downloads or installations on the client side.

Examples: Salesforce CRM, Dropbox, Expensify, Zuora, WebEx

Cloud Platform Growth and Application Workloads

Gartner recently released forecast data below for each of the cloud computing categories, indicating overall growth rates for the next three years (2018 – 2021) in IaaS, PaaS and SaaS platforms combined at a whopping 35% CAGR.

The overall SaaS market is targeted to grow even faster at a 40% CAGR, and IaaS consumption leads the pack with a projected 3-year growth rate of 58%.

It's commonly believed that IaaS adoption precedes the adoption of PaaS or SaaS, therefore IaaS growth at 58% is an outstanding leading indicator for the cloud computing market overall. Marketplaces are expected to be a key driver of that 40% SaaS projected growth rate, allowing ISVs and software developers to leverage the broad base of commercial customers adopting the cloud platform(s) for the first time.

Provider	2018 Revenue	% Growth YOY
Amazon Web Services ¹	\$25.6 B	47%
Microsoft Commercial Cloud ¹	\$23.2B	56%
Google Cloud Platform ²	\$4.0B	NA

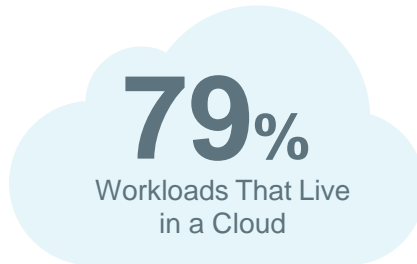
Source: ¹ Annual reports
² CEO Sundar Pichai

The top cloud spot remains with AWS, but Microsoft is closing the gap. Microsoft, Google and IBM combine their public cloud revenues in broader cloud services buckets, so with the exception of AWS, these 2018 numbers are estimates based on annual report data. Google has reported an increase in their \$1M and \$100M+ deals, and multi-year contracts in 2018 have doubled over 2017. IBM also made respectable year over year gains with several notable cloud wins totaling over \$1B. These numbers, along with the increase in IT vendors who optimize for and sell their SaaS applications on these cloud computing marketplaces, supports independent research that businesses are continuing cloud platform adoption.

Among the cloud Marketplace leaders, Amazon Web Services has lost significant market share to Azure and we suspect the Google numbers may be a bit low.* In 2017 these leaders together represented 99% of the total market opportunity, but that percent has decreased to 96%, based on Alibaba's 2018 growth. This market share shift, suggests that Microsoft and IBM are now successfully converting their traditional on-premises perpetual license customers to their Cloud platforms.

Workload Migrations Have Reached a Tipping Point, with SMB Leading the Way on Public Cloud Adoption

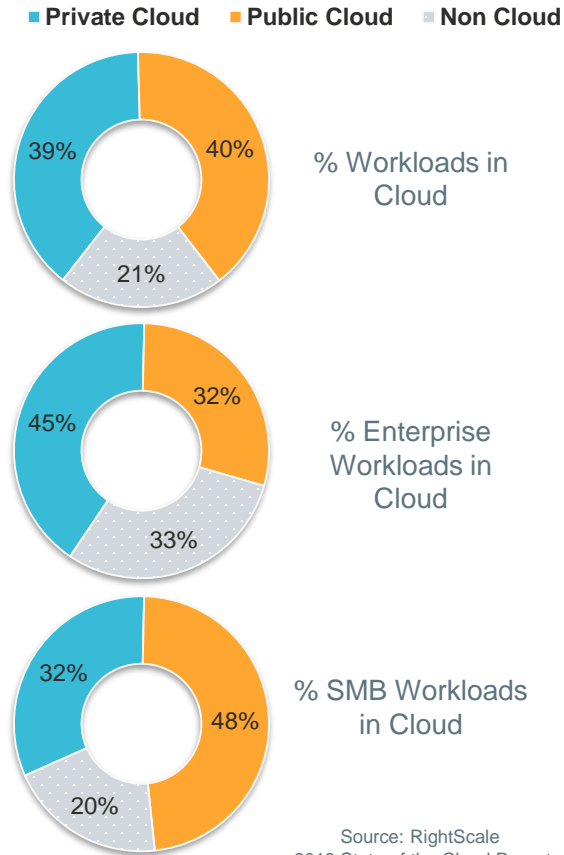
Cloud computing has become a mainstay for IT. Nearly 80% of business workloads now live in public or private clouds. According to RightScale's 2018 State of the Cloud report, on-premise deployments continue to shrink with public and private cloud workload deployments running neck and neck.



SMB and Enterprise Customers Have Different Cloud Preferences

Not surprisingly, small to mid-size organizations make up 48%, or nearly half of the public cloud migrations. Key factors include speed and ease of setup and access to cloud-ready security and storage tools, which appeal to organizations with limited IT resources. Pay-as-you go pricing models are also an attractive choice for new or high-growth businesses that are unsure of their performance and scalability needs.

Enterprises still prefer privately hosted clouds over public cloud migrations by nearly 40%, but still have migrated 77% of their workloads off-premise. Issues such as industry regulation, perceived and real control over their computing environment, and the rate at which enterprises adopt change are key considerations in their decision.

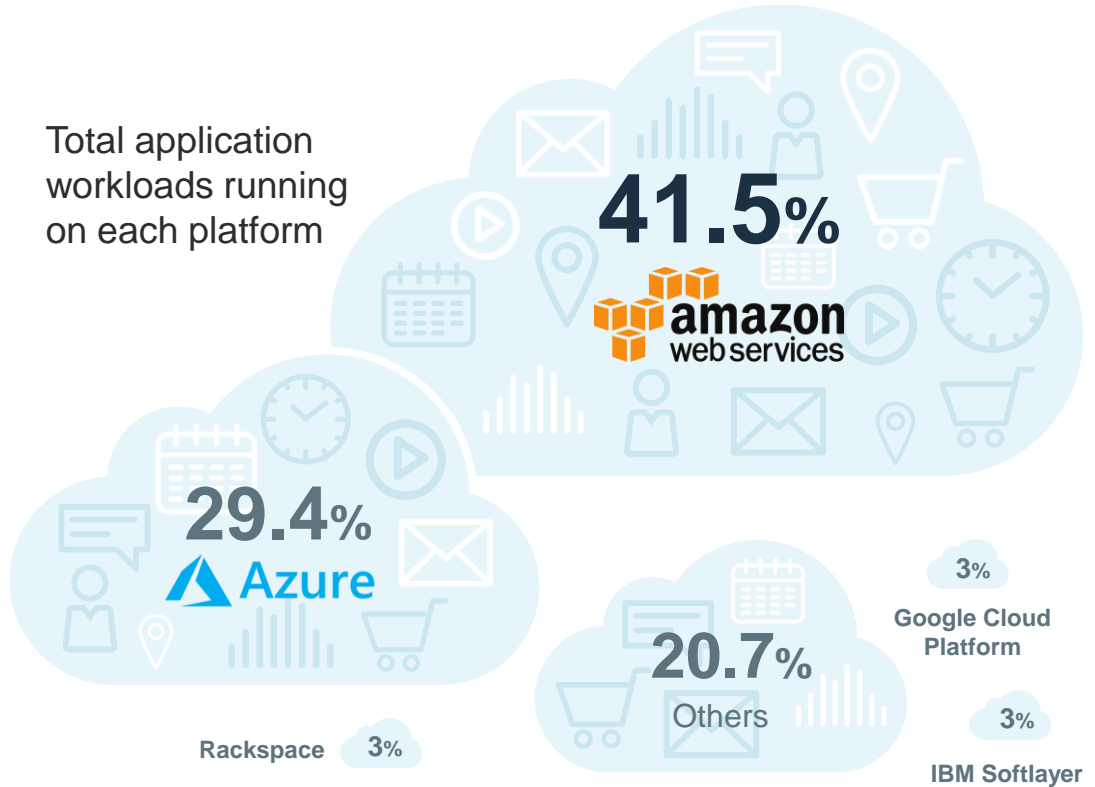


Source: RightScale
2018 State of the Cloud Report

Application Workloads

A critical decision point for an IT Vendor (aside from the 3 year growth forecasts) is understanding on which cloud platforms customers have deployed application workloads (SaaS applications). The quantity of applications being supported by the leading platforms is a leading indicator of platform stability, trust and customer loyalty.

According to Skyhigh's report on custom applications and IaaS Trends from 2018, Amazon Web Services leads the IaaS platform pack here as well with 41.5% of total application workloads running on their platform. The next biggest player is Microsoft Azure of with 29.4% of application workloads. Google Cloud Platform IBM Softlayer and Rackspace each have apx. 2-3% of the remaining share, with 20.7% of the total market fragmented among other platforms.

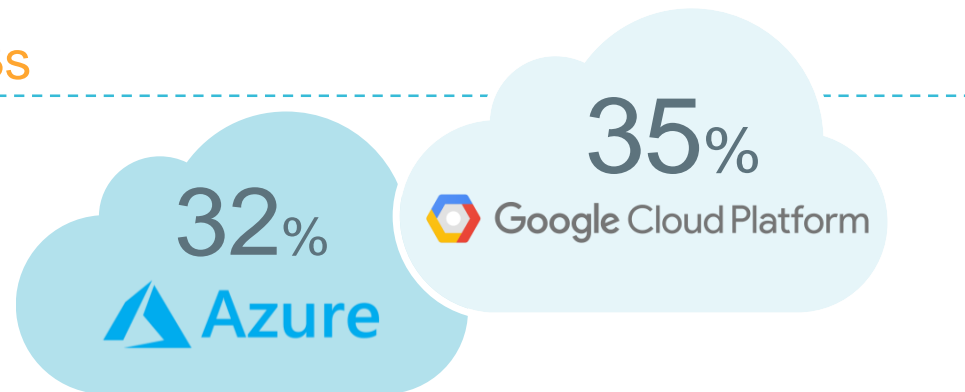


New Cloud Projects in the Pipeline

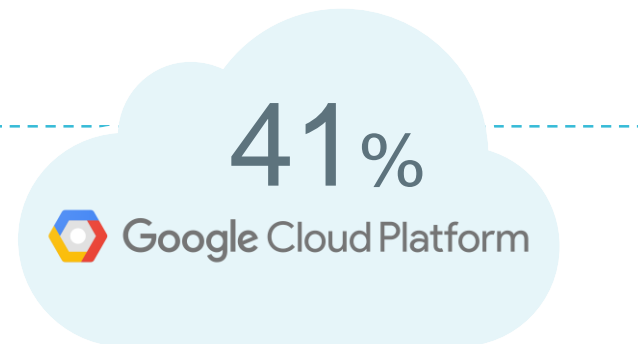
We can also gauge interest and potential for future marketplace growth by measuring which businesses are experimenting or planning to use particular clouds. The future looks bright for Google Cloud Platform.

This year there was a higher percentage of respondents experimenting or planning to use Google (38%), followed by Azure (31%), and VMware Cloud on AWS (28%). This indicates a potential for Google to accelerate adoption in both the enterprise and SMB markets in future years as the respondents' experiments and plans come to fruition.

SMBs



The Enterprise



Source: RightScale 2018 State of the Cloud Report

The Cloud Marketplace Landscape

Off the back of the incredible growth in cloud computing, the cloud platform vendors now offer Marketplaces dedicated to their platform where customers who are accessing their cloud platform accounts can also access, trial and purchase software from third parties.

This is unique and different from all previous concepts of a Marketplace as it has never been previously possible to have the same customer use the same account (as the provider) to purchase third party products using the same budget and receive all (cloud platform + third party products) on one bill. That time is here now and effectively creates a powerful new channel for SaaS providers.



1. Cloud Platform (IaaS)

Gives Cloud Platform (IaaS) customers access to third parties (SaaS) products that are integrated with their Cloud Platform.



2. Platform as a Service (PaaS)

Gives Platform app customers access to other apps built on the same platform (Example: FinancialForce built on Force.com)



3. Aggregator

Whitebox Marketplace. Enables a vendor (example: IBM Cloud or CenturyLink) to give their customers access to a dedicated Marketplace in their name (run by AppDirect) where they can access and/or purchase 3rd party (IT Vendor) products integrated with their cloud platform (example: CenturyLink)



4. Distributor/Reseller/MSP

Gives Distributor's solution provider/VAR customers access to trial and/or purchase cloud platform products (IaaS, PaaS and SaaS) from a single source (account, billing, contract).



Number Of Third Party Products Offered By Marketplace

An important consideration for both customers and IT suppliers with respect to a decision on which Marketplaces to leverage is the number of individual third party companies and services or applications are available in the Marketplace. This is a different consideration than Workloads.

Workloads demonstrate the number of Cloud Platform instances that are being used to run actual applications on a given cloud platform. This is important to show which cloud platforms are actually being used in the market by companies for their applications. Separately, in order to measure the success of the Marketplace, it's important to understand the number of services (provided by the cloud platform provider) and the number of applications (sold by third parties on that platform) that are being offered by the Marketplace.

A low number means that a customer is less likely to be successful in finding what they need to be successful on that platform and therefore is likely to choose a platform with more services and third party applications. These are key indicators of the strength of the platform and the strength of the third parties invested in the platform. More services + more third parties = more customers.

Azure and AWS have a significant lead among the PaaS/IaaS providers and have been aggressively attracting developers and cloud providers for several years. Among Enterprise software providers, Salesforce.com is far and away the leader, and its AppExchange community has been growing and thriving for years around their SFA and other software platforms. The distributors' Marketplaces are made up of a combination of infrastructure and application services but are still emerging and are uniquely aligned to the type of cloud services SMB-focused solution providers are inclined to support.

Summary of the number of services/third party offerings in each Marketplace.

		No. Third Party Apps/ Services	% Total	
Cloud Platform	1	Azure	6118	30%
	2	Amazon Web Services	4414	22%
	3	Oracle	7268	36%
	4	Google Cloud Platform	1843	9%
	5	Alibaba	316	1.5%
	6	IBM Cloud	246	1%
	7	Century Link	148	.05%
		Total	20,353	100%
Enterprise Platform	1	Force.com	3571	87%
	2	ServiceNow	405	9%
	3	Heroku	53 addons 2771 buttons 5132 build packs	1%
	4	Pivotal	74	2%
	5	Workday	53	1%
		Total	4,103	100%
Distributors / Resellers	1	Ingram Micro	123	29%
	2	Tech Data	Approximately 300	71%
		Total		100%

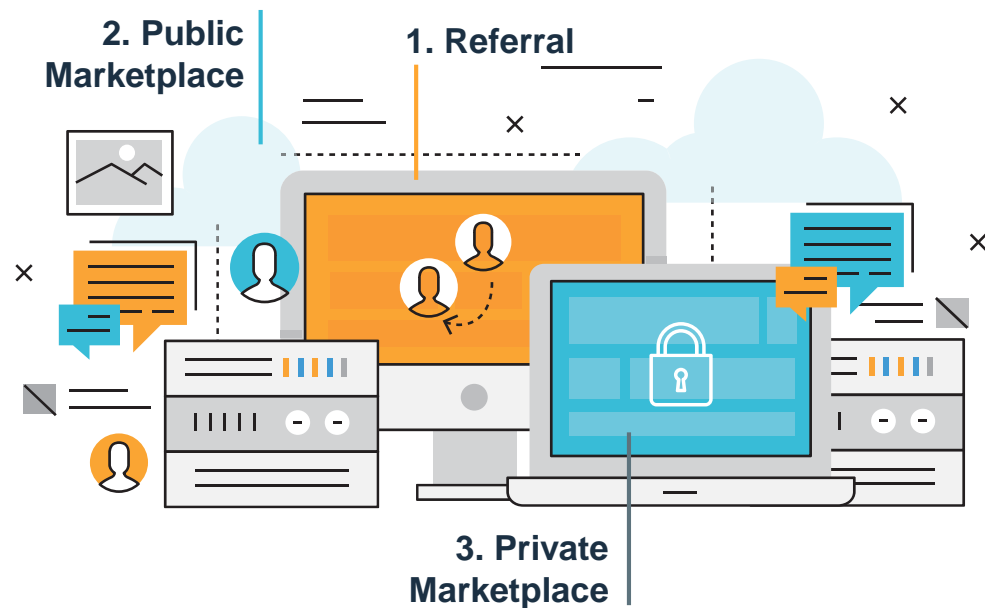
Horizontal/Vertical Categories

Today's cloud Marketplace leaders offer a diversity of types of vertical and horizontal services – both core IT infrastructure offerings and highly verticalized applications. Many IT suppliers offer SaaS solutions built around a horizontal or vertical and therefore the ability to have that categorization within the Marketplace is important for differentiation and ease of use by corporate customers.

Here is a sampling of the horizontal and vertical solutions offered within the leading Marketplaces today.

Platform	Horizontal	Vertical
1 Cloud Platform (IaaS)	Operating Systems	Financial Services
	Security	Digital Marketing
	Networking	Media & Entertainment
	Storage	Gaming
	Business Intelligence	Enterprise IT
	Databases	Health/Life Sciences
	Dev Ops	Government/S&L
	Media	Education/Non-Profit
2 Platform (PaaS)	Sales	Communications
	Customer Service	Education
	Marketing	Financial Services
	IT	Government
	HR	Healthcare/Life Sciences
	Finance	Manufacturing
	ERP	
	Collaboration	
	Analytics	

Marketplace Consumption Models



There are three ways for a software developer/ISV to engage with Cloud Marketplaces. The choice of which one to leverage depends on the extent of dependence the software company wants to create with the Marketplace and the extent to which its target customers are already savvy users of the Marketplace for other software and solutions.

On the next page we show the different ways in which a corporate end-user can consume the services from the cloud providers' Marketplaces. Further we detail under "Marketplace Provider" and "SaaS Provider" who is responsible for which piece of the supply chain of the offering. We further distinguish the range from a simple referral model all the way to a "private" Marketplace.

Model	Description	Marketplace Provider Offers:	SaaS Provider Offers:
1 Referral	Customer selects SaaS tile in Platform Providers Marketplace. Customer is sent to SaaS landing page. Customer enters contact details and is given trial period based on accepting 'click-wrap' MSA. SaaS sales team 'closes' opportunity once trial period ends.	<ul style="list-style-type: none"> • Tile • Link to Landing Page 	<ul style="list-style-type: none"> • Trial • Transaction • MSA • Purchase • Billing
2 Public Marketplace	Customer selects SaaS tile in Platform Providers Marketplace. Customer is platform provider customer with account. Customer is given trial period of SaaS product from Marketplace. Customer purchases from public Marketplace at price listed. Billed by Marketplace.	<ul style="list-style-type: none"> • Tile • Trial • Transaction • MSA • Purchase • Billing • @ Marketplace Listed Price/Terms 	<ul style="list-style-type: none"> • Monthly Sales Report • Fees Less Listing Fees
3 New! Private Marketplace	Customer selects SaaS tile in Platform Providers Marketplace. Customer is platform provider enterprise customer with account. Customer is given trial period of SaaS product from Marketplace. Agreement between customer and SaaS provider including contract term, metrics (units etc) and price. Cloud provider communicates committed quantity to third party SaaS application. Customer uses committed amount and is billed via cloud provider account.	<ul style="list-style-type: none"> • Tile • Trial • Transaction • MSA • Purchase • Billing @ private price • Per committed quantity in SaaS application 	<ul style="list-style-type: none"> • Contract Term • Quantity • Metrics • Price

The maturity of the Marketplace will dictate which of the consumption models is available. Referral is the simplest and most commonly available model. Private Marketplaces are the newest model and are only just emerging, but are growing rapidly in popularity with enterprise customers because of their ease of usage and monitoring.

Revenue Profiles and Pricing Models

Marketplace Pricing Models (Examples)

Software as a Service (SaaS)

Software as a Service managed and run by Third Party (running on Cloud Provider Platform)

Free Of Charge. Free of charge 30 day Trial.

Subscription. Based on metering received from 3rd party to cloud provider (units, hosts, data, requests, and users). Hourly reporting. Typically monthly billing by cloud provider.

Contracts. No metering to cloud provider. Specific quantity agreed. Agreement between customer and third party including length of contract, metrics (units etc.) etc. Cloud provider communicates committed quantity to third party SaaS application. Customer uses committed amount and is billed via cloud provider account.

Because the revenue generated from cloud Marketplaces is still emerging, no public data is available detailing Marketplace-specific revenues for any of the cloud providers mentioned here. However, 100% of the Marketplace revenues generated from these leaders are based on the listing fees from selling Third Party products to end customers. No revenue is driven from services.

Machine Image (of Third Party SW)

Machine Image software allows the customer to deploy and run the software under their own cloud provider account and infrastructure.

A customer finds the software on the Marketplace, subscribes, and is immediately able to deploy the Machine Image onto the cloud platform infrastructure and manage the software and their subscription.

The Marketplace bills the customer for usage of seller software products on the customer's cloud provider bill.

The Marketplace revenue model is closest to a resell model in that the customer contract is between the Marketplace provider and the end customer (excludes private Marketplaces). All pricing, purchasing, billing and contracts with the customer comes from the Marketplace provider directly.

Bring Your Own License (BYOL)

Cloud provider does not charge customers for use of the software, but customers must supply key to activate. Key is obtained by a direct contract with the SaaS provider outside the Marketplace (?)

Free. No additional charge for use of software.

Hourly. Software is charged by the hour.

Monthly. Software is charged based on monthly usage.

Usage. Based on usage: users, data, bandwidth, or hosts.

The Marketplace deducts a contracted % listing fee from the net receivables payment (monthly) to the SaaS provider.

Geographic Coverage

The basis for Cloud Computing is the ability to deliver a customer's computing resources via the cloud globally.

Therefore, the closer the customer is to the physical cloud providers' data centers the less distance the data needs to travel. The result is a better service for the customer and/or IT supplier running their workloads or applications on that cloud platform.

There are several decision points for IT suppliers and SaaS companies to evaluate when choosing which cloud providers to leverage and to what extent.



Data Speeds

IT Vendors building their SaaS offerings on a cloud platform or customers moving their workloads to a cloud platform want the speed by which customers can access either their SaaS product or their data to be optimal in terms of speed. The closer you are to the cloud platform data center the faster the response time/s. Therefore, it is important to understand where and how many data centers a cloud platform provider has.



Data Sovereignty

A guarantee that a company's data does not leave that country (eg. A UK bank's data does NOT reside in a data center in the US).



Failover / Critical Failure

If a data center suffers a critical failure there is sufficient coverage (other data centers) to enable their customers to continue operating.

Datacenter Footprint

The cloud platform and Marketplace providers provide various degrees of global coverage, based on the location of their data centers.

AWS and IBM's Softlayer public cloud offerings are powered from the greatest number of global data centers, followed by Azure and Oracle. The Cloud Platforms with the largest number of data centers can typically provide third party IT vendors (SaaS) with a better service globally and therefore attract more customers. In turn, these providers typically attract more third parties wanting to build on top of their platform and participating in their Marketplace. Salesforce is actually decreasing it's own data centers and partnering with AWS.

Number of Public Cloud Data Centers

	Americas	EMEA	APAC	Total
AWS	27	15	20	62
Alibaba	2	3	14	19
Azure	13	12	20	45
Google Cloud Platform	7	5	7	19
IBM Cloud Platform	22	15	18	55
Oracle Cloud Platform	7	5	3	15
Salesforce	5	0	2	7

Key Considerations



There are several other key considerations for IT suppliers and SaaS companies when choosing which Marketplace(s) to engage:

Marketing. Understand the Marketplace resources available to you and develop a marketing plan. Who can the third party market to? What programs can be leveraged? For example, some Marketplaces limit the SaaS providers ability to sell/market to customers who have purchased their application through the Marketplace. SaaS providers must understand the rules of engagement.

AWS Marketplace - Customer Demo's. Define and resource a demo strategy in support of your marketing plan. Are these done by Cloud Provider, Third Party or both? Demo's must conform to the Marketplace rules of engagement for customer interface.

Is Marketplace selling my product globally?
Need to assess different levels of maturity. Example: AWS Marketplace covers North America, EMEA and only certain countries in APAC.

Is my product sold based on local currency?
Understand the currency impact on my pricing strategy. Example: AWS Marketplace sells only in US \$\$\$'s.

Who handles local taxes, tariffs, etc. Understand accounting/tax implication of selling in other geographies. Example: AWS only pays taxes in certain countries and certain States (US). In the other regions, that responsibility falls to the SaaS supplier.

Local support – who handles? Assess requirements for localizing support. Example: AWS Marketplace customer and product support is typically delivered directly from AWS. This is a point of contention for many SaaS providers as they believe they can provide better support than AWS.

Marketplace Target Customers and Drivers



All the leading Marketplaces are experiencing huge growth across the board.

AWS has had to build their brand, acquire net new customers, build out their platform and services and convince enterprise customers to trust moving their workloads to the cloud and the financial viability of the model. It could be argued that Salesforce.com did the exact same thing starting with CRM. Microsoft on the other hand, (followed by IBM) is largely converting its customers from on-premises (.Net etc.) over to Azure. Microsoft has done a good job of building out the capability of its platform and services and convincing customers Azure is a viable alternative.

There is no longer a debate as to whether the cloud as a platform is here to stay or whether it will be adopted by enterprise or government users. All markets are now fully engaged in deploying horizontally and vertically, and a battle for market share and revenue is currently being waged.

The following is a detailed breakdown of the breadth of customer types the major cloud platform and Marketplace vendors are addressing, plus the value drivers applicable to each.



Cloud Platform (IaaS)

Target Customers – Start-Ups, Mid-market, Enterprise, Government, Education

Value Drivers

- **Agility:** Ability to move faster
- **Cost:** CapEx to OpEx
- **New Markets:** Leverage cloud to address new markets
- **Productivity:** Increase business focus, latest technology
- **Competitive Advantage:** Digital Transformation!
- **Enterprise single source**



Enterprise Platform (PaaS)

Target Customers – Mid-market, Enterprise, Government, Education

Value Drivers

- **Horizontal platform domain expertise and leadership** (example – Salesforce)
- **Vertical platform domain expertise** (example – AWS C2S for Federal Intelligence Agencies)



Aggregator

Target Customers – IT Suppliers

Value Drivers

- **Outsource/whitebox management of cloud platform Marketplace to ‘your’ customers**



Distributors/Resellers

Target Partners – Solution providers that service these markets: Mid Market, Enterprise, Government, Education

Value Drivers

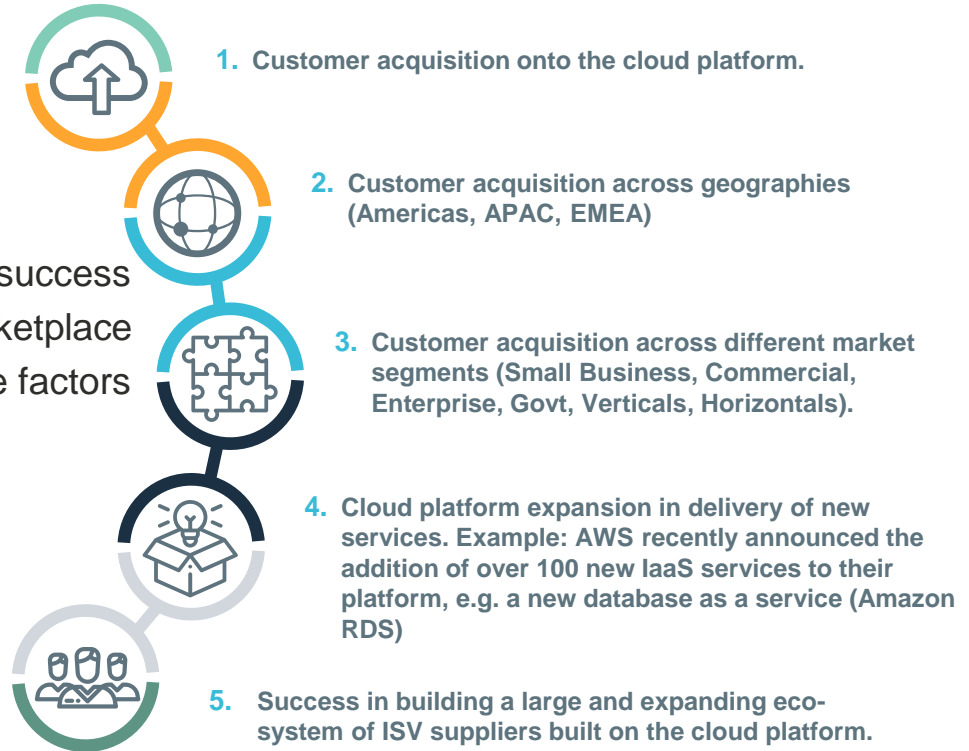
- **Partners can purchase multi-cloud from one source** (example: AWS + Azure)
- **Partners can purchase bundled services leveraging multi-cloud + SaaS**
- **Single source procurement for multi-cloud**
- **Enterprises can meet diversity quotas**
- **Ability to meet Fed/S&L supply/ regulation requirements for supply on multi-cloud basis** (example: GSA, SEWP etc.)

The Marketplace Economic Model

The economic model for the top Marketplaces are symptomatic of the massive migration to the cloud by all customer types. While the Marketplace revenue flow trails the revenues of customers purchasing the platforms, the more mature the Marketplace is in providing simplicity and adoption of the third parties, the faster the ramp in revenue is happening.

Players such as AWS, whose parent (Amazon) built their business on ecommerce Marketplaces, understand how important the Marketplace is. Customer feedback is already showing a strong and growing desire for a customer to purchase more than just the cloud platform through their account.

The economic success of a Cloud Marketplace is driven by five factors



Amazon Web Services P&L



\$25,655B	Net Sales
\$18,359B	Operating Expenses
\$ 7,296B	Operating Income
28.4%	Operating Income %

As stated earlier there is no data or P&L breakdown publicly available for the Marketplaces listed.

Since Amazon Web Services is broken out separately on the Amazon balance sheet, we can examine a representative P&L model in terms of both results and expense categories. Based on the diversity of cloud platform players discussed in this Playbook, and the different business models each is engaged in, it cannot be assumed that this type of model or operating expense is representative for all of them.

The key elements of the Marketplace operating expense model area relatively similar across the various Marketplace leaders mentioned here, including these core elements.



Marketplace Services



The leading Marketplaces have very little services revenue streams outside of the core licensing fees to participating ISVs. Professional or support services represents little to no revenue or profitability to the Marketplace, as they defer the majority of support directly to the participating ISVs. Marketplace services include the following, most of which are no charge to the ISV supplier:

- Marketplace Platform Support to Third Parties (no charge)
- Marketplace Integration Support to Third Parties: Integration, Billing, Metering, Imaging (no charge)
- Third Party product support to customers (tier 1) (no charge)
- Customer connection to Third Party for product support purposes (no charge)
- Reporting to Third Parties

Why Choose Marketplaces as a RTM?

There are four primary considerations in choosing a Marketplace as a route to market:

1. Revenue

Marketplaces by design rely on customers first buying infrastructure services (cloud platform provider) then searching for and trying 3rd party SaaS apps from an IT supplier. Marketplaces are only successful in driving revenue if the following happens:

- Cloud platform vendor is successful in getting a large number of customers to adopt their platform.
- Cloud platform vendor has built the right tools to enable a customer to easily try and buy your product – data centers, global, single-source purchasing, private contracts, joint sales engagement, awareness.
- Your product can be distinguished from the thousands of others based on its USP's – category, brand, use cases and capability.
- Your product is easy to try, purchase and scale from the existing customer account.
- There are joint GTM programs to promote your product alongside the cloud platform.
- The cloud platform sales force are compensated to sell the SaaS product as well as the cloud platform.
- The customer signs one contract and receives one bill.

2. Costs

There are two primary cost scenarios in the Marketplace model:

- Public Listing – List price (for SaaS application) less Marketplace listing fee (typically 10% to 20%). Net (80% to 90%) paid to SaaS/IT Vendor.
- Private Listing – Enterprise customer with \$(X)MM annual spend on cloud platform adds third party SaaS applications to its list of products sourced via cloud platform account based on 'private' terms including any reduced pricing/fees to customer and Marketplace based on commitment.

While there is an upfront cost (integration, metering, billing set-up) to engage with the Marketplace, the cost over the long term is predictable. This should also be weighed with the fact that the Marketplace is carrying most of the SG&A costs of selling to end customers. If you are not integrated (with the cloud platform) and in their Marketplace then it will be hard to be taken seriously (by the cloud platform provider).

3. Volume

The top 5 cloud platforms already have a proven track record of managing volume businesses with large enterprise end customers. Therefore, there is no dispute that the customers and the volumes are already there. AWS grew 43% year-over-year in 2017 and is managing a \$20B recurring revenue business. Microsoft and IBM both have similar numbers.

From a Marketplace perspective there is a delayed adoption and maturity that will follow the cloud platform adoption by customers.

Other industry analysts state that most enterprise customers are in the first round of hybrid cloud adoption. Therefore, the demand for SaaS via cloud platform Marketplaces will continue to grow. Cloud platform Marketplace maturity (in what they offer customers and partners – example: access in all markets, multi-currency, managing local taxes etc.) needs to continue to enable that growth.

4. Market Access

All of the Cloud platforms have outstanding proven market access in terms of their global size, presence, revenues, customers, investments and market reach. Further, the year-over-year growth and adoption of their platform make any of these an important route to market for any IT supplier launching SaaS products (or other complementary infrastructure/ platform services)

Therefore, the important market access questions are:

- How does the cloud platform align with the markets you (SaaS/IT Vendor) are targeting?
- What is the datacenter coverage for the cloud platform?
- How many services does the cloud platform provide?
- How many customers have adopted the cloud platform?
- How will they GTM with you in the markets you want to grow?
- What sales and marketing programs do they offer?
- How mature is their Marketplace – can it do ‘private’ transactions?
- Are their salespeople paid to sell your product?

Appealing to the Marketplace: Value Proposition

In order to best leverage a Marketplace, the IT Vendor (SaaS provider) needs to be sure their value proposition resonates with the cloud platform Marketplaces' unique business model and success drivers:



Help drive adoption, market share and revenue of the underlying cloud platform

- Build/integrate SaaS application to the cloud platform.
 - Enroll in the cloud platform Marketplace.
 - Integrate the Marketplace billing and metering processes into your SaaS application.
 - Build joint GTM programs to drive joint customers to adopt both the cloud platform and your SaaS applications.
- Develop a strong plan and marketing resources to drive traffic dominate 'search' presence in Marketplace
 - Leverage vertical/horizontal categories/specializations to highlight your product in Marketplace.
 - Rules of Engagement: Pay both your SaaS sales force and the cloud platform's sales force for ALL sales of your SaaS applications through the Marketplace.

Make customer fulfillment and support easy

Include Distributors and/or resellers as part of RTM for Marketplace based on customer choice. Example: an enterprise selecting your product (in the Marketplace) that typically sources through a 'one-stop' reseller/distributor for ease of sourcing or to meet a diversity quota can in certain Marketplaces still elect to purchase from the 'partner of record' (via their cloud platform account) who in turn purchases from the cloud platform Marketplace.

- Define your Marketplace pricing strategy vs. through other RTM's including whether strategic customers may purchase via "private" Marketplace account, terms and pricing.

Example: Certain Marketplaces require that you cannot sell the product (listed in their Marketplace) for a lower price elsewhere (e.g. other Marketplaces or on the IT vendor's own commerce web-site). Therefore, careful consideration needs to be given to list pricing (a lot of IT vendors post their product at MSRP and whether you're prepared to sell your product to an enterprise customer through a 'private' Marketplace (cons include having to pay the listing fee, perceived loss of account control etc).

- Align technical support team to accommodate increased Marketplace transaction load
- Assign resources to code billing, metrics, reporting set-up (6-8 weeks)

- Enablement: plan to train Marketplace SA's (Solutions Architects) on your product and value prop

Example: All of the large cloud platform providers have hired Solutions Architects such that when a sales rep (for the cloud platform) has an opportunity (cloud platform) the first team they engage are the Solutions Architects (SA's). Most IT Vendors target the sales teams which is typically a mistake. All opportunities flow through the SA's. The SA's also understand that the enterprise customer needs more than just the cloud platform so are typically open to understanding more about a third party vendors products (integrated to the cloud platform) and understanding it's value prop and how it addresses an enterprises 'last mile' needs.

Help the Marketplace differentiate from other partner types in your ecosystem

Highlight the capabilities of Marketplaces to your current and target customers, including:

- Brand alignment and leadership
- Breadth of Customer Base
- Domain Leadership: Vertical, Horizontal, Technical
- Strength of integration/partnership
- Strength of Joint GTM and selling model

Marketplace Commercials – Considerations

Revenue Profiles and Pricing Models

1. Typical listing fees (to the Cloud Provider) for Machine Imaging and SaaS vary between 10% to 20% depending on the Marketplace. Most are settling in the 13% to 15% range. These amounts are debited monthly from the fees paid to the third party.
2. The Cloud Platform Provider's sales teams are paid on third party products that are sold via the Marketplace. (Note: this can vary given this is a fast evolving model). This means they are “motivated” to sell with the SaaS provider's sales teams.
3. The third party is at ‘arm's length’ to the customer in both Machine Imaging and SaaS Marketplace models. In other words the customers relationship is with the Marketplace and not with the third party. This can cause friction with a third party's direct sales force as there is potential that an existing customer (or a potential new customer) could be purchasing your product via the Marketplace. Rules of Engagement need to be considered and agreed to with the provider in advance.
4. Based on 3 (above), third parties need to carefully consider what pricing is posted/made available through the Marketplace.

Summary

Cloud Platform

Amazon Web Services, Azure, IBM, Google and Salesforce.com will continue to dominate Cloud Platform services.

Amazon Web Services and Azure dominate the number of third parties with SaaS offerings in their Marketplaces.

Multi-Cloud

Important: beyond prime picks such as AWS or Azure most companies are looking at Google as a multi-cloud choice (2nd cloud platform).

Enterprises are still in early stages of cloud adoption; therefore, demand for third party SaaS applications via Marketplaces are still early.

Enterprises want to purchase 3rd party SaaS through their cloud platform accounts.

Marketplace tools and GTM programs need to grow and mature rapidly in-line with cloud platform growth.

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