ChannelMasters®

Kickoff Workshop
Prerequisite Module 1 of 2

Partner Business Model Definitions, Cloud & Managed Services,
Financial Basics & Digital Transformation/IoT

IPED® Consulting

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The Perspective of a Former Channel Chief

Rauline Ochs

IPED CHANNEL INSIGHT

The Art Of Cloud Brokering

By Rauline Ochs

IPED RECENTLY COMPLETED a 2012 study assessing customer and partner opinion regarding the need for cloud brokers to consolidate services for the customer when cloud services deliver customer IT capabilities. Gartner positions and defines the cloud services into their businesses, but where recurring revenue did not yet account for the majority of company revenues.

In the 2012 study, IPED took a closer look at one partner in particular, Champion Solutions Group, located in Florida. Since 1979, Champion has transformed its business from tele-

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32+ Year Channel History | Proven Channel Brands and Platforms | Channel Base

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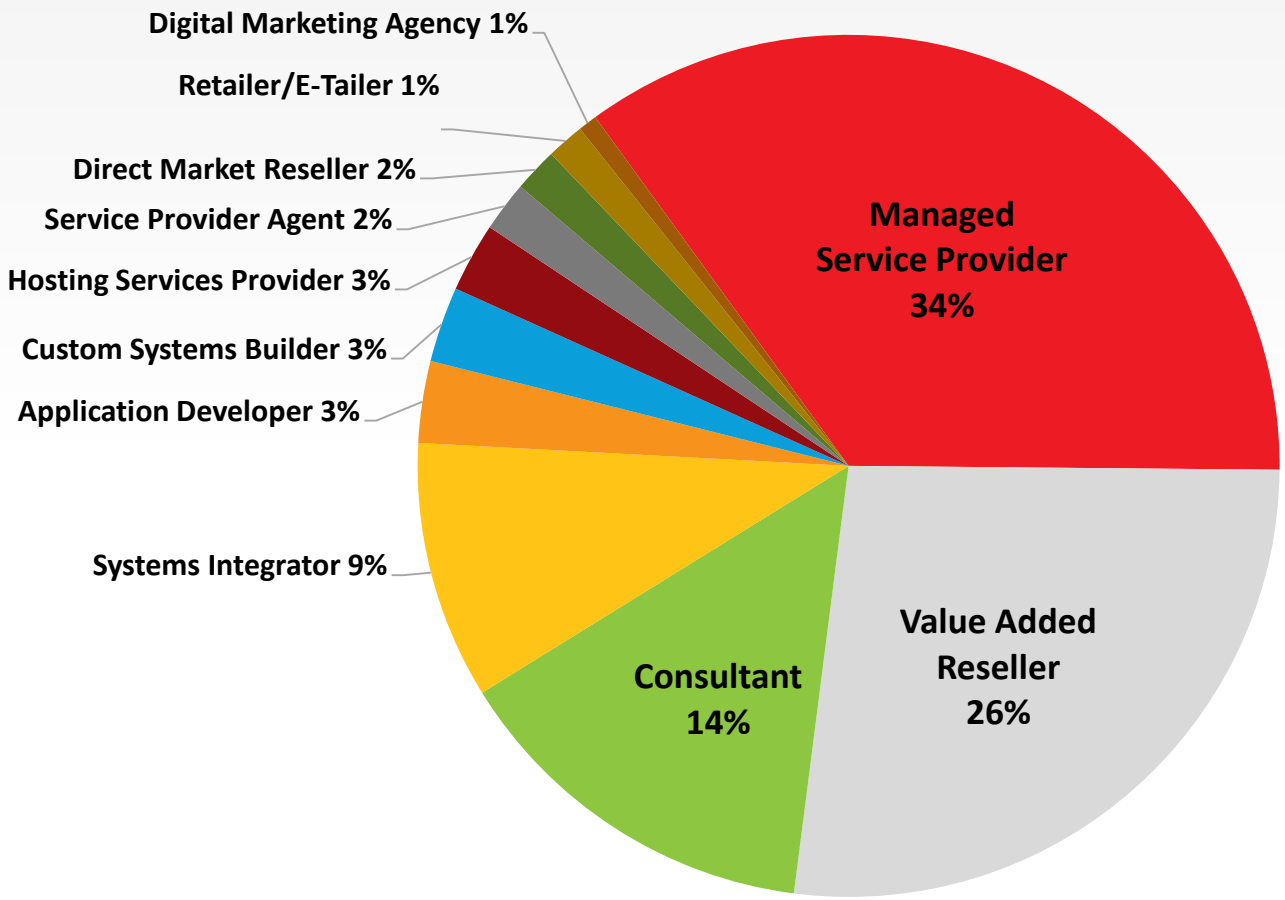
The North American Solution Provider Universe

IPED 2019 Census



- Partner Business Models
- Cloud & Managed Services
- Partner Profitability
- Digital Transformation/IoT

Q: Which of the following best describes your current primary business model?

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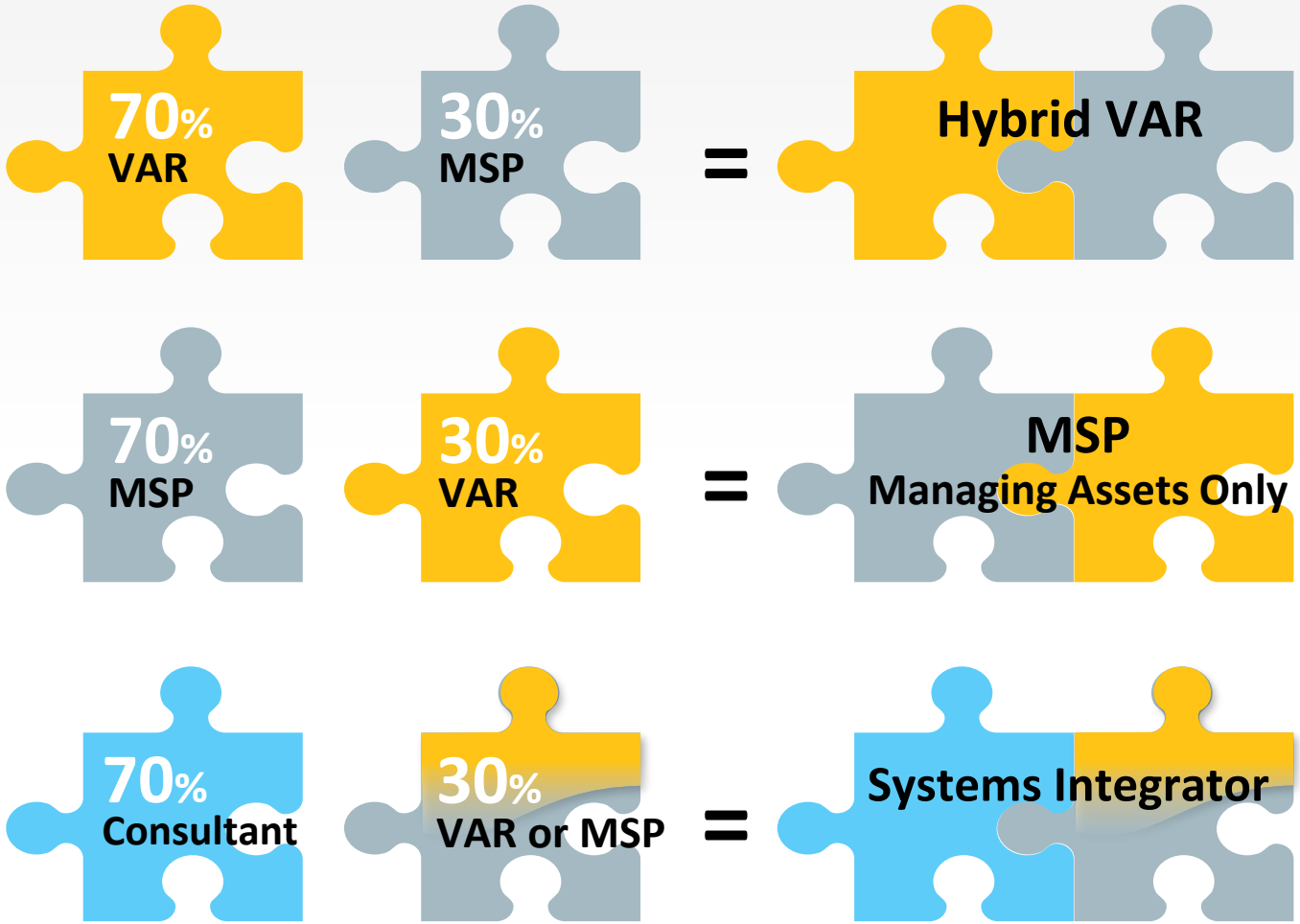
Primary Business Models Matter, But There Are No/Few "Pure Play" Partners Anymore

How to Use These Models

- Dissect your ideal Partner Profile
- Typically multiple roles are played
- VAR, MSP and Consultant models represent the three pure roles
- Factor in the correct percentage of the secondary business model to achieve a representative ideal partner profile
- Then benchmark partner needs to your program. See IPED Profitability Study for more info.

- Illustrative -



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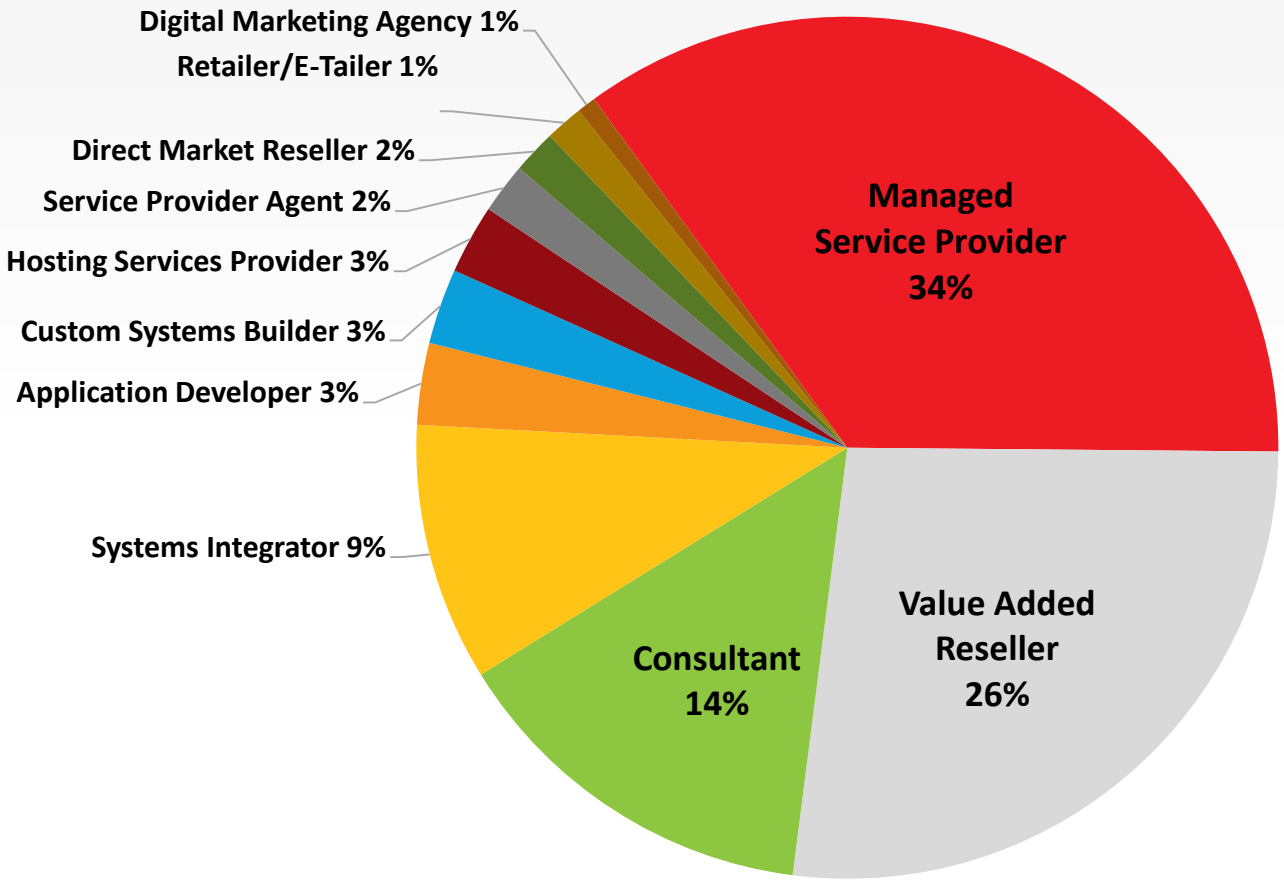

Partner Business Models

- Roughly estimated to be a **population of 150,000**
- MSP/hoster now eclipses VAR as primary business model; VAR/reseller model on slow and steady decline
- MSP segment includes any managed service (e.g. desktop, mobility, UC, servers/storage, print) and any delivery model (resale, partner managed-only or partner owned & managed)
- Service Provider (or Carrier) Agent business model is small, typically specialized around wired, wireless and internet, this doubled, at one point, in 3 years reflecting the telephony channel integration, but had held constant recently

Q: Which of the following best describes your current primary business model?

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Solution Provider Business Models: Definitions

Solution Provider/VAR

Your company delivers a broad footprint of technologies and solutions to several different verticals with no specific end customer focus.

Your **company's revenue (>50%)** comes predominantly from integrating and selling hardware, software and services, including cloud services. You generally take title to resell product.

Consultant

Your **company revenues (>90%+)** come predominantly from business process and strategy services combined with IT strategy and design consulting. You rarely take title to IT products. Your value comes from your ability to determine business strategy and link that to IT designs.

You often recommend IT technologies and brands but may not perform any IT integration or implementation services.

Your company may have been born-in-the-cloud indicated by a relationship with Salesforce.com, Google, etc. and without a previous consulting business addressing on-premise IT solutions.

ISV

Your **company's revenue (>85%)** comes predominantly from the development of commercially available software solutions or applications.

You have expertise in standard market platforms (Windows, UNIX, Linux, and Mac operating systems) and large business software solutions.

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Solution Provider Business Models: Definitions

Direct Market Reseller (DMR)

The **majority (80%+) of your revenues** come from reselling hardware, software and associated support contracts to end customers primarily through call centers and online marketing.

Less than 20% of your revenue is derived from professional or managed services.

Systems Integrator

Your company traditionally realizes **70%+ of revenue** from pre- and post-sales consulting , integration and implementation services. You have significant expertise in a technology segment and/or a vertical market, your integration skills are either information technology (IT), telephony (voice, data, internet) or operational technologies (OT) based.

You are different from an IT consultant in that you **also take title to product to resell or provide managed services.** Enhanced this wording to include OT capabilities.

Custom Systems Builder

At least 50% of your revenue comes from designing, building and delivering your own brand of hardware infrastructure such as "white box" or custom systems often optimized for specialty uses like gaming, healthcare, etc.

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Solution Provider Business Models: Definitions

Managed Services Provider

Your **company's revenue (>50%)** comes predominantly from delivering IT recurring services provided on a contractual basis to maintain your end-users' computers, networks or software.

They can be delivered either on-site at the end-user's data center, remotely by you in your data center, or a data center to which you have negotiated access.

Note: includes desktop, application, security, VOIP, print or other capabilities.

Hosting Services Provider

Your **company's revenue (typically >85%)** comes predominantly from shared, dedicated, or virtual private server hosting (a hybrid of the first two) of services to end-users.

Hosting services can be provided for managed servers, dedicated servers, virtualization, clouds, co-location, mobile applications, email hosting, application hosting or domain hosting services.

Note: less likely to include application or BYOD capabilities.

Application Developer

Your **company's revenue comes predominantly (>50%)** from development of applications for an end user in a *custom development, non-commercially available basis.*

The applications may leverage DevOps skills, and may be written for Windows, Linux, iOS, Android, an IoT platform or any other on-premise, cloud, mobile or edge platform.

Digital Marketing Agency

Your company revenues come from **consulting or app. development services** which enhance your customers' creative and strategic online user experience, mobile applications strategy, social media strategy, and approach to data gathering /analytics.

You may also provide creative agency services and influence mobile application development and/or marketing automation solutions.

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Solution Provider Business Models: Definitions

Cloud Broker

The **majority of your company's revenue's (>50%)** comes from the administration of public cloud services on behalf of a customer. Your role may include provisioning licenses, user additions, deletions, changes, access as well as security designations, license compliance management and reporting via a central portal access, ongoing billing and central help desk support. It may also include private-labeling of these applications or services.

You may also act as a sales agent, receiving commissions for selling cloud services, or as a full reseller, providing contract and billing services.

Service Provider (or Carrier) Agent

Your **company's revenue comes predominantly (>50%)** from recommending carrier-based high-speed data access, digital cable, high speed online and digital phone services to end-users.

IT Distributor

You **resell products and services to various types of solution providers** (resellers, VAR, Integrators, etc.) and provide associated recruitment, training and demand generation assistance services on behalf of the vendors' product lines you support.

OT Distributor

You represent **operational technology (OT) products** from suppliers such as Siemens, Bosh, GE Digital, Schneider Electric and Honeywell. You either sell directly to end-users and/or to OT systems integrators. You provide pricing, configuration and training to OT system integrators and soon also to IT integrators looking to participate in IoT.

Your vendor relationship may (or may not) be based on a defined geographic area with some level of exclusivity.

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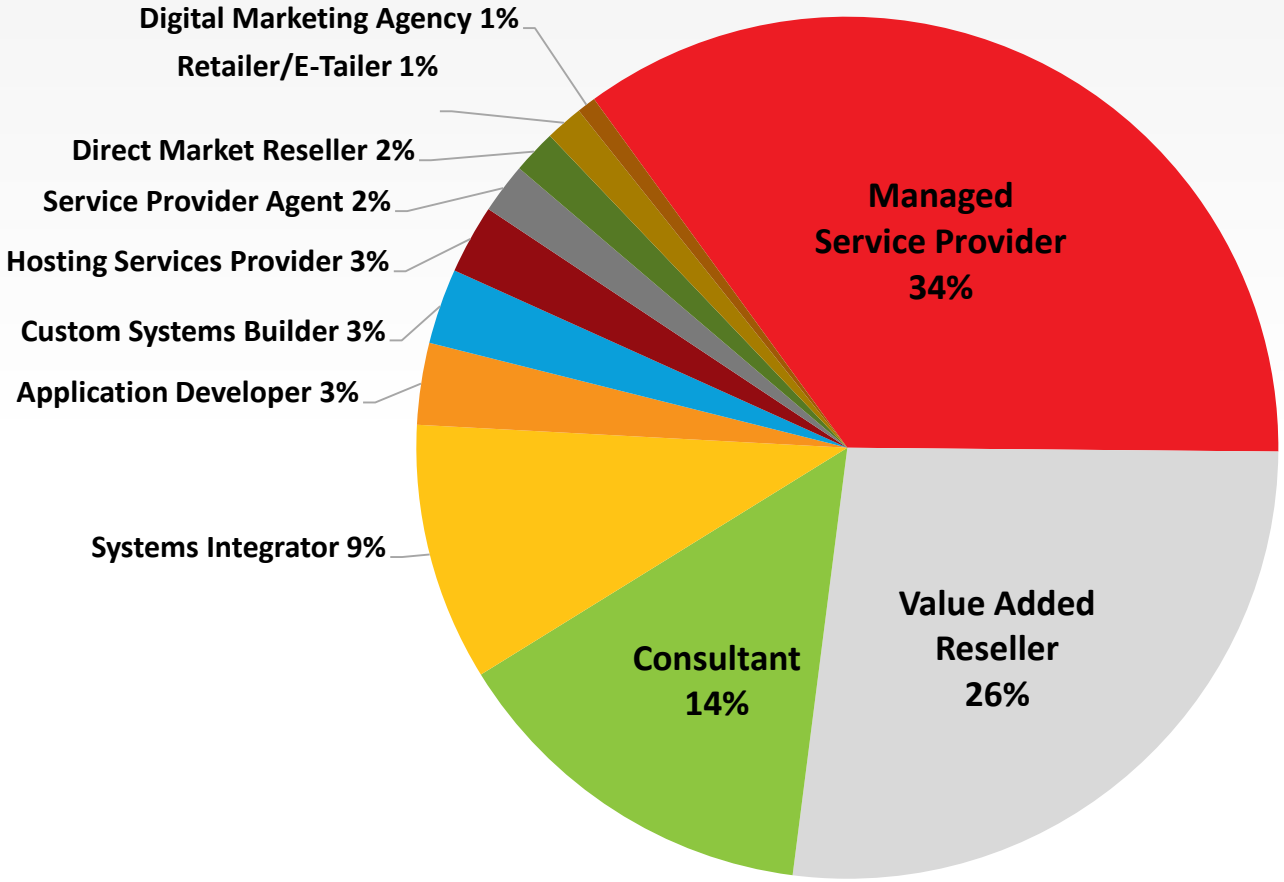

Cloud & Managed Services

"Our Managed Services offering builds trust with our clients. Since we're looking at their IT operations every day and solving problems together they're a lot more inclined to listen to us when we bring a new technology to invest in."

President and COO,
$40m MSP and Microsoft/Cisco VAR

"Building recurring revenue streams is the most important issue for us in terms of our future investment in ANY technology area."

President and COO,
$220m SI, VAR and Cloud Integrator

Q: Which of the following best describes your current primary business model?

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IT Ecosystem Now Includes Four Vendor Types

Software Publisher

Develop, sell, and support commercially available **software products and applications**

OT Distributors

Representing vendors including: Siemens, Bosh, GE Digital, Schneider Electric and Honeywell. **May sell directly to end-users and/or to OT systems integrators**

IT Hardware Manufacturer

Develop, sell, and support their **branded IT products or components**

Service Provider

Derive at least 50% of revenue from delivering **contractual recurring carrier or IT services on site, hosted or remotely managed**

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IaaS Public Cloud Providers Are Now IT Vendors with Well Established Partner Programs!!

Many Applications are Hosted at AWS, Azure, GCP

Application Service Providers

SAP
Microsoft
ORACLE
Google

Cerner
McKESSON

salesforce

Infrastructure as a Service Provider

amazon web services

Microsoft Azure

Google Cloud

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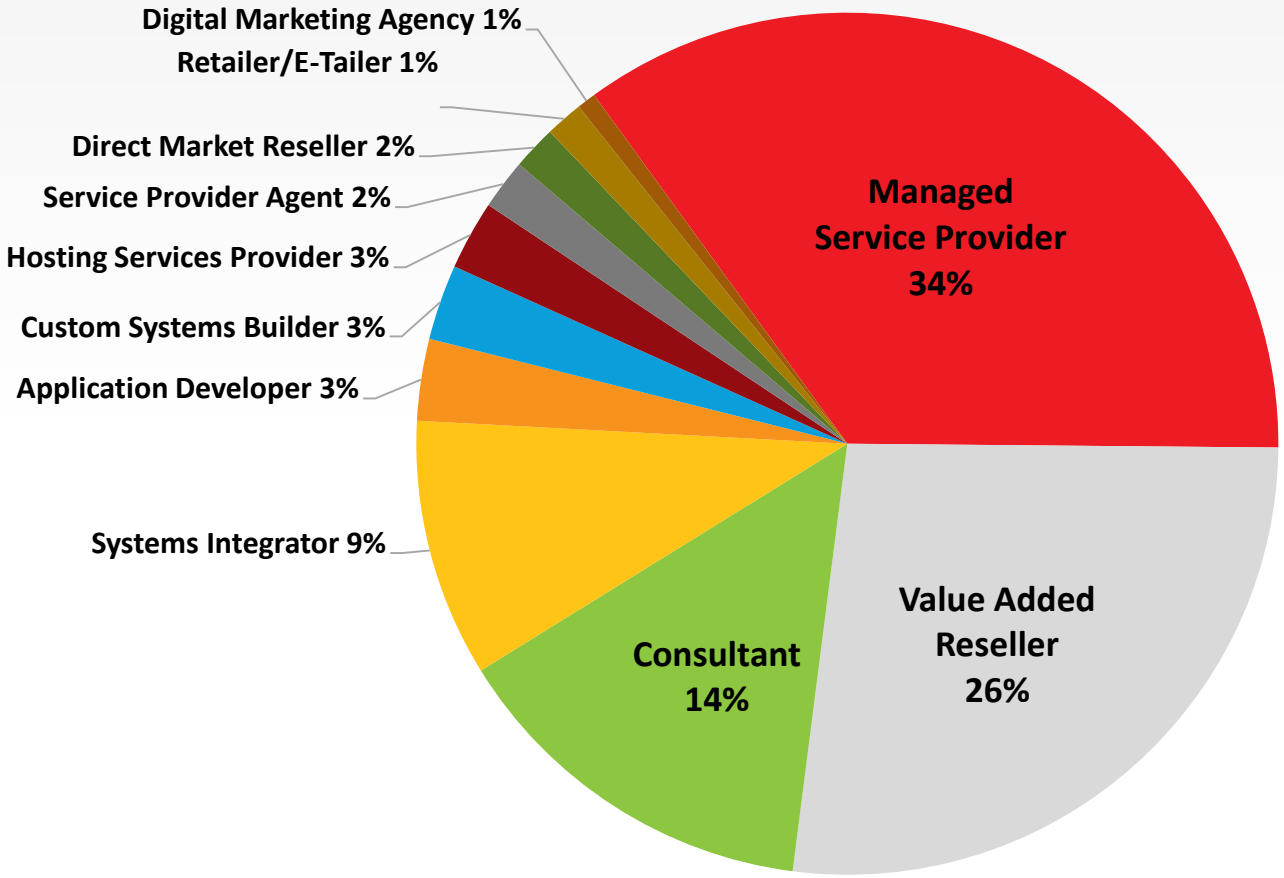
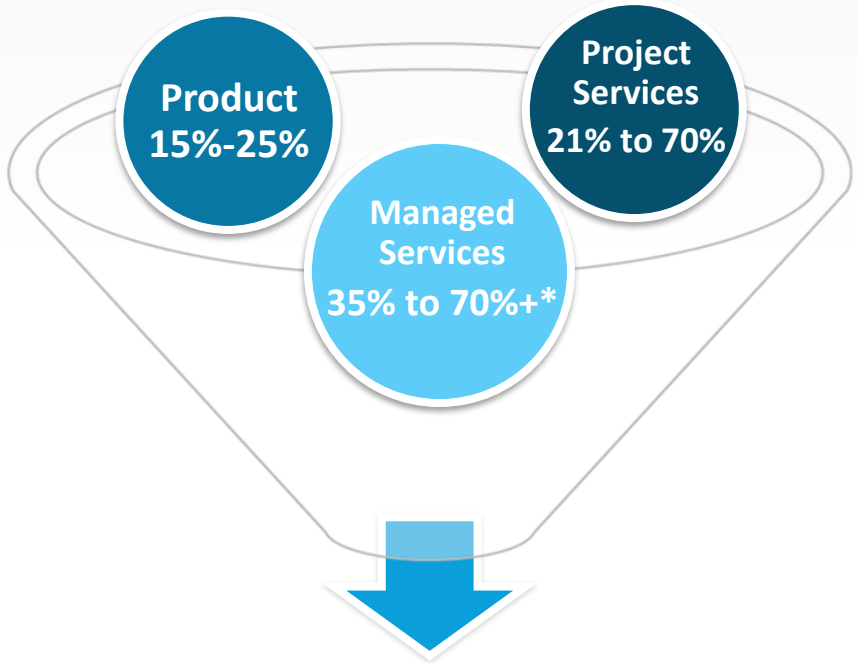


Partner Profitability



Technology Line of Business or Company

*Sample Average Gross Margins**

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Q: Which of the following best describes your current primary business model?
**IPED note: Managed Services Gross Margins may go as high as 100% when assets under management are owned by the MSP*

What Partners Primarily Care About

Service Providers
(Managed & Hosters)

- Operational efficiency
- Deliver on Service Level Agreements
- Reduce operational expenses

OEMs

- Build vs. buy
- Time to market
- Customer growth

Solution Providers
(Resell Capability)

- Drive services revenue
- Solutions/ quality
- Margin

Distributors

- Operational efficiency
  - Vendor ROI (margin, rebate, etc.)
  - Addressable market opportunity

To effectively develop material for partners, we must be able to position our solutions from the partner's point of view.

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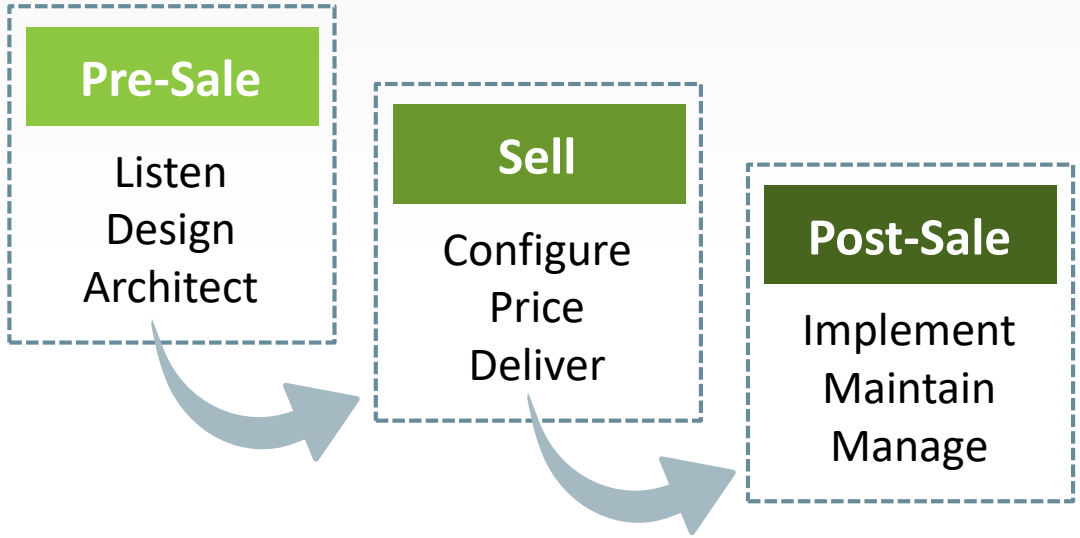
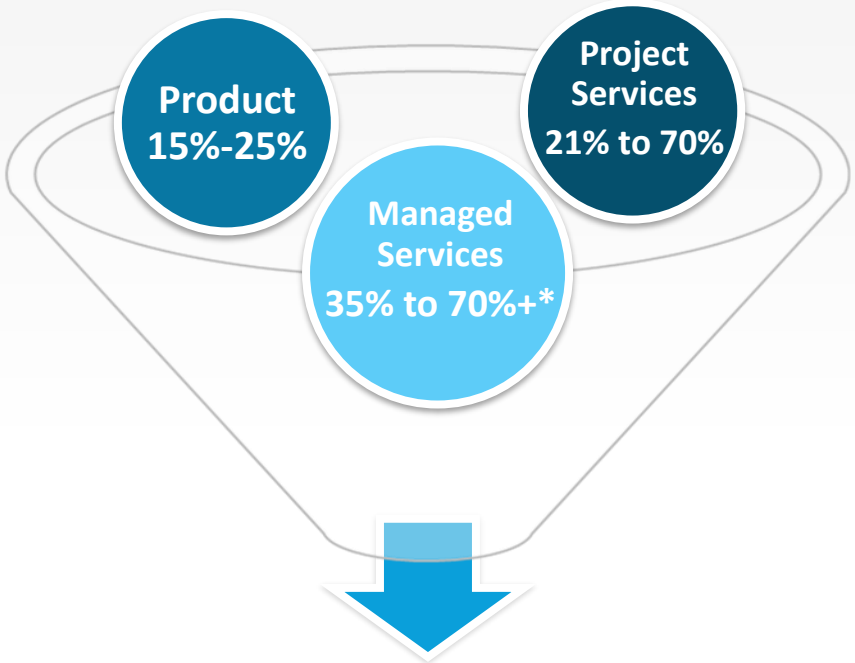
What They Do to Make Money

The mix of what they do at the corresponding gross margin dictates profitability



ROI typically < 12 months



Technology Line of Business or Company

*Sample Average Gross Margins**

*IPED Profitability Study and SME: data directionally correct

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**IPED note: Managed Services Gross Margins may go as high as 100% when assets under management are owned by the MSP*

Basic Partner Business Model Structure

Target Audience	Value Proposition	Business Operation
Who they sell to	**What** they sell	**How** they deliver

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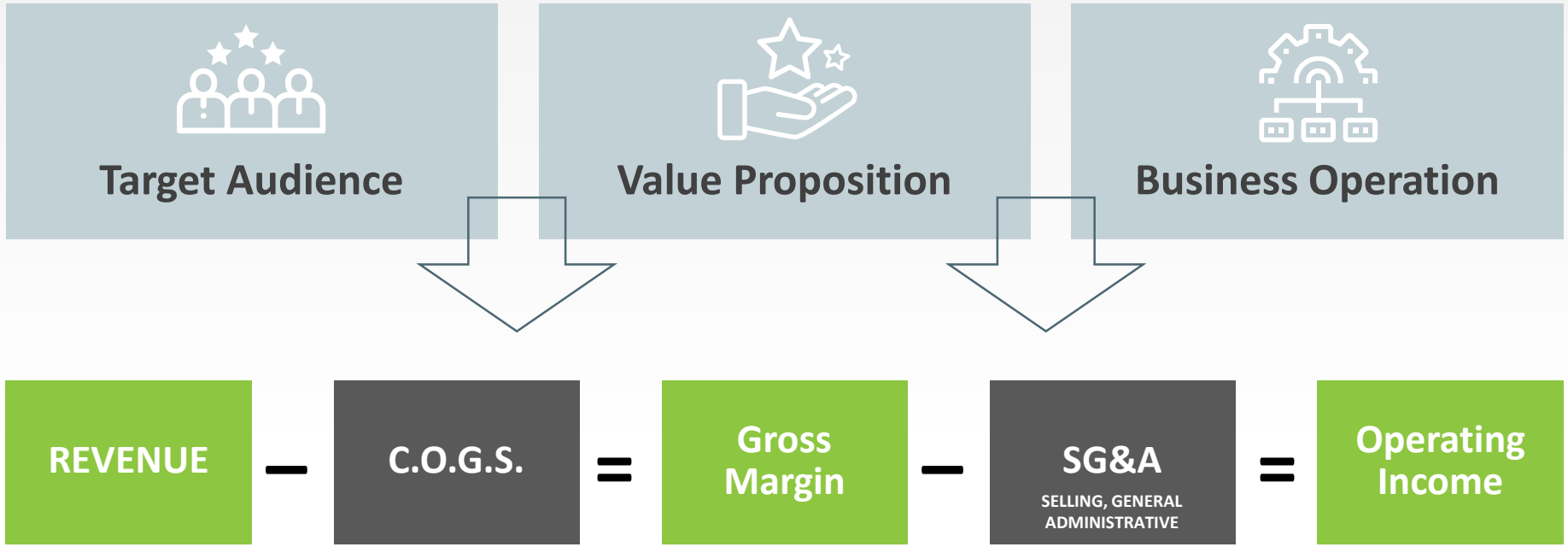
Basic Partner Business Model Structure



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A Business Owner or Department Leader in a Larger Business Thinks Profit & Loss

Partners Think in Gross Margin % and $...

They typically pay Sales Reps on gross margin goals …

Management then controls SG&A.

REVENUE	–	C.O.G.S.	=	Gross Margin	–	SG&A	=	Operating Income
Product + Maintenance + Services		Product Discounts + Service Costs		15% – 35%?		Pay: Sales Reps Managers Staff Expenses		5% – 20%?

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Mastering The Mechanics of PROFITABILITY

How Do Channel Reps Usually Engage Partners?

"Sell My Products"

REVENUE	–	C.O.G.S.	=	Gross Margin	–	SG&A	=	Operating Income
Product Transaction + Maintenance Package + Some Services		(80%)		20%!!!		Pay: Sales Reps Managers Staff Expenses		?

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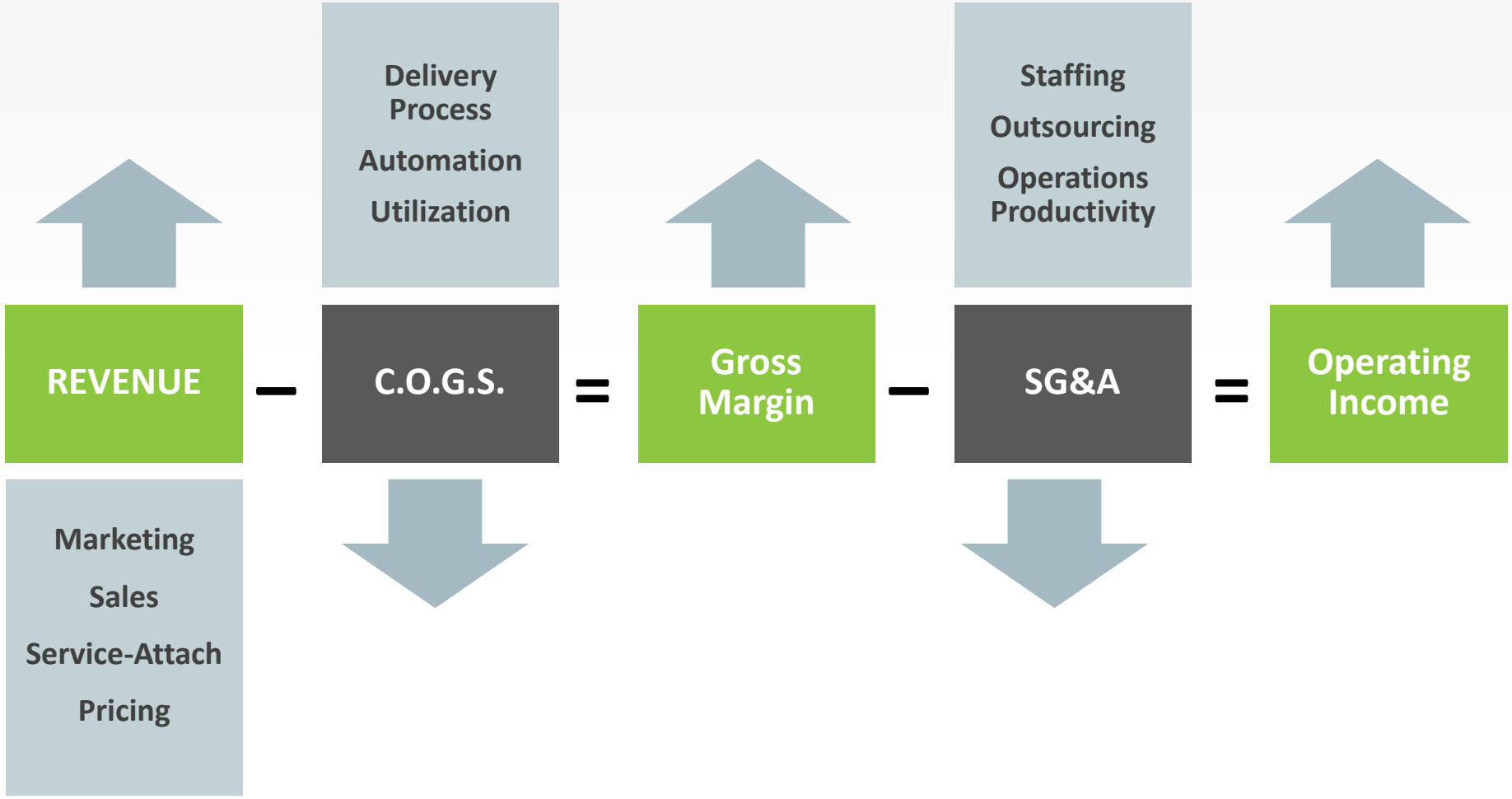
Mastering The Levers of PROFITABILITY

How Do You Use Your Program Benefits to CAUSE ROI?



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Mastering The Mechanics of PROFITABILITY

Is There A Better Way To Engage Partners?

"What are your **growth goals**?"

"And how can I help you achieve that?"
– OR –
"Let me show you how I can help with that."

REVENUE	–	C.O.G.S.	=	Gross Margin	–	SG&A	=	Operating Income
"What **mix of products and services** do you want to deliver?"		"How do you manage your **delivery expenses**?"		"**How's business**? … How are you managing your **results**?"		"How do you control your **business expenses**?"		"After everything, what kind of **profits** do you want?"

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Profit and Loss (P&L) Income Statement

A very simple view

Sales Revenue	+
Cost of Goods	–
Gross Profit	
Operating Expenses	–
Sales and Marketing	–
General and Administrative	–
Total Operating Expense	
Income (EBITA)	
Depreciation, Interest, Taxes	–
Net Profit	

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Defining The Factors of a Partner P&L

REVENUE

- Hardware sales
- Software sales
- Technical Services sales
- Professional Services sales
- Managed Services sales
- Consulting Services sales
- Warranty | Maintenance add-ons
- Programs | Incentives | Rebates, etc.

Transaction Size

Transaction Quantity

Transaction Velocity

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Defining The Factors of a Partner P&L

C.O.G.S.

- Hardware and Software product costs
- Delivery personnel, time and materials costs
- Data center or NOC costs (MSP)
- IP development costs
- Technical training / skills development costs

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Defining The Factors of a Partner P&L

SG&A

- Sales salary & commissions and costs
- Operational tools
- Marketing costs
- Business operations (rent, utilities, IT)
- R&D, demo & briefing center expenses
- Other management

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Defining The Factors of a Partner P&L

FINANCING

- Interest charges on loans and lines of credit
- Aging of receivables
- Bad debt charge-offs
- Amortization of assets (partial)
- Opportunity cost
- Asset intensity / risk factors

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Very Simple P&L View

Sales Revenue	+
Cost of Goods	–
Gross Profit	
Operating Expenses	–
Sales and Marketing	–
General and Administrative	–
Total Operating Expense	
Income (EBITA)	
Depreciation, Interest, Taxes	–
Net Profit	

Cost Drivers

Purchasing power and credit costs

Fixed costs:

- Rent
- Electricity
- Telephone bill
- Etc.

Variable costs:

- Salaries
- Commission

Professional services utilization rates

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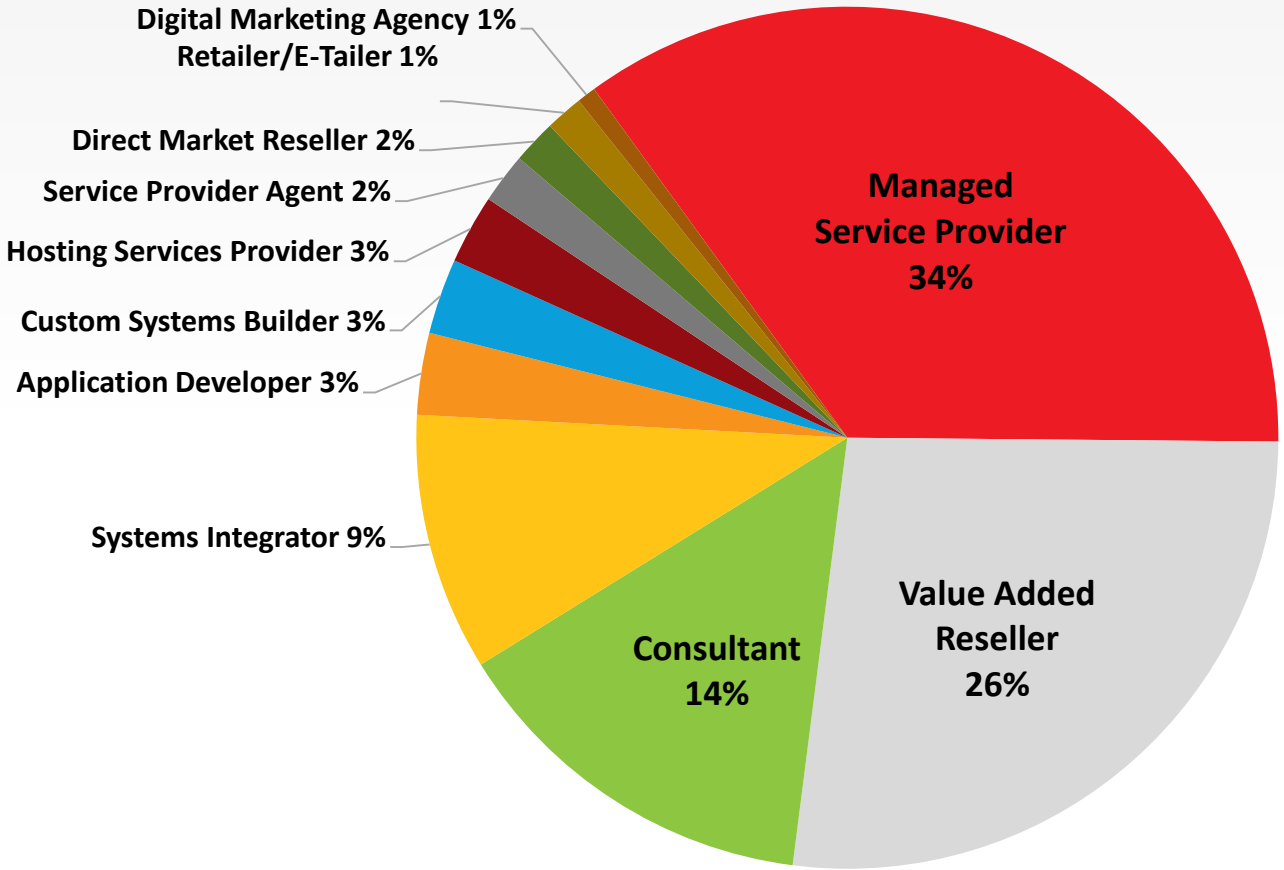

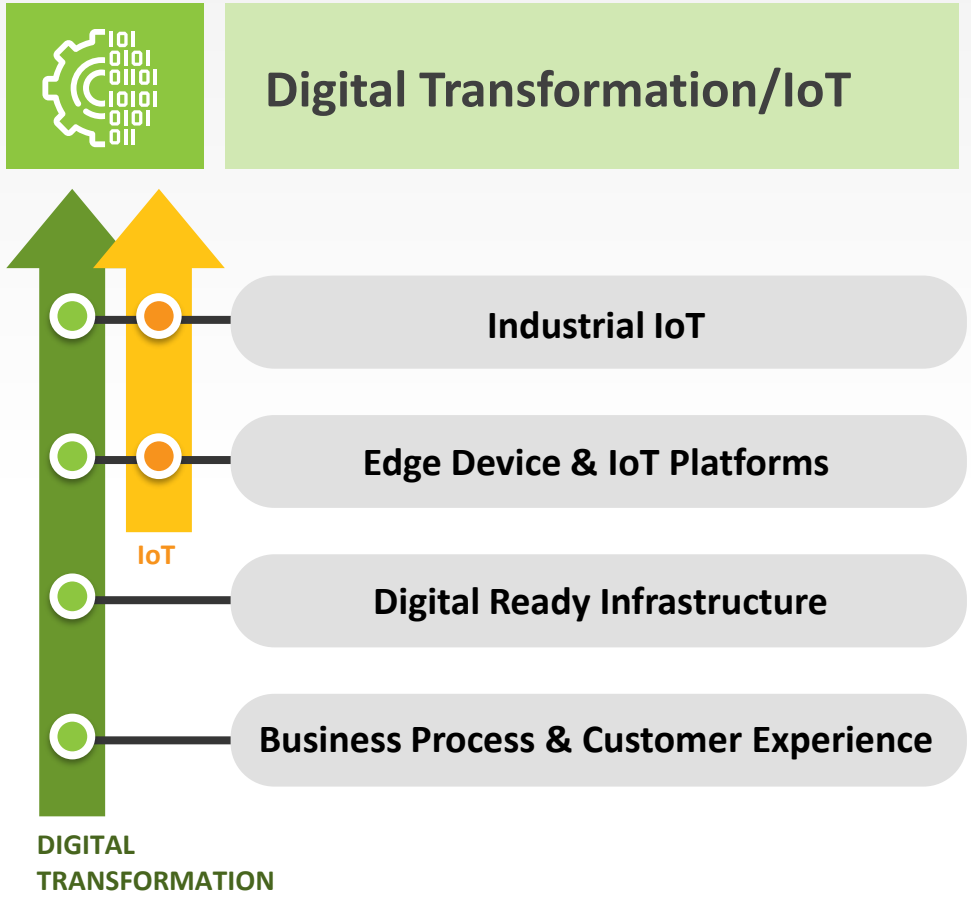

- **Security** required within each Digital Transformation category
- Data analytics and AI provide **customer ROI**

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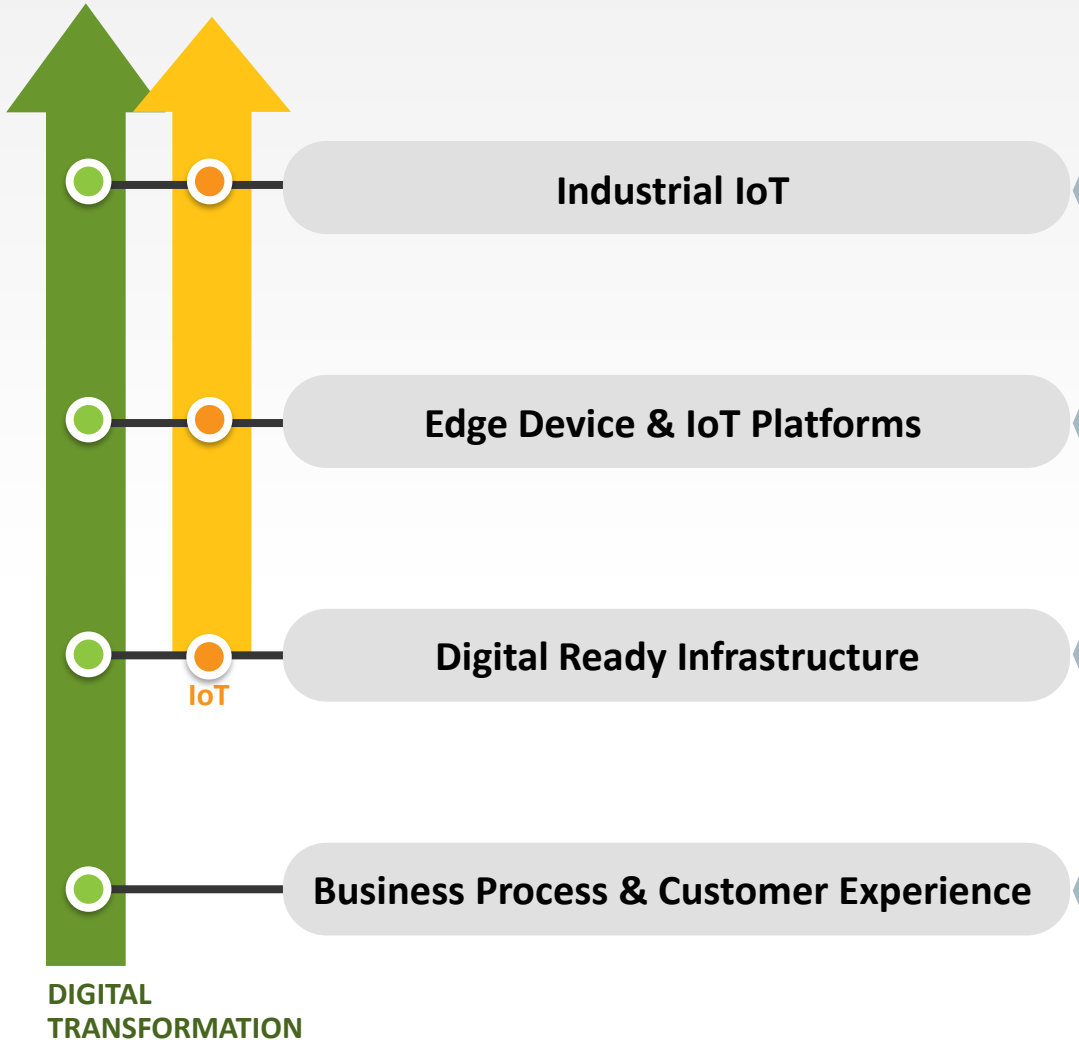
Q: Which of the following best describes your current primary business model?

Digital Transformation Framework



Technology Examples

Focus: decrease human costs, accuracy, new abilities, new data
Leverage: ability to monitor or sense temperature, pressure, direction, speed, etc.
Industrial control systems integration to cloud or with edge devices, e.g. Siemens, GE Digital, Bosch, etc.

Focus: new approaches to business problems
Leverage: Edge sensors and metering devices with an IoT Platform both IT centric (e.g. Azure, AWS, PTC) and OT centric (e.g. GE Predix, Siemens MindSphere, etc.)
Application Development or a Market Ready IoT Solutions

Focus: technology driven differentiation
Leverage: retail Zebra RFID clothing tags or Aruba wireless location based services to navigate a venue on mobile device

Focus: business process and customer experience
Leverage: digitally enhanced or cloud enabled commerce, marketing, data, applications, e.g. EMR: Allscripts or Marketing Agency: SapientRazorfish

- **Security required within each Digital Transformation category**
- **Data analytics provide customer ROI**

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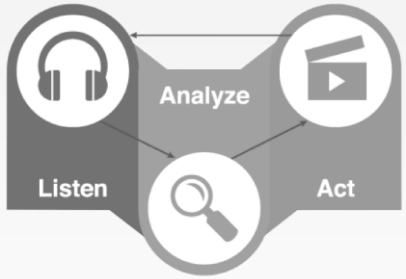
Teaming with Partners Makes Sense in Light of the Typical IoT Sales Pursuit!

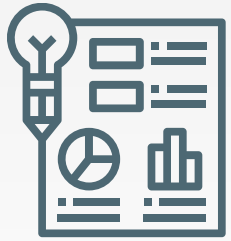
The Partner with access in stage 1 of sales pursuit

Decides the Infrastructure during later stages

Vertical Decision Makers



Business Problem Discovery



Solution Vision, POC Proposal

Proof of Concept

POC Bill of Materials

Based on the Solution Providers Skills, Research

Critical POC Components

Vertical Workflow, IoT Packaged Solutions or IoT Platform, App. Dev. Skills, Edge Devices

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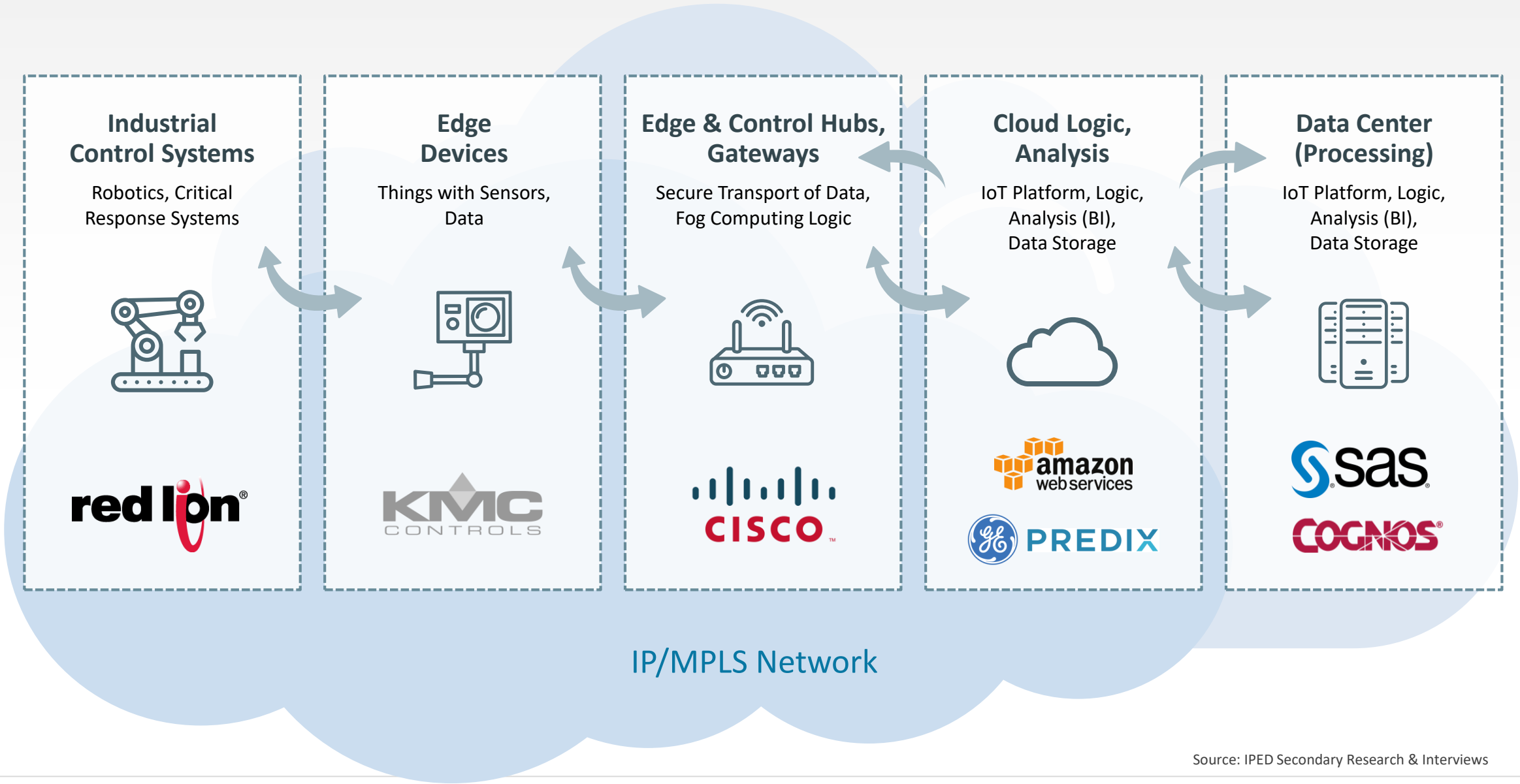
Example IoT Solution Components… Your Telephony, IT or OT Legacy Biases Each View



Source: IPED Secondary Research & Interviews

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Successful IoT Partners are Teaming to Ensure a Total Solution

"GE is a vendor, a partner, a client."

IT partner, Dimension Data

"We have partnered with Dell on "brownfield buildings" smaller than class A buildings that have little to no automation."

Operational technology partner, Encon Mechanical

54% **of partners indicate a desire to team for:**

- Edge security skills: **OT partners**
- Access to vertical LOB decision makers: **IT partners**

52%

of partners look to IT vendors to foster collaboration between OT and IT partners within the community

Source: 2017 IPED Intel IoT Study

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Critical Capabilities to Capture End Customer Mindshare and Budget Start with a Solution Vision & POC

Skills Critical to the Sale of IoT

Vertical Expertise

Solution Design Capability

Application or Development Capability

Sample IoT Platforms

AWS IoT

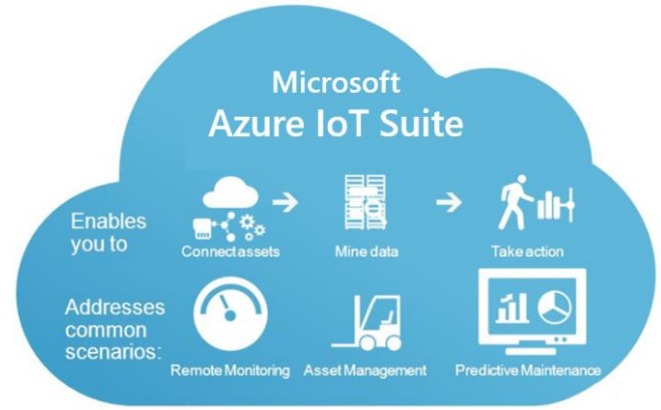
PREDIX

SIEMENS MindSphere

VS

Schneider Electric EcoStruxure

thingworx



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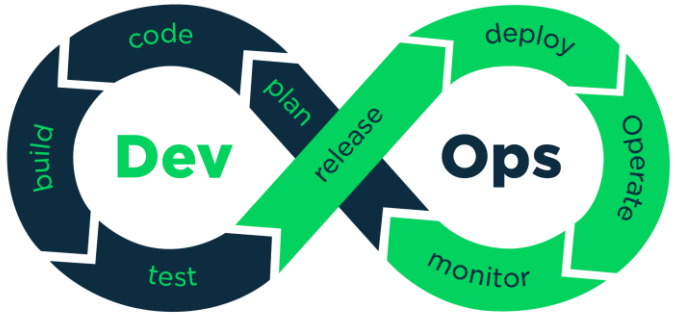
Critical Capabilities to Capture End Customer Mindshare and Budget Start with a Solution Vision & POC



Why do Containers matter in IoT?

… virtual machines (VMs) are too slow and too heavy for use in IoT endpoints. Most endpoints require a light OS that uses few resources and can work quickly to automate various processes… these requirements are largely responsible for the increasing use of containers in IoT.

Peter Dykes March 24, 2017 IoTNow What is Docker?

DevOps is the combination of cultural philosophies, practices, and tools that increases an organization's ability to deliver applications and services at high velocity: evolving and improving products at a faster pace than organizations using traditional software development and infrastructure management processes.

Source: AWS

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Avaya & Cisco Reseller Chooses Wireless as IoT Entry Point

“**We … enable smart devices to talk back.** We started with municipal ball fields then added smart trash cans.

Most devices have control panels, we just have to turn them on, but every device is managed differently. Dashboards matter.

From the IT side, it’s just wireless which we do with Meraki.

We don’t do large industrial IoT projects, we don’t see an easy path to success for us.”

SIGMAnet®

ConvergeOne

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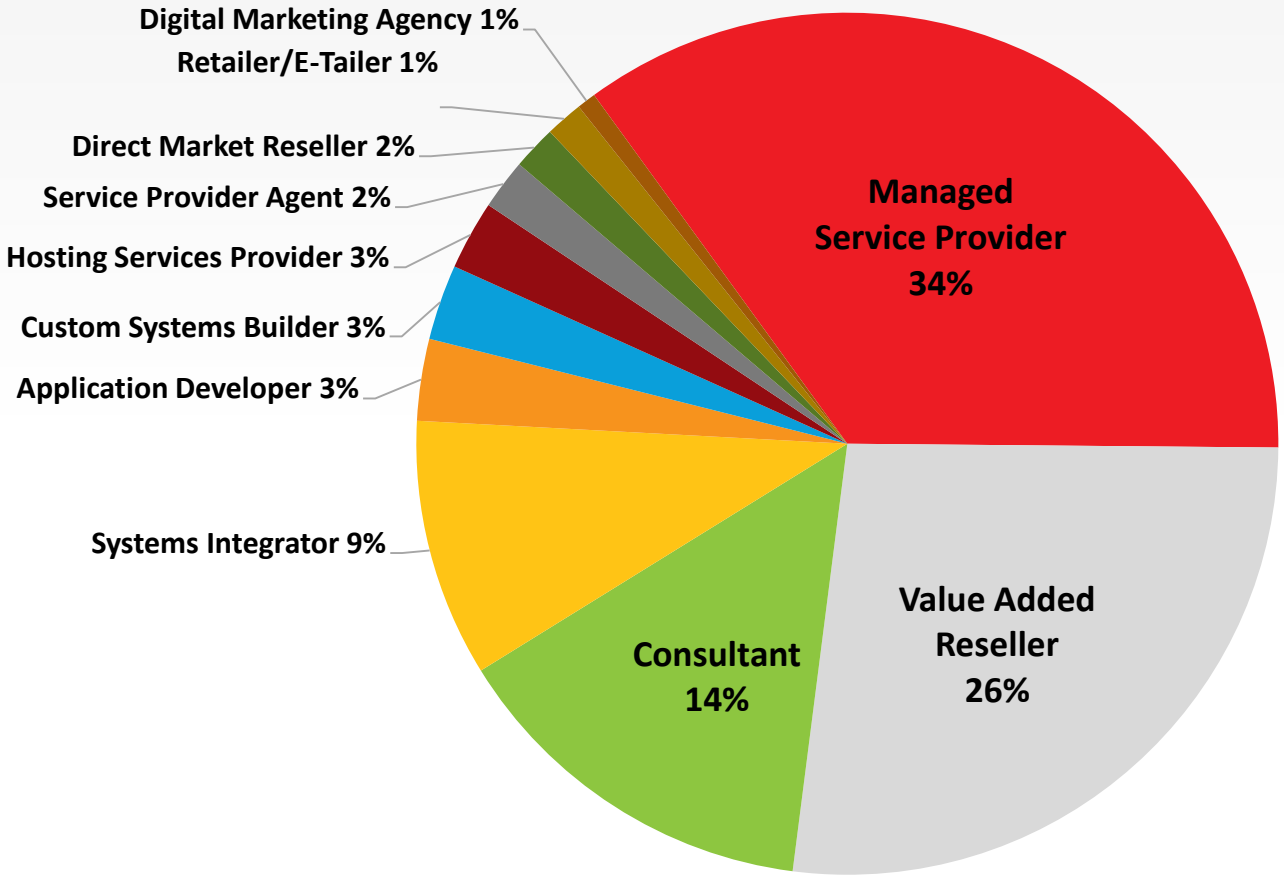

- Partner Business Models
- Cloud & Managed Services
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- Digital Transformation/IoT

Q: Which of the following best describes your current primary business model?

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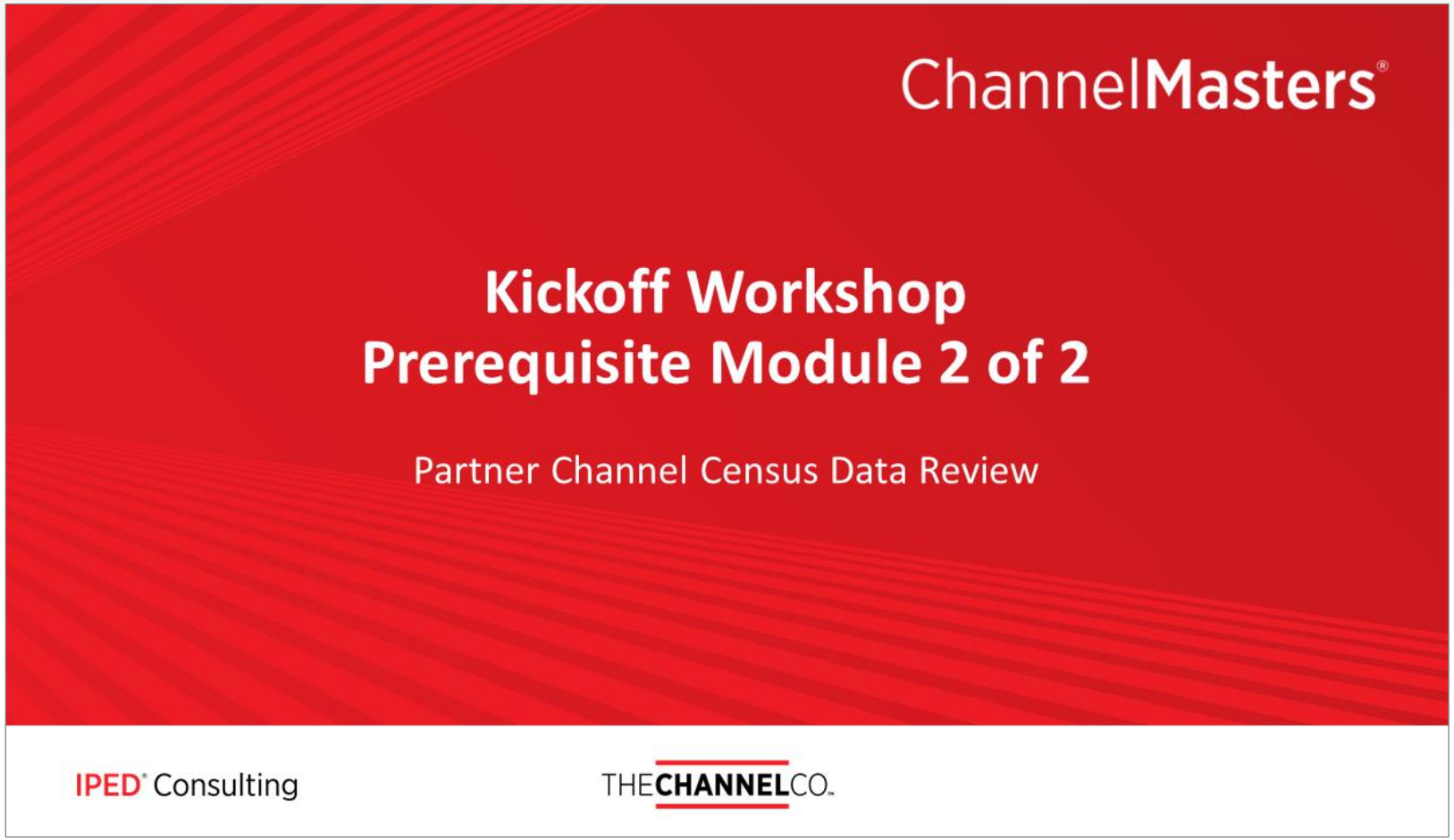
Your Next Action Item

Your next action item to do before we meet at the kickoff workshop

2019
Partner Channel Census
Data Review



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We look forward to seeing you at the kickoff workshop!

Questions? Please contact:

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