THINKstrategies

A Strategic Analysis for Vendors and Channel Organizations Seeking to Capitalize on the Cloud

The Cloud Channel Manifesto:

Why Cloud Vendors and Channel Companies Must Build Stronger Strategic Alliances to Capitalize on Today's Rapidly Expanding Market Opportunities

An Independent Analysis by THINKstrategies, Inc.

Executive Summary

One of the biggest misconceptions in the Cloud Computing market is that today's new web-based services will **'disintermediate'** the channel because of their simpler, more user-friendly solutions, and direct sales and delivery business models.

While there is no question that the role of the traditional channel will be significantly impacted by the rapidly evolving Cloud market, THINKstrategies firmly believes there is still plenty of room for innovative channel organizations to operate. There are also plenty of opportunities for new types of channel partners to emerge and succeed in the Cloud.

In fact, there are not only plenty of opportunities for traditional and new channel partners in the Cloud, but it is also imperative that leading Cloud vendors leverage these potential partners in order to sustain their current growth and capitalize on the rapidly expanding Cloud marketplace. Given today's increasingly challenging economic climate, it is imperative that Cloud vendors create a viable channel model because they cannot afford the costs of a direct sales and support business alone.

This *'manifesto'* will discuss why successful channel strategies and channel companies are essential to the long-term growth of the Cloud marketplace, and suggest ways that Cloud vendors and channel partners should work together to achieve their mutual business objectives. This document is a compilation of THINKstrategies' previous commentaries on this topic, along with current proof-points that support our perspectives regarding the exciting channel opportunities in the Cloud.

In order to further promote successful channel programs in the Cloud, THINKstrategies is hosting a full-day forum on this topic, entitled "The Cloud Channel Summit", on November 7, 2011 at the Computer History Museum, in Mountain View, CA.

To learn more about this event or how THINKstrategies can help your company achieve its channel objectives in the Cloud, contact info@thinkstrategies.com.

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Why the Channel is Essential to the Future of the Cloud

The Cloud Computing concept is gaining broad-based acceptance among organizations of all sizes across nearly every industry.

The rapid growth of the Cloud market is being driven by widespread frustration among corporate end-users who have become fed up with the complexities, costs and endless delays associated with deploying and utilizing traditional, on-premise hardware and software.

In order to gain initial success, most Cloud vendors have focused on selling highly standardized, easy-to-use solutions which could appeal to individual end-users, and could be sold and supported on a high-volume basis.

These new decision-makers will often test a free version of a Cloud solution and acquire a single-user subscription before they encourage corporate decision-makers to obtain an enterprise version of the Cloud service.

As these users become more confident a Cloud vendor can offer the basic functionality they need, they also begin to demand more customized or industry-specific versions of the Cloud solution to meet their unique business needs.

Yet, while everyone in the tech industry is talking about the 'Cloud', there are still many segments of the market in which mainstream companies, non-profit organizations and government agencies are either unaware of the potential benefits today's Cloud Computing alternatives can deliver or uncomfortable with the threats they believe these 'on-demand' services pose.

In order for leading Cloud vendors to reach these segments of the market and convince these IT and business decision-makers that it is safe to move to the Cloud, they must enlist a larger number of traditional and new channel partners who have the trust of their customers to join the Cloud movement.

Channel companies have been the trusted suppliers of hardware and software solutions for a broad cross-section of corporate decision-makers for many years. They can use that trust to help

Cloud vendors overcome customer uncertainties and accelerate the adoption process. They can also enhance the Cloud solutions and customize them to address the particular requirements of specific geographic and vertical market segments.

Overcoming Channel Concerns About the Cloud

A growing number of Cloud vendors would like to expand their partner ecosystem to appeal to a broader segment of the market, but are still trying to determine how to properly package and price their offerings to effectively incent channel companies to successfully sell and support their Cloud solutions.

And, many established channel companies are concerned about the business opportunities in the Cloud.

Traditional value-added resellers (VARs) and systems integrators (SIs) have capitalized on the complexities of legacy applications and systems because of the key value proposition of the Cloud—its simplicity.

By promising to eliminate many of the complexities associated with deploying legacy software and systems, Cloud vendors appear to have cut out many of the typical project opportunities which historically represented the bulk of channel company revenues and profits.

There are plenty of opportunities for channel companies to flourish in the Cloud, ranging from up front planning and design consulting to back-end custom development, integration and management.

Channel companies are also apprehensive about the threat they think Cloud services represent to their account control. In the past, these companies 'owned' the customer relationship. In today's world, Cloud vendors can gain unprecedented access to corporate end-users and usurp the power of the channel partner.

Building channel relationships in the Cloud also requires sharing sales, marketing and support activities in a different fashion.

Concerns about account control, revenue sharing and day-to-day customer service issues must be resolved in order for Cloud vendors to establish effective channel relationships.

While these issues are real, there are also plenty of opportunities for channel companies to flourish in the Cloud, ranging from up front planning and design consulting to backend custom development, integration and management.

However, many established channel companies must be prepared to deliver their services and solutions in a more rapid and economical fashion to meet customers' tighter budgetary and timetable expectations.

Uncovering New Cloud Channel Opportunities

Where are today's opportunities in the Cloud for channel companies?

Here are a few areas where channel companies can help their customers and gain a competitive advantage in the marketplace:

- Evaluating and selecting the right combination of Cloud solutions to meet their business objectives.
- Configuring 'off-the-shelf' Cloud services to meet the specific business and technical needs of their organizations.
- Integrating the solutions with their legacy, on-premise systems and software, as well as other Cloud Computing services.
- Optimizing the performance and maximizing the security of their Cloud resources.
- Re-engineering their business processes and training their people to effectively utilize Cloud solutions.

Until recently, most Cloud vendors put limited effort into building a vibrant channel network because they were primarily focused on acquiring a solid base of customers via direct sales techniques who could demonstrate the viability and scalability of their Cloud solutions.

Now that the leading Cloud vendors have proven that their services are reliable, scalable, secure, and generate tangible business benefits, they are focusing more of their energies on establishing solid channel relationships.

New Channel Models for Success in the Cloud

The leading Cloud vendors are not only redefining the nature of today's hardware and software products, they are also re-thinking what it means to be a channel partner in the Cloud.

What follows is just a sampling of some of the new channel models for the Cloud:

Broad-based online marketplaces, such as Google's App Marketplace and Salesforce.com's AppExchange are among the most important sales channels for hundreds of Cloud-based, Software-as-a-Service (SaaS) vendors.

Dell is also becoming a major reseller of SaaS business solutions from the AppExchange, as well as Cloud solutions built on Microsoft Azure.

Amazon Web Services (AWS) are a key component of a growing number of hosted application services for legacy software vendors.

Financial management SaaS vendor Intacct has been focusing its channel efforts on accounting firms. It has even established an alliance with the American Institute of Certified Public Accountants (AICPA), and its subsidiary CPA2Biz, to train and support over 45,000 CPA firms.

Financial services companies are also getting into the act. AmEx has been utilizing Concur's Cloud-based expense management solution for a number of years. And, Bank of America now offers an online marketplace of SaaS solutions to its small- and mid-size business (SMB) customers.

AppDirect has developed a powerful online marketplace platform which a growing number of SaaS vendors are utilizing as a channel to market.

Many ISVs are recognizing that third-party software development firms, like Agilis Solutions, can also be valuable channels to market for their SaaS applications.

And, tools vendors – like Scribe Software in the data replication and integration business – can also broaden Cloud companies' channels to market.

So, the channel is far from dead in the Cloud marketplace. It is just being reinvented so it can keep pace with today's changing market dynamics.

In order for the Cloud market to continue to sustain its current rate of growth, it is imperative for Cloud vendors to establish successful channel programs which appeal to established channel companies, as well as emerging players.

A Call to Action for Cloud Vendors & Channel Partners

In order for the Cloud market to continue to sustain its current rate of growth, it is imperative for Cloud vendors to establish successful channel programs which appeal to established channel companies, as well as emerging players.

THINKstrategies firmly believes that there are tremendous opportunities for Cloud vendors to team with traditional and new channel partners.

It is the goal of this 'manifesto' to bring attention to the pivotal role of the channel in the Cloud industry, and show how leading players are building effective partnerships that set a new standard for success in the Cloud.

About THINKstrategies, Inc.

THINKstrategies is the only strategic consulting services firm focused entirely on helping its clients capitalize on the rapidly evolving business opportunities created by Cloud solutions so they can achieve their corporate objectives. THINKstrategies has also founded the Cloud Computing Showplace (www.cloudshowplace.com), an easy-to-use, online directory and resource center of SaaS, PaaS and IaaS solutions worldwide, organized into over 90 Application, Industry, Service and Enabling Technology categories. The Showplace also includes information and insights regarding industry best practices.

For more information regarding our unique services, visit www.thinkstrategies.com, or contact us at info@thinkstrategies.com.