



Why Solution Providers Must Go to the Cloud

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The Marshmallow Test

- Stanford 1970, Walter Mischel
- Repeated around the world
- Studies on Delayed Gratification with children (4-6 yrs)



The Deal:

- 1 Marshmallow **now**
- Or **2** if you **wait**

- 2/3 of kids ate the Marshmallow





The Follow-up:

- ~18 years later
- Children who **waited** had **better life outcomes**
 - SAT Scores, Education, BMI

Cloud Partner Economics

“Selling cloud and managed services is a new business model.

If you move too quickly to a recurring revenue stream model, you will be greeted with cash flow challenges.

If you move too slow, you’re out of the game.

It’s all about timing,”

Edison Peres, Cisco’s senior vice president,
Worldwide Channels.

June 2013

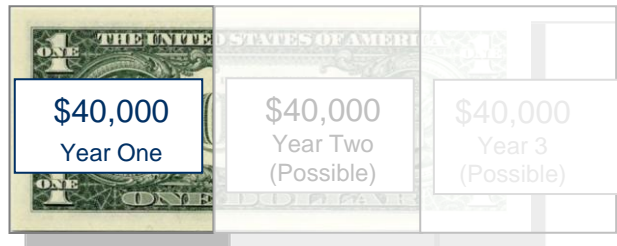


Cloud Resale Economics Example

Traditional On-Premise Application

Cloud Application

Deal Size

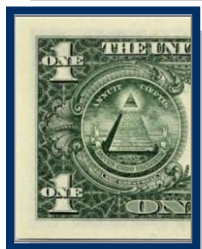


Partner Revenue



35% Referral Fee or
\$14,000
Possible Year Two Fee, and
on...

Partner
Gross Profit



35% Margin
or \$35,000



35% Referral Fee or
\$14,000
With a referral fee, revenue
and gross profit are the same.

Note – This is a fictitious example
and does not represent IDC
research data

Cloud Resale Economics Example

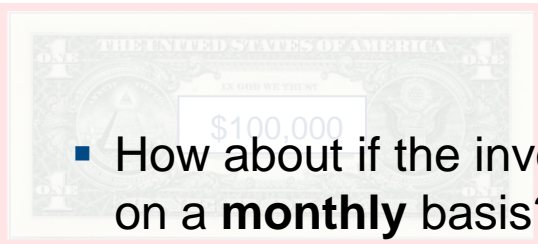
Traditional On-Premise Application

Cloud Application

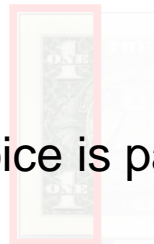
Deal Size



Partner Revenue

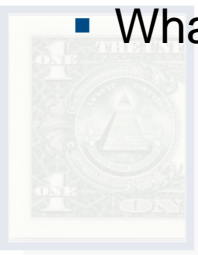


- How about if the invoice is paid on a **monthly** basis?



35% Referral Fee or
\$14,000
Possible Year Two Fee

Partner Gross Profit



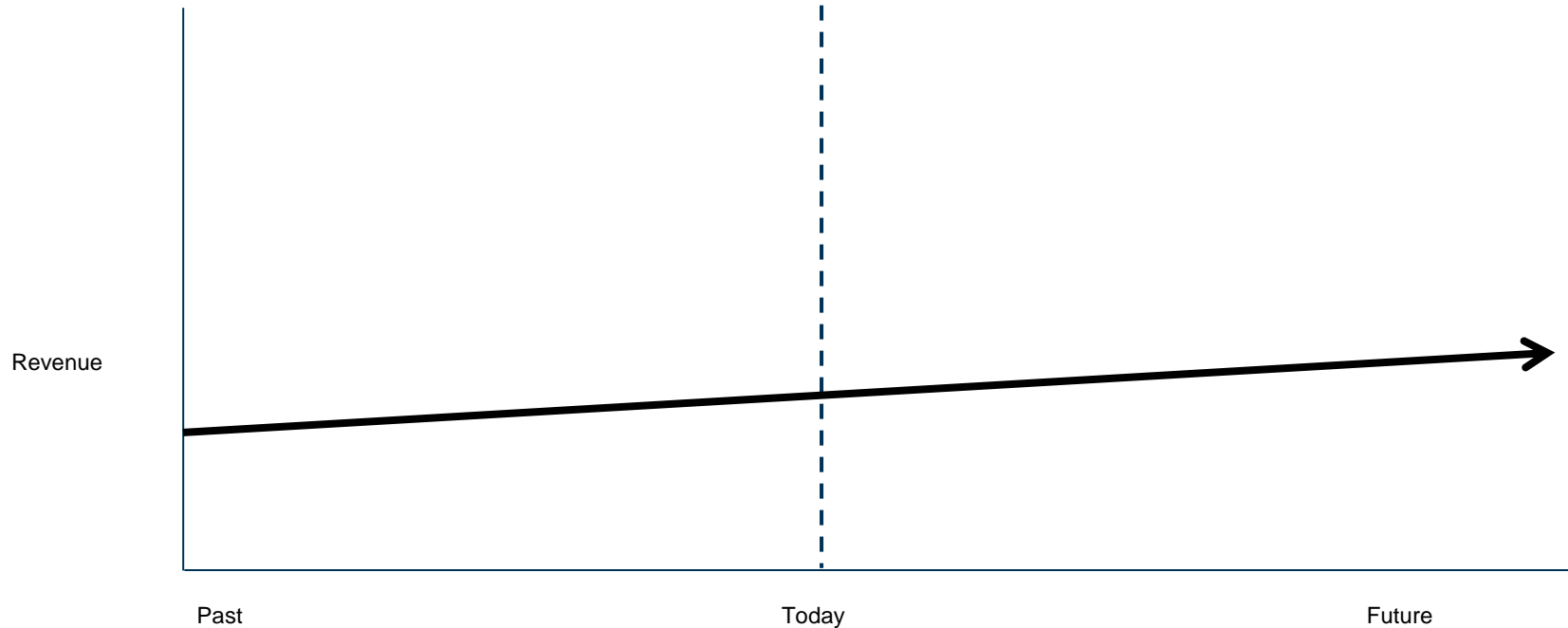
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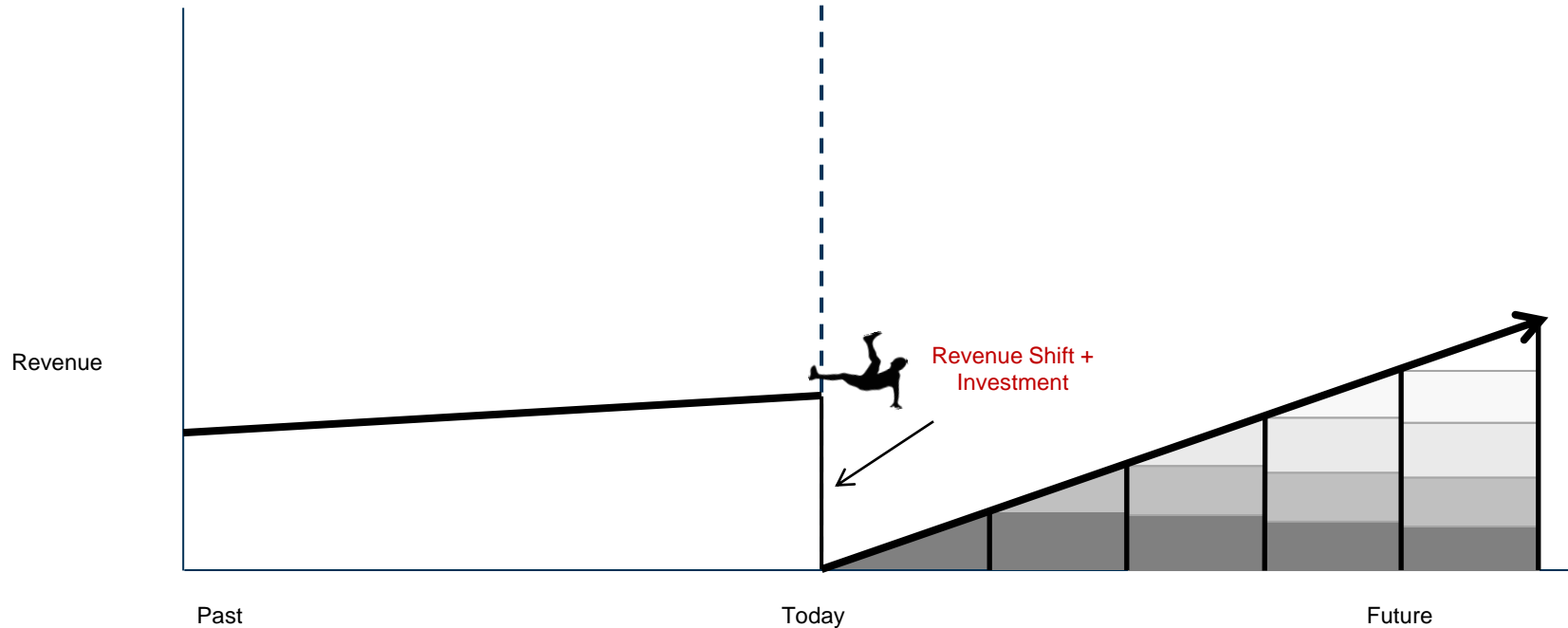
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The Cloud / MSP Trough



The Cloud / MSP Trough



Reasons To Go To The Cloud

FEAR

Opportunity

Fear

“We would probably make more money if we could keep everybody on on-premise.”

But that's not going to happen.”



Fear

“I think that if we don't partner with [our vendor] and do this, then somebody else is going to take our customers.”



Fear

*“We are **not** making money in our cloud business right now...*

*For us to **compete in two years**, if we don't have a few **references** and a few **case studies** and a few like, ‘yeah, we've done it and here are the scars,’ **we're going to lose those deals.**”*



Fear

“Cloud is the Future.”

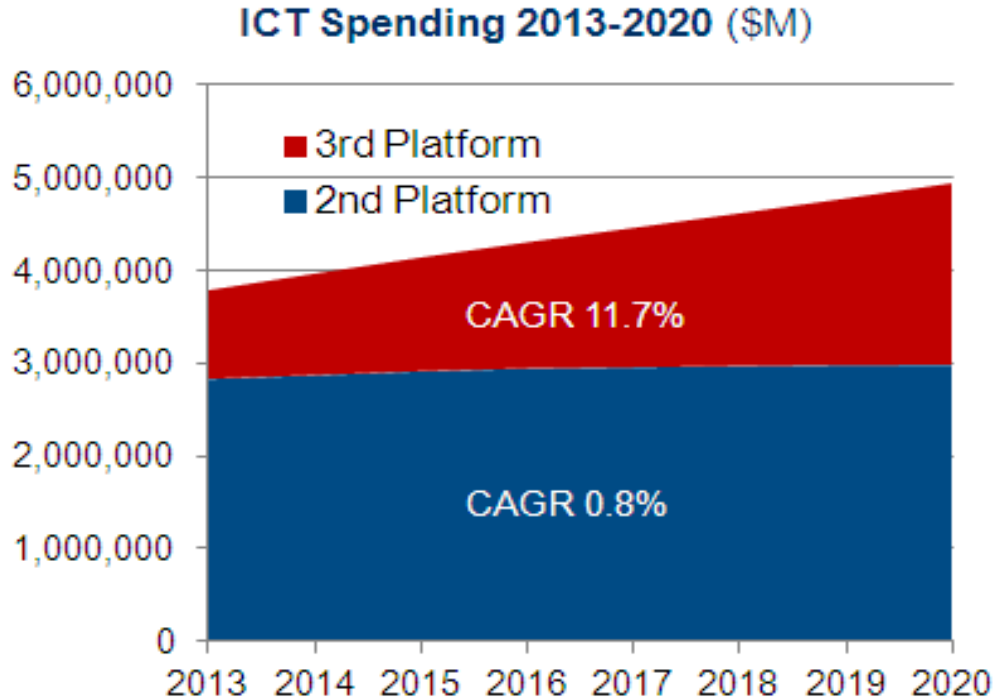
*“The stats on the
market are clear.”*



The Third Platform?



How is The Third Platform Evolving?

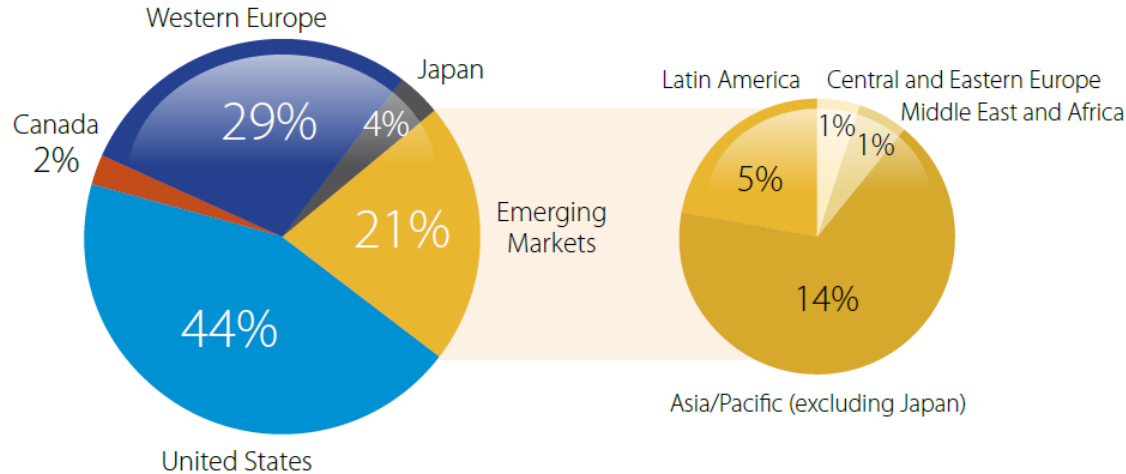


Source: IDC



The Cloud Opportunity

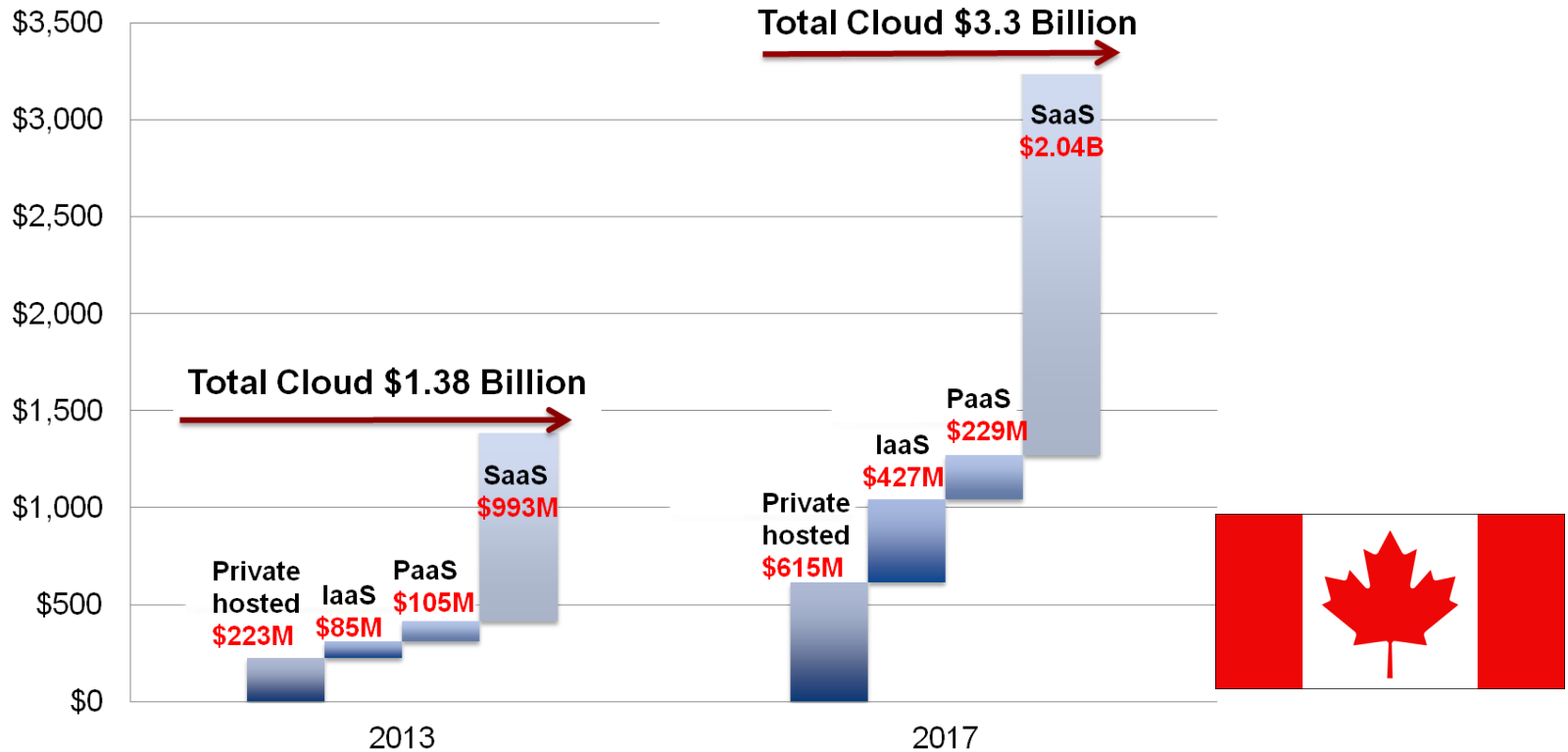
Worldwide public IT Cloud Services Revenue in 2017 **\$107.2B**



5X

the growth of the IT industry overall

Cloud Transformation Underway in Canada



A Huge Shift is Underway

FEAR

Shift from Servers to Services

- IDC predicts that service providers will account for over 27% of total server shipments by 2016
- A brand new Hyperscale Market has emerged



Shift from On-Prem to Cloud Software

- About 90% of net new commercial apps will be developed specifically for Cloud in 2014
- Over 92% of companies surveyed said they had plans to shift their IT budget towards Public Cloud



The Cloud Consumption Model Represents a Huge Shift

IDC Predictions:

CIOs and CFOs will move to “**zero capital**” and transform the IT financial model

70% of CIOs will embrace a “**cloud first**” strategy in 2016

By 2016, it is predicted that nearly 25% of all software revenue will be subscription based.

The Cloud Is Inevitable



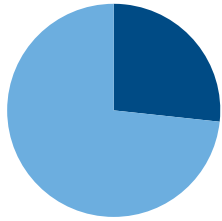
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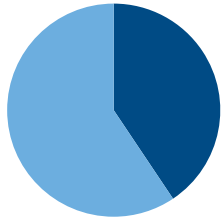
Cloud Adoption

Recent Studies:



26.7%

Revenue Related to **Cloud**



40.6%

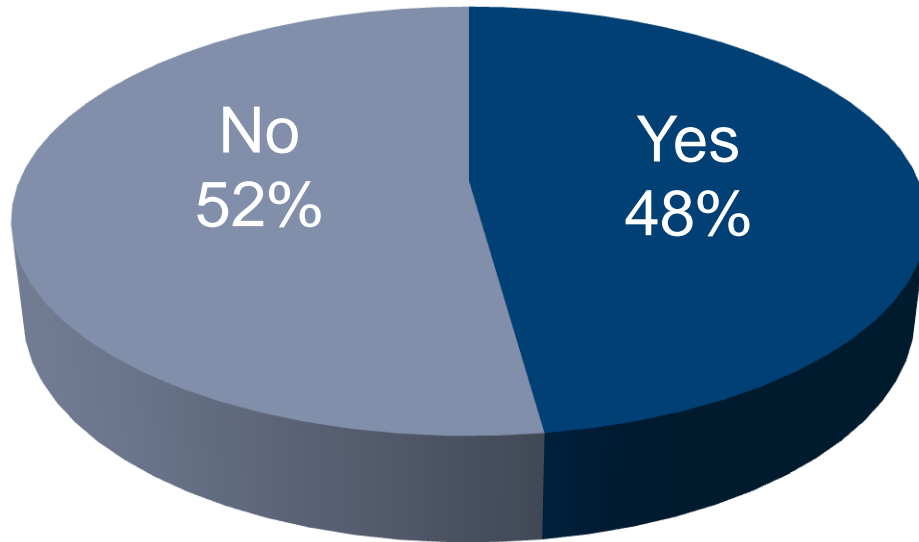
Revenue Related to **Cloud**
*Estimated In **Two Years***

750 partners, Worldwide, Dec 2013



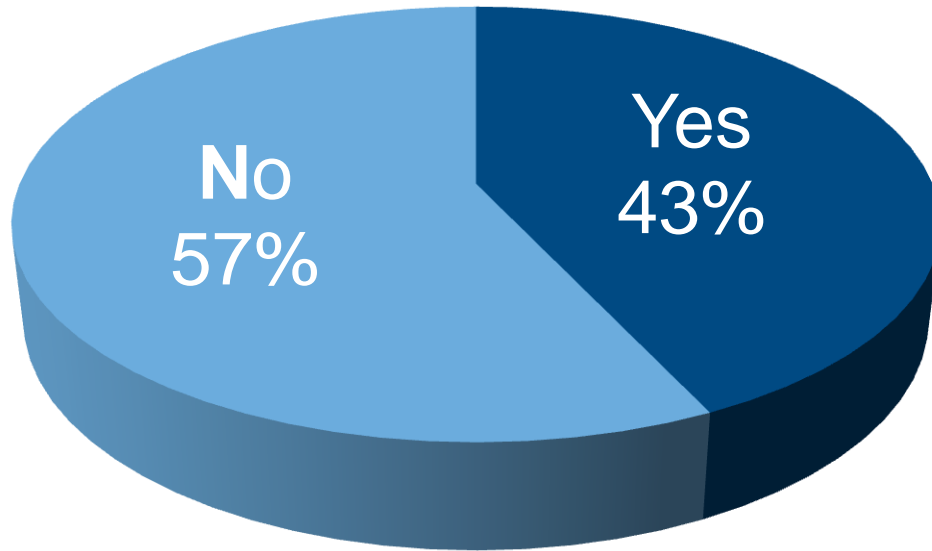
Managed Services Adoption

Offering Managed Services Today?



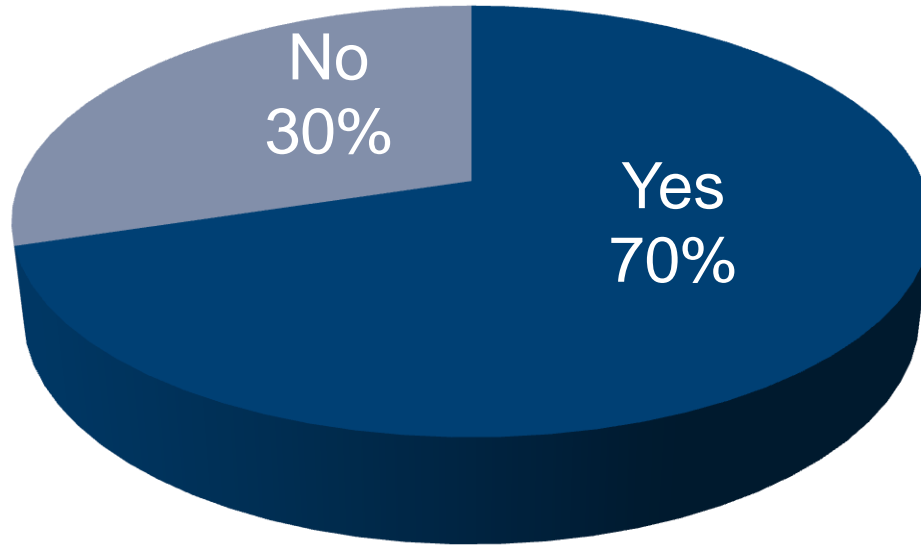
Managed Services For Everyone?

**Begin Offering Managed Services
In Next 12 Months?**



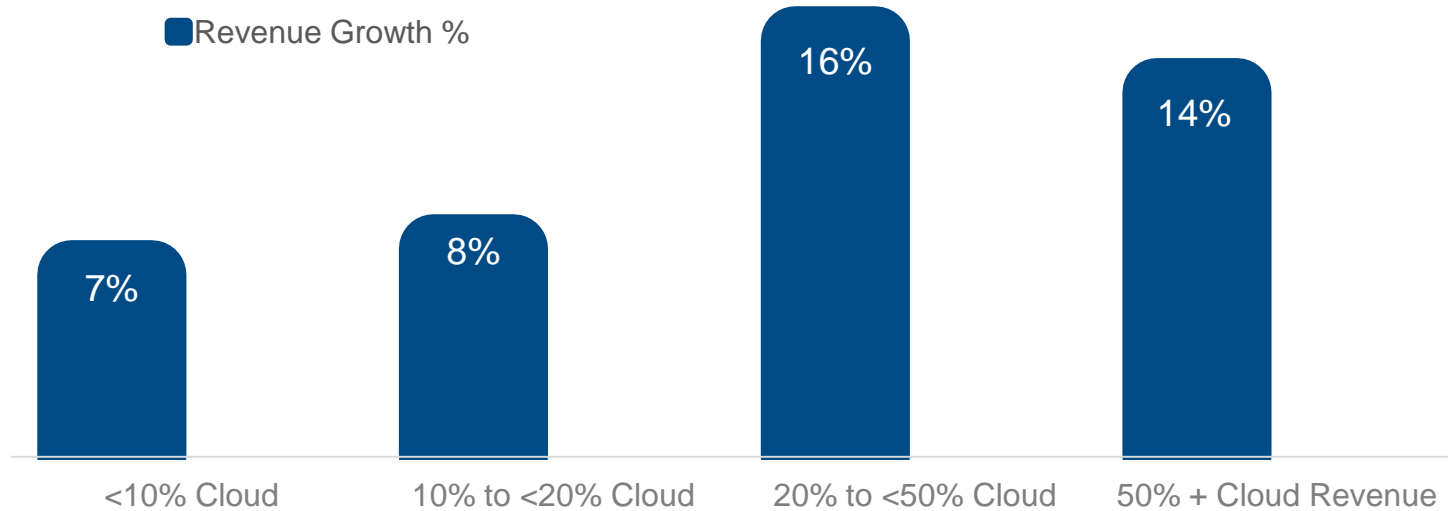
Managed Services Adoption

Offering Managed Services in One Year?



Cloud Partners Outperform

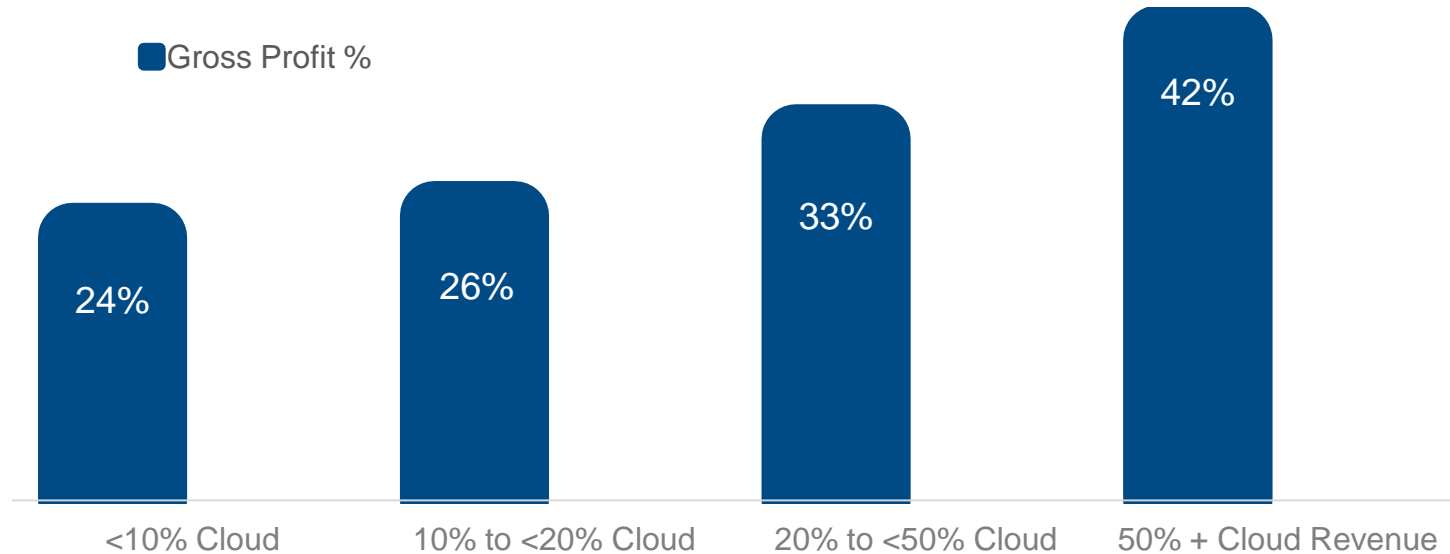
Revenue Growth %



Source: Microsoft eBook, IDC 2014, n=670

Cloud Partners Outperform

Gross Profit %



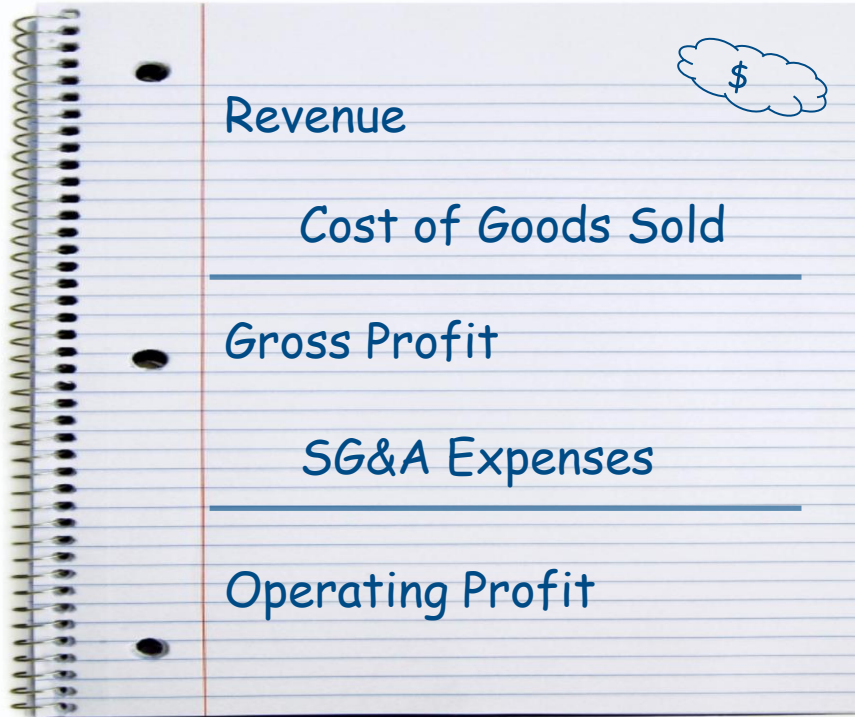
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Cloud Partners Outperform

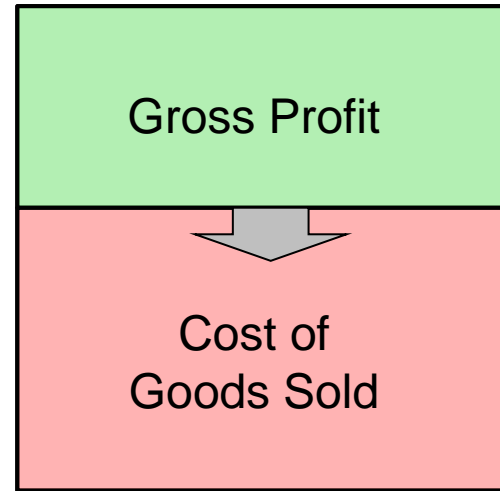
- Cloud is not the only thing causing these results
- IDC believes the best performing partners are adopting Cloud first, and faster



Cloud Partner Profitability



Turns out, Cloud Partners are more profitable...

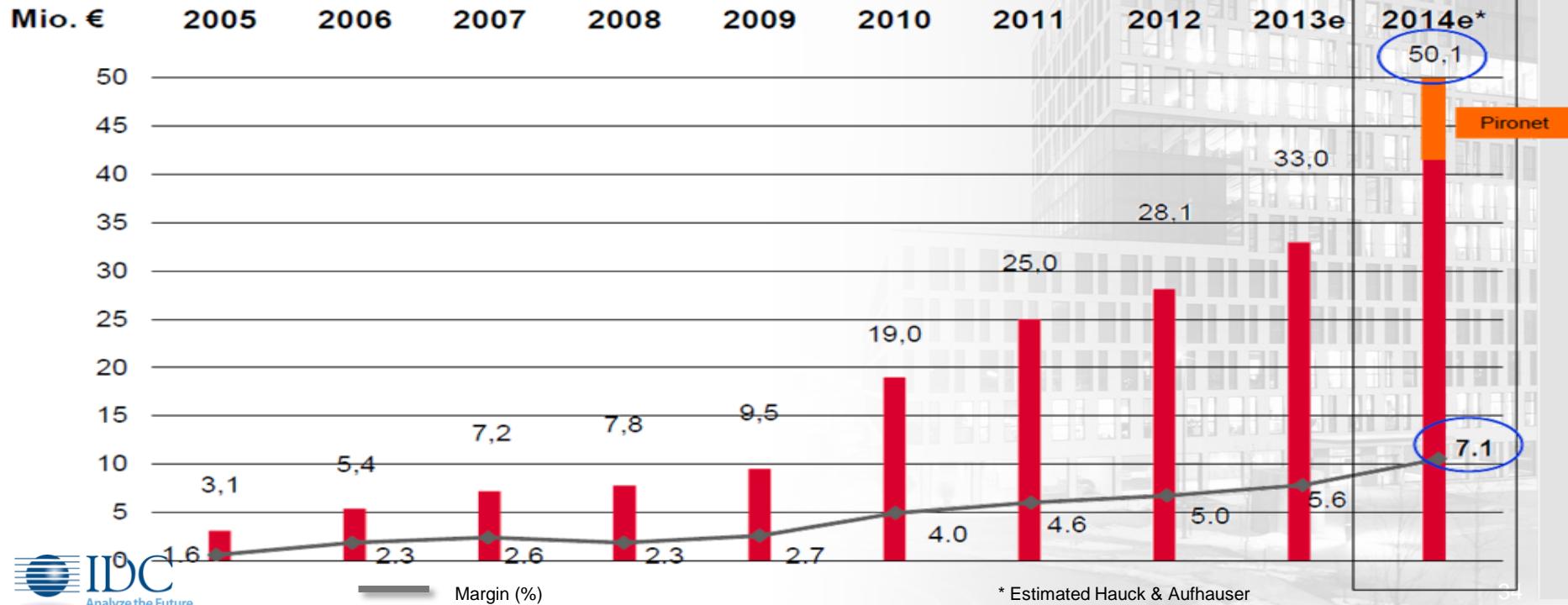


Profitability Example

- Cancom
- HQ Munich, Germany
- Formed in 1992
- ~600M € VAR
- Transitioning to Recurring Revenue



Profitability Example



Company Valuations are Higher for Recurring Revenue

“There’s lots of rules of thumb. Recurring revenue companies are at a 7X multiple, an 8X multiple, 6X... Very good multiples.

And non-recurring are 3X, 4X, 5X.

You do get a much higher multiple when you have high recurring revenue. For sure.”



*Jim Estill,
Former CEO,
Synnex Canada
Current Venture Capitalist
Canrock Ventures*

Company Valuations are Higher for Recurring Revenue

*“And the stock market **values** companies with more **regular cashflow more highly**.*

*Even if the revenues were the same, the costs the same, the profits the same, **moving from a variable revenue stream such as upgrades to a more regular one as in subscriptions should boost the value of Adobe itself.***



Tim Worstall
Contributor
Forbes

June 18, 2013

Company Valuations are Higher for Recurring Revenue



Don't focus on the
marshmallow in
front of you



Focus on the future
revenue streams that
you can build

And may you build a
WEALTH of
Marshmallows

Thank You...



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