



# Partner Choice for Cloud Success

What IT Solution Providers Need to Know about the Value of Microsoft's CSP Licensing Program and the Choice of Relationship Models

*An IDC eBook, Sponsored by Microsoft*



# Executive Summary

Microsoft’s CSP Program is a story of opportunity and growth for partners, both in recurring and complementary services and product revenue. Enabling that are a list of value tenets that partners associate with the CSP Program, and that also encapsulate partners’ strategic engagement in the growing cloud economy.



One of the main drivers for partner participation in the CSP Program is the Microsoft cloud market opportunity and growth potential. Partners in the program experienced varied, but high cloud growth, with opportunities ranging from Office365 E3 up to managing client applications in an Azure environment.

Microsoft’s CSP Program provides value to partners working in a cloud model. Value tenets of the program expressed by participating partners include being given the choice to work in a direct provider or indirect reseller model. This is an important feature of the program, but it’s also one that partners need to assess deeply before engaging in one model over the other.

## CSP Program Value Tenets:



**Customer ownership**



**Cross sell and upsell opportunities**



**IP acceleration**



**Provisioning/billing agility**



**Choice of engagement model**

At a base level, partners participating in the CSP Program are categorized by the level of investment they make, as well as revenue and other financial guidelines established by Microsoft. As an example, partners in the direct provider model make significant investments to play that role.

Answering the question of what model fits a partner best is determined by their willingness to make the required level of investment.

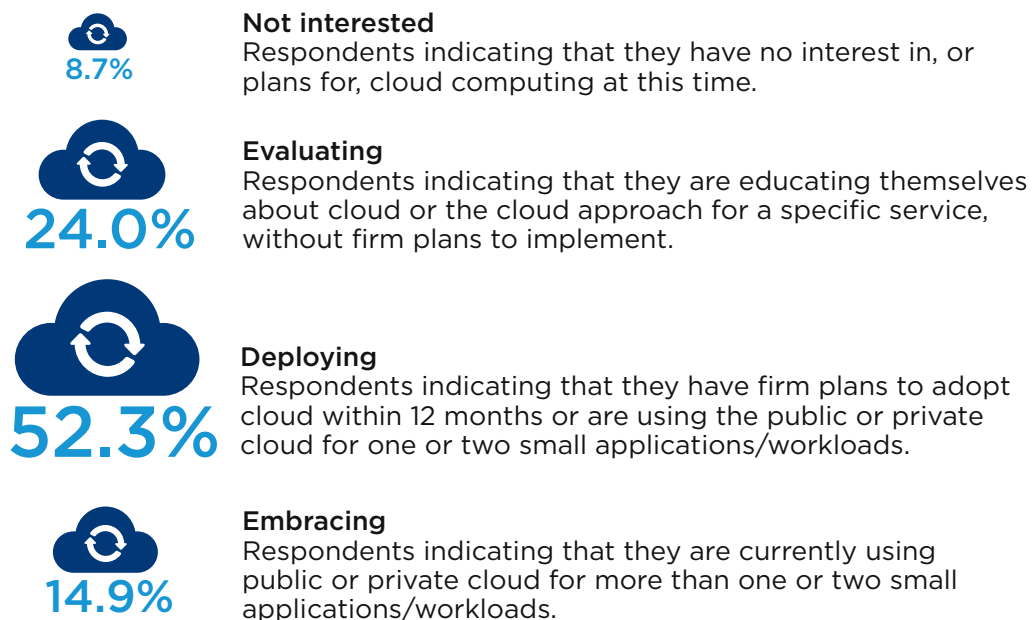
- Investments ranging from \$50K to over \$1M, depending on the partner business model.
- Investments include building a billing/provisioning system using the Microsoft APIs, or paying for a white label third-party platform; and first level customer support capabilities.
- Focus on developing intellectual property (IP), e.g. professional and managed services, and software.

# The Cloud Market Opportunity: The Time is Now

Cloud-based technology represents an immense opportunity for IT solution providers to deliver modern capabilities to their customers, and for IT buyers to transform their businesses and compete at a new level.

Innovation and digital transformation are driving the shift to cloud. End-customers are not only migrating workloads to the cloud, but are investing in cloud to support new capabilities as they evolve their businesses. In fact, many buyers are opting for a “cloud-first” approach in acquiring new IT assets.

## IDC CLOUDVIEW: ADOPTION OF PUBLIC CLOUD SERVICES



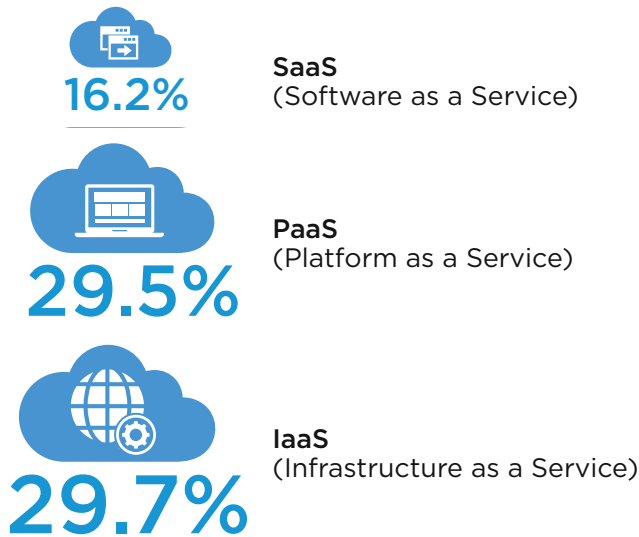
Source: IDC CloudView, April 2017, n=9842, worldwide respondents

IDC's CloudView survey of approximately 10,000 end-customers globally reveals a majority of respondents considering public cloud or that have already made these investments. IT solution providers capable of pairing technical capabilities with a sharp focus on customer outcomes will be vital to the next phase of cloud migration.

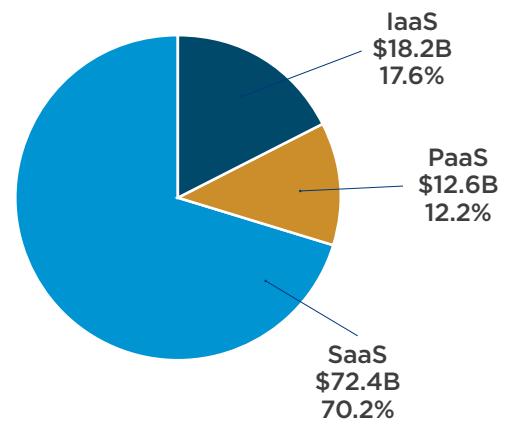
Global spending on public cloud services is expected to total \$266 billion in 2021, which is a compounded annual growth rate (CAGR) of 20.8% from the \$103.2 billion spent in 2016. The public cloud market spend in 2016 includes \$18.2 billion on IaaS, \$12.6 on PaaS, and a sizeable \$72.4 billion on SaaS. Although SaaS represents the lion's share of public cloud spending today, high growth in IaaS and PaaS will help balance share across the three models.

**PUBLIC CLOUD SERVICES GROWTH (2016-2021 CAGR %)**

**SERVICE MODELS**



**PUBLIC CLOUD SERVICES SPENDING, 2016**



IDC predicts 73% of CIOs will embrace a “cloud first” strategy in 2018.

# Why Partners Value the CSP Program

Microsoft's CSP Program was launched to provide partners with a recurring revenue model that puts control of the customer in the hands of the partner.

Partners have the choice of working in a direct provider or indirect reseller model based on meeting specific requirements. Direct providers are also required to have a billing and provisioning system, and customer support. Partner benefits of engaging in the CSP Program includes margin on the sale of CSP licenses; however, there are 5 key value tenets partners are experiencing from program participation, and which are detailed below.



## 1. Customer Ownership

Microsoft's CSP Program leads to customer lifecycle ownership, which helps embed and drive deeper loyalty to the partner. What this means is that the CSP model specifically, and the cloud model generally, allows partners to play a more active role in the customer journey in both a pre- and post-sales capacity.

"CSP puts the right amount of pressure on us to sell the right thing, and we're motivated more than ever to make sure we drive adoption and training. In the world of subscription economics, if the customer's not consuming it, they'll turn it off," said a U.S. partner.

This full customer engagement approach is more immersive for many partners than previous models of doing business. In fact, the post-sales motion is arguably more important than the pre-sales and sales process because partner success rests on the ongoing revenue that comes with the renewal of those CSP licenses sold.

Microsoft's CSP Program allows partners to work with customers in a cloud model, which leads to long term engagements.



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To that end, Microsoft's CSP Program allows partners to work with customers in a cloud model, which if managed successfully leads to long term engagements. This is important because as partners become immersed across the customer lifecycle there's more opportunity to prove value to serve the customer better, and across a greater breadth of Microsoft cloud and partner services.

"It's the best possible experience for customers in that we handle the entire pre-sales, sales, and post-sales process – owning the full customer relationship and experience," said a U.S. partner.



**Its forging a strategic relationship from which further sales can flow.**

## 2. Upsell and Cross Sell Opportunities

Owning the customer lifecycle leads to stickiness in the relationship, which helps drive consumption of more and different Microsoft CSP licenses. Once partners are in accounts they continue to upsell and cross sell the Microsoft cloud stack as they deepen the customer relationship.

At a base level the partner is increasing customer cloud consumption and its own recurring revenue, but more importantly its forging a strategic relationship from which further sales can flow. "How we drive up revenue is by creating a strategic partnership with our customers on their IT roadmap and strategy over the next five years," said a U.S. partner.

If Office365 E3, as an example, is a foot in the door, it can lead to greater customer intimacy and the potential for incorporating both IT and line of business requirements in ongoing phases. The surfacing of business challenges, in addition to those in IT, expands the partner opportunity into cloud categories such as Azure, Power BI, and the greater breadth of Office 365, e.g. SharePoint, EMS, Skype. It's about starting from point A and growing to point B as the customer scales and expands usage based on the partner's understanding of the business.

"CSP encourages us to work with the customer to their benefit, which keeps us engaged over time. And the types of projects we do will get more sophisticated and larger and more valuable as they cross the chasm from IT to line of business," said a U.S. partner.



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**Generating greater wealth through wrap-around services is the goal.**

### 3. IP Acceleration

For many partners, it's not just about selling the CSP licenses. In fact, that's not considered a profitable, long-term strategy on its own. It's more about building IP (services and software) around and on the Microsoft cloud services. "Just selling email is not going to keep you in the game. You need to be able to add more value to the customer – having that conversation around the business need, not the product," said a European partner.

It's evident that for many partners to upsell and cross sell the Microsoft cloud stack, they need to be squarely focused on ensuring they have value of their own to sell around CSP licenses. Recurring license revenue and associated margin is considered valuable; however, generating greater wealth creation within the partner business through wrap-around services and other products related to the CSP stack is the goal. The bottom line is that partners can accelerate their IP, such as professional and managed services, and software, through CSP license engagement.

"Our revenue will increasingly be dependent on Microsoft for our services. Managed and professional services on the CSP lines will be far and away the bigger portion of our revenue, but it will be dependent on the licenses," said a European partner, adding that they've increased the amount of their professional services to support moving customers from on premise to the Microsoft cloud environment.

Interestingly, this European partner's revenue from CSP licenses amounted to 15% of its total. The remainder and majority of the partner revenue was from services related to the Microsoft cloud stack. This is vitally important when considering the margin partners make on their own services, which can be as high as 60%.

Azure, as an example, has proven to be highly leverageable for partners in extending their IP. One partner based in Canada sells Azure environments for small business applications, but also does the migration and management of those environments. "90% of our clients have no other IT than us. We're their CIO," he said, adding that with Azure they can get very specialized, but this approach also leads to Office365 license sales.



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Partners benefit from billing and provisioning capabilities they've built themselves or are provided through Microsoft distributors.

#### 4. Provisioning/Billing Agility

Regardless of the other value being generated by partners around the Microsoft CSP Program, there is an embedded agility in the CSP license provisioning and billing model that has not been available in other Microsoft licensing models. There's a level of practicality and empowerment that comes from the partners' ability to provide one cloud services bill to customers, but in an automated way that also allows for service changes at any time.

"Our strategy is cloud-first, automation-first – they're fundamental because we have to drive productivity in our own business, as well as our customers," said a European partner, adding that the customer consumes only the services they need when they need them, and the partner is empowered through CSP to meet that requirement.

Partners engaged in the CSP Program can benefit from billing and provisioning capabilities that they've built themselves using Microsoft APIs, or that are provided through Microsoft distributors. Regardless of where the capability originates, partners can manage CSP licenses by customer or allow the customer to do it themselves. There's also a level of ease of administration provided by the CSP Program, and which helps create a touch point with customers through monthly or quarterly billing.

"With the CSP model we're starting from a very strong position with the customer because we're invoicing monthly," said a European partner, adding that open and flexible invoicing is now an expectation and requirement in driving cloud value and sales.



#### 5. Choice of Engagement Model

The fifth value tenet is that partners have the choice of engaging in a direct provider or indirect reseller model through the CSP Program. These are defined in the following section.



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# Partner Choice for Cloud Success: The Direct or Indirect Model?

Partners engaged in the CSP Program can choose from one of two models, direct provider or indirect reseller. The former model is defined by the partner having a direct relationship with Microsoft versus the latter model of engaging with a Microsoft distributor. However, CSP Program participation is less about the specific relationship model, and more accurately delineated by the level of investment a partner makes in support of their CSP business.

At a base level, partners in the direct provider model make significant investments to play that role. Direct provider investment depends to a degree on current business model and structure, but several structural attributes must be in place.

The following are snapshots of the direct provider and indirect reseller partner models within CSP. A more detailed review of these models, including partner experience, investment, and ROI, is provided after.

## CSP PROGRAM – DIRECT PROVIDER SNAPSHOT

- Requires investment in billing and provisioning systems, and first level support, plus related personnel.
- Investments can be significant, ranging from \$50K to over \$1M, depending on the partner business model (e.g. MSPs already have billing and support systems in place, and distributors build full blown cloud marketplaces with white label store capability).
- Some direct providers choose to build their own billing and provisioning systems using the Microsoft APIs to integrate on the back-end, while others white label a third-party platform – either choice comes with a price.
- Margins are higher for direct providers than indirect resellers, but ROI can take a year or more, depending on total investment and growth in the cloud business.
- Direct providers tend to have less focus on CSP license margin and more on partner IP like consulting, managed, and migration services, as well as products built on either Office 365 or Azure.
- These partners generally have more breadth across the Microsoft cloud stack, but this is not a requirement.

### CSP PROGRAM – INDIRECT RESELLER SNAPSHOT:

- Indirect resellers have no infrastructure investment requirements, although the ability to sell cloud solutions is imperative.
- These partners rely on the resources of distributors that have made those investments for them, including providing white-labeled storefronts, training to help transition partners to the cloud model, and automated billing systems.
- Indirect resellers also benefit from access to other distributor services, such as sales/quote support, and credit.
- Indirect resellers may rely more on the license margin, but this doesn't preclude them from opportunities in developing and selling their own IP.
- These partners may also be more focused on Office365, but this doesn't preclude them from engaging in opportunities relative to Azure.

Partners participating in the Microsoft CSP Program are categorized by the level of investment they make and the resulting benefit of that investment. For illustrative purposes, partners can be categorized in the matrix below.

As an example, an indirect reseller (i.e. that works through a Microsoft distributor for CSP licenses) that sells Office 365 would receive corresponding margin for their efforts from the distributor. Others in the indirect reseller model may choose to invest in developing services that they can wrap around the broader stack of Microsoft cloud offerings. This partner's benefits come from the blended margin of multiple cloud services, and from their own services that the CSP licenses help drive. The same rule applies to direct providers, except for higher margin on the licenses that reflect their investments in infrastructure.

#### Direct Provider Investments

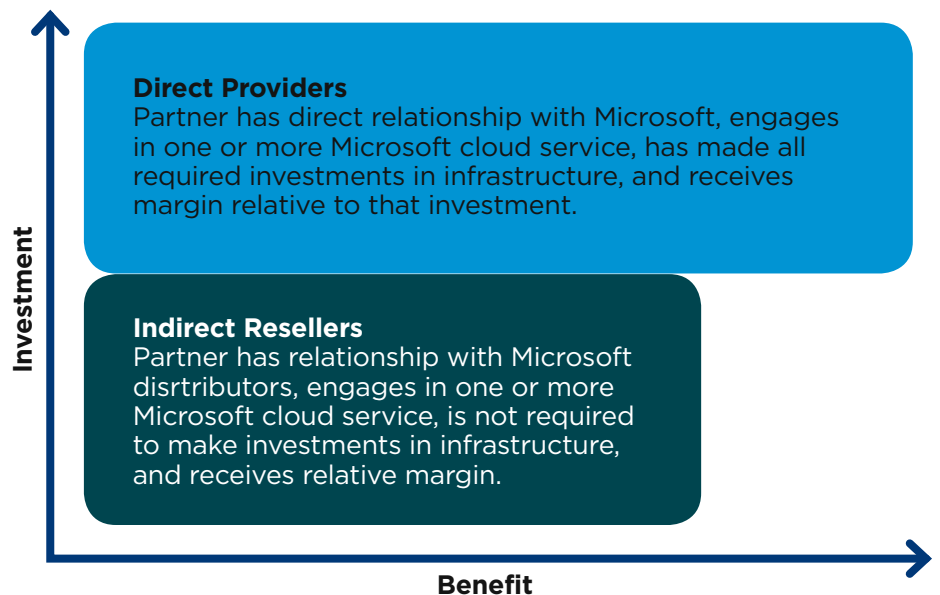
- Billing system
- Provisioning system
- Support

#### Direct Provider Program Costs

- \$50K - \$1M
- Time to ROI: 1-2.5 years

#### Direct Provider Benefits

- Higher margin



# The Direct Provider Model


Partners engaging in the direct provider model make investments that are focused primarily on deploying an automated billing and provisioning system or marketplace, providing customer support, and all related personnel costs.

The reason for these investments is that CSP providers are required to do the billing and provisioning of Microsoft CSP licenses to the customer, and are their main point of contact for support. Microsoft provides the APIs for direct providers to do the appropriate integration between the vendor and the partner's billing/provisioning systems.

The level of investment from partners differ based on their business model and structure. Some partners, such as those that act as MSPs, have already made investments in billing systems and support, but still incur costs to maintain those systems and for staff. Other partners have had to make all investments up front. These scenarios also impact the time it takes for the provider to achieve a return on their investment.

## Investment Snapshot #1

- To put all this in perspective, consider a partner acting as an MSP that engaged as a direct provider in the CSP Program. The partner had annual costs of \$200K for two full time support staff, and to maintain its technical support infrastructure.



By 2020, IDC predicts over 70% of cloud vendor revenue will be mediated by channel partners and brokers.

- It took the partner a year to reach profitability based on Microsoft recurring revenue of \$200K a month. “We were not starting from scratch. We had managed services infrastructure and people in place,” said this U.S. partner.
- Another factor for this partner was that they were also temporarily using a manual billing system. They’ve since deployed a white label third-party platform for billing/provisioning, which is an additional cost that amounts to a percentage of the partner’s revenue.
- However, that new system has also saved the partner in hours and money through greater efficiency and billing accuracy.

### Investment Snapshot #2

- Even a partner that already had an automated billing system and 24/7 first and second level support, invests close to \$400K annually to support IP development on its platform.
- Although custom development doesn’t generate revenue for this partner, it contributes to customer satisfaction through productivity gains and automated services delivery. “Developing our own IP is important for making the solutions work for the customer through dashboards, automation, and provisioning,” said this European partner, adding that its five developers will eventually switch to creating value on top of the Microsoft CSP stack that can generate revenue.



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### Investment Snapshot #3

- Still another partner initially invested \$60K for backend integration with the Microsoft APIs, and another \$20K annually in support costs.
- Depending on customer size and requirements, initial Office365 deals for this partner amounted to \$4K-\$6K in monthly license revenue and \$45K for professional and managed services. For Azure, the deals were generally larger – \$3K-\$10K in license revenue and \$100K – \$300K in migration and managed services.

### Investment Snapshot #4

- There are also added costs in cases where partners expand to more complex cloud services, such as Azure. Staff training investments are a fact of life for partners, but transitioning to Azure can increase that investment. One partner estimated that cost at \$50K annually, which included training costs plus staff time out of field.
- However, transitioning to Azure from its own infrastructure and another provider saved this partner money by decreasing staff and administrative costs. This was validated by a Canadian partner that steadily improved its EBITDA by cutting its own infrastructure costs and making investments in the CSP Program. That same partner invested another \$50K annually for its billing/provisioning system, which leveraged already existing software.

### Investment Snapshot #5

- Not all partners that choose the direct model are benefiting fully from that choice. One partner that had invested \$60K was still using a manual billing system because of issues with managing the back-end integration with the Microsoft APIs. “We’re still struggling with it. We work with the Microsoft APIs, but that doesn’t mean it automatically connects to your finance system,” said the European partner.
- Even though this partner was profitable after a year it may look at third-party platform options for billing and provisioning. In that case the partner would be paying a third-party a percentage of its cloud revenue, which would change its financial picture. “I would advise smaller partners to go for a distributor that’s offering the billing tools and everything else,” they said.

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# The Indirect Reseller Model

The indirect reseller model differs from the direct provider model in one fundamental way – indirect resellers do everything for their customers from the distributor platform, including billing and provisioning. These distributors can have sophisticated marketplaces that indirect resellers leverage and white label, i.e. distributor automated billing and provisioning can be fully transparent to the customer, masked in a partner-logoed storefront, or partners simply manage it for their customers.

Indirect partners also have the advantage of leveraging other value from the distributor, including access to credit, training, and sales support. To put it plainly, indirect resellers benefit from the investments made by distributors globally to participate in the CSP Program.

Distributors also provide extended value that is inherent in their business model. These include support offered to the partner during the sales process to determine the best solution fit for the customer and to prepare quotes, provide credit, and the training of partners around new products and concepts, e.g. cloud selling. Indirect resellers can take advantage of these distributor investments to drive value for their businesses.

## Investment Snapshot #6

- It's worth noting that many distributor investments can be greater than other direct partners because they're building marketplaces with white label storefronts that accommodate back-end integration with multiple cloud vendors. One South American distributor has spent \$1M to build its marketplace, which includes more than a thousand white label partner stores.

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- “We need to invest a lot in our platform to develop the products for our partners. There are a lot of people working on it, including staff that design the solutions we provide to our partners, plus the support team, which includes sales,” this partner said.

### Investment Snapshot #7

- Another distributor out of Europe, which just began investing in its CSP business, has spent \$100K building its platform, and has further investments of \$160K for new features and to improve the billing process. In addition, support set up costs were \$50K with a run rate impact of support on revenue of 4.4%.
- “Investments are ongoing and are related to making improvements for our partners, like allowing end users to sign contracts digitally, or better business intelligence to provide a very easy way for partners to understand spending. We’re creating dashboards and allowing partners to define their own dashboards to have everything under their control,” this partner said.

### Investment Snapshot #8

- Consider a European distributor that has spent upwards of \$500K on its marketplace, and another \$150K on a 24/7 service desk. A core focus for this distributor is to have account and product management teams work with partners on transitioning to a cloud model, but more importantly in helping the cloud-engaged partners grow their value with customers. “This wasn’t about products or the technology, it was about business models and the structure required, and thinking in a different way,” they said.

“Investments are ongoing and are related to making improvements for our partners, like allowing end users to sign contracts digitally, or better business intelligence to provide a very easy way for partners to understand spending.”

- Many indirect resellers may be dipping their toe into cloud by selling Office365 licenses, but they also need help in evolving their capabilities to more complex solutions like Skye for Business and Azure. Leveraging distributor capabilities can be crucial in making that change. In some respects, indirect resellers are free to focus their efforts where required without having the burden of maintaining multiple systems for billing, provisioning, and support.
- “We can drive long term value into these partners over time. Once they’ve gotten their heads and business model around Office365, we can start driving to some of these higher value services and solutions,” said a European distributor, adding that most partners can’t provide the same level of service they can, or make the same investments.

## Essential Guidance

Partners interested in engaging in Microsoft’s CSP Program are encouraged to review in detail the requirements of both the direct provider and indirect reseller models prior to choosing the approach that best fits their business. It’s clear that going direct demands initial and ongoing investments that can take time to show a return based on CSP license growth.

IDC recommends partners assess the CSP Program based on its potential for driving opportunities and growth in recurring and complementary services and product revenue. It’s also important for partners to consider their strategic position with customers and within the broader cloud market, and whether the Microsoft CSP Program helps solidify or expand that position.

### **Partners that are engaged in the cloud economy, or that are building their businesses to do so, are encouraged to do the following:**

1. Review the 5 value tenets expressed by Microsoft partners from CSP Program engagement.
2. It’s imperative to determine the level of investment the business can bear to support the Microsoft cloud business.
3. Choose the engagement model that best suits your strategic goals for cloud success.

**Partners seeking more details on how to qualify for the CSP Program, and to understand the direct and Indirect model guidelines, can find resources at [Microsoft.com](https://Microsoft.com).**