



WHITE PAPER

Enabling Partner Value in the Cloud Economy

Sponsored by: Cisco Systems Inc.

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EXECUTIVE SUMMARY

This IDC white paper, commissioned by Cisco Systems Inc., provides a perspective on the value partners derive from engaging in the Cisco Cloud and Managed Services Program (CMSP). The 23 global partners interviewed for this white paper play multiple roles in delivering Cisco Powered cloud services to their customers through their engagement with CMSP (for details, refer to the Methodology section). Cloud services are expected to take an increasing slice of information technology (IT) budgets over the next two years, which will require partners to grow with current customers and win new customers through cloud-specific capabilities. CMSP was launched by Cisco to help partners gain cloud market relevance through valued benefits for delivering Cisco Powered cloud services. According to the CMSP partners interviewed, key benefits of CMSP that have helped drive their cloud businesses include:

CMSP was launched by Cisco to help partners gain cloud market relevance through valued benefits.

- Accrual of cloud market development funds (MDF) to help partners drive marketing outreach that can generate an ongoing cadence of leads
- Access to Cisco's sizable reseller channel to actively accelerate channel-based sales of Cisco Powered cloud services
- The choice of higher up-front discounts or back-end rebates to compete more aggressively and increase the number of customers to benefit from recurring revenue
- CMSP and Cisco Powered cloud services audits to ensure enterprise-class standards for creation and delivery

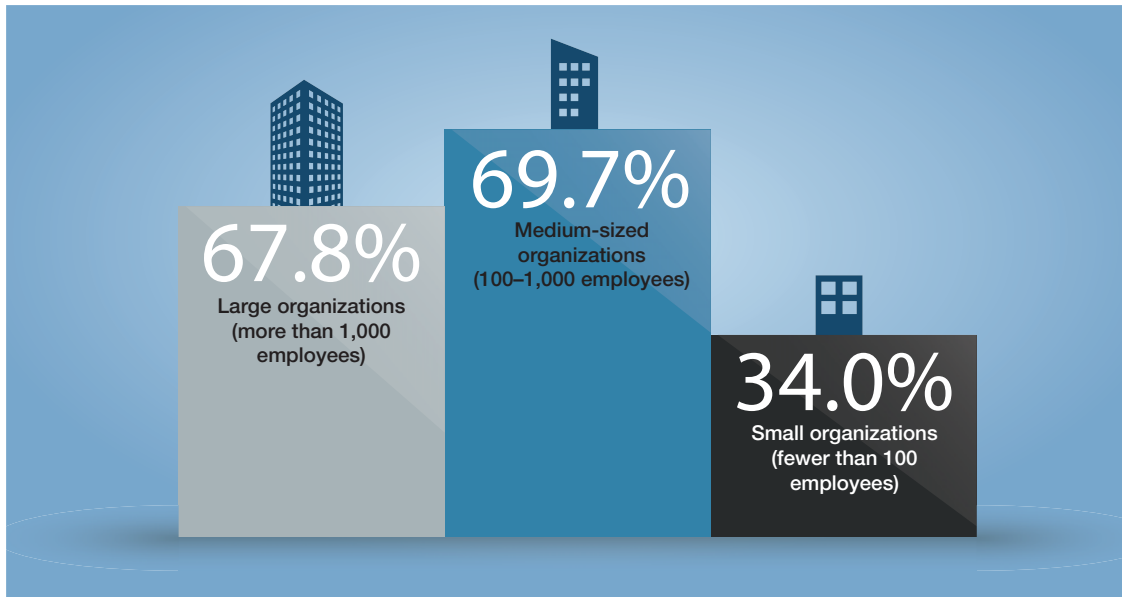
SITUATION OVERVIEW

The Cloud Imperative

Cloud has become a ubiquitous presence in the market over the past few years, impacting many partners and their customers. Today, 68% of companies with more than 1,000 employees are using some form of cloud or plan to implement cloud services within the next 12 months (see Figure 1). Medium-sized organizations (i.e., those with 100-1,000 employees) have a slightly higher cloud service adoption rate – 70% – than their larger cousins. In addition, companies adopting cloud expect to spend 54% of their IT budgets on these services in two years.

FIGURE 1

Current and Planned Adoption of Cloud by Company Size



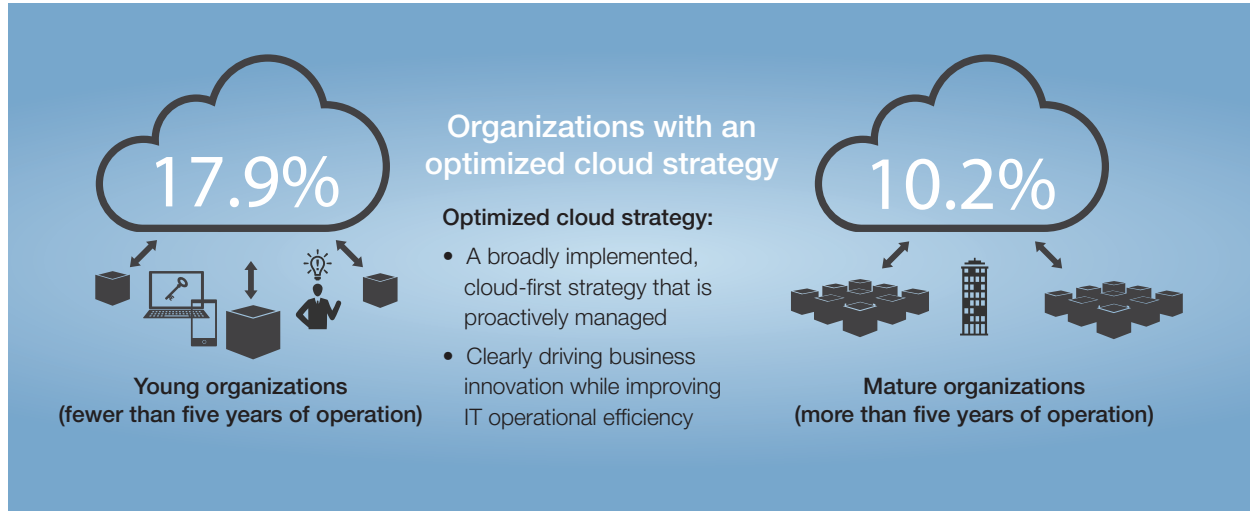
Source: IDC, 2014

The high adoption rate for cloud services is expected to increase dramatically within the next three years. IDC is forecasting cloud services spending to surpass \$75 billion by 2017, representing a five-year compound annual growth rate (CAGR) of 22%.

IDC has also found that mature organizations (i.e., those with more than five years of operation) have higher cloud adoption rates than young organizations, but this doesn't necessarily equate to having advanced cloud strategies. Young organizations with fewer than five years of operation had more evolved strategies than mature organizations (i.e., 18% had an optimized cloud strategy as shown in Figure 2).

FIGURE 2

Ratio of Young Organizations Versus Mature Organizations with an Optimized Cloud Strategy



Source: IDC, 2014

Regardless, partners must be well versed in the host of customer benefits from cloud services that cut across organizational groups or departments. The most obvious are for IT operations in optimizing IT budgets and improving staff productivity and for finance and accounting in shifting from capex to opex. Other cloud business benefits that partners should integrate into their services and sales strategies include providing faster access to the newest functionality, providing improved resource utilization, and enabling business units to influence IT solutions more directly.

Driving Partner Success in the Cloud Economy

The main driver of Cisco's strategy for delivering cloud services to the market is the company's partner ecosystem, which includes a cadre of CMSP partners that are vetted and approved to deliver Cisco Powered cloud services based on Cisco's end-to-end, validated architecture.

Delivering Partner Value Through CMSP

Benefits for partners engaged in delivering Cisco Powered cloud services are realized through participation in CMSP and include the following:

- Marketing support through cloud MDF
- Indirect sales reach through Cisco's cloud services reseller network
- Financial support flexibility through choice of rebates or discounts
- Cisco Powered cloud services audits

The main driver of Cisco's strategy for delivering cloud services to the market is the company's partner ecosystem.

Cloud Marketing Support

CMSP partners highlighted the value they derive from Cisco in their sales and marketing cycles to build a successful Cisco Powered cloud services business. Cisco's efforts in comarketing planning, execution, and funding through CMSP were gaining traction in generating an ongoing cadence of qualified leads among partners. Cisco cloud MDF, which is based on percentage accruals of net cloud bookings and partner investment in building out Cisco Powered infrastructure, is a catalyst to initiating demand-generation activities specific to Cisco Powered cloud services.

Indirect Sales Reach

A key driver in partner engagement with Cisco is that its cloud go-to-market strategy is partner led. More importantly, CMSP partners are actively engaging Cisco's cloud services resellers to deliver partner-created Cisco Powered cloud services. One CMSP partner attributed 40% of its cloud revenue growth to working with these resellers and had experienced acceleration in this activity based on Cisco's efforts in educating resellers on the value of cloud. Cisco is also providing sales compensation to Cisco end-user account managers to sell CMSP Partners' Cisco Powered cloud services.

One CMSP partner attributed 40% of its cloud revenue growth to working with Cisco resellers.

"Cisco has helped us build out our reseller community – there were a lot of doors opened that wouldn't have been opened without it." – *Reggie Harris, Manager of Strategic Alliances at Peak 10*

Financial Support Flexibility

Another key benefit of CMSP highlighted by partners was the ability to choose between receiving higher up-front pricing discounts in global locations versus deal-by-deal flexibility with back-end rebates. Each choice has its merits. Pricing discounts specifically allow partners to compete more aggressively in their respective cloud markets and win more against other service providers in building a stream of reference accounts. On the other hand, rebates are used to reinvest back into the partner cloud business via market development, training, and systems, or to improve profitability. This is especially important for partners in the early stages of cloud building in order to scale to multiple customers and benefit from the accrual of recurring revenue.

"Price is one of the most critical factors for us in promoting Cisco Powered cloud services – it helps us be more competitive against other service providers."
– *Wen Jun, VP Cloud Strategy, City Cloud Technology Co. Ltd.*

In addition, partners that have worked to obtain the Master Service Provider designation enjoy additive benefits, including higher discounts. In fact, the Master Service Provider designation differentiates CMSP partners when dealing with customers, Cisco's sales team, and cloud services resellers. One partner indicated that it is well positioned to compete anywhere in its market as a Master Service Provider.

Cisco Powered Cloud Services Audits

One of the requirements for CMSP is that partners go through a rigorous third-party audit process for each Cisco Powered cloud service to ensure partners meet defined, enterprise-class standards. The auditors themselves were called out as adding value to the partner business via recommendations they made based on their experiences with other providers and cloud scenarios. The combination of experienced and objective third-party auditors, as well as access to in-depth Cisco technology, product road map information, and regional Cisco support teams, leads to an earned level of partner expertise.

"It's a third-party objective process, meaning there's no bias, and it makes the customer more at ease about choosing Cisco Powered cloud services."

– Chris Ludwig, SVP of Business Development, NWN

Leveraging Cisco's Validated Architecture

Cisco's validated end-to-end architecture is an important component in the overall value CMSP and Cisco Powered cloud services bring to partners. Cisco's reference architectures are what allow partners to deliver on their SLAs, which adds to CMSP partner credibility in the market.

"When you want to be the preferred destination for strategic workloads and applications, you really need to have enterprise-class SLAs, and you need to deliver against them."

– Pamela Casale, Global Director Marketing, Cloud Business, CSC

Cisco's validated architecture guidelines help CMSP partners build their clouds quickly, without the delays associated with the process of going through trial and error. It's this step-by-step process of deploying their cloud that leads to a streamlined support process. Partners also save time and effort by using Cisco's preconfigured and standardized architecture when deploying cloud components. In one case, a CMSP partner saved six full-time employees (FTEs) in a year. What this means at a functional level is a partner getting up and running quickly to benefit from cloud revenue without additional staff overhead.

One partner saved six FTEs in a year by using Cisco's preconfigured and standardized architecture.

Leveraging Cisco's "Enterprise Class"

A benefit often cited by CMSP partners is that Cisco Powered cloud services are considered "enterprise class" by their end customers. This equates to terms like *availability*, *reliability*, *sustainability*, and *scalability*. What this boils down to is that "enterprise class" speaks to the strength of Cisco technology and processes as the basis for the partners' cloud services and that it resonates with customers.

"We have set out right from the very beginning with all the services we provide, including IaaS, to deliver genuine enterprise-class quality, and in many customers minds, Cisco is associated with that." – Simon Smith, CEO and Founder, Extrinsic Global

The perceived value of Cisco Powered cloud services was highest among CMSP partners serving customers running mission-critical workloads in the cloud. This is where the quality of the cloud becomes increasingly important in the partner sales cycle – that is, when customers care most about what's "under the cloud hood" and that it's a known quantity (such as Cisco's validated architectures) that reflects the key attributes represented by "enterprise class."

Cisco is also an embedded technology within the CMSP partners' infrastructure in support of cloud services and is identified by many partners as being their "cloud standard." Similarly, Cisco is widely embedded in CMSP partner customer sites, which eases the partner sales process and customer transition to Cisco Powered cloud services as a change in delivery method rather than technology.

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"Cisco has a reasonable claim to say that their technology underpins the best cloud providers." – *Simon Smith, CEO and Founder, Extrinsic Global*

OPPORTUNITIES/CHALLENGES

IDC believes that cloud, along with three cloud-enabled trends (i.e., mobility, social networking, and big data), will be the growth and innovation engine for the IT industry over the next 20 years. More importantly, it will fundamentally change how information technology is used and consumed within businesses and how partners serve their customers.

Opportunities

In today's business environment, the link between technology and business results continues to grow stronger. This is led by the increased technology decision-making power of line of business and C-level executives. Cloud plays a key role in this trend, which makes it important for partners to pay close attention to working with the right vendors for their customers and their own business requirements.

Many partners will choose a vendor to help enable them to build a foundation for transforming their business over the long term, in a way that positions them to address and deliver on customer requirements. CMSP partners have the opportunity to fully engage with a vendor that is placing itself, its technologies, and its partners at the center of key market trends such as cloud and the Internet of Everything. CMSP and Cisco Powered cloud services were designed for partners working with their customers to deliver mission-critical workloads in the cloud.

In addition, CMSP partners can benefit from Cisco's efforts in developing global reach and markets for Cisco Powered cloud services through Intercloud (go to cisco.com/web/solutions/trends/cloud). Built together with key partners and service providers, Intercloud allows partners to offer cloud services globally. Cisco's combination of validated architectures, Cisco Powered cloud services, and CMSP offers partners the foundation for engaging in SLA-backed, enterprise-class cloud services globally.

Challenges

Still, Cisco must address some ongoing challenges to fully orchestrate a successful channel cloud strategy. First, Cisco must address a primary criticism from CMSP partners that Cisco sales reps are not delivering on the promise of generating sales for partners of Cisco Powered cloud services. Partners believe that Cisco reps are focused more on higher revenue/higher commission, on-premise solutions. To that end, Cisco's sales teams are being trained and compensated to help promote cloud sales activity for CMSP partners.

Another issue that Cisco must mitigate is limited market awareness. The Cisco Powered brand is not as well known among partner end customers as the Cisco corporate brand. To address this issue, Cisco needs to invest in awareness-generating activities targeted to end customers to raise the Cisco Powered profile.

CMSP partners, for their part, need to work closely with their Cisco Partner Account Managers to take full advantage of Cisco's efforts via CMSP in building a successful, global channel cloud strategy and business. Further, CMSP partners should position themselves as closely as possible with Cisco sales personnel in the regions to act as another channel for driving their Cisco Powered cloud services sales.

As CMSP partners work more closely with Cisco on comarketing strategy and execution, the greater the market value that can be built around the perception of Cisco Powered cloud services. This in turn will also help build the brand of CMSP partners themselves and their association with Cisco Powered cloud services in the mind of the customer.

To learn more about CMSP, go to cisco.com/go/cmosp, and to learn about Cisco Powered cloud services, go to cisco.com/go/ciscopowered.

METHODOLOGY

Included in the Cisco Powered cloud ecosystem and CMSP program are solution partners like EMC, NetApp, and VMware; regional and global telecommunications providers; value-added resellers (VARs); and system integrators (SIs). Each of these partners offers Cisco Powered cloud services on top of Cisco networking and compute infrastructure and participates as members of CMSP based on completing an objective, third-party audit of each Cisco Powered cloud service.

The diversity of Cisco's ecosystem is showcased in the 23 partners that were interviewed for this white paper. These partners are headquartered in regions around the world, including North America; Latin America; Asia/Pacific, Japan, and China; and EMEA. The survey group is representative of over 200 unique CMSP partners currently delivering over 500 Cisco Powered cloud services through thousands of deployments worldwide.

Every one of these partners is highly committed to the CMSP relationship – most have built their cloud datacenters exclusively on Cisco's validated architecture to serve a wide cross-section of customer industries and sizes. These partners also play multiple roles in delivering cloud solutions to their customers and are considered highly qualified to provide their perspective on the value that the CMSP relationship brings to their businesses.

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