A Forrester Consulting
Thought Leadership Paper
Commissioned By HPE

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The Value Of Cloud Partner Ecosystems

Channel Partners Leverage Cloud Ecosystems To Maximize Growth

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Table Of Contents

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Executive Summary

As more and more software and technology infrastructure is delivered and/or maintained as a service, tech channel partners are shifting their business models. Value-added resellers (VARs), service providers (SPs), and independent software vendors (ISVs) are operating outside of the silos that have traditionally separated them in order to craft expanded business service offerings that resonate with cloud buyers.[1] Many major tech manufacturers now offer cloud partner programs that provide resources and access to rich ecosystems, allowing channel partners to quickly expand their cloud services and support customers in new ways.

In October 2015, Hewlett Packard Enterprise (HPE) commissioned Forrester Consulting to evaluate the extent to which tech channel partners are embracing cloud ecosystems and taking advantage of value-add opportunities for cloud. To explore this trend, Forrester tested the hypothesis that channel partners find value in belonging to a cloud ecosystem for a variety of reasons, including access to new leads and operational efficiencies for ISVs, expanded reach and quicker go-to-market for SPs, and an increased portfolio of services for VARs.

In conducting in-depth surveys with 261 strategy decision-makers at tech providers and resellers around the globe, Forrester found that tech channel partners are developing cloud services and taking advantage of manufacturers' services enablement programs in order to leverage resources and speed development. Furthermore, these partners have an opportunity to leverage other partners in their cloud ecosystem ('intra-network') in order to bridge gaps between their current capabilities and customer demands.

KEY FINDINGS

Forrester's study yielded three key findings:

- **Partners are shifting their business models.** Growing demands from digitally empowered customers have completely disrupted the tech channel ecosystem. Businesses are embracing cloud platforms that enable rapid deployment of new features, which leaves partners lacking for the implementation and support revenue that they have relied on in the past. To create value for customers, partners are now shifting their development and sales efforts toward business services that resonate with the cloud customer. And as SPs, VARs, and ISVs each expand their offerings, they blur the lines between the three partner types.
- **Partners have challenges that cloud ecosystems can help tackle.** Though ISVs, VARs, and SPs each have unique challenges, they all are struggling to differentiate themselves and win business in the digital era. In order to compete with larger players, partners should leverage each other, teaming up with partners from their network that have complementary capabilities. Cloud ecosystems are a popular way for partners to gain access to these resources in addition to other sales enablement programs provided by the cloud platform vendor.
- **Cloud ecosystems offer myriad benefits.** In response to cloud disruption, the vast majority of respondents (90%) are looking to increase their revenue share attributed to partners in the next year. Cloud partner ecosystems offer a number of benefits in terms of business efficiency, expanded breadth of services, sales enablement, and new partnerships. These ecosystems also make it easier for customers to evaluate and purchase the services that they need.

Tech Partners Are Adapting Their Business Models

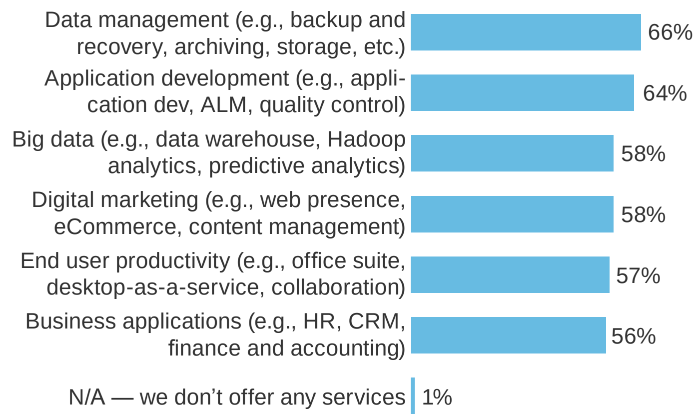
Cloud computing has been extremely disruptive to the tech industry channel. As cloud adoption continues to grow, the market for channel partners' implementation and support services will continue to shrink. In response, many partners are rejiggering their business models and investing in skills for cloud solution value delivery. Our study found that:

- **Partners are embracing cloud.** Tech partners across the board are developing cloud skills and solutions. More than nine out of 10 ISVs (92%) are currently hosting and/or selling cloud solutions or planning to do so within the next 24 months. Similarly, the majority of SPs and VARs are investing in "as a service" capabilities, including software-as-a-service (SaaS), platform-as-a-service (PaaS), and infrastructure-as-a-service (IaaS).
- **Partners are expanding their services portfolios.** Forrester Research asserts that "leading-edge thinkers are making to fill their cloud-caused implementation services hole with change management, business process impact analysis, TCO analysis, aggregated billing and financial analysis, and audit services.[2]" Our study found that 99% of channel partners now offer value-added services in some form, with the top categories including data management (66%), application development (64%), big data (58%), and digital marketing (58%) services (see Figure 1). On average, channel partners have 3.6 different categories of services in their portfolios.
- **Forty-eight percent of partners have multiple business models.** Changing customer demands and market disruption are upending traditional partner business models and compelling partners to adapt. Almost half of our respondents (48%) felt that more than one of the traditional channel partner labels (VAR, ISV, and SP) applied to their business today (see Figure 2).
- **VARs and SPs are looking more and more alike.** Interestingly, our data suggests a role reversal of partner types in the next year: VARs are developing their SaaS hosting capabilities to the point that they project to host SaaS services at a higher rate than SPs within the next 12 months, and SPs are building out their SaaS resale business at a faster pace than VARs (see Figure 3).

FIGURE 1

Partners Offer A Range Of Business Services

"What categories of services does your company *currently* offer?"
(Please select all that apply)



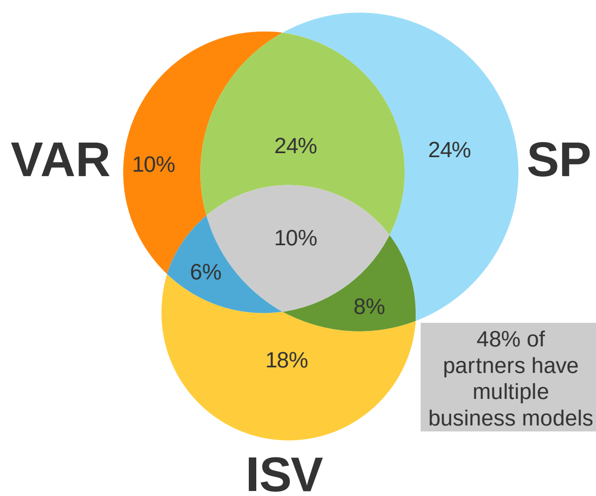
Base: 261 decision-makers at technology channel partners within Australia, North America, Europe, and LATAM

Source: A commissioned study conducted by Forrester Consulting on behalf of HPE, October 2015

FIGURE 2

Partner Business Models Are Blurring

"Which of the following describes your business?"



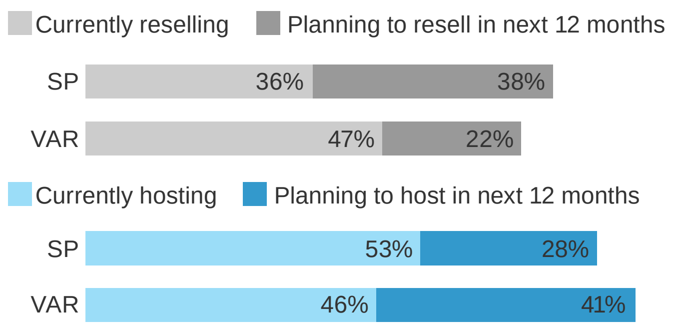
Base: 261 decision-makers at technology channel partners within Australia, North America, Europe, and LATAM

Source: A commissioned study conducted by Forrester Consulting on behalf of HPE, October 2015

FIGURE 3

SPs And VARs Are Looking More And More Alike In The Cloud Business Model

"What are your firm's plans to host/resell SaaS services in the next 12 months?"



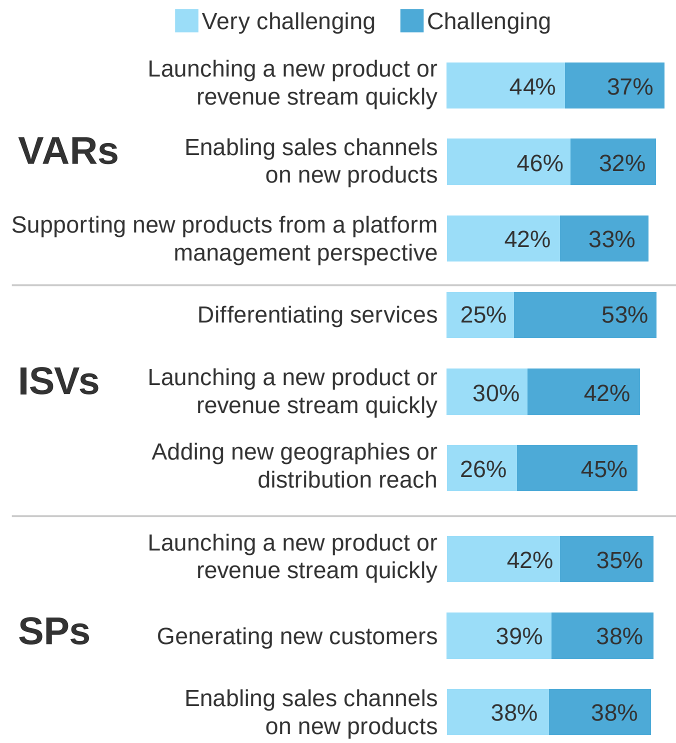
Base: 188 decision-makers at tech VARs and SPs within Australia, North America, Europe, and LATAM

Source: A commissioned study conducted by Forrester Consulting on behalf of HPE, October 2015

FIGURE 4

Channel Partners Face A Number Of Challenges

"How *challenging* are each of the following for your organization?"



Base: 261 decision-makers at technology channel partners within Australia, North America, Europe, and LATAM

Source: A commissioned study conducted by Forrester Consulting on behalf of HPE, October 2015

Partners Can Leverage Their Peer Networks To Tackle Top Challenges

Partners are building out new skills and services to support changing customer demands — but not fast enough. It might take years for a VAR to develop a new services provisioning business from scratch, and by then, new technologies will have shifted the market landscape further. There are so many constant changes, both on the vendor and customer sides of the channel equation, that it can seem daunting to stay aligned. Our study found that:

- **VARs have challenges launching new products and enabling sales.** In addition to developing a new product or service, partners also need to know how to sell it. VARs typically have strong relationships with IT departments, but they are often not trained or equipped to communicate value to business decision-makers who are increasingly involved in technology purchase decisions. Their top two organizational challenges — launching a new product or revenue stream quickly and enabling sales channels on new products — reflect this struggle (see Figure 4).

- **ISVs have challenges differentiating services and launching new products.** ISVs were some of the first to make the transition to cloud, building out services to improve customer satisfaction and value, advanced features, and security.[3] Now, leading companies in every industry are evolving to provide SaaS solutions and business services to support ISVs, challenging them to continually extend their capabilities and value-add. Against this changing competitive landscape, ISVs are struggling to differentiate their services, as 78% of those we surveyed told us (see Figure 4).

- **SPs have challenges launching new products and generating new customers.** SPs are feeling the pressure of other entities in their partner ecosystem — including manufacturers themselves — developing cloud services that eat into their market share. SPs can claim to be more objective than other partners that are tied to specific technologies, or they can claim to have better customization or support capabilities, but it's still a tough market with so many providers boasting about their cloud enablement services. As a result, SPs are stretching their resources to continuously build out new products and services that will help them differentiate and win, serve, and retain customers (see Figure 4).

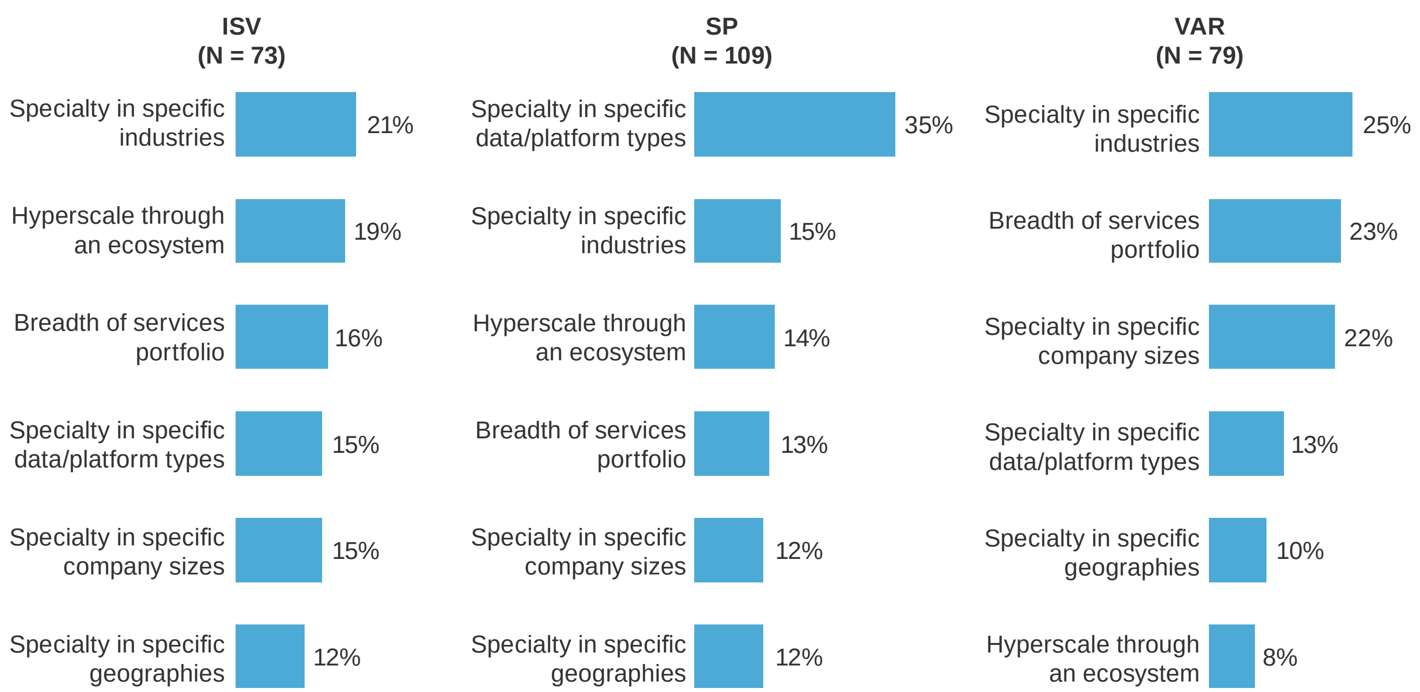
INTRA-NETWORK PARTNERS CAN HELP TO BRIDGE GAPS

Most partners cannot possibly build every solution and service capability themselves. Many manufacturers and third parties are aware of this and offer enablement programs that help fill out their partners' services portfolio. Additionally, by participating in these programs, partners may be able to connect with peers within that ecosystem network whose capabilities complement their own. SPs, for example, most commonly have a "specialty in specific data/platform types" as their key area of differentiation in the marketplace. This is an area in which VARs and ISVs tend to be relatively weak (see Figure 5). By banding together, they can provide more complete service to their customers.

FIGURE 5

Partners Can Leverage Other Entities In Their Cloud Ecosystem To Complement Their Strengths

"What are your company's key areas of differentiation in the marketplace? Please rank up to your top three, with 1 being your first key area."
(Showing 1st choice only)



Base: 261 decision-makers at technology channel partners within Australia, North America, Europe, and LATAM
(percentages may not total 100 because of rounding)
Source: A commissioned study conducted by Forrester Consulting on behalf of HPE, October 2015

Cloud Ecosystems Offer Myriad Benefits

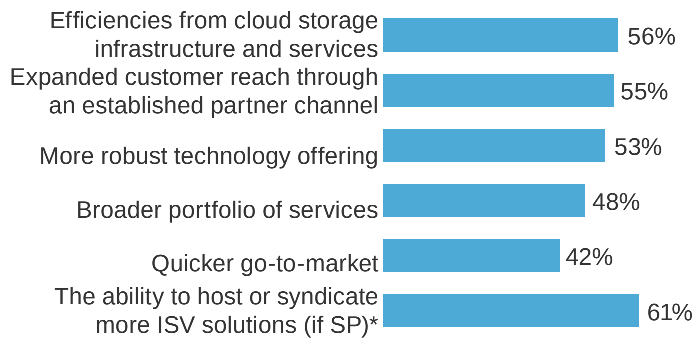
As more and more companies struggle to keep up with changing technology trends that are disrupting how they do business, they will continue to seek cloud solutions that allow them to rapidly deploy new functionality and quickly turn opportunities into real business outcomes. Traditional tech manufacturers increasingly embrace the cloud to deploy and operate their software — and partners are getting onboard with cloud platform vendors' cloud partner programs and ecosystems. Our study found that 90% of partners expect the revenue share generated by partner relationships to increase in the next two years, and 52% of partners expect it to increase by 10% or more; the cloud ecosystem figures to be a large contributor to this anticipated growth. Our study identified a number of benefits and considerations for joining a cloud partner ecosystem program:

- **Cloud ecosystems enhance partners' business capabilities.** There is a long list of business benefits that partners attribute to the cloud partner ecosystems in which they participate. Among the top benefits for all partner types were efficiencies from cloud storage infrastructure and services (56%), expanded customer reach through an established partner channel (55%), more robust technology offerings (53%), and a broader portfolio of services (48%). SPs also included the ability to host or syndicate more ISV solutions as a top benefit (see Figure 6). By leveraging the ecosystem network of complementary partners and the enablement resources and infrastructure efficiencies provided by their cloud platform vendor, partners are able to improve profitability as well as their solution offerings.

- **Cloud ecosystems also increase value for customers.** B2B buyers, conditioned by their personal consumption habits, expect to be able to get whatever they need, whenever they need it, through the channel of their choosing. Channel partners, who generally have considerably fewer resources than their manufacturers, must leverage their network in order to provide this level of convenience and value to their customers. Respondents reported that cloud partner ecosystems provided a number of benefits to their customers directly. Among the top benefits were the ability to compare SLAs of various vendors, data sovereignty and locally delivered services, an increased range of products and services, and enhanced services bundling (see Figure 7).

FIGURE 6
Cloud Ecosystems Provide Business Benefits

"What do you consider to be the benefits of belonging to a cloud partner ecosystem? Please rank up to your top three benefits, with 1 being your top benefit."
(Total rank %)



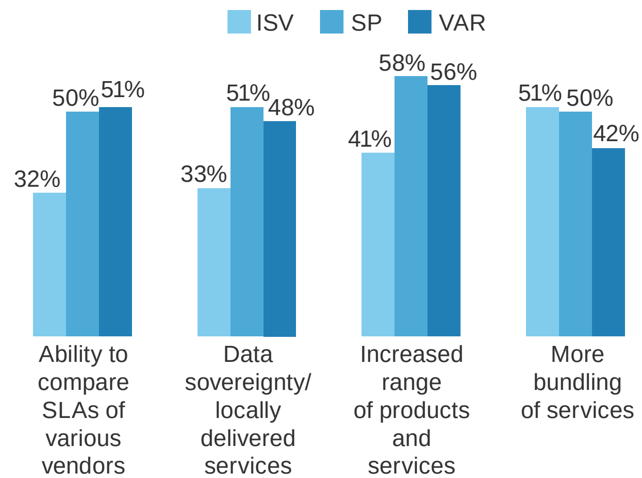
Base: 261 decision-makers at technology channel partners within Australia, North America, Europe, and LATAM

*Base: 109 service providers

Source: A commissioned study conducted by Forrester Consulting on behalf of HPE, October 2015

FIGURE 7
Cloud Ecosystems Offer More Expansive Portfolio And Service Bundles That Benefit End Customers

"How do you believe your customers benefit from your cloud partner ecosystem?"



Base: 261 decision-makers at technology channel partners within Australia, North America, Europe, and LATAM

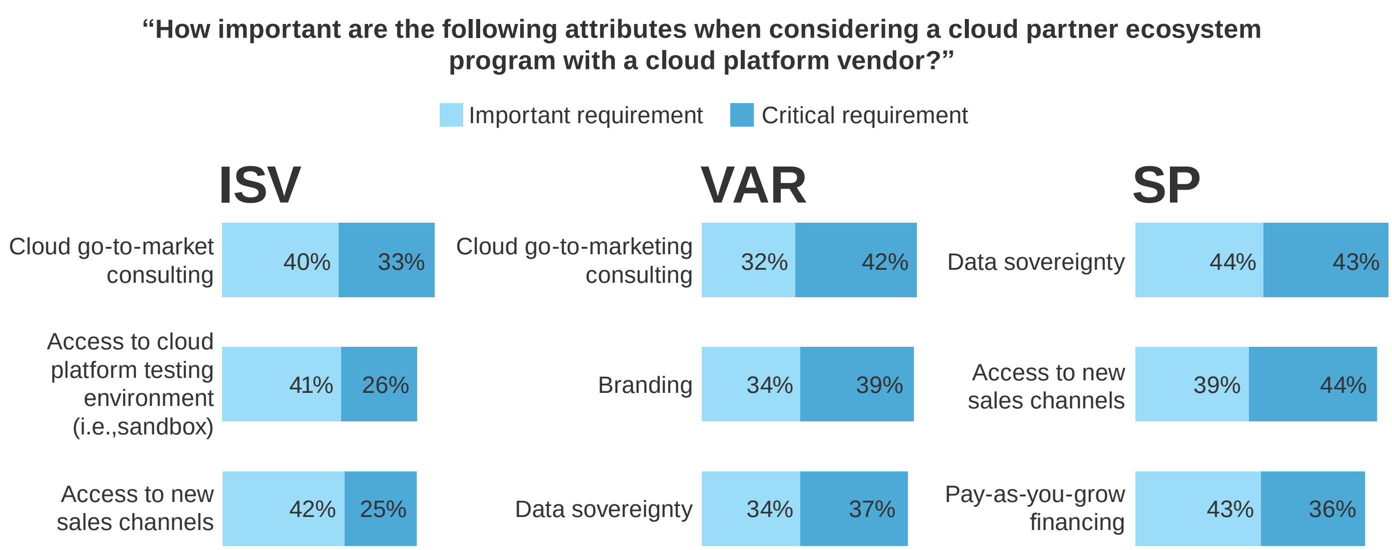
Source: A commissioned study conducted by Forrester Consulting on behalf of HPE, October 2015

- **Partners have different criteria when assessing cloud partner programs.** Many major tech platform vendors (and a number of smaller ones) have cloud partner programs, each with different attributes. Partners must select the partner programs that complement their business and support their development initiatives. ISVs ranked cloud go-to-market consulting as the top attribute of a cloud partner ecosystem program, followed by access to a cloud platform testing environment and access to new sales channels. SPs ranked their top three attributes as data sovereignty, access to new sales channels, and pay-as-you-grow financing. VARs most value cloud go-to-market consulting, branding, and data sovereignty (see Figure 8).

- **Having choices in platforms and services is a key decision driver for partners.** Much like customers do not want to be locked into a specific vendor or technology platform, partners do not want to be locked into a cloud ecosystem that limits choice and openness. One key requirement that is important to all partners is that they have choices in technology platforms, cloud applications and services, commercial models, and go-to-market models. They can choose the partners that align with their strategy, complement their strengths, and help them achieve their business outcomes more quickly.

FIGURE 8

Different Partner Types Have Different Needs From A Cloud Partner Ecosystem



Base: 261 decision-makers at technology channel partners within Australia, North America, Europe, and LATAM

Source: A commissioned study conducted by Forrester Consulting on behalf of HPE, October 2015

Key Recommendations

Forrester's in-depth surveys with channel business executives yielded several important observations:

- **The distinction between channel partners is blurring as they expand beyond their traditional business models.** In the "old world order," VARs sold solutions (to be operated by customers), and SPs provided hosting solutions as a service (the SP was the operator). ISVs are becoming service providers themselves as they move to the SaaS model. VARs, SPs, and ISVs are coming to realize that their roles and business models are beginning to overlap with others. Channel partners must continue to adapt their solution delivery models to support multiple potentially integrated forms of technology consumption (utilization).
- **Cloud ecosystems yield comprehensive value to customers and each partner.** Very few ISVs, VARs, and SPs, even those with a hybrid business model, have the full set of resources and offerings to meet the demands of today's customers. Partners can fill their gaps and meet customers' needs by leveraging the intra-network resources of a cloud ecosystem. "A strong man knows his weaknesses and guards against them" and "a man's got to know his limitations" are quotes that are indicative of this.[4] Partners should leverage their market development funds to seek out and collaborate with other partners that can complement their capabilities.
- **Choices in cloud platforms and services are critical in a partner ecosystem.** Today, cloud solutions come in all shapes and sizes, including vertical industry-compliant, application-specific, functional-oriented, and security-enabled. Customers know this and are striving to maintain compatibility for — and comprehensive management of — their past cloud investments with future solutions and their private cloud architectures with public cloud resources. Partners should choose an ecosystem of partners that offer multiple platform technologies, workload and services categories, and sales channels and commercial models in order to achieve their business goals.

Appendix A: Methodology

In this study, Forrester conducted an online survey of tech industry channel partner organizations in North America (the US and Canada); Europe (the UK, France, and Germany); Latin America (Mexico and Brazil); and Australia to evaluate their adoption and perception of cloud products, services, and partner programs. Survey participants included business strategy decision-makers in organizations that identify as independent software vendors, service providers, and/or value-added resellers. Respondents were offered a small incentive as a thank you for time spent on the survey. The study began and was completed in October 2015.

Project director: Mark Brozek, Market Impact Consultant
Mark's practice helps organizations understand and engage with their customers, through objective research studies.

Contributing research: Forrester's B2B Marketing Research Group
To read Forrester's related research, please visit [Forrester.com]

Appendix B: Supplemental Material

RELATED FORRESTER RESEARCH

"Channel Partners' Shifting Value-Add — And Their Digital Potential," Forrester Research, Inc., November 17, 2015

"Navigating Tech Industry Channel Changes And Churns," Forrester Research, Inc., August 5, 2015

"Cloud Evolves From Point Solution To Strategic Enabler Of The New Connected Economy," Forrester Research, Inc., January 2, 2015

"Create A Winning SaaS-Based Digital Ecosystem For The Digital Business Era," Forrester Research, Inc., September 28, 2015

Appendix C: Endnotes

[1] Source: "Channel Partners' Shifting Value-Add — And Their Digital Potential," Forrester Research, Inc., November 17, 2015.

[2] Source: "Channel Partners' Shifting Value-Add — And Their Digital Potential," Forrester Research, Inc., November 17, 2015.

[3] Source: "Create A Winning SaaS-Based Digital Ecosystem For The Digital Business Era," Forrester Research, Inc., September 28, 2015.

[4] Source: *The Industrial School Journal*, The Boys' Industrial School, 1919 and "Magnum Force," Malpaso Productions, 1793.