

Increasing Profit Margins in the Cloud


For many VARs and MSPs, SaaS and cloud have been part of the conversation for several years now. What has been **elusive is the profitability**. How can you justify adding technical resources to support the cloud from a vendor you don't know? And how can you prioritize which vendor to work with when there are so many popping up every day?

You could follow the popular categories like **online storage and backup**, which has an influx not just of resellers and partners in the eco-system, but new vendors are popping up every day. Your end customers are overwhelmed with choices as well. The other path is to take on **cloud services** that no one else is tapping into, or at least where the masses of VARs and MSPs haven't yet gotten entrenched in. The challenge here might be that it becomes more of an educational sale to your end customers.

Picking a Path: Vendor Evaluation Criteria

So which path should you take when you are trying to **shift your business** to one that has recurring revenue, and more robust profitability that can also scale without requiring a lot of upfront investment? Recurring revenue means that the business continues to grow each month and the value of the business also increases. Based on the market demand and interest, and for example sake, I'll focus our vendor criteria on **cloud-based** services.

Here are a few criteria you can use to judge for yourself:



Which Cloud Vendor Should You Choose?

The logo for dinCloud, featuring a stylized blue and orange speech bubble with a white keyhole icon inside, followed by the text "dinCloud" in a blue sans-serif font.

What cloud service has buzz and can pique your prospects' interest?

Choose a category that has buzz and mystique. For example, **hosted virtual desktops** (also known as Desktop-as-a-Service, or DaaS) are part of an evolutionary path within IT for customers. First, companies virtualized their servers and increased productivity within IT and lowered their costs. Now, they can do the same thing with the desktop and extend that productivity gain throughout the entire organization, not just IT.

Looking for categories where customers have heard of the concept, but want to learn more is a great way to get appointments and conversations started. Some topics are complex, so it gives you an opportunity to show value as an educator and advisor on the benefits and ability to implement something that isn't purely self-service.

Which cloud services allow you to demonstrate value?

SaaS vendors strive to scale by allowing the end customer to activate their service online, configure it, and then invest in customer success teams to onboard their customers. Many SaaS offerings therefore are self-service for a customer and don't require a lot of consultation. Some, such as ERP and CRM systems, can become complex and SaaS vendors encourage an eco-system of consulting partners to provide early stage advice (and also opportunity for implementation). But, if you are looking to identify services that truly require a partner's assistance, look for services that are complex yet deliver value to the end user. For example, hosted virtual desktops not only enable you to provide upfront services, such as network assessments, but they also involve data migration, deployment, and setup. An additional benefit is that you can also attach ongoing managed services, like monitoring services and helpdesk, among many others.

Start with a Value Grid

You can create your own evaluation grid based on the criteria below with the various services you are considering. Then, score the services based on how much extra benefit it brings your business.

		Example
Product	The various products you are considering go here (SaaS, cloud, etc.)	hosted virtual desktop (DaaS)
Upfront (pre-sale) services	Does the product give you the opportunity to provide services without requiring a sale? Put Yes or No here and notate what those could be in a second phase.	Yes Readiness assessment Network assessment Telecom (pipes)
Onboarding related services	Does the product allow you to provide services related to getting the customer set up? Put Yes or No here and expound on it.	Yes Data migration User migration Security, such as SSO and MFA High Availability and BC/DR setup
Ongoing services	Does the product give you an opportunity to provide on-going services? Put Yes or No here and list what those might be.	Yes Network monitoring, Server monitoring, Workspace monitoring, Helpdesk
Add-on services	Does the product allow you in short term or near-term to add-on related services or products? Put Yes or No here and list or flag it for more research.	Yes Security add-ons IDS/IDP Vulnerability assessment Regulatory assessments (GRC)

What cloud service helps you acquire new customers?

As you try to expand your business, you're likely looking for ways to add net-new customers. It's always great to have your existing customers buy from you, but what if you are working with a new vendor? You face less risk introducing a brand new customer to a vendor than to an existing customer where the rest of your relationship might be exposed if things don't go as planned.

Products that have already gained adoption, but are just beyond the grasp of a

customer make for great conversation. Most resellers are approaching their prospects with the notion of moving to the cloud. However, having something different to say, and providing more education, can open doors and help develop the foundation for a long-term relationship.

What products help you address customer needs?

You've likely heard a lot about outcome based selling – what are your customers trying to achieve? HVDs/DaaS offer use cases ranging from usage across an entire organization to specific needs, such as supporting remote workers or contractors, or accelerating a merger or acquisition. Its also a big part of digital transformation, which is a major topic on the minds of business and technology executives currently.

How much value are you offering customers?

Products like online backup are low priced, low value, and high risk. Customers see online backup as an insurance policy and aren't too thrilled with paying for it. There is also little work in setting up an online backup so it offers little margin or opportunity from a services perspective for you. However, the risk is extremely high because of the confidential and critical nature of the data. If an **online backup fails**, or a recovery effort fails, the blame and liability is much higher for the partner in proportion to the cost for the product.

Instead, you are better off looking for products that provide higher value to your customers.

Is the product sticky?

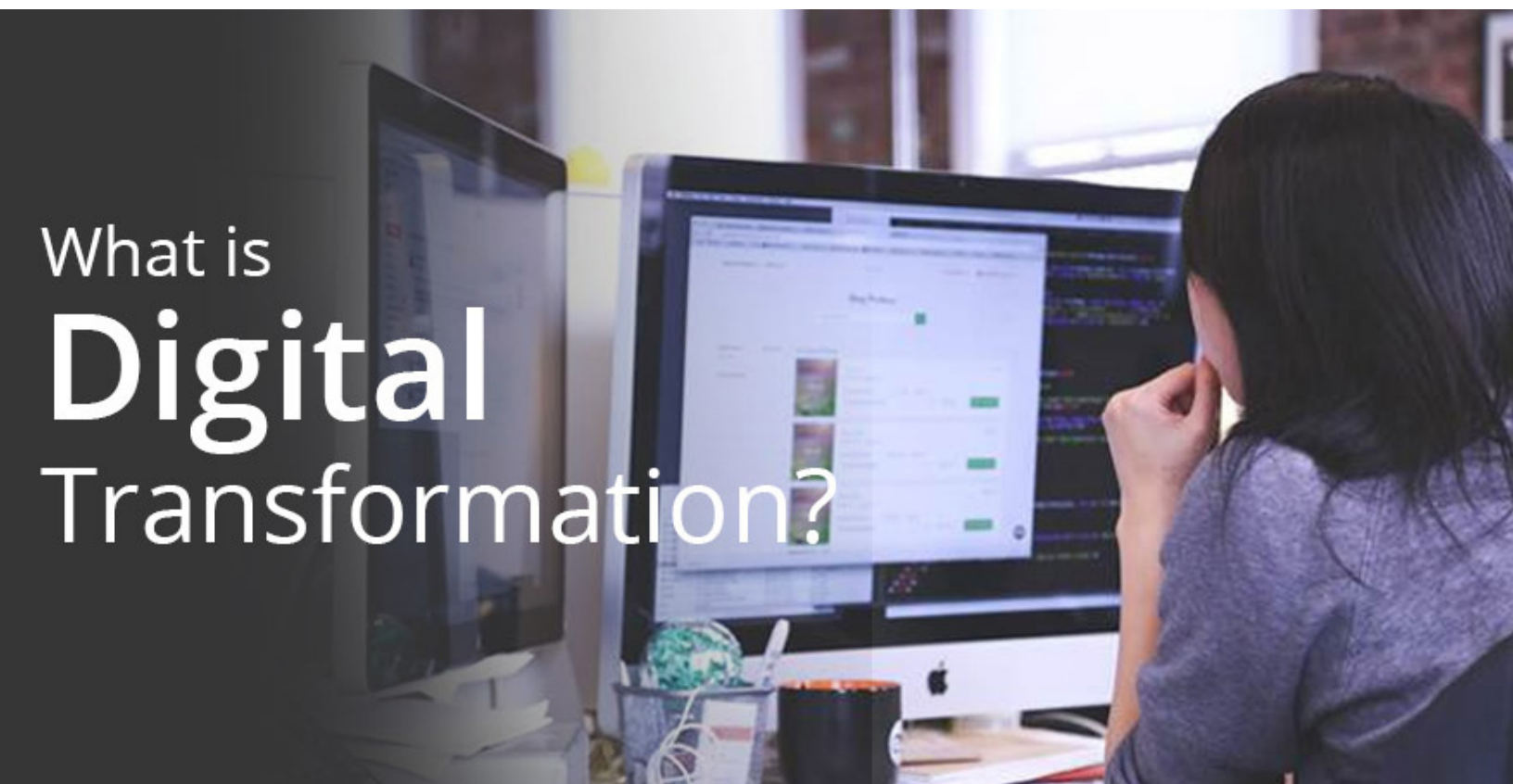
Some products are very easy to “rip and replace.” If a customer is not satisfied with a product, they can replace it with another that functions in a relatively similar fashion with a similar outcome. When looking for a sticky product, also consider if it makes your company sticky within the account. If you find products that allow you to provide related services, such as monitoring and helpdesk, it allows you to not only show more value, but helps your company remain more relevant within the product use.

Does the product raise your visibility within the customer?

We worked with one large reseller who used to fulfill orders for software licensing for a

very large financial services customer, but when we jointly worked on a proposal for HVDs/DaaS, the profile of the reseller rose suddenly. They were invited to participate in much higher level meetings. Instead of only getting time with procurement, they were speaking with multiple people within the IT organization. They also were invited to expand their relationship into lucrative data center hardware bids, such as networking equipment and servers. The sales rep on the account was amazed at how just speaking about HVDs/DaaS raised their profile and put them in a new light with their customer. Meetings suddenly involve very senior executives who are keen to learn about the technology and what it can do for their business, and the relationship becomes much stronger between resellers and their customers.

This is probably a typical story for many resellers, and just one example of **how cloud services are more transformative** and in line with digital transformation that companies seek today.



What is Digital Transformation?

When evaluating a product, and the related margins, this is one criteria that also contributes to longevity at customers and valuation of your business.

Financial Criteria

You also want to look at factors that help you build out a forecast, such as:

- i. revenue contribution,
- ii. average deal size,
- iii. revenue per unit,
- iv. profit per unit,
- v. profit margin as a percent

For example, if you have a prospect with 100 users that are candidates for HVDs/DaaS and you package a service to them for \$150 per user, you can generate an average deal size of \$15,000 per month.

Easy to Work With

Some vendors are very large companies and they have many product divisions. You might have one channel manager assigned and then multiple overlays. Typically, you get lost in the shuffle and either the squeaky wheel gets the oil, or the big boys capture the vendor's mindshare. Since you want to provide a high value service to your customers, it should be easy to work with your vendor. Look for a vendor where you, as their partner, have high level visibility and access to their management team. This will show you as a strong partner, and give you more credibility with your customers, allowing you to get help when you need it.

Other Criterion

Of course, there are numerous other criterion and each company is going to have its own particular criteria that are important as well. Be sure to note those down and include them in the evaluation grid and attach a score to it.