



Partnering in the Cloud

2015 ISV REPORT

An in-depth look into how today's cloud solution providers create and sustain successful partnerships while empowering customers to move to the cloud.



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ISV Survey Response Analysis
November 18th, 2015

GOALS AND METHODOLOGY

In June 2015, the Cloud Technology Alliance surveyed independent software vendors (ISVs) to understand how they take their cloud solutions to market. Respondents were asked a series of initial questions to categorize their responses, and were then presented with thirty in-depth questions on their behaviors, experiences, and expectations.

The result is an in-depth look into how today's ISVs work with the channel to take their solutions to market.

Ninety-two companies responded to the survey, including both Google Apps for Work and Microsoft Office 365 ISVs. 72% of respondents are based in North America, 26% in the EMEA region, and 3% in Central/South America and the Caribbean.

SECTIONS

This report is organized into seven sections:

1. [ISV Breakdown](#) - An overview of respondents' demographics, go-to-market strategies, and pricing models
2. [How ISVs work with the channel](#) - How ISVs manage and review their channel partners' performance
3. [Channel conflict](#) - ISV frustrations when working with the channel
4. [Channel recruiting and program structures best practices](#) - Tactics for building a successful channel program
5. [How ISVs work with the channel to close business](#) - How an ISV's sales team is structured and compensated to work with the channel
6. [Future investments](#) - How ISVs are investing in the long-term success of their channel partnerships
7. [Achieving vendor-channel alignment](#) - Overcoming tension between the ISVs and potential channel partners

The Cloud Technology Alliance also conducted a [similar survey with members of the channel](#) involved in taking cloud solutions to market. In several instances we will cross-reference information from that survey.

ISV BREAKDOWN

The majority of ISVs surveyed use some sort of free version of their product to go-to-market, with **61% offering free trials and 16% leveraging a freemium-pricing model**. Both of these strategies provide prospects an easy way to try solutions before engaging with a partner or directly with the ISV.

When it comes to pricing models, the majority of respondents price on a per-user basis. Some companies (13%) – mostly in the Microsoft ecosystem – price their solutions based on the total number of employees in an organization.

A few Google partners choose to base their pricing on the number of users in a select part of the organization (e.g. based on Google Apps Org. Units). Very few ISVs employ “usage-based” pricing models.



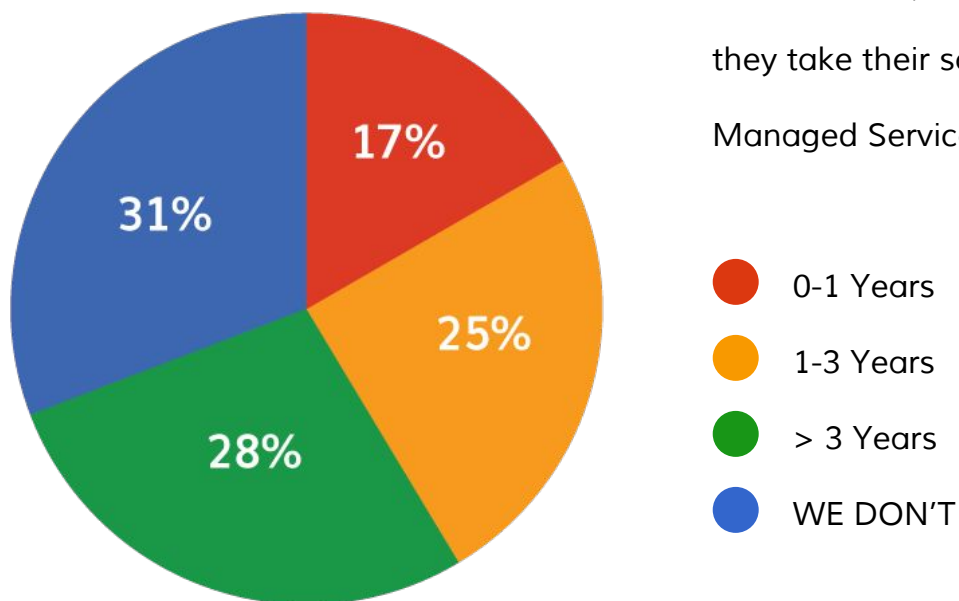
HOW ISVs WORK WITH THE CHANNEL

Before jumping into how the respondents work with the channel, we identified that 31% (mostly Google Apps for Work ISVs) do not work with the channel. These companies are likely in the early stages of launching their products or have optimized for e-commerce.

For the ISVs who are working with the channel, the majority of respondents have been doing so for over three years.

We know ISVs are working with the channel, but are they simply referring business? Are they closing deals? Also, what types of partners are they working with?

Forty nine percent of respondents said that they have a Referral Partner program (not necessarily exclusively), with Microsoft ISVs leveraging referral partners more often. Not surprisingly, Google partners are more likely to leverage "Cloud Service Providers" (46% vs. 33%). Only 26% of the respondents said they take their solutions to market through Managed Service Providers.



HOW ISVs WORK WITH THE CHANNEL

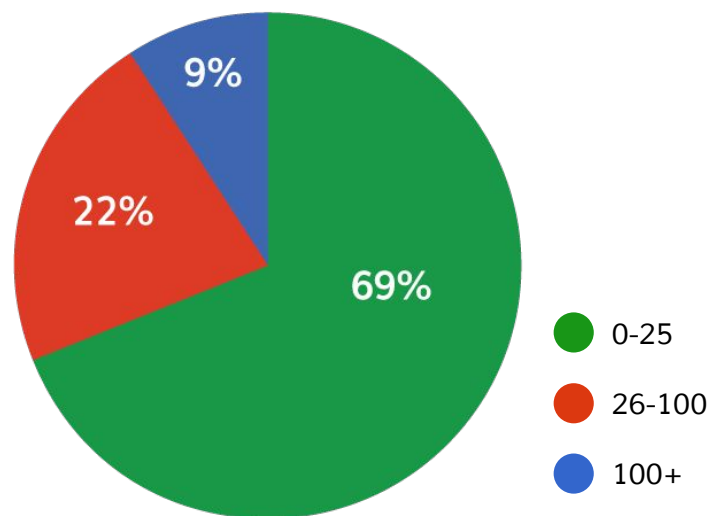
Growing Revenues Through the Channel

Respondents were also asked what percentage of their revenues goes through the channel. Collectively, 47% of ISVs reported they receive less than 25% of their revenues through channel partners. Microsoft ISVs were consistent, in terms of the maturity of their channel programs, with nearly half (45%) reporting between 25% and 75% of revenues go through partners.

Channel Program Size

Channel programs appear to be quite small (or still developing), with the majority of ISVs working with less than 25 partners.

To provide perspective, we asked channel partners a similar question in our [Channel Partnering in the Cloud survey](#) and Google Apps partners reported that they typically only work



with less than five vendors, while Microsoft partners typically work with 6-10 vendors. Both parties tend to be focused on the quality, rather than quantity, of their vendors.

HOW ISVs WORK WITH THE CHANNEL

Managing Expectations

Are ISVs rigorous when it comes to reviewing their channel partners for performance and fit? While you might assume so, only 60% of the ISVs surveyed review and cut non-performing partners, and only 14% do this systematically. Interestingly, the numbers differ when you compare the practices of Microsoft ISVs vs Google ISVs (with only 54% of Microsoft ISVs reporting that they review their channel partners' performance, while 65% of Google ISVs say that they review their partners' performance).

Channel partners were asked a similar question in the [Channel Partnering in the Cloud survey](#) and more than 90% of channel partners said they "Frequently" conduct strategic reviews of their vendor relationships. The channel is extremely disciplined when it comes to reviewing their portfolios and weeding out under-performing products, which is a stark contrast to what we have seen on the ISV side. The top three reasons why a channel partner would drop a vendor are:

- "The solution failed to deliver"
- "The vendor failed to deliver on promises"
- "The vendor changed our margins"

HOW ISVs WORK WITH THE CHANNEL

The Role of the Channel

In addition to understanding what types of channel partners ISVs chose to work with, we also asked them about their expectations in terms of the role that partners will play in closing and managing customers.

- **Should channel partners close business themselves?** Only 36% of the respondents expect channel partners to be self-sufficient in closing business.
- **Do you expect your partners to qualify leads?** 38% of the respondents said their partners were responsible for qualifying leads, although the responses differed between Microsoft and Google ISVs (27% vs. 46%), perhaps reflecting the higher incidence of pure “referral” partners in the Microsoft channel.
- **Are channel partners deploying solutions?** Only 31% expect their partners to deploy solutions at their customers’ sites. Again, responses differed between Microsoft and Google ISVs (40% vs. 25%), possibly reflecting the nature of the solutions themselves.
- **Who owns the customer relationship after the deal closes?** Only 33% of ISVs surveyed expect their channel partners to support and bill their customers, with only 10% of ISVs expecting their partners to close upsell opportunities and renewals.

Who owns the customer relationship?

This age old question will always be a source of tension in the channel. In the [Channel Partnering in the Cloud survey](#), partners ranked “The vendor makes its partners responsible for renewals and upsells” as “Very Important” when evaluating any vendor’s channel program, indicating channel partners prefer to own renewals and upsells.

CHANNEL CONFLICT

Creating a channel program and recruiting and managing channel partners is hard work, but very rewarding when done right. We wanted to understand the major frustrations that ISVs see when working with their partners.

The good news is that we are not seeing a lot of frustration around how the channel works with an ISV's direct sales teams. ISVs are primarily concerned with:

1. *Recruiting the right partners;*
2. *Improving their partners' technical competencies*
3. *Getting partners to introduce the ISV's solution to customers and prospects.*

Only 3% of the respondents rated "Avoiding conflict with our Direct reps" as a major frustration.

Compare this to the responses in the "Partnering in the Cloud" survey and you can see some misalignment. Channel partners surveyed said that their top challenges when it comes to working with ISVs were:

1. *Improving how we sell vendors' solutions*
2. *Becoming technically competent on vendors' solutions*
3. *Selecting the right vendors*

The biggest misalignment is channel conflict with direct reps, with 11% of channel partners surveyed saying this was one of the top challenges, and only 2% of ISVs highlighting this as a key challenge.

CHANNEL CONFLICT

What has been your biggest challenge when it comes to working with partners in the last 12 months?		What has been your 3 biggest challenges when it comes to working with vendors the last 12 months?	
ISVs		Channel	
Recruiting the right partners (1)	25%	Selecting the right vendors (3)	20%
Avoiding conflict with our Direct reps	2%	Avoiding conflict with vendors' Direct sales reps	11%
Improving partners' sales competencies	17%	Improving how we sell vendors' solutions (1)	25%
Improving partners' technical competencies	22%	Becoming technically competent on vendors' solutions (2)	22%
Improving sales forecasting	17%	Improving sales forecasting	6%
Implementing a business planning process with partners	17%	Implementing a business planning process with vendors	16%

CHANNEL RECRUITING AND PROGRAM STRUCTURE BEST PRACTICES

A great product that has traction with end users is the best place to start, but how do ISVs actually build a successful channel program? We asked ISVs to rank the methods they use to recruit channel partners.

- There is universal agreement amongst ISVs and members of the channel that broad-based partner recruiting programs don't work. Channel partners in the "Partnering in the Cloud" survey stated that they typically only evaluate new solutions in response to customer demand.
- The best ISVs focus on selecting which channel partners to strategically recruit. Microsoft ISVs, in particular, focus here, with 60% responding that "Selective recruiting of partners" is their most relevant tactic for recruiting.



- Both ISVs and channel partners listen when customers recommend that they work together (39% of ISVs said that this was the most important method that they use when it comes to channel recruiting).

CHANNEL RECRUITING AND PROGRAM STRUCTURE BEST PRACTICES

We asked ISVs to rank how they evaluate the fit of prospective channel partners.

The responses from “Most Important” to “Least relevant” were:

1. *The partner brought us a deal*
2. *They understand our technology and/or sell complementary solutions*
3. *They will dedicate sales resources to our solution*
4. *They build and commit to business plans with vendors*
5. *They sell into our customer base*
6. *They already sell competing solutions*

It is interesting to note that ISVs discount the fact that a prospective channel partner already sells a competing solution. They may be missing the opportunity to leverage domain knowledge and the fact that the channel often presents their customers with multiple choices in each category.

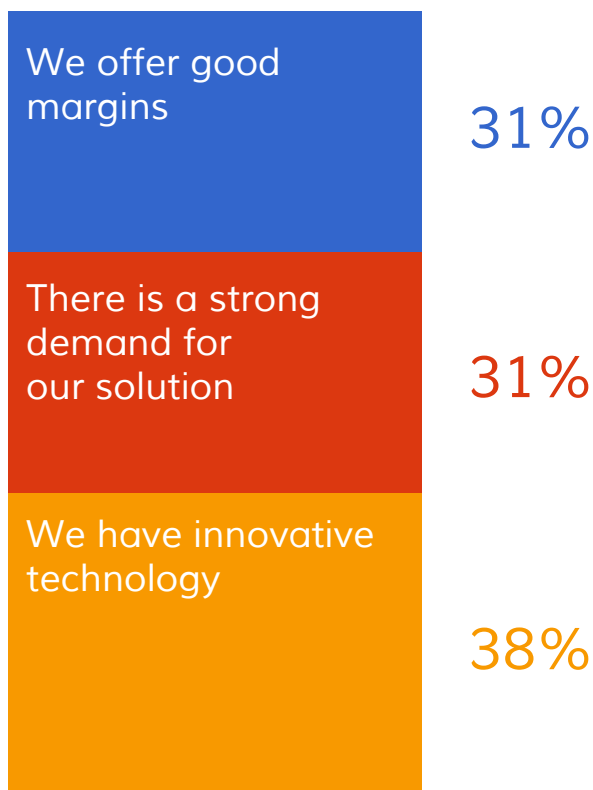
In the “Partnering in the Cloud” survey, members of the channel said “We strategically review our portfolio of solutions to identify gaps and weed out weak vendors.” This is in line with both ISVs and the channel becoming much more strategic in terms of selecting which companies to partner with.

CHANNEL RECRUITING AND PROGRAM STRUCTURE BEST PRACTICES

Vendor Program Structure Analysis

Great products and shared customer relationships help to spark a partnership, but when it comes to ensuring repeat business and loyalty from channel partners, how a channel program is structured matters. We asked ISVs to select the top three features of their channel program.

The winners were:



In general there is alignment between ISVs and the channel when it comes to the most important reason to partner. In the “Partnering in the Cloud” survey, members of the channel said that “Innovative technology” and “Strong market demand” were the top two reasons why they would choose to work with a vendor. But that is where the alignment ends.

In the same study, channel partners stated that “The vendor provides leads” is a “Very important” component of any program, while ISVs disagree. The channel considers the availability of dedicated partner managers to be “Very important” while ISVs don’t place as much emphasis on this investment. The last area of misalignment is the expectations around the statement “The vendor makes its partners responsible for renewals and upsells.”

CHANNEL RECRUITING AND PROGRAM STRUCTURE BEST PRACTICES

What makes your channel program appealing to prospective partners? Please select your top 3 choices:		Rank how important the following aspects of a vendor's channel program are when you evaluate a potential partnership:	
ISVs		Channel	
We have innovative technology	38%	Innovative technology	EXTREMELY
There is strong demand for our solution	31%	Strong market demand for their solution	EXTREMELY
We only sell through the channel	8%	The vendor only sells through the channel	NEUTRAL
We provide our partners with leads	18%	The vendor provides leads	VERY
We offer good margins	31%	The vendor offers good margins	VERY
We give them dedicated Partner Management resources	5%	The vendor has Dedicated Partner Management resources	VERY
Partners are responsible for renewals and upsells	8%	The vendor makes its partners responsible for renewals and upsells	VERY
Our sales teams are compensated to sell with partners	5%	The vendor's Sales team is paid on channel business	NEUTRAL
We offer incentives for deal registration	5%	The vendor offers incentives for Deal Registration	VERY
We offer a "reseller console" to allow partners to manage customer deployments	5%	Availability of a "reseller console" to manage customers' deployments	VERY
Partners deliver on lucrative professional services opportunities around our technology	23%	Lucrative add-on Professional Services	VERY

CHANNEL RECRUITING AND PROGRAM STRUCTURE BEST PRACTICES

Margins

When looking into the margins that ISVs offer their channel partners, we first wanted to know if all partners receive the same margins for reselling products. In general (57% of the responses), ISVs give all their partners the same margin. In the cases where margins differ, the reasons given include that the ISV has created a tiered channel program, whether a partner has committed to a business plan, or if they are referral partners.

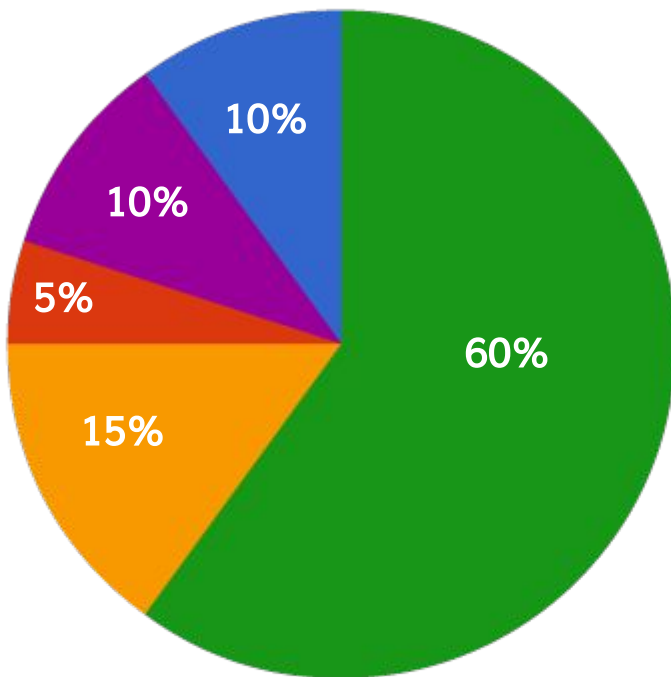
As for the actual margins offered, they range significantly. Most ISVs surveyed offer between 10% and 20% as a base margin rate. One ISV stated that they offer either “a 50/50 or 60/40 split depending on who takes on the support” but that was an outlier. (See below for details on deal registration programs.)

CHANNEL RECRUITING AND PROGRAM STRUCTURE BEST PRACTICES

Training the Channel Partners

In almost two-thirds of the responses, ISVs said their sales or channel teams take responsibility for training partners. However, very few (15%) ISVs require partners to pass a certification test on

their products – and in every case those were Google Apps ISVs. Surprisingly, 20% of the ISVs surveyed either don't offer training or at all or rely on partners to train themselves while providing training materials.

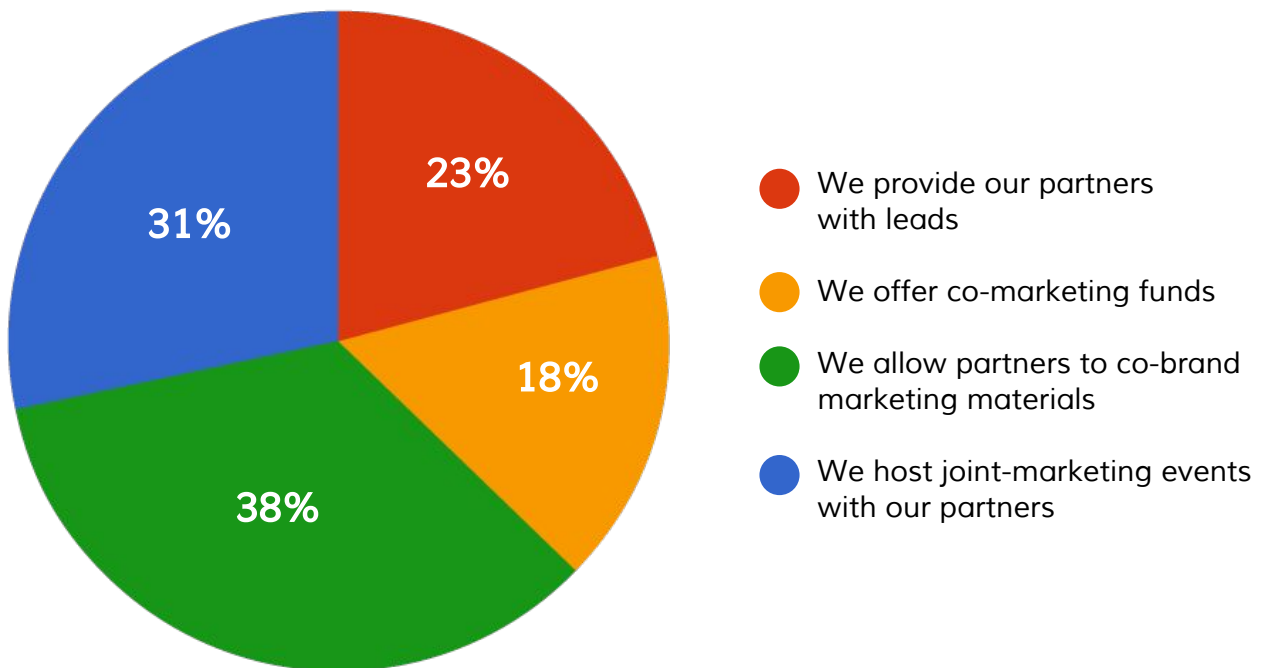


- Members of our channel and/or sales teams train our partners
- Members of our channel and/or sales teams train our partners AND we require partners to pass a certification test
- None of the above
- We do not offer training for partners
- We give our partners materials to train themselves

CHANNEL RECRUITING AND PROGRAM STRUCTURE BEST PRACTICES

Marketing Assistance

Channel partners often rely on their vendors to create awareness for their solutions, but only 23% of the ISVs surveyed said they provide channel partners with leads. The most popular joint-marketing activity is to provide partners with materials for them to co-brand.



In the “Partnering in the Cloud” report, 30% of the channel partners surveyed said that “The vendor provides leads” is an “Extremely important” criteria when selecting which vendors to work with.

HOW ISVS WORK WITH THE CHANNEL TO CLOSE BUSINESS

How an ISV's sales team is structured and compensated to work with the channel matters. In some models, ISVs will dedicate certain markets or customer segments to be only sold through the channel. In others, the direct sales team is incentivized to work with partners. We asked several questions to understand how ISVs are asking their partners to work with their sales teams to close business.

Cooperating to Close Business

In 67% of cases, ISVs responded that their sales teams are both encouraged and compensated to work with the channel. 20% of respondents said they do not pay their reps on channel business closed in their territories.

In the situations where the ISVs compensate their sales reps on channel business in their territory, most (35%) are compensated on the "net" amount of the deal, while only 15% "gross up" their compensation to recognize the full amount paid by the customer

Deal Registration

It is a best practice for ISVs to provide their channel partners with extra incentives to register deals in advance. The channel partners protect themselves from potential competition, while the ISV gets potentially better visibility into the forecast. Surprisingly, only 33% of ISVs surveyed offer any additional margins for deal registrations (this is skewed by Microsoft ISVs - only 11% of whom offer deal registration incentives).

When deal registrations incentives are offered, the range of additional margin is significant. Most of the ISVs offer an additional 5%, while some offer as much as 15%.

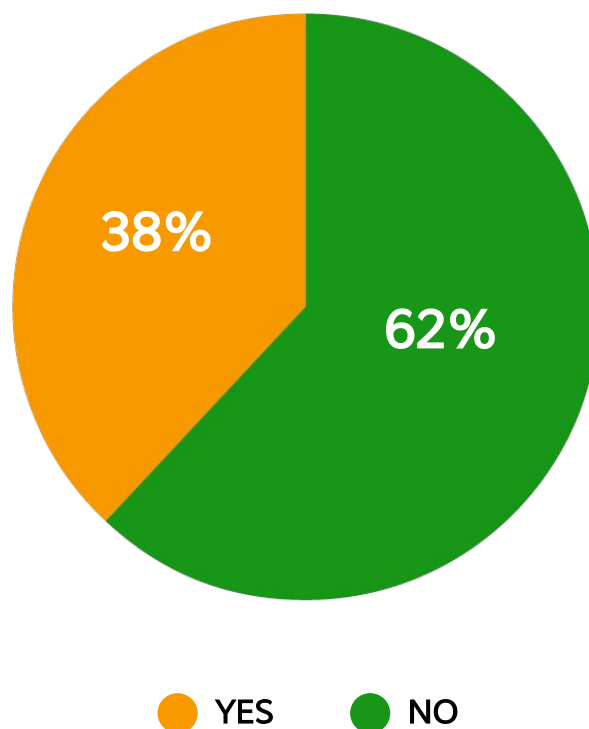
HOW ISVS WORK WITH THE CHANNEL TO CLOSE BUSINESS

Importance of clear expectations

It is a best practice to clearly spell out expectations when it comes to ISVs working with the channel. However, when we asked if they have created a set of partner engagement rules for interaction between their direct sales teams and partners, only 40% of the ISVs surveyed stated that they had.

Customer Ownership

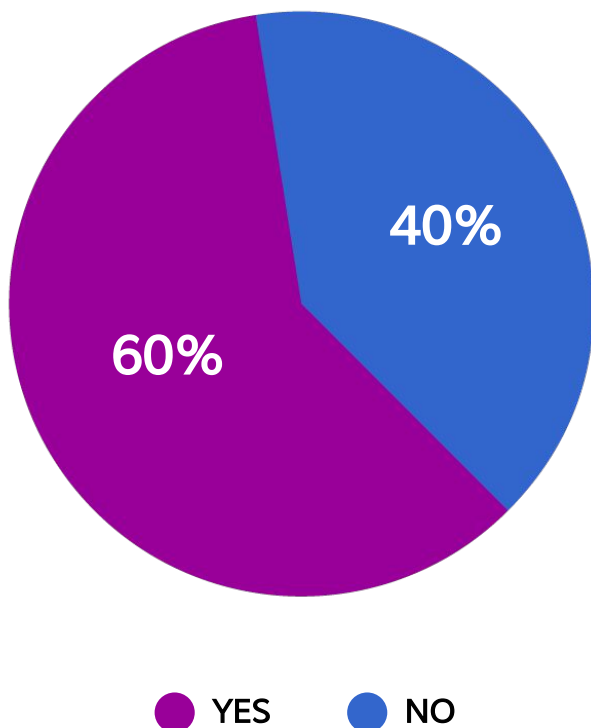
As previously noted, owning responsibility for customer upsells and renewals is important to the channel. We asked the ISVs "Are your partners responsible for customer renewals?" In 62% of the cases they said "NO" (with two-thirds of Google Apps ISVs stating that partners are not responsible for the renewals). When partners do take responsibility for renewals, it is normally at the same margin as the initial sale and for the life of the customer.



HOW ISVS WORK WITH THE CHANNEL TO CLOSE BUSINESS

Forecast Business

Lack of visibility into your forecast can present a problem if a large portion of your revenue goes through channel partners. Twenty-five percent of the respondents said that they do not receive forecasts from their channel partners, while only 5% said they now have partners providing sales forecasts that are as good if not better than their own sales teams. As noted above, offering deal registration incentives often improve the odds of having an accurate sales forecast.



Business Planning

If ISVs aren't getting their partners to provide accurate forecasts, they are also not conducting business planning with their channel partners. Only 40% of the ISVs surveyed said they their channel teams create written business plans with their partners. Upon closer examination, we see that two-thirds of the Microsoft ISVs don't create written business plans with their partners.

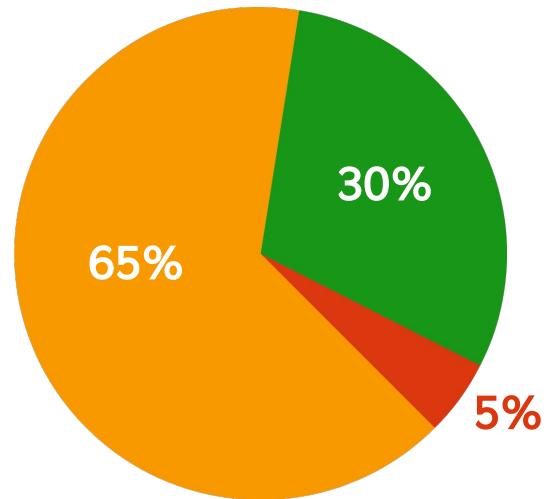
FUTURE CHANNEL INVESTMENTS

There is universal agreement between the Microsoft and Google Apps ISVs surveyed that they will be investing more in channel partnerships in the future.

Where bets are being placed

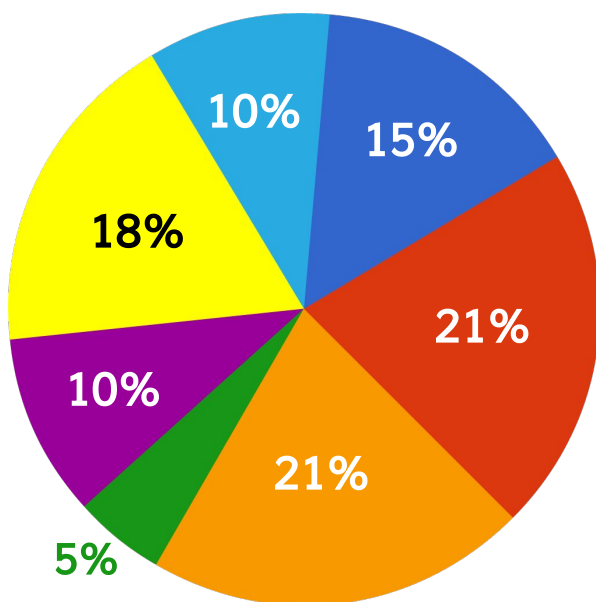
When it comes to future investments in the channel, the top three areas where ISVs will invest are:

- Recruiting more partners – 21%
- Training partners – 21%
- Investing in marketing programs with partners – 18%
(with stronger emphasis here in the Microsoft ISV community)



More About the same Less

ISVs surveyed were least interested in investing in hiring partner or channel managers.



- Recruiting more partners
- Hiring Partner Managers
- Conducting business planning with partners
- Investing in marketing programs with partners
- Deploying partner relationship management (PRM) systems and dashboards
- Creating solutions and services to be delivered by our partners
- Training partners

ACHIEVING VENDOR-CHANNEL ALIGNMENT

There were several responses that highlighted tension or potential tension between the ISVs and the channel partners that they work with. ISVs looking to take their solutions to market through the channel would be wise to pay attention.

Channel conflict is one area that needs constant attention. ISVs don't see a lot of conflict taking place, whereas the channel partners surveyed said this was a top concern.

An expectation around vendors providing their channel partners with leads is another area of misalignment. Channel partners surveyed said *"The vendor provides leads"* is a *"Very important"* component of how they judge a partnership with each potential vendor.

Another area of potential misalignment and missed expectations is who holds responsibility for customer renewals.

Channel partners believe that they should be responsible for customer renewals, while only 38% of the ISVs surveyed give their partners any responsibility for customer renewals.

The last area where there can be better alignment between ISVs and their channel partners is the investment in channel management resources. ISVs believe that having dedicated partner management resources is not a factor in how the channel selects vendors, whereas channel partners place a lot of emphasis on this. Having proper channel managers in place often addresses some of the other issues highlighted in these reports, such as the need for better business planning, training and forecasting.

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CLOUD TECHNOLOGY ALLIANCE

Founded in 2011, the Cloud Technology Alliance is comprised of the leading independent software vendors in the cloud office ecosystem. Serving as the only consortium of cloud-based third party products integrated with IT systems, the Cloud Technology Alliance advocates for the developer community and seeks to advance the entire ecosystem.