

The Modern Microsoft Partner Series

What Solution Providers Need to Know to Thrive in the Cloud and Beyond

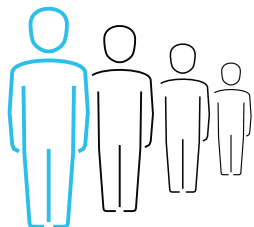


Part 4: Optimize Your Operations

An IDC eBook, Sponsored by Microsoft



Table of Contents



3 Introduction to the Modern Microsoft Partner Series

4 Key Operating Principles

6 Build Efficiency in Your Business

- 7. Pricing is an Art and a Science
- 9. Processes Can Be Your Secret Sauce

11 Repeat, Repeat, Repeat

- 12. There is Always Something Repeatable
- 14. Minimize Exceptions
- 16. Get Good at Triage
- 18. Automate as Much as You Can

20 Run Your Business Like You Mean It

- 21. Don't Neglect to "Work On" the Business
- 22. Metrics That Matter in a Cloud Business
- 24. Invest in Training and Ongoing Learning
- 26. Skill Sets Will Change; Staff Versatility is Important
- 28. Keep Equal Tabs on All Aspects of Operations
- 30. Efficiency = Profitability = Fuel for Growth

32 The Bottom, Bottom Line

- 32. Start
- 33. Grow
- 33. Optimize

Introduction to the Modern Microsoft Partner Series

The Modern Microsoft Partner series is a collection of five eBooks designed to help IT solution providers on their journey to success in the cloud. The series is full of insights and best practices that cover a variety of critical business topics. The first eBook sets up the series and focuses mainly on revealing the compelling evidence around the cloud opportunity. The second book, “Differentiate to Stand Out,” provides advice and ideas from successful partners that are known for something unique. Part 3, “Modernize Sales and Marketing,” looks at best practices in marketing and selling cloud solutions. This fourth book, “Optimize Your Operations,” looks at how optimizing operations and service delivery can lead to efficiency, repeatability and ultimately, profit.

The Modern Microsoft Partner Series



The Booming Cloud Opportunity

Undoubtedly, leading partners will be cloud partners in the future. The cloud is growing very fast and cloud-oriented partners are outperforming their peers.



Differentiate to Stand Out

Successful partners will be known for something. They are masters in a technology, or a vertical, or a business process, often regardless of their geography.



Modernize Sales and Marketing

Leaders will embrace modern techniques to reach customers, especially since the majority of B2B buyers are now making purchase decisions before even talking to a sales rep.



Optimize Your Operations

Profitable solution providers will take operations seriously, focusing on repeatable engagements through methodology, automation, and tools.



Deliver Customer Lifetime Value

In Cloud economics it is no longer about the deal or the initial sale, it is about customer lifetime value. The successful partner will maintain customers for life by ensuring their clients continually get value out of their solutions.

Key Operating Principles

Starting from when you add cloud to your business model and continuing through to building out a robust cloud revenue stream, there are some key things you should keep in mind.

Take a long term view

When you move to the cloud, there may be a period of time when your topline revenue will decrease and you may take a hit on your bottom line because you will incur costs up front but will collect revenue in installments over time. If you keep the reward of achieving a critical mass of subscription customers in mind, the short term pain becomes a minor issue. IDC research shows that as your time in a cloud business increases, your gross profit and revenue growth improve significantly.

Be disciplined

Cloud provides both business opportunities and challenges. As discussed in [Part 2, "Differentiate to Stand Out,"](#) you can no longer afford to be "all things to all people." If you don't have a way to differentiate, you are stuck competing on price alone. However, how well you run your business can be the mechanism that sets you apart. If you are efficient, effective, and deliver quality in a timely manner, customers will take notice.



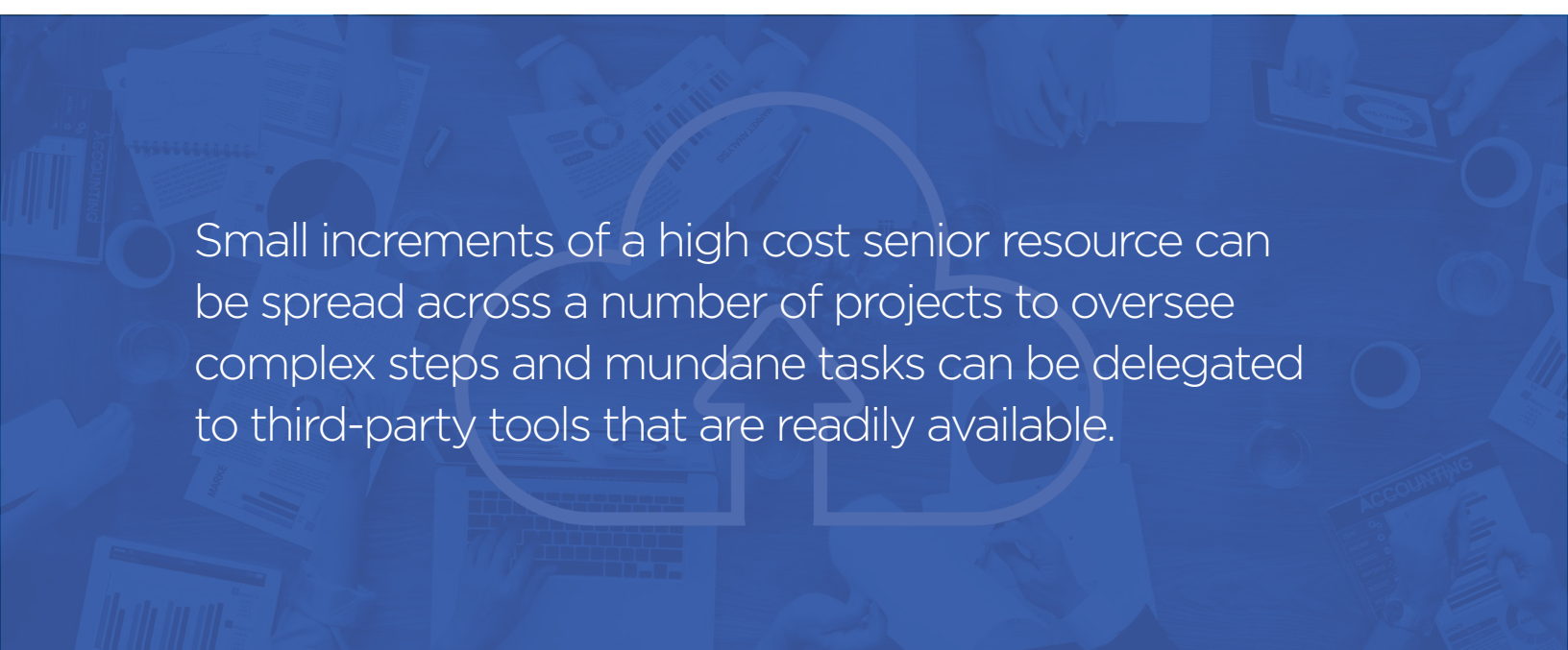
If you keep the reward of achieving a critical mass of subscription customers in mind, the short term pain becomes a minor issue. IDC research shows that as your time in a cloud business increases, your gross profit and revenue growth improve significantly.

Behave like a factory

Think of your projects like products on an assembly line: focus on providing your services with precision. That means using standardized, repeatable “components” and appropriate automation to streamline the processes and enhance quality. Be mindful of deploying the right skills for each task in order to maximize productivity and profitability. For example, small increments of a high cost senior resource can be spread across a number of projects to oversee complex steps and mundane tasks can be delegated to third-party tools that are readily available. (More about some of these solutions later on in this document.)

Stay ahead of the curve

The reality of today’s business and technology environment is that competitive advantage is fleeting. It’s important to pay attention to the world around you. What do your customers need today and in the future? What are your competitors doing? What potential products and services are emerging opportunities? These questions are always top of mind for successful partners. They are also constantly looking for ways to drive costs down while maintaining quality and providing value, especially opportunities for process automation.



Small increments of a high cost senior resource can be spread across a number of projects to oversee complex steps and mundane tasks can be delegated to third-party tools that are readily available.

Build Efficiency in Your Business

“ We use a lot of accelerator templates and process accelerators and have found the value to be on average five times the execution cost. ”

Mark Seeley, CEO, Intellinet

Pricing is an Art and a Science

We have worked out the numbers in our budgeting process. Based on our target profit margin, we work back from there based on the cost and value of our individual resources.

Kevin Seefried,
Founder and President,
TwinEngines

There is no single right way to price repeatable and managed services. Certainly cost recovery enters into the equation, as well as the risks associated with maintaining service levels, but ultimately maximizing margin is directly related to the customer's perceived value. And figuring out how much a customer thinks something is worth is definitely an art. In some cases, they'll pay handsomely for something that's really easy to deliver, while in other cases they won't see value in your cost. It's important to set your price just above what you think you can charge and negotiate down if you have to. If you peg the price too low, it's pretty hard to raise it once you realize your mistake, which sets you up for a big margin squeeze. The key is to find the happy medium between a healthy comfort zone and what the customer finds acceptable.

Here are some examples of how partners approach pricing:

- Rackspace, a specialist in providing managed cloud services, has defined tiers of service that comfortably cover expected Azure consumption, while leaving lots of room to protect profits. Customers sign a flexible agreement, but consumption is paid for based on monthly Azure consumption. That way, if a customer hits a spike in consumption, it gets amortized over the next three months instead of resulting in one huge bill. Rackspace has also created two different tiers of service called "Navigator" and "Aviator". Navigator is for the customer who just wants access to tools, knowledge, and support escalation where Aviator is for those support-seeking customers who want Rackspace to manage the entire Azure experience.



We charge support based on tiers of consumption. For example, if your application chews up \$10,000 a month of Azure consumption, your support fees remain the same even if your Azure bill rises to \$13,000 or even \$18,000.

Jeff DeVerter,
Chief Technologist for Microsoft Technology,
Rackspace

Anything you can do to decouple from day rates is really the answer. For example, you might charge a monthly fee to manage a server. In a perfect world, you would have nothing to do to that server.

Dan Scarfe,
Founder and CTO,
Dot Net Solutions

- TwinEngines, which has built a managed service model around custom application development, has devised a reliable method for fixed pricing that considers the actual cost of resources and inputs required for a project, then layers on the target profit margin.
- Dot Net Solutions, which offers a complete turnkey service to move customers to the cloud, charges based on the service being provided. For example, you might charge a monthly fee to manage a server. The price you set needs to cover the expected amount of active time required to keep the server up and running, taking into account the worst case scenario. In a perfect world, there will be no reactive services work required in any given month, delivering higher margins.

The Bottom Line

- You need to be diligent in identifying the pricing inputs that are relevant to your particular business, such as your fixed and variable costs, your market, or your array of services.
- Be clear about what's included in the fixed price but don't go overboard in revealing exactly what's involved in delivering it.
- Create a good feedback loop and don't be reluctant to change pricing formulas as you learn more about the relevant inputs and variables.
- Always include some slack in your pricing to cover unforeseen circumstances that could affect profitability.

Processes Can Be Your Secret Sauce

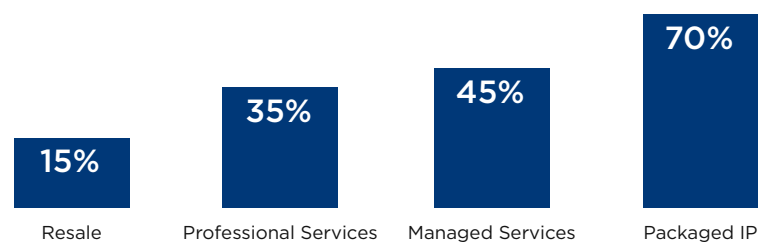
We rely on defined processes and documentation templates as IP and key differentiators from our competitors. This could be scripts that we've written or other artifacts and documents that we've developed. Using this IP as a framework or accelerator for a project enables us to achieve more predictable revenue and outcomes with greater value to our customers.

Mark Seeley, CEO,
Intellinet

Many people automatically associate Intellectual Property (IP) with software, apps, and technology tools. In fact, IP is much more than that. For 10th Magnitude, a national solution provider focused on using Azure to help customers transform their business using the cloud, IP is more around repeatable projects that rapidly demonstrate cloud value. They have packaged repeatable projects that are focused on rapidly demonstrating value within the cloud and identifying the big transformational opportunities.

Every company has or can create their own form of “secret sauce” that is the foundation of standardized and repeatable processes and deliverables. Every solution provider has their own unique collective knowledge and client experience that no one else can replicate. IP is a major catalyst for gross profit. If you can package it up, you can generate as much as twice the gross profit than you would for standard project services.

GROSS PROFIT BY ACTIVITY



Source: IDC 2016, n=726

When you document the steps involved in completing a job or create templates for deliverables, you are creating intellectual property. It's as simple as that. You are also preserving corporate memory and documenting tacit knowledge that will form your unique value proposition and become the basis for differentiation.

Intellinet, a management consulting and Microsoft-centric technology services firm, has found that by taking the time to document processes and create operational IP they can continually fine-tune their approach to provide the best quality in the most efficient manner. Using templates can be many times more efficient than starting from scratch.

Our IP tends to be more around process and methodology rather than software. We have packaged repeatable projects that are focused on rapidly demonstrating value within the cloud and identifying the big transformational opportunities.

Alex Brown, CEO,
10th Magnitude



It is very common to get caught up in delivering projects and solutions and never get to the task of documenting what's been done and the lessons learned along the way. But unless you build in the time to take a breath and take stock of what worked well and what didn't, you will never be able to develop repeatable methods and processes. Successful partners do this by making it part of the job and part of the work culture. It doesn't have to be a boring or thankless task. For example, one best practice partners use is to hold a brief group meeting after a milestone, phase of work or customer renewal to get together, take time out from day-to-day tasks to have a discussion about what could be reused in the future. If you record the discussion and have it transcribed, you are halfway to useful documentation.

Every company has or can create their own form of “secret sauce” that is the foundation of standardized and repeatable processes and deliverables. Every solution provider has their own unique collective knowledge and client experience that no one else can replicate.

The Bottom Line

- Think about why you do things a certain way. Step back and determine whether or not you are really being efficient.
- When you standardize how you do things, you make many things easier. You make it easier to train new staff to be efficient, you make it easier to predict how long it takes to complete a task, and you make it easier to avoid errors of omission.
- Lessons learned are a very important part of the process. Build in a feedback loop that provides a mechanism for continuous improvement. Take the time to write it down.
- Make harvesting repeatable work products a standard task and hold staff accountable for completing it.
- Recognize and reward high value contributions to collective knowledge.

Repeat, Repeat, Repeat

“Large organizations usually have the same need. Helping them with cloud governance is a good example of a repeatable project that you can duplicate with many other customers.”

Anil Singh, Founder and CEO, Hanu Software

There is Always Something Repeatable

“If you look at the sports business, they all have ticketing. They all have concessions. They all have merchandise. They all have e-commerce. They all have web analytics. They all have social. So you can get down to about ten different types of systems they all have. We built out repeatable data extract, transform and load processes for these systems so when a sports organization comes online with us, they’ll have their ticketing data loaded into their portal the same week they sign up.”

Andrew Brodie, CEO
SSB

We’ve heard the most seasoned services firms compare a successful project services practice to a factory: good manufacturers constantly look for ways to increase productivity and optimize performance. For example, a report object that is already designed, written and tested can be re-used many times. Integrating this approach into your delivery methods can increase margin and reduce the need for expensive resources.

SSB is a solution provider that is one of the top leaders in providing ticketing intelligence in the sports industry. They determined the aspects of implementation that are very similar from customer to customer, then packaged the approach and deliverables into repeatable processes. And if you think you don’t have much that could be repeatable, think again. The opportunity to standardize could lie in the nature of an industry, the nature of the typical tasks involved in an implementation, or the nature of the technology being used.

For example, SSB realized that their core customer base – sports teams – all had similar data sources. That realization made it possible to pre-build extract, transfer and load (ETL) scripts that can be used over and over again. This is the type of asset that increases your “efficiency factor” – the ratio of the value of an activity to the actual time it took to complete it. Anything that can be reused contributes to efficiency. The higher your efficiency factor, the more potential for higher margin.



“It makes me smile when I hear one of my competitors talking about whether the cloud is a viable option for them. It just means that their customers will soon be calling me.”

Dan Wright, Managing Director, saberVox, Australia

Even if you don't currently specialize in a particular industry, you can look for similarities in customer problems and needs. Virteva, a full service IT managed services provider, saw a pattern in typical support calls: almost all customers had the same common issues, the biggest one being dealing with password resets. That observation led them to identify and proactively sell predefined solutions for pain points every prospect experienced.

Go back and look at your last 20 or 30 or even 50 projects and see what they have in common. You may be surprised by how many times you have completed a type of project or specific task over and over again. And if you have done something often enough, chances are you have a latent specialization. Successful partners take this discovery to the next level, by wrapping that depth of experience up as a "product" that can then be sold, publicized and marketed as a differentiated skill or service.



"You can usually pick what the top three types of support calls are. Number one is going to be password resets and if you do simple math, most clients are shocked at how expensive this problem is for them. You're going to take your employee offline for 15 minutes. They're going to have to make a phone call to the service desk. It's a big pain. So we say, 'Okay. This is a \$10,000 a month problem for you. Why don't we just go ahead and put in self-service password reset?'"

Tom Kieffer, CEO, Virteva

The Bottom Line

- Even a small piece of a common task, if made repeatable, will be useful. You don't have to standardize everything all at once.
- Look for commonalities in the work you've done for customers in particular industries.
- Take the time to go back and see what previously completed projects may have in common.

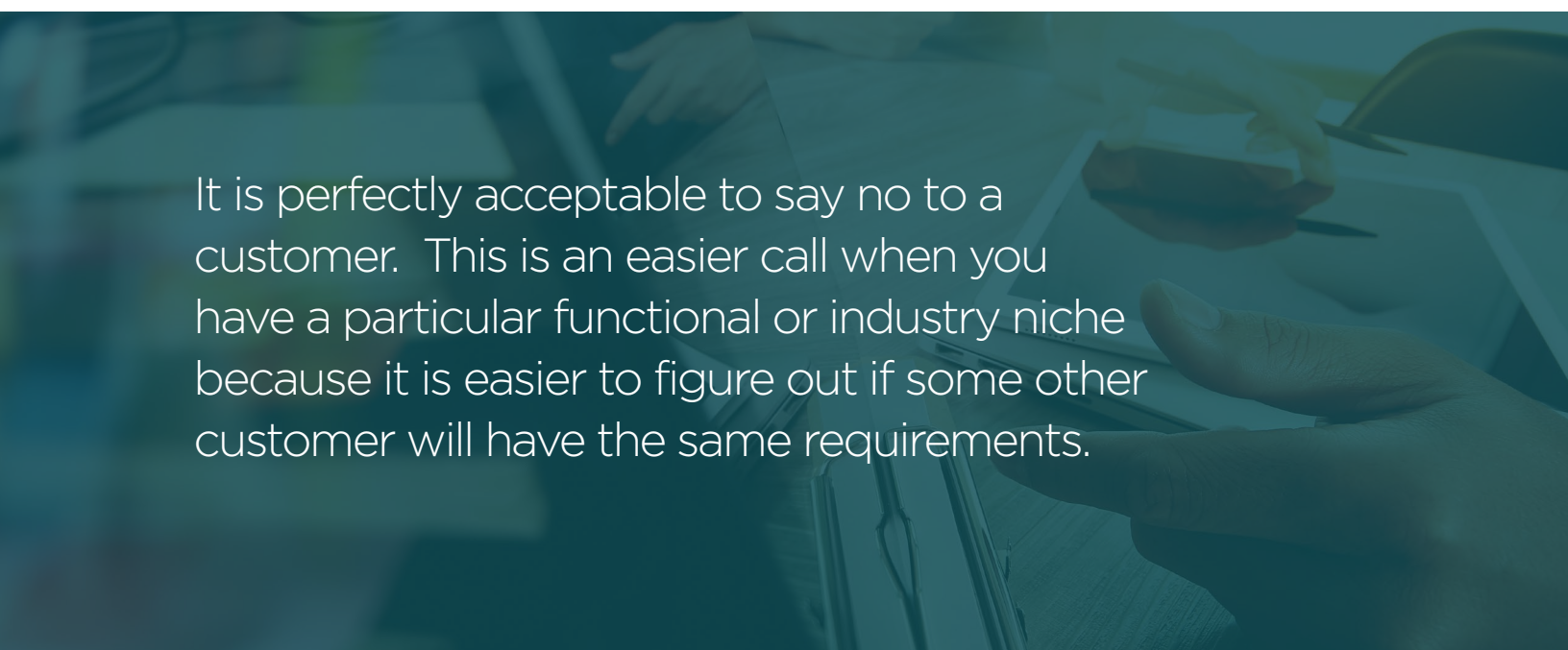
Minimize Exceptions

“We have to keep getting back to not developing custom features. Let’s talk about what’s already in the box. And sure enough, 90% of what they want to do is usually attainable with an existing product.”

**Kevin Conroy, CEO,
Blue Rooster**

The value of something repeatable is in applying it the same way in all circumstances. If you deviate frequently or constantly make exceptions or additions, it completely sidesteps the purpose. Blue Rooster, creator of Rise Foundation, a SaaS based product that delivers a user friendly experience for SharePoint and Office 365, advises drawing a clear line in the sand when it comes to adding custom features to your standard product. They steer the customer towards what’s already in the box and usually find that 90% of what they want is attainable with an existing product.

Of course, situations will arise where one size truly does not fit all. When this happens, you need to make an objective decision: do the extra work to accommodate the exception or walk away from the opportunity. It is perfectly acceptable to say no to a customer. This is an easier call when you have a particular functional or industry niche because it is easier to figure out if some other customer will have the same requirements. If they do, you’ll have a future opportunity for repeatability. This approach has worked well for SELA, which does software development and has their own packaged products. They make a clear



It is perfectly acceptable to say no to a customer. This is an easier call when you have a particular functional or industry niche because it is easier to figure out if some other customer will have the same requirements.

“If we find out that a requirement can be used in different solutions and is a benefit to the product, probably we’ll add that. But if it changes the core of the product we probably won’t.”

Ishai Ram,
Vice President,
SELA

distinction between requirements that would be a good idea to fold into their product and those that should not be included. If it’s something that would be a benefit to the product in general, they’ll probably add it. But if it changes the core of the product, they probably won’t.

Partners that are successful at specializing have usually built their solution around industry best practices. Many companies, especially small and medium-sized ones, find this aspect of standardization very attractive. That’s because they get both the technology and the built-in operational discipline that will help them thrive and grow: standardization that adds opportunity and value.

Of course, you can only minimize exceptions if you can recognize a potential deviation as early as possible. Successful partners say the key is a good discovery process. The goal of the first step of the relationship should be to understand the customer’s requirements and what their cloud solution needs to provide, but it also presents the opportunity to uncover objections and potential show stoppers very early in the game.

The Bottom Line

- When exceptions arise, take the time to figure out if they are really exceptions or not.
- Saying no is a reasonable response to requests that deviate from your standard solution.
- If something that should be standard constantly requires adjustment, go back to the drawing board and fix it.

Get Good at Triage

“We categorize applications into easy, medium and hard buckets. And then as you go into it there’ll be some applications that are more difficult than you think they might be and some applications that are easier than you thought they might be. Ultimately they all offset each other and it all comes out in the wash. So even though there’s variation between them you can still be quite programmatic in terms of the approach that you take.”

Dan Scarfe,
Founder and CTO,
Dot Net Solutions

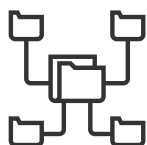
When every customer is unique, how is it possible to consistently use standard delivery processes? Successful standardized approaches start with identifying the characteristics of what makes things the same or different. A pineapple and a banana are both fruit but which one takes less time to peel? It is important to be able to recognize what degree of effort is involved in each typical task on the continuum from the initial sale to the ongoing use of a cloud solution. For example, Dot Net Solutions uses a triage method to categorize a customer’s applications as easy, medium or hard to migrate, with an associated typical amount of effort. That way, it’s possible to pretty much know in advance how to price the work and which tools or methods will be most appropriate to get the job done.

Consistency doesn’t mean that all situations are treated identically. Rather, it means that similar situations are treated in a similar manner. The value of fixed pricing goes right out the window if the required amount of time and resources needed for a task exceeds what was anticipated when the pricing was determined. You need to get good at identifying which standardized approach best matches a particular customer situation.



Dot Net Solutions uses a triage method to categorize a customer’s applications as easy, medium or hard to migrate

Another aspect of triage is allocating resources appropriately. For example, a task or component categorized as “easy” should be suitable for junior (cheaper) staff. Also, pay attention to your profit pools – the level of margin attainable by type of product, service or activity – and make sure you maximize the resources allocated to high margin work.



Another aspect of triage is allocating resources appropriately. For example, a task or component categorized as “easy” should be suitable for junior (cheaper) staff.

The Bottom Line

- Categorizing tasks by degree of difficulty is a prerequisite for fixed pricing.
- Train staff to predict different degrees of effort by providing clear examples of the factors that affect difficulty.
- Instill the language of triage into your culture. If you classify by small, medium and large, everyone should know exactly what is meant by a “medium” task versus a “large” one.
- Allocate more time to high-margin work than to low-margin activities.

Automate as Much as You Can

“We have to be cost leaders and to be extremely effective all the time in our onboarding and our services. So we’ve automated everything. Since 2008, we’ve on-boarded almost 100,000 seats. And we’ve never visited a customer site. Tools and automation allow us to be effective and to be high-level service oriented, at the same time.”

Finn Krusholm,
CEO, Cloud People

From onboarding to implementation to ongoing support tasks, anything you can automate should be automated. Automation makes things faster for the customer and is seamlessly repeatable, which makes it possible to train many (cost effective) people to complete the task. Save your high touch cycles for higher value activities that command a premium. Here are some examples of how partners are leveraging automation:

- Cloud People uses onboarding tools to complete tasks remotely: almost 100,000 seats without any need for on-site customer visits.
- Virteva collects information required from customers via a portal and an online worksheet, cutting minutes, hours and even days off the overall process.
- Rackspace uses automation around the deployment of their monitoring capabilities and the core networking designs that they have put into Azure, to make it easy to connect in and manage resources.
- Hanu Software uses both homegrown and third party tools to do the monitoring, management and security around Azure.

Remember, you don’t have to invent it all yourself. There are many commercial tools available within the Microsoft ecosystem that are ready to do your heavy lifting. For example, BitTitan has a range of products, including MissionControl for Office 365 that provides advanced management, compliance, reporting, alerting and auditing features that enable partners easily deliver multiple managed services around their



If you look at our managed services offering, it consists not just of our own homegrown tools to automate a lot of things on Azure, but we also use third party tools, to do the monitoring, management, and security around Azure.

Anil Singh, Founder and CEO, Hanu Software

“We have a lot of automated ways to get information from the client. We just basically go to them and say, ‘Fill out this worksheet and we’ll take it from there.’ That kind of stuff can cut minutes, hours, even days off the overall process. The more that becomes fine-tuned, the more it improves our overall margins. Then given that we’re going to have the same deployment over and over again, it improves our success rate.”

Tom Kieffer, CEO,
Virteva



customers’ Office 365 deployment. Other examples include SkyKick, which offers cloud migration, backup and management tools, and Nintex, which provides tools for workflow and forms automation for SharePoint and Office 365.

Also consider the leverage you can get from taking advantage of Microsoft FastTrack to help with onboarding. If you aren’t familiar with it, FastTrack is a benefit offered to Office 365 customers to help them with a smooth journey to the cloud. The FastTrack Center provides tools, content, and best-practice advice to help speed up customers’ time to value, as well as increase user adoption of Office 365. FastTrack is staffed by a team of hundreds of engineers around the globe that provide remote assistance to help prepare technical environments and ensure a smooth onboarding and migration experience. Think of them as extra pairs of hands that reduce your onboarding costs.

“MissionControl for Office 365 is one example of a tool that BitTitan delivers to Microsoft Partners. The partners are basically using it to create their own version of Office 365. They can automatically manage 200 different tasks they perform on behalf of the customer in a single location. It’s completely push button UI based for all these use cases and tasks they perform for the customer.”

Rocco Seyboth, Vice President, Product and Marketing , BitTitan

The Bottom Line

- Examine your most common customer tasks for automation opportunities.
- As you move through various types of customer situations, you will discover new opportunities to add new or enhance existing automated scripts and tools. Automation opportunities will expand over time.
- Promote a culture of always asking: can we automate this?
- Leverage third party tools and let them do the heavy lifting.

Run Your Business Like You Mean It

“As a company, we were making a major shift in our business. We needed to articulate a much clearer message about what we’re going to do long term, not only to our employees but to our clients. It came down to getting everybody behind the line, driving in the same direction.”

Kevin Conroy, CEO, Blue Rooster

Don't Neglect to “Work On” the Business

“We have some workloads that are operational in the business, but by and large the three of us at the top of the organization don't work in the business. Or we minimize it as much as possible when it starts to creep up. You have to get out of the way and let your line managers and middle managers run the operation. If you don't trust them and they can't run the operation, change them.”

David Verschaffelt,
Director, Atmospheric

It is easy to get caught up in the day-to-day activities of “working in the business” – selling, delivering, dealing with customers, etc. But in order to execute on a cloud strategy and build a robust business model, senior management needs to spend the majority of their time “working on the business” – plotting the course ahead, tracking and adjusting key performance indicators (KPIs), and figuring out what's next.

Atmospheric, a managed services provider and early mover to the cloud, has learned that optimizing operations requires delegating middle management tasks and responsibilities to middle management. It requires giving line management the mandate to define and fine-tune the methods and processes that drive efficiency, and getting out of the way. Senior management is then free to do what they should be doing: steering the business into the future.

One thing all partners we interviewed agree on is that everyone in the company must understand where things are going in order to be successful in moving to an IP/ recurring revenue business model that relies on repeatable and consistent methods. Blue Rooster made major changes to their core business, shifting from being a services company to a product company. When its employees didn't understand where the company was going, they took a step back to regroup and get all stakeholders on the same page. And that's made all the difference. Efficiency results from knowing what path you are following as much as from doing something the same way each time. If everyone is not completely on board, you risk spending time and money on activities that aren't contributing to the desired outcome.

The Bottom Line

- Keep track of how much time you are spending on running daily operations as opposed to true management tasks, and consciously adjust if necessary.
- Make sure line managers know you have full confidence in their abilities by letting them do their job without running interference.
- You can never communicate too much. Make sure all staff understand what the company is trying to achieve.
- If things are going off the rails, take a timeout, rally the troops and re-enforce the business strategy message.

Metrics That Matter in a Cloud Business



Anything beyond 120 days indicates a strong pipeline of work; anything less than 30 days may be problematic.

To determine if your cloud business is performing to the best of its ability, you need to establish key performance indicators (KPIs) to measure your success. Here are some metrics you should consider using:

- **Staff utilization.** The amount of time spent on billable work divided by the number of billable hours per person per year (typically 1500 to 1700 hours, taking statutory holidays, vacation, and training into account).
- **Billable markup rate (BMUR).** This measures the profitability of billable resources. It is calculated by taking the hourly charge-out rate of the individual and dividing it by their loaded cost (salary, variable pay, benefits) per billable hour. Best-in-class partners score 2.5 on this metric, while 2.0 is the generally accepted baseline.
- **Backlog.** This is the total amount of work you have outstanding in days (including project work, support work, and ad hoc work with clients) divided by the total number of billable resources. Anything beyond 120 days indicates a strong pipeline of work; anything less than 30 days may be problematic.
- **Rate of customer acquisition.** The number of new customers acquired per month, quarter or year.
- **Average revenue per user (ARPU).** Total revenue divided by the number of users.
- **Average revenue per customer (ARC).** The average amount spent per month among customers who subscribe to managed services offerings.
- **Direct sales cost.** This measure determines the value a seller is providing to the company. In the cloud, 8-10 percent is ideal and 15 percent is acceptable, but anything beyond that means either their quota is too low or their income is too high.
- **Percentage of billed revenue spent on marketing.** It's common to see less than 1 or 2 percent of revenue being spent on driving net new demand. However, some of the most successful partners spend anywhere from 8 to 10 percent.



IDC research shows that the average partner sells \$4.14 of their own offerings for every \$1 of Microsoft cloud solutions they sell.

- **Renewal rate.** This is the percentage of customers that renew their cloud subscriptions. Typically, you're looking for something less than 8 to 10 percent per year of annual churn.
- **Attach rate of secondary offerings.** The value of secondary offerings sold in addition to the solution sold as the first step in the engagement (e.g. Office 365). IDC research shows that the average partner sells \$4.14 of their own offerings for every \$1 of Microsoft cloud solutions they sell. Partners with more than 50% of their revenue in the cloud attach \$5.86 of their own offerings.
- **Services attach rate.** This is the percentage of active customers paying for managed services in addition to core product offerings. You want to aim for a 70% or higher attach rate if managed services is a primary focal point for your business.
- **Percent of revenue from recurring sources.** Ideally, a partner starting their journey to the cloud should aim to have 15 percent of revenue from these sources by the end of year one, 33 percent by year two, and 45 percent or more by year three.
- **Gross margin by offering.** For project services, striving for 30 percent or more gross margin is important; managed services should return at least 40 percent and IP over 50 percent.
- **Efficiency factor.** The measure of how much work you've already done that can be repurposed, packaged, and resold as IP.
- **Average calls per customer.** The average number of calls per customer in a given month for managed services. It's reasonable to expect lots of calls in the early stages of the customer relationship, but over the long term, call volume should subside.
- **Average case duration.** The amount of time it takes to field the call, work, resolve, and document a case ticket.
- **Services rep utilization.** This is calculated as the average hours annually spent per representative actively working cases, divided by the number of available hours.

These measures aren't new - in fact, they've been around for as long as services businesses have been in place. The challenge is how you manage them. Are these metrics being tracked on a regular basis? Do you have process and cadence for reviewing them? What is your plan if your results fall below the baseline?

Invest in Training and Ongoing Learning

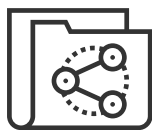
“We’re not the type of people who want the best ones from the beginning. We believe in educating them, so it’s okay that they’re young, it’s okay that they’re millennials. We can teach them things. We’re not looking for the ones that can, we’re looking for the people that want to.”

Finn Krusholm,
CEO, Cloud People

Not every new hire needs to walk through the door fully formed. In fact, many times it is better to train them in your own processes and methods as a blank slate than to try to retrain them out of what they already know, especially when you are dealing with the change in business model that accompanies cloud. Cloud People takes the approach of believing that as long as new hires are ready and willing to learn, the rest can come with experience, education and ongoing learning.

However, in order to be successful, this approach requires structure. First, you need a predictable way to identify potential. We are told a good way to do this is to test aptitude, either via standardized tests or by devising your own test that mirrors skills required on the job by using examples of real customer situations. Second, you need a formal skill development plan that’s based on role. This plan must have milestones along a path of logical progression to becoming fully proficient. Both those in management and team members will need to play a part in helping entry-level staff move up the ladder.

Don’t forget that experienced hires require training as well. Although it might be tempting to throw new staff into a project hoping they’ll pick it up as they go along, successful partners know that rarely ends well. At best it slows things down. At worst, it jeopardizes quality, profitability and customer satisfaction. Build in a process for onboarding staff that includes both self-study and on-the-job training on processes, methodologies and tools that are appropriate for their role. Partner experience shows that both employee retention and satisfaction improve when staff have a positive onboarding experience.



Although it might be tempting to throw new staff into a project hoping they’ll pick it up as they go along, successful partners know that rarely ends well.

“We set up a Yammer study group and our staff schedules a meeting by themselves once a week in the evening. They have an exercise – a project that they’re working on – that isn’t a production one, but has some sort of benefit for everyone.”

Ishai Ram,
Vice President, SELA

In addition to ensuring everyone is properly trained in the day-to-day work, you also need to keep their technical and delivery skills sharp. It is hard to carve out time for ongoing learning, but if you make it part of the daily, weekly or monthly work rhythm and work culture it will happen. The key is to make the learning extremely relevant. One approach partners report that works well is to create a special project everyone can get behind and make a game of it. For example, SELA uses Yammer to host staff-directed study groups to solve a problem everyone is interested in. You could pit teams against one another to solve a problem or get customers involved in judging contests to develop useful apps. Regardless of what you do, continuous learning needs to be encouraged and enabled. If you are able to increase skills and knowledge, you are typically also able to increase billing rates.

The Bottom Line

- If you hire for potential, make sure you have a reliable method for identifying it.
- Entry-level staff require a clear understanding of expectations and the process they will go through to gain knowledge and experience.
- The volume of new information, new releases, and new functionality to wade through can be overwhelming. Put a team together to take responsibility for determining learning priorities.
- Acknowledge and reward staff that are enthusiastic about learning.

Skill Sets Will Change; Staff Versatility is Important

“People on our team who five years ago were helping customers put together a backup continuity strategy around SharePoint aren’t going to be doing that anymore. But they’re still going to be working for us. They’re going to be doing something different, – maybe in our managed services organization, or in helping customers architect hybrid cloud infrastructures.”

Matt Morse,
General Manager, Perficient

When delivery projects typically required large teams and took a long time, roles were naturally specialized because of the complexity. And the norm was to have staff billable at one client for extended periods of time, promoting high utilization. Now that model has been flipped on its head. With shorter projects and (hopefully) a higher volume of clients, you need more “T” shaped people: those who have broad and versatile skills but can still go deep on some things.

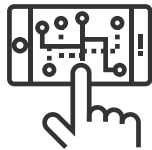
Perficient’s Microsoft practice focuses on helping their customers achieve the benefits of digital transformation, an important part of which is enabled by cloud solutions. They note that some delivery tasks, such as putting together a backup strategy for SharePoint, will disappear as part of the move to offering cloud solutions, but know that other tasks will take their place. Staff that used to perform those tasks will likely be playing different roles within Perficient’s managed services organization or helping customers architect hybrid cloud infrastructures.

Manning the service desk used to be an entry-level position where engineers learned the ropes before moving on to something more challenging. Now, partners report that the service desk job is more like being an air traffic controller: a role that requires lots of finesse and grace under pressure. At Atmospheric, this has resulted in turning career paths upside down: moving to the service desk is now a promotion as opposed to a place for junior staff.

It used to be that engineers could do their magic behind the scenes and leave the customer interactions to project managers and business analysts. Not anymore. Technical specialists now have to deal directly with business users to be able to diagnose problems. In Atmospheric’s experience, when a cloud customer calls with an issue, it could be a myriad of things, from a particular application running in the cloud to something at the cloud platform level. The new skillset has to handle multiple systems and complexity while dealing patiently with non-technical customers.

“The engineer’s skillsets have changed dramatically. They’re getting a promotion when they move from engineering to the service desk. They have to be able to deal with the business user. In the past, most of our calls came from whoever the admin person in the company was. Now we get calls from anyone in the organization any time of the day or night.”

David Verschaffelt,
Director, Atmospheric



Some partners have found that centers of excellence (CoE) are a good way to foster versatility while maintaining a focus on the functional skills required for successful cloud solution delivery and operations. A CoE formalizes the leadership, best practices, research, support and training for a focus area. For cloud, this might include data migration, application integration or security. That’s the approach Atmospheric took to modernize its service desk to fit the needs of a cloud business, enabling staff to be versatile and broadening the overall skill base.

“Our service desk was structured in a traditional IT company way. We realized we needed to use centers of excellence or ways of better grouping the staff. We built skill centers and did cross training among them and the senior guys who had that skill trained the rest of the group. And then they acquired a skill-based approach rather than just the traditional IT line metrics.”

David Verschaffelt,
Director, Atmospheric

The Bottom Line

- Versatility may not come easy to everyone. Expect some staff to weed themselves out. At the same time, the opportunity to become more versatile has a strong value proposition for many people.
- You need structure to foster versatility, but you don’t need to go overboard. Start with determining the focus areas that make most sense for your business, then identify champions that will lead the charge.
- Because career paths will change, it is even more important than ever to spell out what they’ll look like and why they are good career moves.

Keep Equal Tabs on All Aspects of Operations

“No you can’t sit back and go, ‘Well you know what we’re just going to work on our CRM right now because we know we’ve got to stay close to our customers.’ You absolutely need to do that at the same time you’re rebuilding your digital presence, your front end, and your website.”

David Verschaffelt,
Director,
Atmospheric

You need to have a wide lens when it comes to operational efficiency. Try not to get caught focusing too much on one aspect of your internal infrastructure at the expense of others. That’s Atmospheric’s advice.

You can’t manage what you can’t measure and you can’t measure without the right tools. Fortunately, Microsoft provides its partners with an unprecedented amount of software for internal use and successful partners take full advantage of it and put the right operational technology in place to store and track the data they need to run their business. For example, knowing delivery costs is an important prerequisite for determining the subscription price for packaged services. It is also the key to tracking the true profitability of those services. Dot Net Solutions puts everything into Dynamics CRM Online so they have a one-stop-shop view of business operations. All of their projects, timesheets and documentation associated with a particular project are tracked there.

We have built our own business management solution on top of Dynamics CRM Online. All of our customer information is stored inside there. All of our projects are now tracked through there. All of the timesheets that the consultants use. All of the documentation associated with a particular project.

Dan Scarfe, Founder and CTO, Dot Net Solutions

And as important as it is to leverage technology to run a tight ship, it is also the ticket to instant credibility with customers and prospects because you become your own best customer reference. Partners also tell us another benefit is being able to leverage the best practices perfected within your own organization when implementing the same technology for customers.



Knowing delivery costs is an important prerequisite for determining the subscription price for packaged services. It is also the key to tracking the true profitability of those services.

The Bottom Line

- Pay as much attention to the back office as the face you put to the world.
- Use Microsoft cloud solutions to enable your own business operations. When you collect the data surrounding project execution, you are killing two birds with one stone. You have the information to feed back into pricing and profitability analysis, and you have artifacts to feed back into repeatable methods and processes.

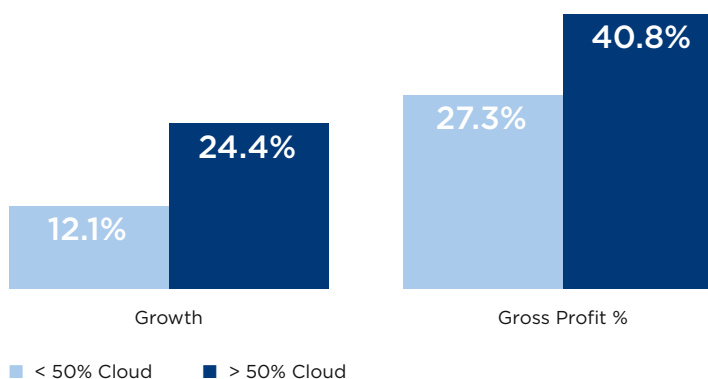
Efficiency = Profit = Fuel for Growth

"I'm always concerned with operating a profitable business, but today I'm much more concerned with growing the business. We delivered very substantial growth rates last year, and we are planning to do the same this year, so our profitability is essentially driving our ability to grow. So we do have to run a tight ship from that perspective, but not so much from a bottom line profitability perspective as from a funding and growth perspective."

**Alex Brown, CEO,
10th Magnitude**

We all want to have profitable businesses and IDC's research shows that those that are heavily invested in cloud do better than their peers with respect to profitability. But profit doesn't happen automatically just because of cloud. You need to have the right processes and methods in place to drive the efficiencies that reduce costs while still delivering high quality services. If you are able to achieve that balance, profit should follow.

GROSS PROFIT AND REVENUE GROWTH BY CLOUD REVENUE



Source: IDC 2016, n=749

But, it doesn't stop there. If you have efficiency and profit, you have also created the fuel for growth. Your profit provides the funding to invest in pre-requisites for growth, whether it's hiring special skills or buying a company or renting more office space. Companies like 10th Magnitude that consciously and consistently apply profits to fund growth position themselves for future economies of scale, as long as the right operational processes are in place. And after that it all goes full circle, because growth provides the critical mass required to become even more efficient. The more volume you are dealing with, the more you are leveraging your one-to-many services and tools. Every incremental customer and its user base can deliver lots of pure profit.

Another perspective comes from Cloud People, which offers a bundled, scalable service wrapped around Office 365 and Azure called All-Inclusive. They realize the need to have a big enough user base to have the effectiveness to deliver a high service level at a low price. Once economies of scale kick in, profit margins should follow.



“What we need now is to have a big enough user base to have the effectiveness to deliver a very, very high service level at a very low price. We have the effectiveness of scale, but we still have a very high service level.”

**Finn Krusholm, CEO,
Cloud People**

The Bottom Line

- Efficiency enhances profit because you achieve more with fewer resources. It also enables economies of scale because you can serve more customers without increasing delivery cost, because you are leveraging tools, artifacts and repeatable processes rather than relying on additional human effort.
- Re-investment in your business – as long as it is part of a well thought out strategy – is a valid way to use funds, even if it takes away from the bottom line in the short run.

The Bottom, Bottom Line

Optimizing your operations requires focus and discipline. You need to pay attention to documenting your processes and methods, allocating your resources in the most cost effective way, and measuring your performance. These insights can help you get started or help you get better at running a profitable cloud business.



1. Start

- Begin with an honest assessment of your current operations. How well aligned are they with the characteristics of a successful cloud business? Do you have the right people, processes and technology in place to sell and deliver services on a recurring revenue basis?
- You don't have to do everything at once. Start with a gap analysis, then put a plan in place to make the required changes based on what you've determined are the top readiness priorities.
- If you aren't already doing it, start tracking the time and resources involved in delivering projects and services to clients.
- Set appropriate financial targets for your cloud business, realizing you won't break even right away or turn a profit in the near term. Plan for how you will fund revenue shortfalls while you get your recurring revenue stream up and running.



2. Grow

- Regularly measure gross margin, utilization, billable markup rate, and other measures that make sense for your business. Set performance benchmarks and have a plan for how to improve if you fall below the baseline.
- Identify your profit pools, or the core activities in your business that generate gross profit. Allocate resources proportionately based on profit potential.
- Look at the last 20 or 30 or even 50 projects you delivered to see what could be reused in future projects.

- Focus on standardization of tasks, methods and processes to make staff more efficient, delivery effort more predictable, and quality more certain.
- Identify opportunities for automation. Take advantage of commercial tools already available within the Microsoft ecosystem.
- Use variable pay to reward high utilization and stewardship of project profitability.
- Allocate time for ongoing learning. As skills increase, so should fees.
- Reduce your reliance on charging based on hourly or daily rates in favor of charging based on a deliverable or outcome.



3. Optimize

- Regularly assess your processes and repeatable methods and fine tune them based on lessons learned. If something that should be standard constantly requires adjustment, go back to the drawing board and fix it.
- Continue to look for opportunities to automate or to refine existing tools.
- Raise the bar on your performance metrics. Profitability should increase as you solidify your cloud revenue streams.
- Dedicate time and effort to incubating potential products and services that are emerging opportunities.
- Always include slack in your pricing to cover unforeseen circumstances that could affect profitability.
- Keep track of how much time you are spending on running daily operations as opposed to more strategic management tasks and adjust if necessary.

Next up in The Modern Microsoft Partner series is Part 5: “Deliver Lifetime Customer Value.” In this final eBook, we discuss how leading partners protect and enhance their recurring revenue stream by making sure they maximize the potential of their customer relationships.

Learn more at aka.ms/modernpartner



All IDC research is ©2016 by IDC. All rights reserved. All IDC materials are licensed with IDC's permission and in no way does the use or publication of IDC research indicate IDC's endorsement of Microsoft's products or strategies. Data in this eBook comes from IDC studies from 2015 to 2016.