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6 Steps to Earning a Large Upsell on Cloud Services

Cloud services have not led to the death of IT managed services, but instead are creating an abundance of opportunities for service partners.

By Kurt Marko for Channel Partners

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About the Author



KURT MARKO is an IT industry analyst, consultant and regular contributor to a number of technology publications, pursuing his passion for communications after a varied career that has spanned virtually the entire high-tech food chain from chips to systems. Upon graduating from Stanford University with bachelor's and master's degrees in electrical engineering, Marko spent several years as a semiconductor device physicist, doing process design, modeling and testing. He then joined AT&T Bell Laboratories as a memory chip designer and CAD and simulation developer. Moving to Hewlett-Packard, he started in the laser printer R&D lab doing electrophotography development, for which he earned a patent, but his love of computers eventually led him to join HP's nascent technical IT group. Marko spent 15 years as an IT engineer and was a lead architect for several enterprisewide infrastructure projects at HP, including the Windows domain infrastructure, remote access service, Exchange email infrastructure and managed web services.

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6 Steps to Earning a Large Upsell on Cloud Services

The rise of cloud services as a strategic plank of the business IT portfolio threatened to undermine the viability of MSPs, VARs and partners as their clients did business directly with the cloud providers. Much like Amazon's direct sales model laid waste to vast swaths of retail stores and strip malls by eliminating the middleman, cloud services such as Amazon Web Services, Microsoft Azure, Google Cloud and Salesforce seemingly were jeopardizing partners' *raison d'être*. However, a funny thing happened on the road to Armageddon as the cloud has instead emerged as one of the fastest-growing *opportunities* for partners and their ilk. It turns out that the value-added services that partners provide aren't subsumed by the cloud, but rather *enhanced* by it.

As the difficulty of cracking enterprise IT has become painfully apparent to the major cloud operators, they have turned to partners to plug holes in their sales, service and consulting operations. Indeed, dedicated partner events have become de rigueur at high-profile venues such as [AWS re:Invent](#) and [Google Cloud Next](#), while traditional IT vendors that provide private cloud infrastructure like Microsoft, Dell and VMware continue to praise partners as critical to the success of their cloud strategies.

In this report, we examine the macro environment that holds long-term growth for cloud managed services, the cloud use cases and service categories ripe for partners, significant partner programs by major cloud providers and recommended steps for grabbing a piece of the growing market for cloud managed services.

Cloud Managed Services: A Nascent, but Growing Market

As mentioned, the rise of cloud services has led not to the death of IT managed services but their renaissance as both a new generation of



cloud-native partners and reskilled IT service providers have tapped into the plethora of innovative cloud infrastructure (IaaS), development platform (PaaS) and application (SaaS) services to develop new offerings and grow their business. But don't just take our word for it, look at the ample data from analyst firms tracking the cloud managed and professional services market.

Here's a summary of recent estimates sizing the opportunity in cloud managed services:

[According to HTF Market Intelligence](#), the worldwide market for cloud managed services totaled \$25.5 billion in 2016 and is expected to grow at an annual rate of 15.5 percent through 2023, reaching almost \$70 billion. HTF credits this to overall growth in enterprise demand for cloud services (recall that

[AWS revenue continues to snowball](#) by 40 percent annually), fueling the need for related design, implementation and management services. HTF also notes increasing demand from SMBs, adding that growth might be restrained by persistent limited supply of cloud expertise, particularly in the area of security.

[Transparency Market Research \(TMR\)](#) pegs overall cloud managed services to be larger, but somewhat slower growing. It expects 9.6 percent growth through 2022, reaching \$86.4 billion, which implies a total size of about \$60 billion as of last year. TMR expects security services to do especially well, driven by strong adoption in developing countries, and advises service providers to make security products and features a top priority.

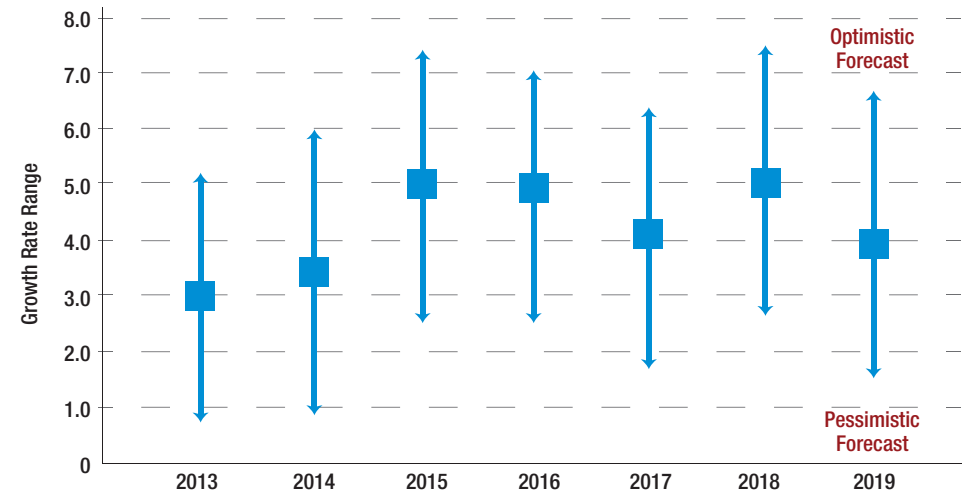
[A study by Grand View Research](#) estimates that worldwide revenue for managed cloud services was about \$23 billion in 2016 and expects 15.4 percent growth through 2025, which means that the total market would exceed \$50 billion sometime in 2021.

[IDC owns the most bullish growth estimate](#), expecting 18 percent annual growth in managed cloud services between 2017 and 2021, reaching almost \$63 billion in revenue. IDC sees demand even stronger in some regions. For example, [an IDC report on Australian cloud services](#) sees a five-year CAGR of 20 percent.

Some, perhaps all, of the differences in revenue estimates and growth rates are likely due to differences in how broadly one defines the scope of cloud managed services and, thus, how large each firm thinks the market currently is. Nonetheless, the takeaway for partners, VARs and MSPs is that demand for cloud expertise is strong and the market for cloud services robust.

While 10 to 18 percent annual growth looks great in light of [overall IT budget growth that's hovered between 3 and 5 percent](#) over the last seven years, it still pales in comparison to the [40 to 80 percent growth at the top three cloud vendors](#). Indeed, the continued robust expansion of AWS, Azure and now

CompTIA Global IT Industry Growth Projection



Methodology Note: CompTIA utilizes a consensus forecasting methodology, also referred to as a “wisdom of the crowds” approach. IT industry executives in the US, Canada and the UK provide their optimistic and pessimistic projections for the year ahead; these inputs provide the basis for the CompTIA forecast. All figures are presented in current dollars, which do not take factors such as inflation or currency exchange rates into consideration. The growth rate for the U.S. market mirrors the global projection.

Source: Statista, AWS quarterly revenue

Google Cloud shows the near-insatiable demand for cloud services and indicates that there could be even more upside for partners that provide managed cloud services.

Market Drivers

The fact that enterprises large and small are moving workloads and data from internal systems to cloud infrastructure and applications is well-established. This move continues unabated and is being supplemented by the development of new cloud-native enterprise applications. This shift

from internal operations to external services is the overarching tailwind driving the need for managed cloud services. As [Gartner puts it in its 2019 Magic Quadrant for Public Cloud Infrastructure Professional and Managed Services](#):

“Cloud IaaS+PaaS adoption comprises two overarching use cases: rehosting applications developed using traditional (precloud) architectural precepts, and creating new or replacement applications that follow cloud-native architectural precepts. In the early days of cloud adoption, these

two use cases tended to exist independently: Customers were doing one or the other, but rarely both. Recent trends, however, show that most organizations seeking to adopt cloud pursue both use cases.”

Cloud expertise remains in short supply, a market reality that leads many organizations to conclude that it’s easier, quicker and more cost-efficient to buy cloud services than cultivate an internal cloud team. [Small and midsize enterprises \(SMEs\) in particular are increasing their use of cloud services](#), which given

their smaller IT staff and general lack of IT depth, cloud included, makes them particularly attracted to third-party managed service providers and a source of strong service demand.

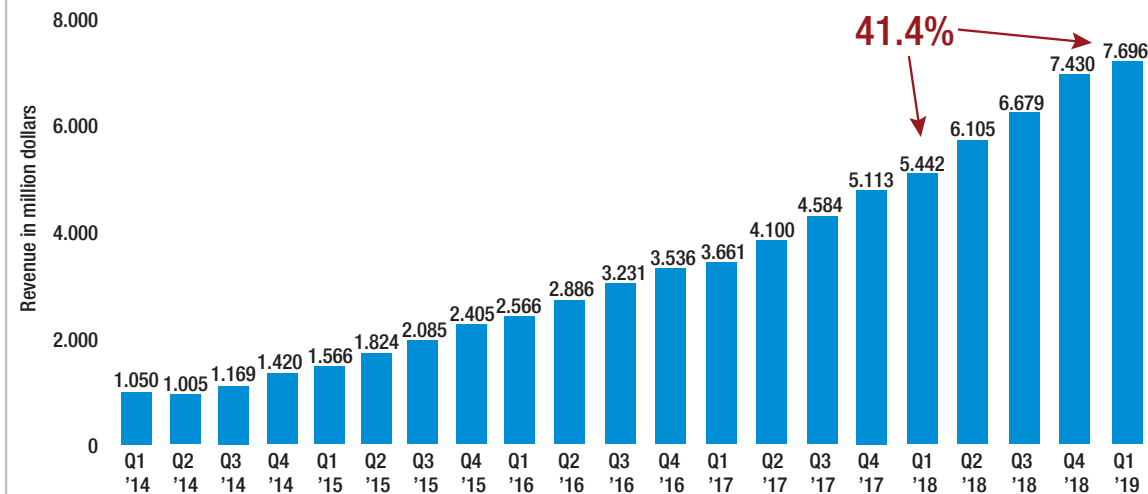
Beyond these general trends, there are some specific reasons for the growth of enterprise cloud adoption writ large and managed cloud services in particular. [These include](#):

The enterprise data explosion and consequent demand for cloud data storage, management and analytics services. Once data is at a provider, organizations also find it easier to tap into various AI/cognitive services for more advanced capabilities such as natural language processing and sentiment analysis, image/video recognition, recommendations and machine learning-based forecasting.

Enterprise mobility and Internet of Things (IoT) deployments and the resulting need for custom mobile and IoT applications that are often built using cloud services to provide back-end data storage, processing and state management.

Regardless of the impetus for using cloud services, organizations subsequently face an acute need for cloud security expertise and related services. Cloud security has evolved into a specialty because of the radically different infrastructure and application architectures, and the job market can’t meet the demand, leading to a chronic shortage of cloud security expertise. Indeed, an IDC study found that the chief reasons

Quarterly revenue of Amazon Web Services from 1st quarter 2014 to 1st quarter 2019 (in million U.S. dollars)



The statistic illustrates the Amazon Web Services cloud computing and hosting revenue as of the first quarter of 2019. The last reported quarter, AWS generated revenues of 7.7 billion U.S. dollars.

Source: Statista, AWS quarterly revenue

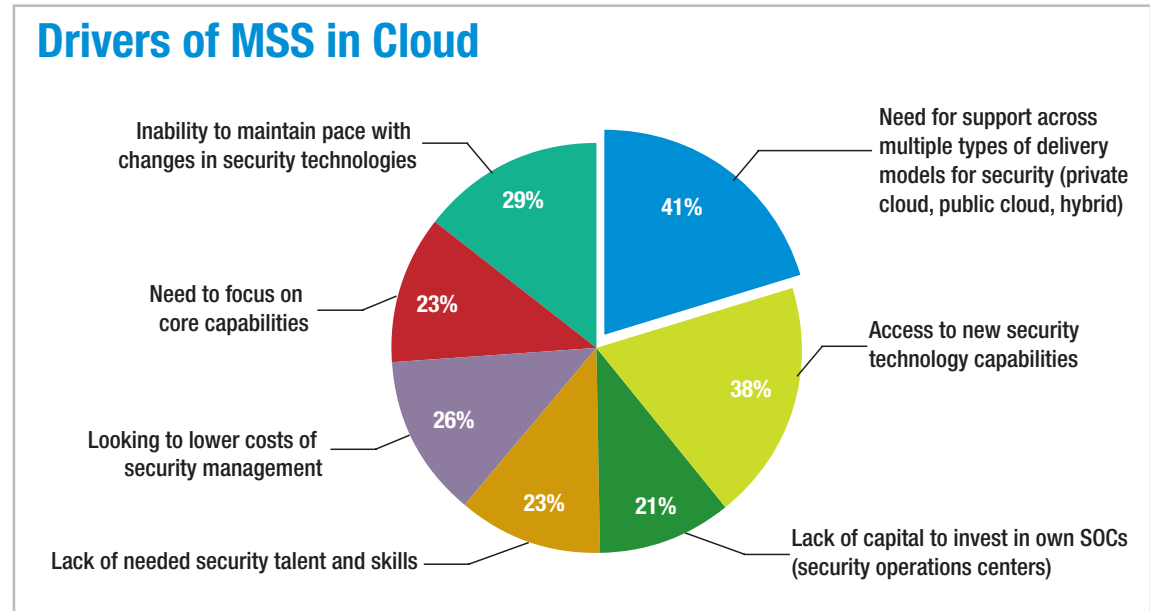
organizations procure managed cloud security services center on:

- Access to the latest security technology
- Lack of security expertise
- Inadequate resources available to invest in either security technology or expert personnel
- An inability to keep up with rapidly changing cloud security threats and technology
- A desire to focus on core competencies and not becoming security experts

Surveying the Cloud Managed Services Portfolio

Over the next half decade, those offering cloud managed services will be part of a vibrant business environment. For partners that decide to go down this road, their next task is unpacking the details around cloud services and identifying the core components of a portfolio. The market drivers cited above provide some clues, but it's time to get specific.

According to the previously mentioned IDC study of Australian managed cloud services, the problems that most often prompt customers to enlist a cloud partner involve upgrading legacy infrastructure to a private cloud, migrating to a public cloud and updating legacy applications for cloud infrastructure. While these migration and modernization scenarios are common, they constitute but a fraction of the possible cloud



Source: IDC Managed CloudView September 2018 (Cited in Oracle blog)

services that partners can provide.

There are many ways of categorizing and enumerating cloud managed services, but the AWS MSP program provides a good model. As [Barbara Kessler, the global lead for AWS MSP programs, notes in a blog:](#)

"It's not just about managing the infrastructure anymore. It's about managing the full lifecycle of services — from planning and designing to building and optimizing workloads."

Addressing the entire cloud usage lifecycle requires services in four areas:

- Planning and design
- Implementation and migration
- Ongoing operations
- Service, application optimization

These subsequently drive particular functions and capabilities in each category as follows.

1. Planning and design

Even the simplest cloud use cases, such as for data backup or a lift-and-shift migration of visualized workloads from on-premises servers to cloud compute instances, require some strategizing

and planning. More complicated scenarios, such as cloud-native or hybrid, multitier applications using cloud and on-premises resources that have multiple components, dependencies and interconnections, require far more design and testing. Partners with sufficient cloud expertise can augment existing consulting practices with a set of cloud services such as:

- Developing a cloud strategy and roadmap
- Assessing workload and organizational cloud readiness; conducting workload inventory
- Assessing and prioritizing opportune use cases
- Evaluating competitive cloud service

- Assistance with cloud governance and portfolio management

2. Migration and implementation

The most pressing need for enterprises in the early stages of cloud adoption entails migrating existing applications and data to cloud services. Consequently, the following are the bread-and-butter of most managed cloud service portfolios:

- Design and specification of cloud (IaaS) service ecosystem to match migratory

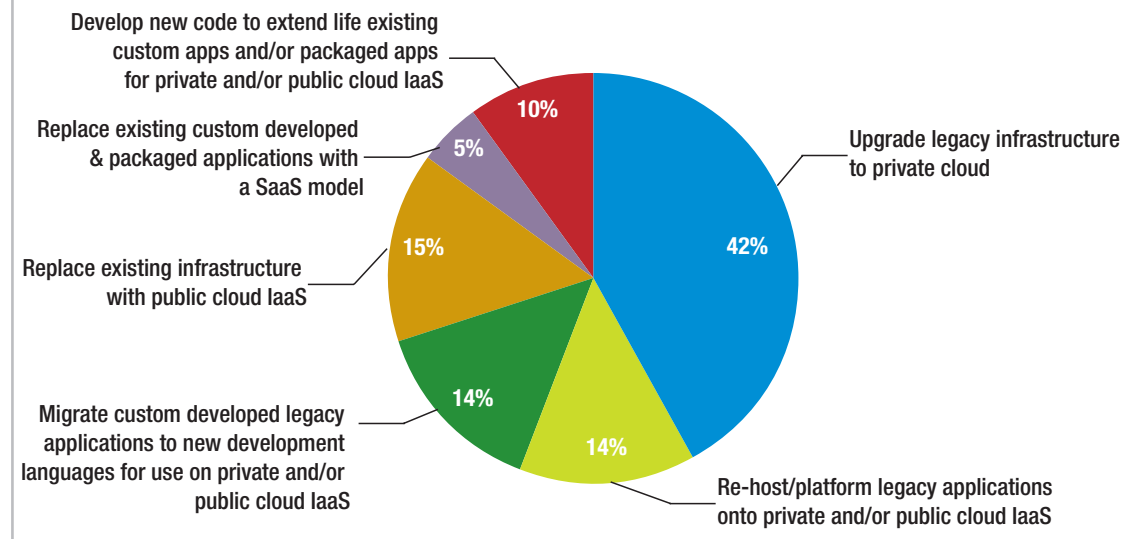
- workloads identified in the planning phases
- Deployment and configuration of cloud infrastructure
- Migration and testing of on-premises workloads
- Integrating cloud and on-premises networks to enable data sharing and replication

3. Ongoing operations

Another core element of cloud managed services, which over time can become the dominant piece of a partner's business, involves managing customers' cloud infrastructure and providing a set of dashboards and analytics summarizing resource usage and costs. Activities include:

- Standard administrative services such as applying software patches and security updates and fixing failed or poorly performing compute or database instances
- Database management
- Security management
- Monitoring and benchmarking workloads and addressing anomalies
- Providing technical support, both front-line for cloud application users and second level, i.e., addressing technical issues and escalating problems where necessary to the cloud provider
- Providing and managing a customer portal where users can:
 - Request services and track changes
 - Trigger self-service deployments

Enterprises' Reasons to Use Managed Cloud Services



Source: IDC Managed CloudView Survey 2018, Aust N=250

(where appropriate)

- Initiate trouble tickets
- Set security policies
- Track resource usage and expenses
- Set budgets

4. Service and application development optimization

As cloud workloads develop some usage history that provides a more accurate picture of their resource usage and workload variations, partners can provide optimization services that might modify the infrastructure design and configuration to improve performance and lower costs. As organizations become more sophisticated cloud users, most will want to develop and operate a new generation of applications designed around native cloud services. Partners with sufficient expertise can assist in setting up and managing DevOps tool chains that automate development workflows and implement a continuous integration and delivery (CI/CD) pipeline. Sample services include:

- Tuning cloud workload performance
- Developing DevOps automation scripts
- Managing the DevOps tool chain, which can include a mix of cloud services such as AWS CodePipeline, CodeDeploy, etc., and partner-deployed and managed tools
- Building and/or integrating cloud-native applications and application middleware

Partners can augment these core activities with other services that might be used independently – for example, by customers that manage their own cloud environment but need to supplement it with more advanced features. Partners can provide these via a mix of cloud infrastructure (IaaS), SaaS applications and packaged third-party software. Some examples are:

- Managed cloud security services
- On-premises-to-cloud backup, archive and DR
- Vertical, integrated services for different industries such as:
 - Retail and hospitality (e-commerce sites, reservations systems, recommendation engines)
 - Financial services (security, regulatory compliance)
 - Manufacturing (IoT, sensor data analysis)
 - Marketing (content management, websites, media processing)

A Sample of Cloud Partner Programs

Partners building a managed cloud service portfolio must develop and demonstrate expertise with at least one, but ideally all, of the major cloud providers. Having the cloud provider's imprimatur assures customers of a partner's competence to handle a variety of complex requirements and provides competitive differentiation over service providers lacking certification. Each

of the largest cloud infrastructure and SaaS providers has a program for MSP certification and registration, namely:

- AWS MSP Partner
- Azure Expert MSP Partner
- Google Cloud MSP Partner
- IBM Platinum Business Partner with Cloud Competency
- Oracle Cloud MSP
- Salesforce AppExchange (ISV) and Consulting

While AWS has the largest and most comprehensive program, its two largest competitors, Azure and Google Cloud Platform, aren't far behind and have demonstrated significant enhancements and commitment to partners at their respective cloud events.

Seizing the Cloud Services Opportunity

Developing a cloud managed services practice is a strategic and long-term business decision and requires the same sort of commitment and engagement with cloud service providers as any other partner service line. The [Azure MSP website](#) has a good roadmap that we summarize and augment in the following six steps:

- 1.** Identify your organization's strengths, weaknesses and competencies to prioritize areas to first pursue. SWOT (strengths, weaknesses, opportunities, threats) is an effective tool at this stage.
- 2.** Focus on your expertise and apply it to one

or more cloud platforms. For example, if you have a strong Windows practice with customers that primarily use Microsoft products, start with Azure and develop expertise in Azure infrastructure and application (PaaS) products.

3. Next, identify particular workloads and business scenarios where you can develop some competitive moats and IP. These might include cloud and DevOps automation (infrastructure-as-code), database management and analytics, security or IoT.

4. Develop a service portfolio and roadmap.

5. Complete the partner qualification process for one provider.

6. Adapt step 4 and repeat step 5 for other cloud platforms.

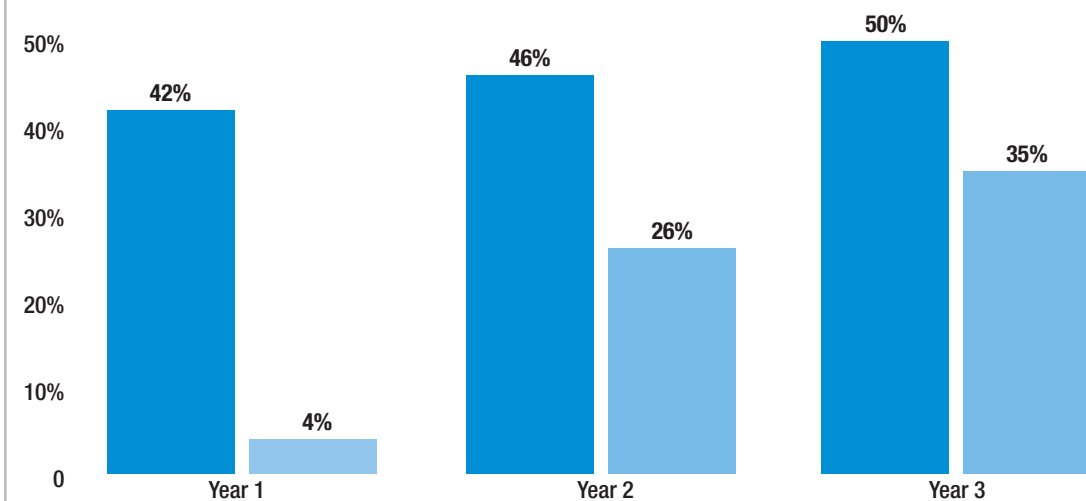
As we point out in steps 2 and 3, it's critical for partners to play to their strengths *and* the needs of their customers. As [Prabhitha Dcruz, IDC's senior market analyst in Australia puts it](#),

“For service providers competing in the managed cloud services market, it is essential that they align their business with enterprise’s buyer segments and requirements, have a broad set of technical capabilities, be able to deliver business outcomes and have a strong ecosystem of partners (specifically the public cloud providers).”

For partners that successfully navigate

the strategic and technical challenges, the rewards can be significant. According to a [study commissioned by AWS](#), operating profit margins can hit 35 percent after overcoming the first years’ growing pains. Now is the time for partners to seize the opportunities in managed cloud services.

Annual Next-Generation AWS Practice Gross And Operating Profit Margins



Source: Forrester Consulting for AWS

Related Reports



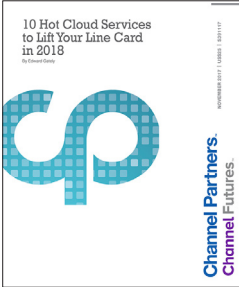
[6 Cloud Trends Partners Must Watch](#)

The speed with which cloud vendors and services move is part of the reason why the partner opportunity is just beginning to hit its stride. In this report, we dig into six key trends that cloud-minded partners need to have on their radars.



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If data is “the new oil,” then cloud storage is the new tank farm and partners are the data refinery, helping their customers turn data stored in the cloud into valuable, curated, secured business information. In this report, we cover five cloud storage categories, their features and their usage.



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