New revenue and profit models for service providers with Microsoft Azure

Let's be frank right from the start: this whitepaper is not your ultimate guide to Microsoft Azure. No, Microsoft Azure simply has too many features . Instead of trying to address them all, we prefer to zoom in on Microsoft Azure from your perspective as a service provider. This whitepaper will focus on how you can incorporate Azure into your own service offering and find a different way to engage with your end users.

Furthermore, this whitepaper explores how Microsoft Azure can be a very profitable way to open up new business opportunities for you as service providers, and help your end users advance into the cloud. It presents a short introduction to Microsoft Azure, some possible scenarios on how to work with Azure, how it fits in with the Microsoft Cloud Solution Provider Program (CSP), and a quick guide on how to get started.

What is Microsoft Azure?

Microsoft Azure is a very flexible hyper-scale, hybrid cloud platform that enables service providers to use any language, framework or tool to build, deploy and manage products and services in their offerings to end users. These services and products can range from Infrastructure as a Service (IaaS), through to Platform as a Service (PaaS), to a full-grown platform offering SaaS (Software as a Service) extensibility. The core characteristics of Microsoft Azure are that this platform is enterprise-proven, open, flexible, and based on trustworthy computing. Products and services deployed on Azure concentrate on five different areas:

- Cloud infrastructure
- Enterprise mobility
- Data and analytics
- Developer and app platform
- The Internet of Things

Why service providers cannot ignore Azure

Azure currently runs on a worldwide network of Microsoft-managed datacenters across 22 regions. According to Microsoft, almost 60% of Fortune 500 companies rely on Azure to:

- Build and deploy modern, cross-platform web and mobile applications
- Store, back up and recover data in the cloud
- Run enterprise applications
- Run large-scale compute jobs and perform powerful predictive analytics
- Encode, store and stream audio and video at scale
- Build intelligent products and services leveraging Internet of Things services

If a large number of Fortune 500 companies, including Heineken, 3M, Dyson, Mazda, GE Healthcare work with Azure, there must be similar opportunities for service providers to leverage Azure for their offerings to end users, albeit on a different scale.

Based on data from IDC and Forrester[1] we know that 67% of buyers expect to purchase various cloud services from one single vendor. By consequence the spending on IT cloud services is expected to be $107 billion equalizing more than 99 billion euros in 2017, representing a huge growth market. We also know that end users no longer want a single solution from service providers, but are looking for planning, integration and ongoing management of their services, applications and solutions. The role of their supplier is changing from a one-off supplier to that of a Trusted Advisor who helps them make the best cloud decisions for their business. This environment and these trends represent a fantastic growth opportunity for service providers.

What is the profit opportunity for service providers with Azure?

Azure enables service providers to generate profit in different ways. First of all, Azure is both a platform and a comprehensive package of finished services. This means that service providers can decide either to sell directly to end users at product level, or to sell services, i.e. managed services and packaged IP services that wrap more targeted solutions. The real profit opportunity is with managed services and IP packaged services, as we will see below. Let's take a closer look.

A service provider can:
1) sell at **product** level and resell Azure and its services directly to the end user as a product.
2) sell **project services** and help end users to convert their solutions into cloud services, charging an hourly rate for services and earning deal-by-deal revenue.
3) provide **managed services** on an ongoing basis, delivering billable packaged solutions and services with ongoing profitable annuity.
4) provide unique, value-based **packaged IP services** to meet specific demands of targeted industries and sectors

The profit models associated with these four levels of offering products and services show where the biggest opportunities are. While there is a 20% profit margin on products and 35% margin on project services (and both under pressure), the best outcome is for managed services with a 45% margin, as service providers will be able to charge on an annual or monthly basis. However, the most powerful way to differentiate is with packaged IP, with an average expected 65% profit margin, building unique IP services on top of Azure.

Azure for service providers: three possible scenarios

The ultimate movement for end user workloads, applications and services will be towards the cloud and away from on-premises. This will surely not happen overnight. Apart from 'born in the cloud' companies, we currently see many 'traditional' businesses moving to the cloud gradually, deploying some services on-premises and others in the cloud. Microsoft Azure has all the features to support this.

The question is: how can you as a service provider help your end users make the transition? How can you utilize Azure to move beyond singular sales opportunities, to a conversation with end users focusing on business value? In other words, how can you move from the transactional model of selling single products towards the recurring revenue model, in which you are the trusted advisor helping end users to modernize, and build a managed services business on Azure?

There are various, rather low-key scenarios with Azure, to help move end users to the cloud. Just think of their possible needs for backup, site recovery or Virtual Machines (VMs) in the cloud. The demand-based model is an unobtrusive way to engage in a cloud conversation with your end users.

When we delve deeper, we can take a closer look at typical end user profiles and explore how you can involve other similar end users in the cloud discussion. For this purpose, we use three possible end user scenarios that Microsoft has set up.

Scenario 1:
Hybrid, extending on-premises with some cloud

The end user is a small-sized SMB (small and medium-sized business), providing calculations in civil engineering on high-power on-premises workstations. They wish to keep data on-premises for speed of access to large Computer-aided design (CAD) plans. They have some online services for data sharing among the team. Long-term data storage is a legal requirement.
How could you engage the cloud conversation?
You could augment on-premises workloads with some cloud services, e.g. Azure backup to the cloud and Office 365.

Azure in CSP GTM Guidance

Remember Azure is a set of both platform and finished services. In many cases they don't solve a business issue until either a partner or customer IT builds a finished solution using the service.
Whilst you can resell Azure services to customers; **the opportunity is in soltuions and managed services that wrap them.**

Start by defining your offering portfolio

Build Vertical and Horizontal solutions that meet customers needs that leverage your exciting assets:

Customer Drivers
- Regulatory compliance and market demands
- Competitive demands or trends
- Growth and expansion
- Cost savings and efficiencies
- Product end of life

Tactics to grow within a customer

1. **Proof:** Start with small projects, such as a small website, intranet, dev/test
2. **Expand:** All smaty projects like that one go to the cloud now
3. **Standarize:** All new projects, no matter the size, go to the cloud now
4. **Transform:** all our old stuff now goes to the cloud

To power your solutions start with these Azure Services

1. Compute (VM's)
2. Websites
3. SQL
4. Backup
5. Storage
6. ASR (Hybrid

Think about the entire customer lifecycle and how you can differentiate your offerings
CSP puts the partner at the center of the customer experience. These solutions could also be driven against customers owned Azure.

Scenario 2:
Hybrid, extending on-premises with advanced cloud capabilities

End user 2 is a medium-sized manufacturing SMB, with a requirement to integrate custom-made sales and order tracking web applications with process control systems. Over 95% of their goods are exported. The manufacturing floor has mobile access to the process control software. Because it is important to ensure data retention, the SMB will perform cloud backups as well as site recovery, to maximize availability in case of disaster.
How could you engage the cloud conversation?
Your offer to this end user could typically be to run some workloads on-premises and some in the cloud, e.g. Office 365, Azure VMs, Backup and Site Recovery.

Scenario 3:
Cloud only

This end user is a small company with a maximum of 5 employees, using a standard LOB (Line of Business) application for billing and accounting, and Customer relationship management (CRM). Employees work only during standard business hours and they have neither a need nor a wish to run IT in-house.
How could you engage the cloud conversation?
Your offer could be to run their complete IT in the cloud with Azure VMs + Office 365.

Engaging the cloud conversation and starting to develop new business models is all about involving your end users and moving them to the cloud, towards managed services and packaged IP, as we will see in the next paragraph. These business models will give you new opportunities to engage with your end users and create new sources of revenue and profit.

Go-to-Market (GTM) Guidance for Azure

How does Microsoft Azure fit into your current service portfolio? The picture below is a guideline for your GTM strategy with Azure.

It is important to start by defining your offering portfolio and investigate where you can build vertical and horizontal solutions that meet market needs and add to your existing assets. In order to succeed, they need to fit in with possible drivers for end users to change or extend their IT, including regulatory compliance, growth or product end of life (e.g. Windows Server 2003 and SQL Server 2005).

Next, it is best to grow gradually. Nobody will deliver all Azure services in one go. Therefore, you can wrap your end user solutions around Azure Services like websites, SQL, backup, storage or site recovery. Or start with computing, since VMs are the core components of Azure and will enable you to build a set of infrastructure to solve a range of customer issues quite easily.

Once your end user is familiar with some type of cloud solution, start thinking about tactics to engage your end user and start growing your business with him, according to the PEST method described by Microsoft: Proof, Expand, Standardize and Transform. By the time you have come to

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level 4, Transform, you will be able to move workloads to the cloud and wrap them with managed and enhanced services and solutions, and also be the single point of contact for your end users.

Azure and the Microsoft CSP program

Azure is part of the Microsoft Cloud Solution Provider (CSP) program. This program allows service providers to sell Microsoft Cloud Services along with their own offerings and services. It enables end users to obtain all the IT services they need from one single cloud provider. As a service provider, you own the complete customer life cycle through direct billing, provisioning, management, and support, which strengthens your relationship with your end user. A 'mobile-first, cloud-first' world in which IT is 'always on and always up'.

The Microsoft Cloud platform constitutes an integral part of the CSP program, as it provides service providers with a whole suite of familiar Microsoft products in the cloud as a customer offering. In addition, providers can bundle the Microsoft services and/or integrate with their own services and thus differentiate in the market. The Microsoft Cloud platform helps service and hosting providers build a custom cloud platform tailored to their customers' needs, as well as their own. Microsoft cloud is not a threat to the hosting service provider business, it is a major opportunity!

What is included in the Microsoft Cloud platform?

Microsoft Cloud platform comes with the following products and services:
- Office365
- Intune
- Enterprise Mobility Suite
- Azure
- CRM Online

How can you get started?

Knowing that the cloud offers huge opportunities for IT cloud solution providers is one thing. Understanding the cloud business and knowing how to capitalize on it is another! In cooperation with Microsoft, Insight offers you a whole set of consultancy services, tools and support to help you to onboard smoothly and maximize your cloud business.

Our advice is to take it step-by-step. First of all, contact Insight. We have a team of experienced consultants to discuss your business opportunities with you. Together, we will take you through all the following relevant issues in order to formulate your needs and wishes:
- Scenarios applicable to your business
- Opportunities to differentiate and build your 'package' offering
- Hybrid licensing for your environment
- Program details & program pricing

Once you have signed your CSP Reseller Agreement with us, we will help you select the subscriptions that you need. After that, we will provide all the assistance and support to help you grow your business. This includes:

- Tooling & management (e.g. CSP Dashboard)
- Training & education (e.g. CSP Boot Camp)
- Differentiating 3rd party add-on solutions (e.g. Lync Enterprise Voice)
- Technical Support
- White label Cloud enablement services
- Guidance through the Hybrid Licensing opportunity

If you are interested in growing your business or want more information on the CSP program and the way you can use it to strengthen and extend your current service offerings, contact your Insight account manager. He or she will advise you and help you onboard the Microsoft CSP program so that you can start expanding your cloud business right away.

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[1] IDC Successful Cloud Partners 2013; IDC Buying into the Cloud 2014; 2014 Forrester TRUE Brand compass

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