

Boosting profitability for partners

HP is leading the channel to the New Style of IT.

By **Jim Merritt**, SVP & MD for HP Enterprise Group, APJ

The IT industry is at a critical inflection point that is underpinned by the four megatrends of cloud, mobility, big data and security. Cloud is changing the way businesses both procure and consume IT. Big data is creating a huge influx of unstructured data. Mobility is creating a lot of pressure on enterprises on how they manage devices, what the policies are and BYOD activities. Security underpins all of these areas.

This is creating pressure on traditional business models and our partners are looking at us to help them transform and be relevant to the customer's needs.

HP works with their partners in many different ways. The Cloud Agile partner program supports partners to setup their own revenue streams where they deliver infrastructure as a service to their customers. For example, in India a number of partners worked together to establish their own cloud company. This enabled them to sell services and deliver whatever the customer needs – whether that's a purely on-premise solution, a cloud solution or a hybrid. This allows HP's partners to create new annuity streams for their businesses.

This is critical. The rising wave of change pushing through the IT industry is creating challenges for HP's partners. By working with them, HP is able to address the changes and provide them with the means to establish new revenue streams and to increase profitability from existing business channels. This also helps to reduce volatility.

Through both global (HP Global Partner Conference) and regional (Enterprise Partner Advisory Council, Workshops and Boot camps) partner-focused events, HP has been able to spend time interacting with its key partners to address the New Style of IT.

A direct outcome of this constant dialogue has been the improvement made to the HP PartnerOne program to make it more simple, predictable and profitable. Rather than seeing partners as competition, HP sees them as critical components of their ecosystem. Rolling out new tools and automation for simpler and improved overall turnaround times has helped partner profitability. Partners can earn rebates from \$1 plus accelerator rebates if you achieve your sales goal, with no caps on your earning potential.

HP, through its ServiceOne program, is also helping the partners to deliver more value added services so that, as hardware becomes increasingly commoditised, there are new opportunities to boost income. One way has been to better equip partners when selling support services at the point of sale.

A recent report by the Technology Services Industry Association (TSIA) revealed that 75% of customers are only buying the lowest level of support and that renewal rates are around the 80% mark. Boosts in both of these are achievable and will make a material difference to the partner's bottom line.

These annuity-based income streams aren't just a straight boost to profitability. They also offer revenue stability to HP's partners that can insulate them against economic downturns. During periods of financial market instability, capital expenditure may be reduced but maintenance arrangements and services contracts can act as a buffer.

HP marks its 75th anniversary in 2014. Given the fast changing environment, the one thing that differentiates HP from the competition is its ability to innovate both from a portfolio and go-to-market perspective. HP will stay ahead of the game and will enable its partners to do the same as well.

Key to double digit services growth



TSIA tracked the Service 50 Index data of 50 Bellwether tech companies. Its findings are



66%* experienced flat or declining product revenues.



68%* of these companies reported growth in services revenue.

With flat to declining product revenues, majority of the tech companies now look to the support organization to deliver both top-line growth and margin dollars.



60%* respondents said they are being asked to grow services revenue faster than product revenue.



80%* indicated that their CEO believes service revenues are critical to top-line growth.



Be a Pacesetter¹ - Grow your service revenue

Attach support and maintenance contracts have the potential to deliver a **3:1*** payout.

Support Attach rates



Rate at which support contracts are sold with the product

	Average	Highest
Hardware	67%*	90%*
Software	81%*	100%*

You can't renew what you didn't attach in the first place! An additional sales challenge is going back to try and capture those dollars later.

Support contract renewal



Rate at which support and maintenance contracts are renewed at the end of each contract term

	Low end	High end
	80%*	100%*

You can bet those 20 points make a significant difference in the top line companies

Upsell to Proactive support



Rate at which you further monetize relationships with existing customers

Not monetized (still basic contracts) **75%***
Potential-Enormous

Successful upsellers reported higher ratings in customer satisfaction and retention, and a strong net positive impact on support gross margins.

Reduce customer attrition from 40% to 3% and achieve top-line growth by upselling to Proactive support

¹Some tech companies—the ones that TSIA calls PACESETTERS—are achieving 96% attach rates on service contracts associated with new product sales, on average.

*TSIA, Levers of growth—building double-digit revenues in a tech company
For more information, visit www.tsia.com



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