CloudBlue

WHITE PAPER

A relentless race toward recurring revenue

Author: Joan Puyol

CloudBlue

The B2B as-a-service model is transforming the IT supply chain

A few years ago, companies bought hardware from a tech supplier, software from a vendor or systems integrator, and their helpdesk service from a specialized 3rd-party. In today's lean economy, the complexity of dealing with multiple vendors is no longer viable. Modern organizations demand predictability and simplicity with operational efficiency at the center of any process design. They require complete solutions bundled and delivered as a service, payable in fixed monthly installments and, ideally, through a single supplier.

MSPs have benefited enormously from this phenomenon. They remove complexity from their customers by delivering complete business solutions combining hardware, services and software. Since they own the relationship with end customer, they capture the largest portion of the margin in the supply chain. Furthermore, they grow the most important business KPI in today's rapidly-changing, uncertain world: predictable, annual recurring revenue (ARR).

ARR is the new king of KPIs, the core metric in any modern business dashboard and at the center of any board conversation today. ARR makes access to financing easier and it is a more suitable metric than n-times-EBITDA for SaaS-based valuations. In uncertain times, financial institutions, investors and shareholders value predictability over any historical KPI.

Every company is becoming a services company

The combination of these three key elements: an increasing demand for as-a-service solutions, the need to capture higher margins and growing ARR is blurring industry-vertical segment boundaries and shaking up the supply chain. Big tech manufacturers and ISVs are morphing into MSPs or vertically integrating with them:

> In August 2018 HP acquired Apogee, a Managed Printing Services company in the UK, for $444M, a market that HP says is worth $55 billion worldwide.
>
> ACER, ASUS and Lenovo are successfully commercializing AI-ready, cloud enterprise solutions for smart transportation, smart health, and smart manufacturing as true Managed Services Providers.
>
> Xerox has successfully transformed, over the last few years, from a hardware manufacturer into a services and software business. Now, they are building on their leadership in the Managed Print Services (MPS) market to deliver “intelligent workplace solutions”. 77% of Xerox’s revenue today is after-sale, recurring revenue.
>
> LENOVO created 3 strategic groups for their ISV initiatives in 2019: the Data Intelligence Business Group (DIBG), the Converged Network Business Unit (CNBU) and the Commercial Internet of Things (CIoT) group.

Every big technology vendor is becoming an as-a-Service company to varying degrees, depending on their digital transformation maturity stage. Philip Kotler’s quote: “every business is a service business” is more valid today than ever before.

Modern MSPs are cashing in on that transformation by digitizing their operations. Traditionally, it has been very hard to scale their businesses as they rely heavily on human labor to perform the business operations their clients outsource to them. Now, technology affords them unprecedented operational efficiencies and allows them to grow at scale. Their own digital transformation is based on two main axes: expanding their recurring-revenue offerings to increase ARR and automating all their cloud and services operations to increase operational efficiency and scalability.

CloudBlue

Growing recurring-revenue offerings and its challenges

The following are the most common ARR cloud service offerings, each one brings significant growth opportunities but also complexities and challenges.

SAAS – HANDLING FRAGMENTATION

According to ISVWorld, the number of ISVs grew from 92,000 in 2013 to 175,000 in 2018. Forrester's Jay McBain made this bold prediction: "I wouldn't be surprised, with the level of hyper-specialization new buyers are demanding, to see [the number of software companies] grow to 1 million by 2027."

As the average number of solutions adopted by companies grows, so does the complexity for an MSP to procure, deliver and manage them. According to Deloitte, cloud investments are expected to double as a percentage of information technology (IT) budgets over the next three years.

The complexity of onboarding different vendors, offering different billing models - user-based, usage-based, tiered, on-the-fly upgrades and downgrades - becomes unsustainable.

Thus, automated expansion and provisioning of their cloud catalog is not just an option for MSPs, it's a necessity. If it's not automated, their cloud operations workforce will rapidly come unstuck.

IAAS - SCARCITY OF QUALIFIED TALENT

Global public-cloud-services revenue is forecasted to reach $308.5 billion in 2021 and $354.6 billion by 2022. Forrester predicts that the top four cloud-native platforms: AWS, Azure, Google Cloud and Alibaba are expected to continue growing in 2021. Their report also predicts that 60% of companies will be leveraging containers on public cloud platforms combined with private clouds, by the end of 2021.

In this scenario, the biggest challenge for MSPs today is hiring enough talent to be able to manage that IaaS diversification for their customers. Finding good technical profiles with expertise in one public cloud vendor is difficult. Finding them for three or more is a utopia.

Multi-Cloud Orchestrators have emerged as a key solution to that challenge in the last few years. They act as a public-cloud-vendor agnostic user interface which allows MSPs to provision, manage and deploy IaaS-based instances and automate the deployment of operating systems and the software applications within them. No vendor-specific skillset or certification is required, so any average IT professional should be able to provision and deploy virtual machines, which have a pre-installed set of applications, on any public cloud platform.

DAAS – FINANCIAL AND OPERATIONAL COMPLEXITY

Traditional financing models for equipment, even leasing or renting with commitments for 12 or 24 months, are not flexible enough for uncertain times. Many organizations need to react quickly, adjusting the size of their workforce in line with fluctuations in the market. They can't afford to capitalize all the equipment they need, depreciate it and manage their inventories at the necessary speed.

The next stage in providing businesses with maximum flexibility is Device-as-a-Service. This offering allows them to consume productivity devices for shorter time periods. Modern MSPs like our customer TLINE in LATAM now bundle their laptops, PCs and peripherals with insurance and software licenses and offer them for as little as one month. Fast logistics processes allow them to deliver and return these devices in record time, recycle, repair them if needed and rent them again. These DaaS offerings not only allow them to work with higher margins on the hardware, but also boost their insurance and software revenue streams.

WAAS, WI-FIAAS, XAAS – THE FUTURE

But productivity devices are just one piece of the puzzle when it comes to getting a new hire up to speed. MSPs need to schedule and provision professional services (IT onboarding, data transfers), procure peripherals such as headsets and monitors, and maybe even furniture.

This is the concept of Workplace-as-a-Service. Everything that's needed to enable a workplace, a combination of physical goods, digital goods and services, is bundled and orchestrated to be delivered on time, eliminating the hassle and complexity for the customer.

This ability to orchestrate physical and digital goods and services is what we call omni-product management. State-of-the-art companies like our customer Advania are now automating 90% of their WaaS offering, which gives them unparalleled operational efficiency and scalability.

Omni-product automation platforms are also equipping MSPs like them to seamlessly deliver new, fast-growing recurring-revenue streams like Wi-Fi-aaS. And that's just the beginning. XaaS (Anything-as-a-Service) is becoming a reality.

Achieving operational efficiency

The ability to handle all that complexity, automate the provisioning and fulfilment of physical and digital goods from 3rd-party vendors and their own services, is the key to succeeding in the as-a-service economy. The key elements to achieve operational efficiency and scalability are:

MULTI-VENDOR, OMNI-PRODUCT PROCUREMENT AND FULFILMENT

The ability to onboard and manage their own and third-party (vendors or partners), white-labeled services, physical and digital products, as well as managing consumption and billing models (one-time, recurring, pay-as-you-go).

MULTI-CLOUD ORCHESTRATION

Being able to develop, orchestrate and deploy their systems and application templates while offering application-centric management services across their public, private and hybrid clouds from one single platform.

MULTI-COUNTRY, MULTI-SUBSIDIARY UNIFICATION OF OPERATIONS

As MSPs grow and expand into new countries and regions, traditionally they have just created an independent subsidiary. Each subsidiary has worked independently, seeking out and partnering with their own suppliers and distributors as needed. They've also deployed their own IT systems and procurement processes.

By doing so, they have reduced their capacity to standardize procurement flows, but more importantly, they have diminished the negotiation power they could have had as a group when dealing with vendors. In today's lean economy, central management for the procurement of cloud solutions and IT products across subsidiaries in different countries is a strategic need.

Modern platforms today offer MSPs the ability to handle multiple marketplaces in different countries and currencies. Catalogs can be shared or separate, listings and offerings can be different in each marketplace but procurement and fulfilment flows can be unified. This unification provides MSPs with both the flexibility to work independently by territory and the power to procure and negotiate as a group, all while automating and standardizing processes.

CloudBlue

Our role in the ecosystem

CloudBlue enables MSPs to become better complexity-handlers for their customers, eliminate hassle and proactively offer creative solutions. The company's end-to-end cloud software and services platform helps MSPs bundle, scale and monetize XaaS offerings in an ever-more servitized decade.

Moreover, we provide our customers with access to a continuously growing catalog of 200+ vendors, removing the inconvenience of individual integrations with them.

As the demands of digital transformation are passed on from customers to the go-to experts they depend on, CloudBlue equips these trusted advisors—the MSPs of the future—to transform today's limitations into tomorrow's opportunities.

200+

Top-Selling Vendors

Resell third-party products and services combined with your own offerings – using one platform

127%+

Return on Investment

Easily onboard partners to resell your products to create a multichannel business

21%

Reduced Customer Churn

Grow and retain customers, reducing churn through the CloudBlue Platform

4

Reduced Months to Market

You can quickly release new products and services to your customers while increasing your time to revenue

together@cloudblue.com
www.cloudblue.com