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# Cloud Service Commerce 101

What You Need to Know About  
the Revolution in Software  
Sales and Distribution



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## What You Need to Know About the Revolution in Software Sales and Distribution



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### Introduction

Remember when software came on CD-ROMs sold in boxes on store shelves? Times have certainly changed; today, businesses can search online for the applications they need, sign up for a subscription, and start using the software all within minutes—and without ever having to worry about maintaining the solution.

These cloud-based solutions, also called cloud services, have created a software revolution, one that is empowering small and medium-sized businesses (SMBs) with technology that is far more flexible, faster, and powerful than ever before.

For service providers, cloud services—including Software-as-a-Service (SaaS) applications—represent a significant and relatively untapped source of new and recurring revenue. As a service provider, you should be viewing cloud services as strategic to retaining current customers, growing wallet share, and attracting new businesses looking for one-stop shopping for their voice, data, and online/application business needs. Results from a recent Amdocs SMB survey found that 74 percent of SMBs want cloud-based services from their primary service provider, but only 45 percent are actually receiving them.<sup>1</sup>

What's holding your company back? Up until a few years ago, service providers faced major barriers to offering cloud-based applications and services, including the tremendous investment and risk involved in building and running a cloud-based applications and services marketplace from scratch. Today, however, the same software revolution that created the lucrative cloud services market has made it

### DISCUSSION AREAS

- › Seeking Out New Revenue Streams
- › Moving Up the Value Chain
- › Removing the Barriers to Entry
- › Choosing the Best Cloud Service Commerce Platform

1 "New Research: Almost Half of SMBs Will Switch to Their Primary Communications Service Provider for Cloud Solutions if Offered Bundles of Traditional and Cloud Services," Amdocs, April 24, 2014.



possible to drastically reduce the risk, effort, and time-to-market for service providers who want to offer cloud-based applications and services to their customers.

Read on to gain a better understanding of the cloud service opportunity and how your company can take advantage of it with a cloud service commerce platform.

## Seeking Out New Revenue Streams

The past decade has seen the service provider industry roiled by technology trends driving near constant market disruption. Fixed line is dying and taking a major portion of revenues with it. Eroding margins across increasingly commoditized offerings limit the financial flexibility of incumbent players. Upstart, over-the-top (OTT) players create intense competition while making the significant investment of traditional providers nothing more than dumb pipes.

Surviving and thriving as a service provider has never been more challenging. To overcome these issues and protect market share, revenue, and shareholder value, many service providers are anxiously pursuing ways to move beyond traditional revenue streams. One such strategy is to launch, market, and sell a compelling and comprehensive portfolio of cloud services to existing and new customers. In effect, this strategy lets service providers seize the opportunity to become a one-stop shop for their customers' digital needs.

If your company already provides voice, video, data, and related services, adding cloud-based applications and services to the mix can be a natural next step. For service providers with a solid SMB customer base, it makes sense to expand the trusted provider relationship to offer cloud services, which can include email, productivity, file sharing, backup, collaboration, financial software, and other leading business applications. Why should your customers have to go to other vendors or directly to each application website to get the cloud-based applications and services they need?

According to a recent report by Allot Communications, less than half of communication service providers currently offer public cloud applications and services.<sup>2</sup> These providers are missing out on getting their share of the SaaS pie. A recent McKinsey report estimated that the SMB market for cloud-based software is currently worth \$28 billion globally and is growing steadily at 20 percent per year.<sup>3</sup>

## WHAT ARE CLOUD SERVICES?

A cloud service is any resource that is provided, managed, and used via the cloud (Internet), with the most common cloud services being Software-as-a-Service (SaaS), as well as Platform-as-a-Service (PaaS), and Infrastructure-as-a-Service (IaaS).

Cloud services include many of today's most popular business tools, such as:

- > CRMs like **SugarCRM**
- > Productivity suites like **Microsoft Office 365**
- > File sharing and collaboration tools such as **Box** and **Dropbox**
- > Accounting and financial software such as **Xero**
- > Leading developer tools or software that ISVs use to build and monitor their applications, such as **New Relic**, **SendGrid**, and **MongoDB**



2 "Delivering Cloud Services to Enterprises: Allot CloudTrends Report H2/2014," Allot Communications, 2014.

3 "Big Business in Small Business: Cloud Services for SMBs," McKinsey & Company, February 2014.



## Moving Up the Value Chain

Beyond creating a new revenue stream, offering cloud-based applications and services lets service providers move up the value chain and become far more strategic partners to their customers. Being able to take customers further along the business maturity journey creates a level of trust that can net your business not only a greater share of wallet and higher customer lifetime value, but stickier customers as well, making them more immune to the promises of your competition down the road.

However, moving up the value chain can't be thought of as a tactical move for generating quick, short-term revenue spikes. If you view rolling out a new cloud services marketplace as a one-time, rapid-return-on-investment play, it will likely fail. It takes time, commitment, and an appropriate level of investment to make the move to being a trusted technology solution source for your business customers.

That said, a compelling business case can be made for the medium- to longer-term timeframe of deploying a cloud services strategy. McKinsey reports that SMBs typically start by purchasing an "anchor" service, such as communication/collaboration (e.g. email) or customer relationship management. Then, as businesses become more familiar with cloud services, they begin to add more "satellite" services and applications to the mix.

Here's an example of what that could mean to a service provider: According to McKinsey, email can serve as an anchor SaaS offering, generating around \$5 to \$7 ARPU each month. These same customers have demonstrated high propensity (40 to 60 percent depending on the service offering) to buy additional offerings from the same vendor. With add-ons, ARPU can easily double to \$12 per month or more.<sup>6</sup>

There are other hard and soft benefits of launching, marketing, and selling cloud services that you should consider as part of your business case:

- > **Greater stickiness:** By becoming a one-stop shop for your customers, you can create greater customer loyalty as a hedge against competitors undercutting your other services.
- > **Increased shareholder value:** Introducing a new revenue strategy may get you a bump in stock price, increasing shareholder value. Moreover, launching a cloud service commerce offering can position your company as an innovation leader in your industry.
- > **Attractiveness to partners:** Depending on how you go to market with your cloud services, you could make it easier and more attractive for application and service developers to partner with you.

### MICROSOFT AND THE DEMISE OF ON-PREMISE SOFTWARE:

*The writing is on the wall: The days of on-premise IT infrastructure and software are ending. Even Microsoft has shifted its strategy to being "mobile-first and cloud-first."<sup>4</sup> In fact, Forrester Research predicts that in 2015 Microsoft will generate more profit from cloud-based services than from its traditional, on-premise applications.<sup>5</sup>*



4 "Microsoft CEO Satya Nadella Talks Mobile-First, Cloud-First," Steve Ranger, ZDNet, November 10, 2014.

5 "Cloud Becomes the Motivator in 2015," James Staten, Forbes.com, November 13, 2014.

6 "Big Business in Small Business: Cloud Services for SMBs," McKinsey & Company.



## Removing the Barriers to Entry

Despite the opportunity to grow revenues, retain more customers, and position the company to better serve the digital needs of its customers, many service providers have not taken the steps to begin offering cloud services. Consider this example: According to cloud news and industry site Talkin' Cloud, no top provider in the telecommunications industry—an ideal sector for the cloud service commerce model—appears in its list of the top 100 cloud service providers, aggregators, and brokers.<sup>7</sup>



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Why aren't service providers moving faster and more aggressively to deliver cloud-based services and applications? Historically, there have been a number of significant barriers to entry that have kept service providers from either committing to, or moving forward with, a cloud services offering or have caused those companies who did take initial steps to fail in their efforts. These barriers include:

- > The expense and risk of developing and maintaining a cloud services marketplace in house, including the development of sophisticated billing and provisioning capabilities
- > Slow time-to-market for internally developed and deployed services
- > Prohibitively expensive internal integration efforts to aggregate cloud services offerings, including dozens of point-to-point integrations to build and maintain
- > Time- and cost-intensive efforts to manage individual contracts with each SaaS application provider while continually onboarding new products and services

Today, each of these hurdles can be eliminated thanks to the software revolution. To avoid expensive and risky in-house development while speeding time-to-market, service providers can take advantage of a cloud service commerce platform based, of course, in the cloud.

## Choosing the Best Cloud Service Commerce Platform

With a cloud service commerce platform, your company can get to market quickly, with far lower investment costs and risk, and easier, more flexible management of your new cloud services offering.

However, to successfully market and sell cloud services to their SMB customer base, service providers should insist on several critical key features and

SWITZERLAND'S LARGEST TELECOM PROVIDER GROWS WITH CLOUD SERVICES

*"Cloud services enable us to protect our core business, which is still generating revenue and profit, by reducing churn, having additional services, differentiating, and also putting Swisscom on a path of growth towards new areas."*

JONAS KRENSLER,  
HEAD OF MESSAGING AND COLLABORATION, SWISSCOM



functionalities that ensure a best-in-class experience for both their customers and their own internal teams:

- > **Aggregation of services:** Look for a platform that aggregates multiple products into a unified product catalog using a standard format for painless integration. This not only serves to attract more developers to your cloud services marketplace, but also gives your company the flexibility to add new software to your marketplace as the needs of your customers change.
- > **Consumption management:** Billing is one of the most critical—and complex—cloud service commerce components. A cloud service commerce platform should be sophisticated enough to handle complex billing relationships between users, service levels, billing intervals, free trials, one-time fees, introductory pricing, upgrades, renewals, and more. In addition, the platform should empower SMBs to manage their subscriptions and provision users within their companies on demand.
- > **Single sign-on:** Single sign-on (SSO) is the ability to use a single username and password to log into multiple applications. SSO is critical because it lowers barriers for end users; instead of creating and managing credentials for every application, users only have to remember one set. For service providers, SSO also provides more control, keeping customers inside the branded application store experience, or “walled garden,” instead of sending them to different sites.
- > **Single management portal:** A cloud service commerce platform that offers a single management portal eliminates the problem of tracking and managing a variety of different applications and services. A portal should allow SMBs to log in, view all of the applications they subscribe to, add or delete users from within their own companies, as well as manage invoices and billing.

Another important criterion for choosing a potential cloud service commerce platform is the size and breadth of the vendor’s ecosystem of developers and services. Look for an ecosystem that offers an extensive catalog of cloud services, including a broad list of industry-leading products, such as Microsoft Office 365, Symantec, Box, Google Apps, and other sought-after business solutions.

Finally, to maintain flexibility and agility as you evolve your cloud service offering, you should strongly consider choosing a cloud service commerce platform that is agnostic—that is, one that enables you to sell any cloud service across any channel to any business on any device. This requires the vendor to be committed to open standards and independent of any particular IT or cloud infrastructure or environment. Of course, choosing a cloud-based platform is a pre-requisite for achieving rapid time-to-market at a lower total cost of ownership.

## QUESTIONS TO ASK A CLOUD SERVICE COMMERCE PLATFORM PROVIDER

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1. What is the process for adding new applications to the platform?
2. What is the customer experience for consuming applications?
3. How easy is it to integrate and customize the platform?
4. How fast does the platform evolve? How often is it enhanced?





## Conclusion

As more SMBs adopt cloud-based software, service providers have a unique opportunity to become the provider of choice for their business customers. A cloud service commerce platform lets your company launch and manage a robust cloud services offering without needing to invest time and resources in building a solution from the ground up and individually integrating cloud services from multiple vendors.

As the leader in cloud service commerce, AppDirect not only accelerates your time to market, but also provides the most advanced cloud service brokerage technology available today to power every aspect of cloud service commerce, from sales and management, to billing and distribution, to reseller enablement. With AppDirect, you can deliver top-selling cloud services to your customers to boost customer loyalty, reduce churn, and drive revenue.



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## ABOUT APPDIRECT

AppDirect is the leader in cloud service commerce making software accessible globally. The AppDirect Cloud Service Commerce Platform unites providers, developers and consumers of cloud services into a single ecosystem. This makes it easy for businesses to find, buy, and manage cloud services from a central location and delivers new opportunities to distribute, sell, and market cloud services.

AppDirect-powered marketplaces, billing and distribution, and reselling services help providers—including Telstra, ADP, Samsung, Deutsche Telekom, Cloud Foundry, Rackspace, and others—connect millions of businesses to solutions from Google, Box, DocuSign, Intel Security, and more.

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