AppDirect

The Cloud Services Market Opportunity for ISPs

Today's Internet Service Providers (ISPs) are facing unprecedented challenges, from the pressures of commoditization, to customers who are faster to churn, to competition from new sectors (telecom and mobile, just to name two), to ever increasing technological complexity.

The news isn't all doom and gloom, however. Thanks to their core technology and business competencies, ISPs are ideally positioned to become cloud services providers of choice to their business customers. With a strong portfolio of Internet and value-added business applications, ISPs are poised to drive higher conversion rates, larger payment sizes, lower churn—and ultimately more revenue.

This industry brief explores the current ISP cloud services market, including current buying trends, where ISPs are already seeing success, and specific strategies that ISPs can implement now deliver results.

Cloud Market Growth Opens the Door for ISPs

The growth of cloud technology has been on an upward trajectory for the past two decades, and it shows no signs of slowing. In fact, worldwide revenue from public cloud services is expected to hit $188 billion by 2020*. That represents an 11 percent CAGR for SaaS, 27 percent for IaaS, and 17 percent for PaaS.

Digging deeper into these numbers, small to medium-sized businesses (SMBs) already account for $34 billion in worldwide revenue from SaaS. Taken as a whole, these numbers point to a key takeaway: Cloud market growth is creating a compelling opportunity for ISPs to sell complementary cloud services to SMBs.

In fact, ISPs are already proving product market fit and seeing success selling several categories of cloud services, including backup and storage, security, and productivity. In addition, ISPs are also starting to gain early traction in several other categories, such as marketing and sales, HR, IT, and financial.
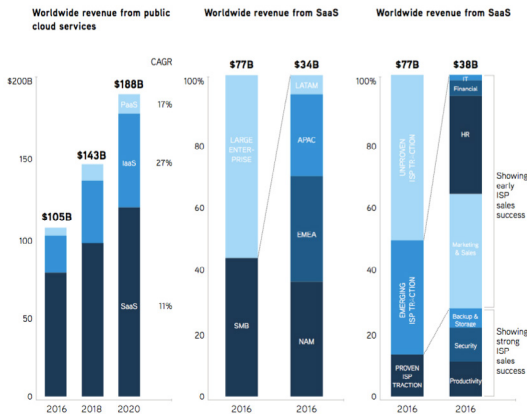
The Right Stuff for Cloud Services Sales

To some ISPs, the idea of selling a productivity application like Microsoft Office 365 or Google G Suite may seem unrelated to their existing business models. However, ISPs are actually well positioned to capitalize on the cloud opportunity because of their existing assets, not despite them. When you add in SMBs' willingness to buy and the strong economics that drive the market, the case becomes even more clear.

To start, independent software vendors (ISVs) are ready and willing to sell through third-party providers (including ISPs) with preset contracts and integrations. In fact, ISVs currently sell $40 billion in cloud services through third-party providers worldwide. In practice, this means that ISPs already have a robust number of cloud services to choose from. For example, AppDirect offers a catalog of more than 240 SaaS products that are ready to sell "out of the box."

Next, consider the pain points of the SMB. The majority, 69 percent, prefer going to a single vendor for their IT and cloud services. An ISP is primed to meet this need, as well as the other top concerns listed by SMBs, including assisted sales, implementation help, training, unified application management, security, centralized support, and more.
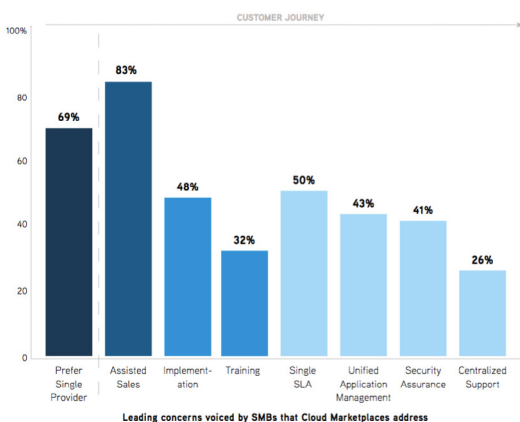
By the Numbers: The Impact of Selling Cloud Services

When ISPs utilize their existing capabilities and infrastructure to sell cloud services, they can gain comparative advantages that yield results. ISPs have the technical foundation to support:

INDUSTRY BRIEF

Without Advantage   **With** Advantage

① PLATFORM INTEGRATIONS

Unifying cloud services delivery with existing backend systems.

1X ----→ 3.7X

Unique visitors to marketplace

② ANCHOR SERVICE

Cross-selling a leading third-party service or add-on that integrates to your core offering.

0.1% --→ 13.2%

Paying subscriber conversion rate

③ BUNDLES

Packaging cloud services with core services and contracts.

1.1 ----→ 3.3

Number of subscriptions per SMB customer

④ ASSISTED SALES

Enabling sales teams with the right tools and aligning them with incentives.

1.1 ----→ 3.3

Number of subscriptions per SMB customer

⑤ HUMAN ELEMENT

Offering premium tech support to assist with activation, onboarding, and ongoing help.

3.8% --→ 1.6%

Marketplace monthly churn rate

Beyond these advantages, selling cloud services can also deliver strong unit economics by reinforcing existing ISP sales strategies and goals, particularly in key areas related to average revenue per user (ARPU), core services sales, and customer churn.

Increase ARPU by cross-selling value added services

$150 ▸ $540

Incremental monthly ARPU increase
from cross-selling

Upsell higher bandwidth plans to marketplace customers that use demanding web-based services

$15 ▸ $20

Incremental monthly ARPU increase
from upselling

Convert more customers with better solution package differentiation

12% ▸ 14%

Increase in core service sales

Increase customer lifetime value by reducing churn with sticky software

20% ▸ 75%

Increase in CLTV with cloud services

"SaaS has enabled XO to gain a new source of revenue, extend its reach into SMB accounts and sell additional broadband capability as SMB bandwidth consumption has increased from increased application usage."

— **Charlie Cary**, VP of Small Business Service, XO Communications

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Accelerating Time-to-Market with the Right Platform

For ISPs that want to take advantage of the growing SMB market for cloud services, getting to market fast is critical. Even with strong core competencies, building the systems and integrations needed for successful cloud service commerce can take years.

AppDirect's advanced platform can help ISPs add cloud services to their portfolios quickly and cost effectively. The AppDirect platform automates critical backend functions—such as billing, provisioning, and activation—saving time and money while improving the customer experience. With AppDirect, ISPs can select and sell from a leading catalog of more than 240 pre-integrated business solutions including Microsoft Offce 365, Symantec, Box, Google G Suite, and many more.

For more information, visit: **www.appdirect.com**

*Sources for this industry brief include: IDC, Forrester, TBR, Forbes, and AppDirect data

ABOUT APPDIRECT

AppDirect is the leading platform for selling, distributing, and managing cloud-based products and services. Its flexible, modular technology enables organizations of all sizes to get to market quickly and cost effectively with an offering that meets their individual business needs. AppDirect-powered marketplaces, billing, distribution, reselling, and premium technical support services help providers— including Comcast, ADP, Zendesk, Deutsche Telekom and others—connect more than 30 million businesses to solutions from Microsoft, Google, GoDaddy, and more. AppDirect is headquartered in San Francisco with 13 global offices.

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