

WINNING STRATEGIES in Hosted Services

As clients become aware of hosted services, IT pros will have to decide if they'll jump on the bandwagon, and if so, with which services, and offered in what way.

By Megan Santosus • Photography by Roger Ball

DESPITE THE HYPE surrounding all things cloud, hosted services really do transform the way IT functionality is delivered. For small companies in particular, hosted services—which essentially involve renting applications rather than purchasing them—promise to up the ante in capabilities. With hosted services, software license fees and hardware costs are no longer barriers for small companies; in many cases, they can acquire the same capabilities as large companies for a modest monthly fee.

While the potential of hosted services has many channel partners eager to get on board, successfully venturing into the market requires deliberate planning. Channel partners have to consider what services they want to offer as well as the way they want to offer them—on their own or through a partner. And those channel partners that make most of their money from selling hardware or providing break/fix services will have to get used to a new way of doing business.

Indeed the biggest hurdle to hosted services may just be the different frame of mind required to sell them. “The hosting model is a volume game,” says Curt Mark, manager of partner development at Intermedia, a New York-based provider of hosted services of Microsoft

Exchange and collaborative applications. Revenues from hosted services recur monthly, and “margin may be smaller up front than what a channel partner is used to,” Mark says. “But as the months add up and the number of customers grows, margins grow as well.” And as those margins grow, so do the opportunities for offering and upselling additional services.

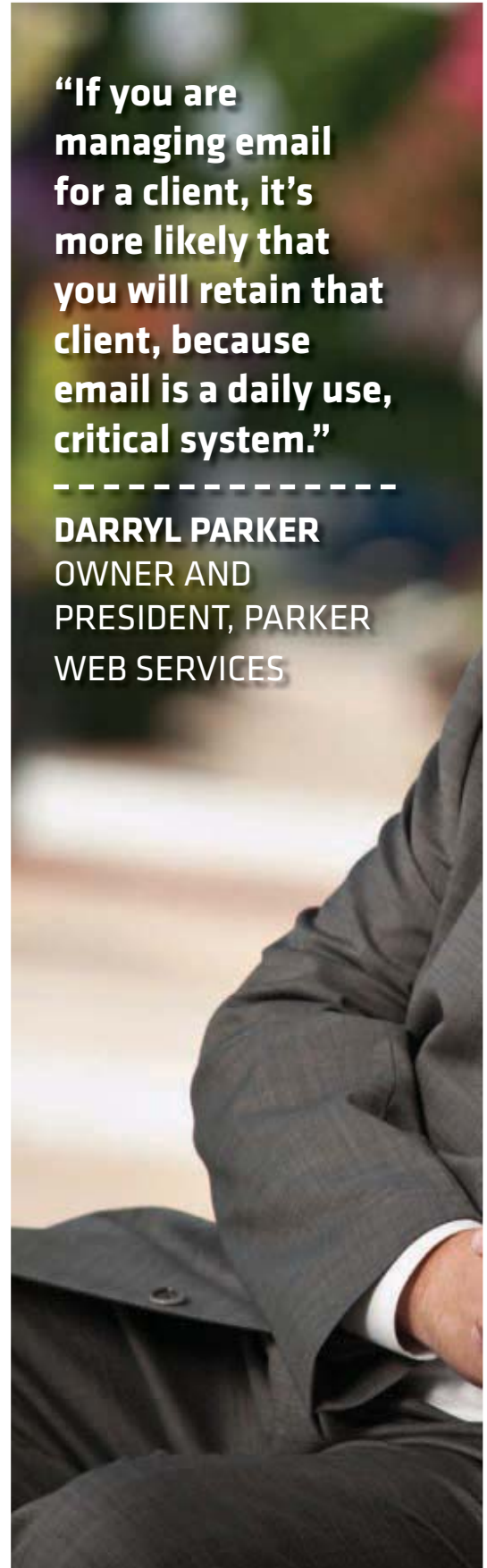
RELATIONSHIPS RULE

Selling hosted services requires that channel partners forge ongoing relationships with customers that go far beyond making a sales call or a support visit. A solid relationship with customers can inform channel partners as to what services to deliver. And in the process of delivering services, a relationship with customers can be solidified and expanded to encompass additional services. It is this kind of hands-on interaction that provides partners with their best defense against competition from the likes of Microsoft and Google. Large vendors can't match what a local channel partner can deliver in personalized service.

Alan Jones, treasurer and CTO at Carr-Jones Inc., an Arlington, Mass.-based provider of IT services, began steering clients to hosted services—specifically Microsoft Exchange, backup, and Web site hosting—in response to

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DARRYL PARKER
OWNER AND
PRESIDENT, PARKER
WEB SERVICES





The Critical Role of Hosted Services

HOSTED SERVICES have proven to be viable, but many SMBs may still be reluctant to abandon their traditional way of acquiring IT capabilities, particularly if they don't know other SMBs that have adopted the hosted model. In this case, channel partners may want to resort to old-fashioned awareness-building peer pressure as a way to convince their own customers as to the benefits of hosted applications. Recently, Microsoft conducted research designed to uncover how SMBs worldwide (those businesses with between 10 to 500 employees) "use hosted services to improve business performance." The results of the research are summarized in the *Microsoft SMB IT & Hosted Index*.

According to the research, 86 percent of respondents indicated that IT is either critical or very important to the day-to-day running of their businesses, and approximately 80 percent are convinced that their businesses would be better off if they had more IT available, no matter what that IT costs. The conundrum for many respondents: The economic situation put a stop to IT investments for one-third of SMBs, even though SMBs know that IT enables them to be more productive.

Enter hosted services, which provide SMBs with the functionality of enterprise applications without the price tag. Awareness of hosted services is growing: Nearly 73 percent of those SMBs that are not using hosted services are considering doing so, up from 44 percent in the 2008 Index.

So how do you convert companies that are aware into those that will buy? Of the SMBs that have adopted hosted services, close to 36 percent did so to improve business productivity, while 25 percent cited cost advantages. SMBs that use hosted services are the most likely to consider IT critical or very important to their businesses.

The upshot: SMBs that value IT the most see hosted services as a way to obtain the business functionality they need.

customer demand. “We got into the market because that is what the customers needed,” he says. “Increasingly even very small businesses rely heavily on applications such as email, and they don’t have their own IT staff.”

Providing hosted email services is certainly a logical first option for entry into the hosted services market given the ubiquity of email. When initially venturing into hosted services, think in terms of basic business functionality (see “The Hosted Services Value Chain”).

“Hosted Exchange and PBX are good places to start because every company needs email and a phone system,” says Chris Damvakaris, vice president of sales and marketing at Apptix, a Herndon, Va.-based provider of hosted Microsoft Exchange, email, VoIP, and SharePoint services. For many channel partners, “moving to the cloud is a simple step for messaging and collaboration applications that are traditionally managed in-house,” Damvakaris says. The cloud offers the opportunity to alleviate day-to-day maintenance of servers and applications so channel partners can focus on core activities; customers benefit by paying only for what they use, with the ability to scale up and upgrade quickly.

DIFFERENT STROKES

Once the initial decision has been made to offer specific hosted services, channel partners have to decide how best to do so. Jones’ company doesn’t have the resources to provide 24/7 support, and 95 percent of revenues are derived from consulting services. Carr-Jones opted not to offer hosted services directly; the monthly fees would be minimal. The company refers customers to 123Together.com, a provider of Microsoft Hosted Exchange in Burlington, Mass.



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 PARTNER DEVELOPMENT
 INTERMEDIA**

Essentially a conduit to hosted services provided by a third party (Carr-Jones also refers customers to Rackspace for Web site hosting), the strategy is the right thing to do for his customers, Jones says, and therefore is right for his company. “I only set customers up with services they can trust,” he says. “I don’t whitebox a service because I don’t

have the longstanding reputation the way Rackspace does,” he adds.

For other channel partners, working with a hosted services partner makes sense. Darryl Parker, owner and president of Web site management firm Parker Web Services in Matthews, N.C., began offering email in the cloud in 2004. At that time, the company had 150 clients and managed 2,000 email accounts. “We were using our own servers and the maintenance was a bear,” Parker recalls. “A lot of the issues we had were based on having the number of users, and our system wasn’t maximized for that scale.”

Parker evaluated three options: not managing email services, referring customers to Google for its Gmail service, or selecting a partner for email hosting. The Google option provided no revenue opportunities, and Parker wasn’t ready for that. “We do see email as an anchor asset,” he says. “If you are managing email for a client, it’s more likely that you will retain that client, because email is a daily use, critical system.” As such, clients want consistency, stability, and a high level of service.

Parker opted to go with a partner for email hosting and noticed the difference immediately. (The company was Webmail.us, which has since been acquired by Rackspace.) “The quality of service went up overnight,” he recalls. In addition to email, Parker offers clients Web site hosting and online backup, and he is evaluating Voice over IP (VoIP) services.

When it comes to choosing a hosting partner, Parker recommends evaluating providers based on quality of service, support infrastructure, and pricing options. Also take into account how important resellers are to a pro-

Marketing 101: Who Buys Hosted Services?

FOR BRANNEN MEHAFFEY, owner and CEO of IT provider Pivot Networks in Austin, Texas, there is no way to market hosted services in and of themselves. “You really have to provide solution-based consulting,” he says, and offering hosted services “is a part of your toolset.” However, MehaFFEY says there are indicators that point to where hosted services would be a perfect fit: customers looking to buy a new server, small businesses without internal IT staff, and organizations with a significant number of remote workers.

Some hosted services promise new marketing avenues. Louis Hayner, chief sales officer of Alteva, a Philadelphia-based provider of hosted unified communications services, sees the convergence

of the desktop and telephony applications as the perfect example.

“When someone used to need a new phone system, it was because they were moving or their old phone system wasn’t working,” Hayner explains. With hosted unified communications that involve a combination of collaboration, voicemail, and email applications, “you can approach the end user from a multitude of different angles.” Hosted unified communications could be appropriate for customers that are interested in Exchange, are looking to save money, or are videoconferencing. “Unified communications acts as a bridge between the desktop and phone, so there are a lot more events to trigger a purchase,” Hayner says.

vider's growth strategy. One way Parker gauges how well resellers are regarded is the control panel. With Rackspace, "the control panel environment is geared specifically for resellers," Parker says. "There is a consolidated control panel for Web site hosting and email services, and the company is working to develop APIs so that resellers can integrate their own software." Jones of Carr-Jones actually creates test accounts with providers before referring them to customers. "I called one company at midnight on Christmas Eve with a problem just to see how they would respond," Jones says.

GOING IT ALONE

Of course, some channel partners may prefer to sidestep partners entirely. Pivot Networks in Austin, Texas, offers hosted Microsoft Exchange, backup, and other services to more than 200 clients from three data centers. According to owner and CEO Brannen Mehaffey, the company decided to invest in its own hosting infrastructure "based on three assumptions: Hardware will get cheaper, hard drives will get larger, and retained client data is going to increase." To get into the market, Mehaffey estimates that Pivot invested about \$35,000 for hardware, software, special switches (needed for high availability required by backup services), disk space, and internal staff. Yet the investment has paid off; Pivot earns 20 percent of its revenues from hosted services, and Mehaffey expects that to increase to 30 percent in the next year.

Mehaffey has resisted partner opportunities. "Once you make the investment in infrastructure, profitability drops off when you use a partner," he says. "Going with a partner is a good way to get into hosting if you want to keep your initial outlay costs minimal." Nevertheless, even those channel partners that go with a partner shouldn't expect instant riches. Parker Web invested in labor when it migrated clients to hosted email. "It took us about 12 to 18 months to see a tangible financial return," Parker says.

However, Parker and others who have made the move to hosted services don't have regrets. "We would still be in business without hosted services," Parker says, "but just not as profitable."

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The Hosted Services Value Chain

WHEN IT COMES TO DECIDING what hosted services to offer, many channel partners take a nod from what their customers want. But what if customers don't exactly know what they want? Morris Miller, managing director at technology and business consulting firm Connell Curtis Group LLC in San Antonio, Texas, says that channel partners should broach the topic of hosted services in a progressive fashion, beginning with basic hardware needs and then proceeding to more targeted and sophisticated applications. Miller recommends the following path for helping customers make sense of—and make a decision about—hosted services.

HARDWARE. As a foundation, channel partners need to make sure that their customers have the right hardware in place and that it is working properly. Use the topic of hardware as a springboard to offering hosted backup services. "The first thing to think about is whether your customers have a backup plan," Miller says. If not, there are several hosting providers that offer online backup. Think of backup in terms of PCs as well as servers, since many employees in small companies keep critical data on their own devices.

EMAIL. While the vast majority of your customers have email, some email options may need updating. "You would be astonished at how many customers are operating with POP3 email," Miller says, which means

that home, office, and phone email isn't synched as is the case when using IMAP. A basic way to synch email is to have email installed centrally on a server. "Find out your customer's email needs and walk them up the email value chain," Miller says.

COLLABORATION/COMMUNICATIONS. Look at your customer's collaboration and communications systems. With a hosted provider, even the smallest companies can have sophisticated unified communications systems that integrate email, telephony, and other collaboration tools.

PRODUCTIVITY APPLICATIONS. Customer relationship management and sales force automation systems are available as hosted options and can enable small businesses to ratchet up the productivity of their employees. In addition, collaboration tools such as SharePoint can put smaller companies on equal footing (at least in terms of IT functionality) with their larger counterparts.

Miller also sees opportunities for additional hosted services such as Web sites, content management, and help desks. "With cloud services, small channel partners and integrators can get involved in all sorts of business processes for small businesses that they were locked out of before," Miller says. "It's up to them to create a menu of offerings, figure out how they are going to manage them and add value, and their customers will love them for it."

KEY TAKEAWAYS

- **HOSTED SERVICES PROVIDE** channel partners with a way to establish ongoing customer relationships.
- **CHANNEL PARTNERS SHOULD SELECT** the hosted services model that works best for their company—hosting themselves or through a partner.
- **TO MARKET HOSTED SERVICES,** channel partners should focus on solution-based consulting.

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