# AIM International White Paper

# PACKAGING YOUR IP FOR DIFFERENTIATION

## Adapting IT resellers' business model to the cloud

By Paul Solski, Managing Director, AIM International

June 2020

**AIM International** (AEUSA International Marketing)
25408 SE 28th St. Sammamish, WA 98075 USA
Tel. 1-425-208-5430 www.aimcorpinternational.com

## SYNOPSIS:

Cloud computing brings immense benefits to customers by shifting the burden and risk of building, operating and owning the data center to cloud services providers and effectively turning IT into a pay-per-use utility. However, technology reselling partners[(1)] such as Value Added Resellers (VAR) and Systems Integrators (SI) are severely impacted both by a need to differentiate in a market where effectively the same software and infrastructure are offered by a relatively small number of large cloud services providers to any partner and by the dramatic reductions in professional services, software margins and cash-flow as a result of the subscription model. This white paper looks at the cloud from the partners' business model perspective and outlines how partners can differentiate and regain some of the lost revenue by packaging the intellectual property (IP) they may already have as a result of past projects completed for customers.

## INTRODUCTION:

The stellar growth of cloud computing is a reflection of the apparent value it brings to companies that want all the benefits of using business applications to automate their operations, while paying only for licenses, bandwidth and capacity they consume at any given time without the burden and risk of building, operating and owning their own data centers.

For cloud services providers (CSP), offering Software as a Service (SaaS), Platform as a Service (PaaS) and Infrastructure as a Service (IaaS), can only be profitable when these services are automated, simplified and consumed in volume. The idea being that the whole process of acquiring customers, configuring software, provisioning capacity and bandwidth, providing support, billing and renewals would all be done online via self-service.

Working towards this ideal, cloud services providers and Independent Software Vendors (ISVs) are relentlessly improving the self-service model by delivering greater automation and simplification with clever online wizards that enable end-users to self-configure and self-provision their software, middleware and infrastructure services. The result is that the amount of professional services needed to provide end-users with business applications has been dramatically reduced.

Since the laws of economies of scale truly apply in the cloud, we are seeing a relatively small number of cloud services providers offering the full breadth of services to any partner that wishes to resell them. For a given partner ecosystem, this makes it more difficult for partners to differentiate because their competitors are likely to be offering the same cloud services from the same providers. For example, Microsoft offers Dynamics 365 Sales Professional for $65 per user/month (www.microsoft.com/en-us/dynamics365/pricing). Any CRM certified partner can sell this service.

Any partner thinking that their business can thrive or even survive by hanging on to the on-premises model should look at how Microsoft (azure.microsoft.com/documentation), Amzon.com (aws.amazon.com/tools) and others are attracting new software development directly on to their cloud platforms. The low-cost availability of multi-platform development tools and market reach potential offered by these brands means this is where new applications and innovation come first.

## WHAT HAS CHANGED?

With the on-premise model, it was not uncommon for the cost of professional services to implement a business application to be several times (2X to 5X) the cost of the software licenses. Today, that cost is just a fraction. Figure 1 illustrates the revenue gap the cloud business model has created for partners.

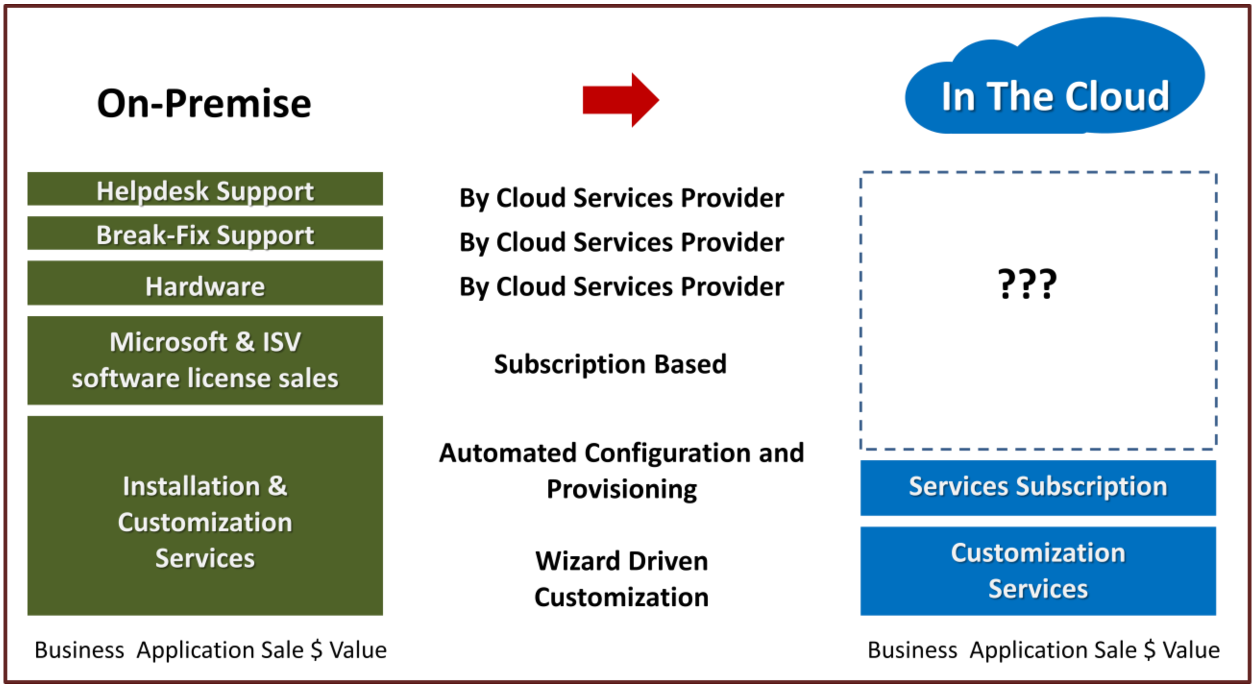


**Figure 1: Comparing the revenue components of partners' on-premise Vs a cloud based business application sale.**

The traditional role of the reselling partner is significantly diminished. The days of partners educating customers on technology are largely gone. Today, customers are highly self-educated online; they typically research many options for their solution, read reviews, online case studies and participate in user discussion forums. Consequently, customers can have a much broader and deeper knowledge of the available options than a partner does.

There are many more packaged solutions available. These can be easily configured through wizards that ask straight forward questions for customization and if the user doesn't know the answer; industry defaults are applied. Since application programming interfaces (APIs) are openly published and well adhered to, end users can now choose the best of breed applications from any number of vendors – even those that a partner is not reselling.

More online purchasing means fewer sales for partners and fewer opportunities to deliver professional services. With more direct sales, margins on products are shrinking and competition is increasing.

## WHAT NEEDS TO CHANGE?

When IT becomes a utility, partners need to deliver higher value services to secure new revenue and differentiate in the marketplace. This means:

- Reducing dependency on installation and configuration services
- Reducing dependency on third party software license margins
- Transitioning away from transactional relationships with clients to those of an advisor
- Demonstrating business acumen in their clients' vertical industry and focusing on business outcomes that optimize business processes i.e. how to apply IT, not how it works
- Monetize the intellectual property the company may already have

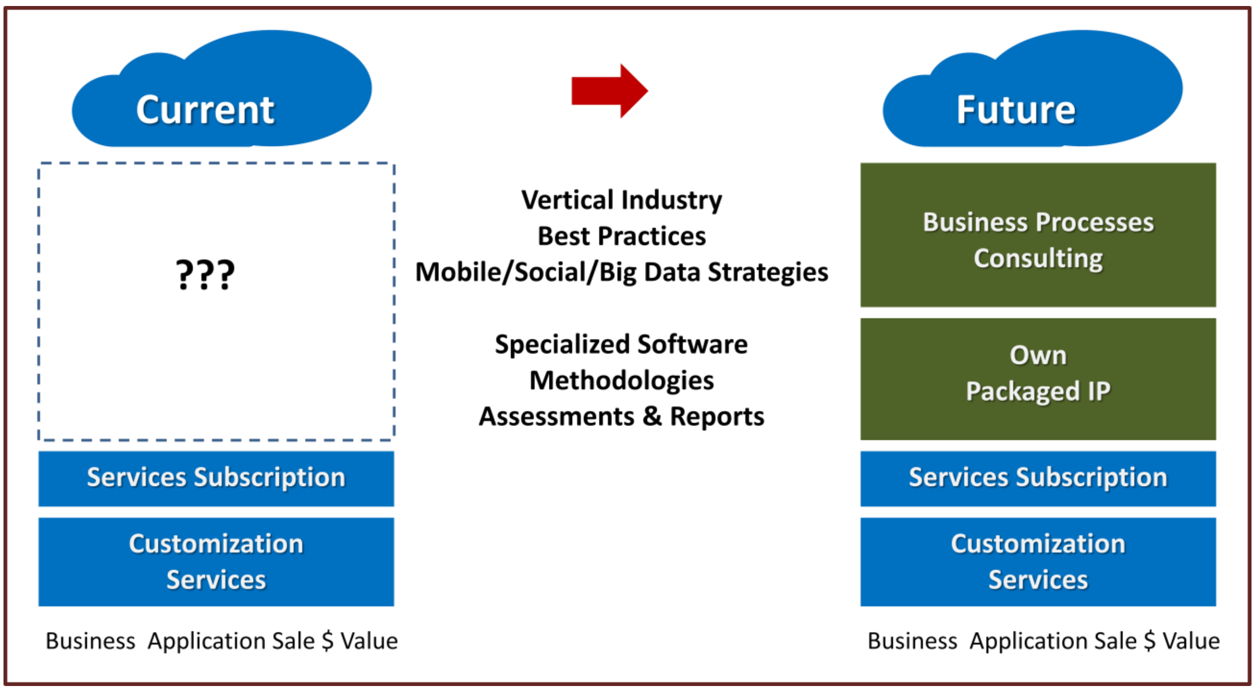


**Figure 2: How the revenue & margin void can be filled with own packaged IP and business processes consulting services.**

Two ways to fill the revenue and margin gap:

1. Monetize your own IP through packaging
2. Business processes optimization consulting services

Here, we will outline an approach for monetizing your own IP through packaging.

## WHY PACKAGED IP?

Firstly, your IP, when packaged as a sellable product, is a point of differentiation in the market that no-one can take away. Unlike third-party vendors' products and services, your company owns its IP and there ought to be nothing identical offered by others. Its value to customers should be measurable and help your company be positioned more strategically with them.

Secondly, your company has control over its IP. Control over who sells it, delivers it, how its priced, how it evolves and you are not at the mercy of other vendors to make those decisions for you.

Thirdly, it can be a source of additional services and product sales. If your IP is an assessment that recommends actions that involve the purchase of software, hardware and services, then these should all come from you. If your IP is a methodology to, say, implement a solution, then the solution should be available from you. If your IP is software, then there ought to be professional services involved to implement it.

Even if your entire portfolio of software, hardware and third-party product support moves to the cloud as an online service by their original manufacturers and is priced as a utility, your IP will stay with you as a source of revenue and differentiation. It can sustain your company throughout technology disruptions. In fact, it may be the only thing to sustain your company throughout disruptions.

## PLANNING FOR PACKAGING YOUR IP:

Any partner with a substantial installed base of customers may already have intellectual property that has been developed in the course of past customer projects. The experience your company has of customizing software, writing custom code, building methodologies for implementations and developing assessments are all candidates for being your company's own IP which can be used as a differentiator and a source of new revenue. The challenge is to turn these snippets of code, how-tos and templates into products that can be standardized, packaged, sold and delivered repeatedly.

The first step in identifying the IP your company may already have is to review all available information from past sales where your expertise was recognized by customers as adding significant value to the final solution. The following questions effectively form an assessment if your company has IP that justifies packaging and taking to market.

## IDENTIFYING YOUR EXPERTISE:

### WHERE IS YOUR EXPERTISE?

In the cloud, most, if not all, services related to standard software configuration, infrastructure provisioning, billing, renewals and technical support are provided by the cloud services provider.

Therefore, your company needs to add value at higher levels which inevitably leads to services related to how IT can enable or optimize business processes in customers' specific industry segment(s).

Specifically, services that were instrumental in leading to customers' improved efficiencies, lower costs, increased competitiveness and resulted in better business outcomes are the most likely to be a successful source of your own IP. This is important because better business outcomes can be translated to customers' return on investment (ROI) which, in turn, can justify customers' investment in your service.

To identify where your expertise is, consider the following questions:

- **In which vertical industries did your company deliver its most successful projects?**

  These vertical industries are most likely where you have developed some form of value added services that can be built upon. It also provides a source of your initial customer references for the packaged IP.

- **What customer size did the projects benefit the most?**

  This may be SMB, Mid-Market, or Enterprise and indicates which customer segments are most likely to pay for your services Vs using internal resources or paying another party. For example, Enterprise customers may have enough in-house resources to deliver the services internally, while SMB customers may not have sufficient budgets to pay for additional services in which case Mid-Market customers may represent your "sweet spot".

- **Which vertical industries does your company have the most staff with domain expertise?**

  Any services you package will need to be supported by industry knowledgeable staff and continue to be enhanced. Therefore, having domain expertise on-hand is essential to building the service into a product and keeping it ahead of the competition.

**WHAT IS YOUR EXPERTISE?**

Your company's IP can take many forms, including software code that integrates applications, a methodology to deliver projects, assessments to determine the gap between a customer's current and desired states, analysis of technical problems, dashboards, etc. The key is that it can be made repeatable and offers measurable value to customers.

To identify what your expertise is, consider the following questions:

- **What specific services did your company provide to enhance each project?**

  Usually, these services may have been requested by customers or required for the project and typically fill in a gap left by standard third party products.

- **Which categories did these services fall into?**

  For example, this could be custom software development, technical or process consulting, testing and analysis.

- **How many times have these services been delivered?**

  If these or similar services were delivered multiple times to multiple customers then it's a good indication that others will need them as well. Repeatability is essential for standardizing a service or product.

- **Do you have experts on staff to continue to enhance and deliver these services?**

  Your in-house experts are the source of domain knowledge that will be critical to building a differentiated service or product that improves and evolves with the changing needs of customers.

Once you know where and what your expertise is and the type of customers it can be applied to, you can then identify the specific assets you may already have that can be packaged into your own IP.

## IDENTIFYING YOUR IP ASSETS:

In the past, your staff tailored standard product implementations to customers' specific business needs. These services, when repeated over many projects, became a best practice. Chances are that sometimes these services were charged for, often by the hour, and other times they were simply included in the project at no extra cost because it added value to the overall solution. It is also likely that your sales, pre-sales and professional services staff don't all know what these valuable services are because they may have never been standardized into a product and offered on your price list.

To identify your IP assets, consider the following questions:

## WHAT ARE YOUR ASSETS?

- **If we now think of your value added service as your *product*[2], what type would it be?**

  Just as software is considered to be intellectual property, so can defined processes. Therefore, methodologies, assessments, templates etc… can all qualify as your company's IP as long as they are your company's original work.

- **Does your company own the rights to the *product*?**

  To be able to call anything your own intellectual property, your company must have the rights to it. If your staff has developed IP during the course of their work, it depends on your employment contract if your company has the rights to it. The rights need to be secured before investing in packaging any IP.

- **Is the *product* unique or differentiated in some way Vs what your competitors are offering?**

  The best case scenario is to have an original work developed by your company staff that is a unique offering. However, a *product* that is substantially different from others in the market can also be considered IP. For more information, Wikipedia offers a useful overview and links.

- **Is the uniqueness or differentiation significant enough to be credible?**

  To be able to claim differentiation, the IP must be meaningfully different from what your competitors are offering and its benefits must be measurable in terms of business benefits. A test for this may be that your competitors could not claim to have the same offering.

- **Can this *product* be delivered standalone or does it need to be combined with a third party product?**

  If your *product* is attached to a particular technology then its appeal may be limited to only the circumstances where the third party product is an appropriate solution. This is not a problem if the third party product has broad appeal and many potential customers.

#### HOW REPEATABLE ARE YOUR ASSET SALES?

- **Can this *product* be sold repeatedly?**

  Even if the *product* was delivered only to one or a few customers, there is a good chance it can be packaged for repeat sales. Consider what challenges did it solve and do other customers have the same challenges. For example:

  If the *product* is a software connector between an ERP such as Microsoft Dynamics 365 and an open source e-commerce platform such as Adobe's Magento then that connector can be packaged up as a product and sold both to Magento users who want to connect to Dynamics 365 and to Dynamics 365 users who want to connect to Magento. It is also possible that the process for developing the Dynamics 365 connector could also be used to develop connectors other ERP and CRM products.

  If the product is a methodology developed for upgrading an ERP from one version to another and has defined steps, process, templates and reports it may well be possible to package this approach for other ERP upgrades. Microsoft's Sure-Step is an example of such a methodology.

- **What would it take in terms of time, resources and cost to package the *product* into a standardized offering which can be delivered by any number of your staff?**

  Just like any customer project, packaging your own IP requires planning, time and resources even if you are not starting from a blank slate. Depending on the scope, there will be a cross discipline team required and this will be time away from their daily work which has to be recouped in sales. Knowing the cost of this investment is essential in deciding if it is a worthwhile undertaking.

## ESTABLISHING THE BUSINESS CASE:

Deciding whether or not to invest time and resources into packaging IP requires establishing a business case where the ROI can be estimated. Key considerations include:

- **How much did your company charge for the *product* when it was delivered as a service?**

  The amount charged for the service should have been significant or at least the margin made on the service should have been higher than on standard services.

- **Was its value or pull-through effect on other sales a significant part of the overall project?**

  Even if this service did not generate significant revenue by itself, but was instrumental in pulling-through the sale of high value products and services, then it is likely a good candidate for packaging.

  For example, an initial security or fault-tolerance assessment may be significantly discounted or even offered for free to uncover gaps in customers' infrastructure but may lead to high value sales of servers, storage, software and professional services.

- **How many customers do you know who could use this *product*?**

  This is the immediate opportunity and reflects a higher probability of sales of the *product*.

- **How many customers are there in the addressable market?**

  This is the total market opportunity which is usually assessed through market research by finding the number of companies in the target vertical industries by Standard Industry Code (SIC) and making an assumption about how many are likely to buy. The total market opportunity may be local, national or international.

- **What is the potential ROI to your company?**

  The potential ROI can be estimated by considering all of the above and the cost of packaging and marketing. A simple formula for estimating your ROI is:

$$\text{Partner ROI} = \frac{(\text{Average Sale Value}) \times (\text{Number of Sales}) - (\text{Cost of Packaging} + \text{Cost of Marketing})}{(\text{Cost of Packaging} + \text{Cost of Marketing})}$$

- **Does the *product* deliver compelling benefits to customers?**

  Typically, customer benefits would fall into the following categories:
  - Reduced costs
  - Improved efficiencies, use of available resources
  - Gains in revenue, increased growth, new customer wins
  - Improved competitiveness
  - Improved quality of service, customer loyalty
  - Reduced delays
  - Reduced risk

  Anyone of these benefits can be used to cost justify the investment in your *product*.

- **Does the *product* have a compelling customer ROI?**
  If the product can save or generate money for customers and this can be measured or estimated with an ROI model then it is a good candidate for packaging. A good target ROI is 10:1.

$$\text{Customer ROI} = \frac{\text{Cost Savings (\$) or New Revenue Generated (\$) - Cost of the Product (\$)}}{\text{Cost of the Product (\$)}}$$

Having reviewed your past projects with the people involved in selling and delivering them and having answered the above questions, you should be well positioned to pinpoint several services that may be good candidates to be packaged and monetized. The chart below can assist you in prioritizing which service to package first.

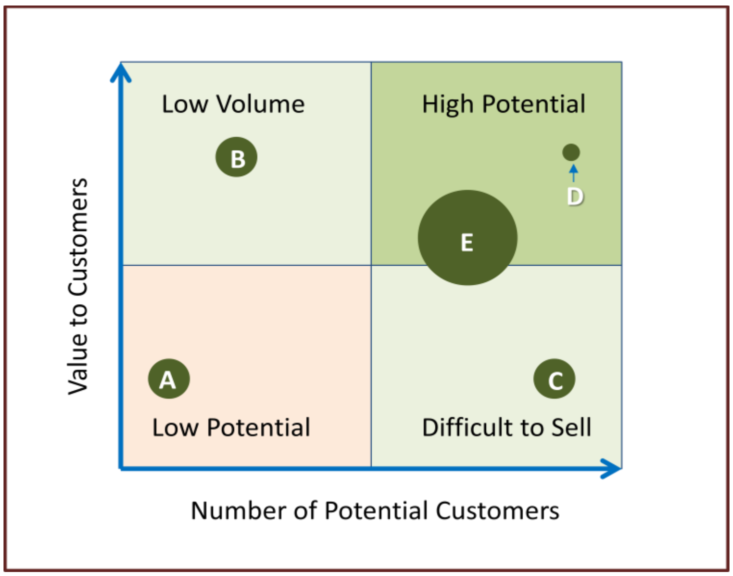


**Figure 3: IP packaging prioritization. Plots services A – D relative to each other based on selection criteria that prioritize which service to invest in packaging first.** In figure 3, the criteria are:
**X =** Number of potential customers in the market for your service estimates the revenue opportunity.
**Y =** Value to customers - indicates how attractive your service will be to customers and is a good indicator of how easy/difficult it will be to sell.
**Bubble Size =** is the partner's ROI or margin per sale. A large bubble indicates a better ROI or higher margin.

In the above example, service **A** has a low potential for success because the market opportunity is small and its value to customers is low. Service **B** has very high value to customers but is niche by appealing to only a small number of customers. Service **C** may appeal to a large number of customers but its value is hard to demonstrate and therefore may be difficult to sell. Service **D** has a large market opportunity and high value to customers but its ROI or margin to the partner is low. Service **E** has a good number of potential customers as well as good value to customers and offers good ROI or margin to the partner and therefore it is the best candidate for packaging into a repeatable product.

# BUILDING YOUR PACKAGED IP:

## CUSTOMER SCENARIOS:

To be able to effectively sell the *product*, you need to package it to the needs of the target audience. The following questions will assist in developing specific customer scenarios for your *product*.

**About the customer:**

- What is the customer's vertical industry?
- What is the customer's core business?
- What is the size of the customer?

**About the customer's business challenges:**

- What are the top business challenges the customer's core business is dealing with?
- What would be the financial impact to the customer's business in not dealing with the challenges effectively or promptly?
- What is the financial impact to the customer's business in dealing with the challenges more effectively or promptly?
- How does your product enable the customer to better deal with their core business challenges?

**About the *product's* benefits:**

- What are the strategic (e.g. increased competitiveness, innovation, customer loyalty, new market reach, time to market) benefits to the customer's core business from your *product*?
- What are the financial (e.g. cost reductions, increased sales) benefits to the customer's core business from your *product*?

**About the *product's* features:**

- Which features need to be implemented to realize the *product's* benefits to the customer for each customer scenario?
- What are the resources, time and cost required to implement each feature?
- What is the uniqueness factor of each feature that will give your company differentiation?

Often, it is difficult to select which features should be included in a product as there are numerous options but a limited number of resources. Figure 4, below, can be a helpful visual prioritization tool that guides you to package the most important features into your *product*.

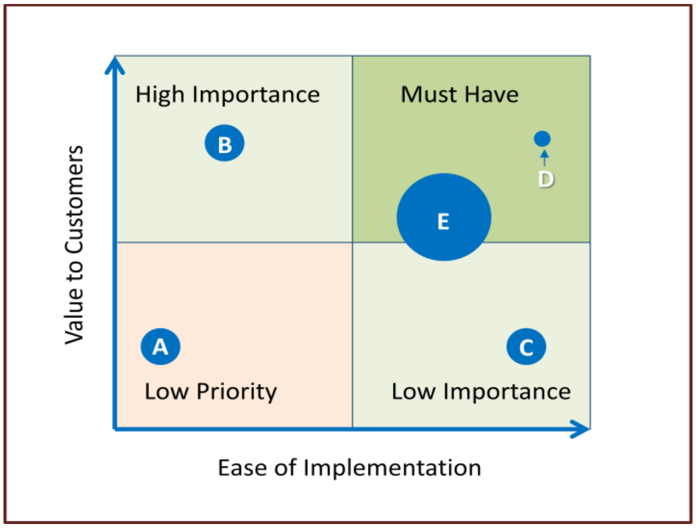


**Figure 4: Plots features A – D relative to each other based on selection criteria that prioritize which features to include in the packaged *product*.**

In figure 4, the criteria are:
**X =** Ease of implementation – time, resources and cost of including a feature into the product.
**Y =** Value to customers - indicates how important the feature is to address a customer's problem and impacts the overall attractiveness of your *product*.
**Bubble Size =** is the uniqueness of the feature that will be a source of your differentiation.

In the above example, feature **A** is a low priority because it offers low value and is difficult to implement. Feature **B** has a very high value to customers but is difficult to implement. Feature **C** may be easy to implement but offers low value to the customer. Feature **D** has high value and is easy to implement but is not a good source of differentiation for your company. Service **E** is easy to implement, has high value to the customer and is a good source of differentiation, therefore, it should be prioritized.

## PACKAGING:

Depending on the form of product your IP will take, there are different considerations for its packaging. Below are considerations for three forms.

### SOFTWARE AS YOUR IP:

Your IP may come from the software your company has written for clients that were needed to fill a gap in a standard vendor product or as a result customers' specific situations, for example:

- A data migration tool e.g. taking data from a legacy application into a new one.
- An application connector that enables data to seamlessly flow in a multivendor environment e.g. Microsoft Dynamics 365 and Magento.

- An application integration interface that provides a common look and feel for users across numerous multivendor applications. E.g. Microsoft Office, a company's purchase requisition and corporate travel applications.

If your software can be applied to several customer segments and vertical industries, then modularizing the design can help to prevent it from appearing generic while keeping a single code base that is easier to enhance and maintain. In building a modular application, consider:

- Defining the product components that will make up the complete solution
- Defining the core functionality that will be common for all users of the application
- Defining the feature set for clients by vertical or micro-vertical
- Defining the feature sets by client segment – small, medium, large
- Modularizing for client scenarios to allow to turn features on/off

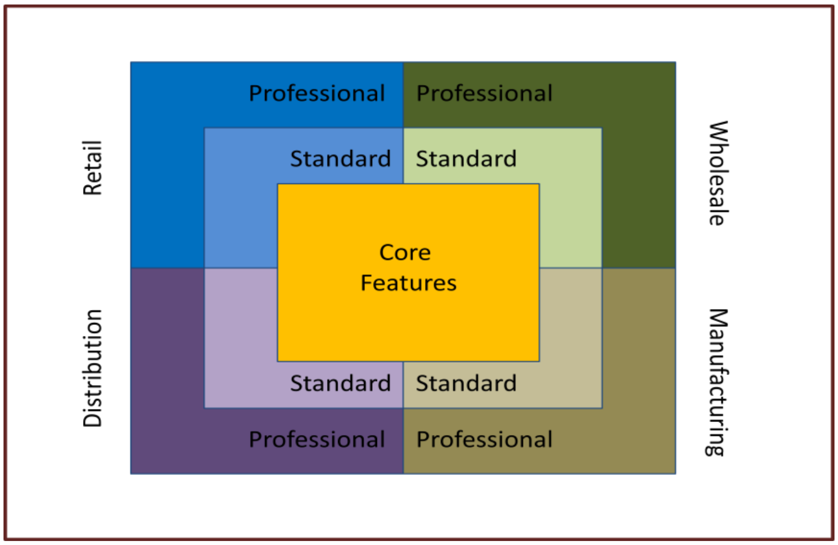


**Figure 5: Elements of a modular packaged application that has a core feature/function set and additional features that can be turned on/off for specific industries and customer segments via version activation codes. This example shows four industry versions (Retail, Wholesale, Distribution, Manufacturing) and two customer segment versions (standard, professional).**

If your IP can be applied to many customers and you can sell it in volume then packaging it for sale and delivery online may be the best approach. For online applications, consider:

- Implementing pay-per-use metering
- Providing flexible licensing models such as:
    - Try-and-Buy,
    - Freemium
    - Pay-per-User
    - Pay-per-feature
    - Up-grading from standard to professional versions

Having a single code base, while having dynamic flexibility to turn features on/off, and pricing accordingly, allows your software to appeal to more clients and markets. As an example, these types of capabilities are offered by Inishtech (www.inishtech.com) which provides a flexible software licensing tool for .Net applications.

## ASSESSMENT AS YOUR IP:

Here an assessment is defined as a process for identifying, defining and quantifying a customer's core business challenge and making recommendations to address it.

For example, a client may want to get better customer insight to increase their up-sell and cross-sell rates by implementing a business intelligence (BI) solution across their disparate big data systems. An assessment would be undertaken to make recommendations about which BI system may be the best solution.

The assessment may identify all the data sources, define the features/capabilities that are needed to provide the desired customer insight, quantify which features can be implemented by each solution and any customizations required and finally recommend a shortlist of prioritized BI solutions, their cost and time to implement.

The following are characteristics of a packaged assessment:

1. It is specific to a customer scenario
2. It defines its scope – what it covers and what it doesn't cover
3. It defines the deliverables – e.g. a score relative to best practices and recommendations
4. It defines the time and cost to the customer for its completion

To be credible as a point of differentiation, the assessment needs to ask questions that the customer didn't know to ask and provide insight into the challenge and its solution that the customer could not gain themselves.

## METHODOLOGY AS YOUR IP:

Here, a methodology is defined as the application of a set of methods or processes to arrive at an outcome. A methodology should be the result of best practices arising out of many past projects that have been proven to deliver better results, faster than if the work was done without it.

In the simplest of terms, the methodology serves as the most efficient way of getting from the current state (point A) to the desired state (point B).

For example, a customer may want to implement a business intelligence (BI) solution for its disparate big data systems. Your methodology may begin with an assessment then follow with the process of building a data warehouse and an operational data store across multivendor data sources. Your methodology would define the specific steps necessary to build these integrated systems to achieve the desired outcomes. This type of methodology is an excellent candidate for IP packaging because it is very business process intensive and pulls through professional services.

The following are characteristics of a packaged methodology:

1. It is specific to customer scenarios
2. It defines the deliverables and outcomes of its application
3. It defines the specific steps that must be taken for completion
4. It defines the resources needed for completion
5. Where possible, it defines the time and cost to the customer for its application

As many companies claim to have a "proven methodology", its credibility as your differentiator will be dependent on the quality of references from your customers.

## PRICING CONSIDERATIONS:

Taking into consideration the value of your product to the customer, your competition's offerings, the pull-through effect on the rest of your business and common sense, the price for your packaged IP ought to be whatever the market will bear.

However, several pricing strategies can also be used:

**Value-based pricing – customer ROI**

If your product generates or saves the customer money then it may be possible to price your product based on the value it delivers. A good rule for justifying an investment is that it will generate a 10:1 return. Of course, common sense needs to be applied if the one-time methodology returns vast amounts over a long time. For example, if your BI implementation methodology results in generating an incremental $100M in revenue to a customer, it would be hard to charge them $10M for the service. But the business case for the investment would be compelling.

**Market-based pricing – competitors**

If your product is better than existing products offered by your competitors, then you may want to price it relative to what they are charging. One strategy is to offer a better product at the same price as the competition does an inferior product so that customers perceive greater value in your offering.

**Investment based pricing – investment ROI**

If you have made a significant investment in developing and packaging your product then you may want to get a return on that investment in a predetermined time. Assumptions can be made about how many sales will take place over that predetermined time; you can then price the product accordingly.

For example, if the BI assessment service costs $50,000 to package and it takes 10 person-days to deliver at your cost of $1000 per person-day then if you charge $20,000 for the assessment, your profit will be $10,000 per assessment. Therefore, it will take 5 assessments to recoup the cost of packaging. If you expect to do one assessment per month, then it will take 5 months to recoup your investment.

**Opportunity based pricing – pull through**

If your product has a pull-through effect on other products and services your company sells then you may consider offering it for free, at low cost or applying its value as a credit towards a bigger purchase from you. Assessments are often priced this way.

For example, if your BI assessment is valued at $20,000 and your average BI solution costs $400,000 Then you may want to make the offer to the customer that the cost of the assessment, or some portion of it, will be credited to them if they go ahead with the BI solution with you. Otherwise, they would pay the full amount.

## CONCLUSION:

The value-added work your company has done for customers over many projects is your potential source of intellectual property. By packaging these assets as standardized products that can be sold repeatedly, this IP can provide your company with market differentiation and become a source of new revenue.

Combining this IP with a higher level of vertical industry knowledge and business processes expertise that helps customers better address their business challenges can lead to new and more profitable revenue streams for your company.

At a time of technology disruptions, these assets, which you control, may become essential to your business' continued prosperity.

**FOR ASSISTANCE:**
If you would like assistance in assessing which IP assets may be good candidates for packaging and monetization, contact: paulsolski@aimcorpinternational.com

**ABOUT PAUL SOLSKI:**
Based in Seattle, Washington, Paul Solski is the founder and Managing Director of AIM International, which provides management consulting services to help software companies realize their business growth potential by utilizing the best practice insights gained in business development in over 25 years at Microsoft, HP, Intel and Compaq. AIM services include Go-to-Market Strategy Development, Comprehensive Market Assessment, Partner Search and Recruitment, Partner Program development and Marketing Strategy Development. www.aimcorpinternational.com

Terminology:

(1) partners = companies that resell third-party products to end-user customers and generally add value to a solution comprising of software, hardware and services with their professional services such as configuration, implementation, customization, integration, etc.
(2) The *product* is your standardized, repeatable packaged IP that originated as a service delivered one-off to customers who needed it.