



Market Insight Report Reprint

The fading relevance of service provider categories and the implications for vendor partner programs

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by **Nicole Henderson**

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Introduction

A significant portion of SaaS and public cloud growth is driven by channel partners, and service providers bring revenue to cloud vendors as they add more services to their portfolio to better serve existing customers and reach new ones. However, traditional vendor partner programs were not designed with digital transformation in mind, and the categorizations do not seem to reflect how service providers go to market and prefer to engage with customers on their strategic business outcomes. Vendors will need to consider how partner categorizations could be refined to better reflect the current state of service providers.

THE TAKE

Enterprises have more choice than ever before when it comes to identifying and selecting technology vendors and partners to help them build, implement and manage services across their cloud environments. As deployments grow in complexity, customers want to know how service providers can help them achieve business outcomes, regardless of the technology components in play. This has led service providers to differentiate themselves from competitors around strengths, competencies and specializations, and less around their service provider label. For instance, as customers seek ongoing optimization and management of cloud environments, service providers have started to offer managed services that support those capabilities, even though they may not actually go to market as a managed service provider (MSP).

We expect service providers to continue to add services that are outside the expectations of their partner type to best meet the needs of their customers and to drive revenue in their own businesses. This will likely influence vendors to look at partner categories from different angles and consider how more flexible partner categories could reach new service providers and ultimately provide a better experience for end customers that want access to the process knowledge and real-world experience of the service provider.

Service providers break out of traditional categories as cloud usage and complexity rises

At one time it may have been possible to fit service providers into distinct categories that clearly demonstrated to customers what they were capable of and the products that they offered in their portfolio, but as cloud usage continues to rise within enterprises, these variations between service providers are becoming harder to delineate. There are many reasons for this, including service providers adapting their businesses to take advantage of recurring revenue models, customer IT environments becoming more complex as they increase their cloud usage, and enterprises that prefer to work with fewer vendors or partners for a wider range of services, driving service providers to broaden their portfolios into new areas to capture larger portions of customers' business. Respondents to 451 Research's Voice of the Service Provider: Differentiation, Vendor Selection & Budgets 2020 survey self-identify within one category of a possible five categories: systems integrators (SIs), managed service providers, IaaS providers, telcos and SaaS providers. Overall, service providers plan to offer their customers managed security services (21%), managed cloud services (18%) and backup and disaster recovery (19%) services.

Complexity in the cloud is a real concern for many enterprises. More than two-thirds of respondents (69%) to 451 Research's Voice of The Enterprise: Cloud, Hosting & Managed Services, Organizational Dynamics 2021 agree that use of public cloud has increased the complexity of their IT environment, and 26% of respondents tell us that dealing with multiple cloud vendors is contributing to complexity. For service providers, this presents an opportunity, but it has also required them to broaden portfolios in order to solve additional problems for their customers. On a practical level, examples of this include traditional infrastructure providers adding managed services, SIs developing their own IP and managed service providers adding professional services to be able to take on larger projects.

Outcome-oriented partner categories emerge in vendor programs

Many vendor partner programs continue to organize service providers into bronze, silver, gold and platinum tiers, which are typically based on volume. In many cases, partners are also further divided by the type of relationship or arrangement they have established with a vendor, such as a reseller or referral agreement. While these partner divisions have existed for decades, they were created when technology – and not business outcomes – reigned supreme. Today, service providers must demonstrate an understanding of the technology needs of their customers and how that technology enables business outcomes. Sophisticated service providers may not feel adequately supported to sell to customers through a vendor's tiered model and may want a less rigid approach to partner categorization to access resources that help them engage their clients more effectively, addressing their business priorities. We see vendors take several approaches, including shifting focus away from partner labels to activity-based descriptors (Red Hat), aligning partner resources with customer outcomes (AWS) and centering partner capabilities and expertise in customer search (Google).

One example of a vendor that has started to make changes to its traditional partner categorizations is IBM Red Hat. The company is putting less emphasis on partner labels, shifting toward activity-based descriptors (build, sell or service) that reflect how a partner goes to market with IBM Red Hat. The idea is to bring customer needs and use cases to the forefront and identifying key areas where partners can add value, such as building cloud-native applications. While Red Hat is not forgoing its partner labels altogether (it still uses solution providers, ISVs, global SIs, professional service firms, cloud and service suppliers, and telcos to describe its partner types), its model does demonstrate the flexibility that will be required of vendors as service providers add additional services and revenue streams to differentiate from new competitors and provide an exceptional customer experience.

AWS has made some changes to its partner resources to help service providers become closer aligned to what customers want regarding public cloud. As part of its partner-enablement resource APN Navigate, which it revamped in the spring, AWS aims to clarify the business outcomes related to each partner opportunity, whether that means obtaining a new specialization or competencies that recognize their expertise. AWS arranges its AWS Partner Program track into 'build, market, sell' divisions that link to its AWS Competency, Service Delivery and Service Ready partner designations.

Google Cloud Platform (GCP) is emphasizing partner capabilities and expertise in how it organizes its partner directory, enabling customers to search based on specializations and competency in Google Cloud, and expertise by industry or solutions and business outcomes, including partners who can support the build and use of AI, or cloud-native application development.

Implications for vendors

Partner programs can be a strong revenue driver for vendors, and in some ways, it is risky for them to change how service providers are recognized within the established frameworks. Most service providers that we survey participate in a vendor partner program, and only 5% of respondents to our Differentiation, Vendor Selection & Budgets 2020 survey do not participate in such a program.

Service providers that have dedicated time and resources to investing in partner programs may be less enthusiastic in embracing changes that affect status in the program. This is one reason that we will continue to see traditional partner tiers even as vendors begin to explore new ways of classifying partners that could help them reach new service providers who may feel excluded from traditional categorizations and enable existing partners to expand their reach with new services, a trend we continue to explore in our semi-annual Voice of the Service Provider survey.

Vendors should prioritize partner needs when considering any changes to their channel programs, including having a clear understanding of how partners are going to market with different solutions, and how the business outcomes of their customers are influencing their approach. But they should also consider how a unique partner program that defies traditional groupings could set their organization apart to prospective partners, and how it could be a means to further innovation with their product or solutions in the market.

CONTACTS

The Americas

+1 877 863 1306

market.intelligence@spglobal.com

Europe, Middle East & Africa

+44 20 7176 1234

market.intelligence@spglobal.com

Asia-Pacific

+852 2533 3565

market.intelligence@spglobal.com

www.spglobal.com/marketintelligence

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