ESG Brief

IT Transformation Vendors: Feast or Famine

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In the IT market, those who are actively developing and selling solutions tend to be far in front of those who actually buy and implement them. It is difficult for many to consume the advanced technologies available to them, no matter how much better they appear—or how much they can help.

These are the realities of our market. You can't sell Interplanetary Replication to someone who is still trying to migrate from Windows 95. This is one very real reason why many advanced, highly funded, startups fail miserably. It is also a major reason why many market leading vendors "market" futuristic cool tech, but sell the same old boxes of kit they did ten years ago.

It is very difficult to tell a customer, who is used to paying you for a box, to stop paying you for that box and instead employ an entirely new consumption model—normally subscription-based—for pennies on the dollar. Wall Street doesn't know how to deal with that, and almost always puts a negative downgrade on the vendor.

The big SMART vendors know that it is inevitable that they must drive this new consumption model—or risk going the way of the dinosaur. The less than smart vendors keep on pushing the old way of doing things.

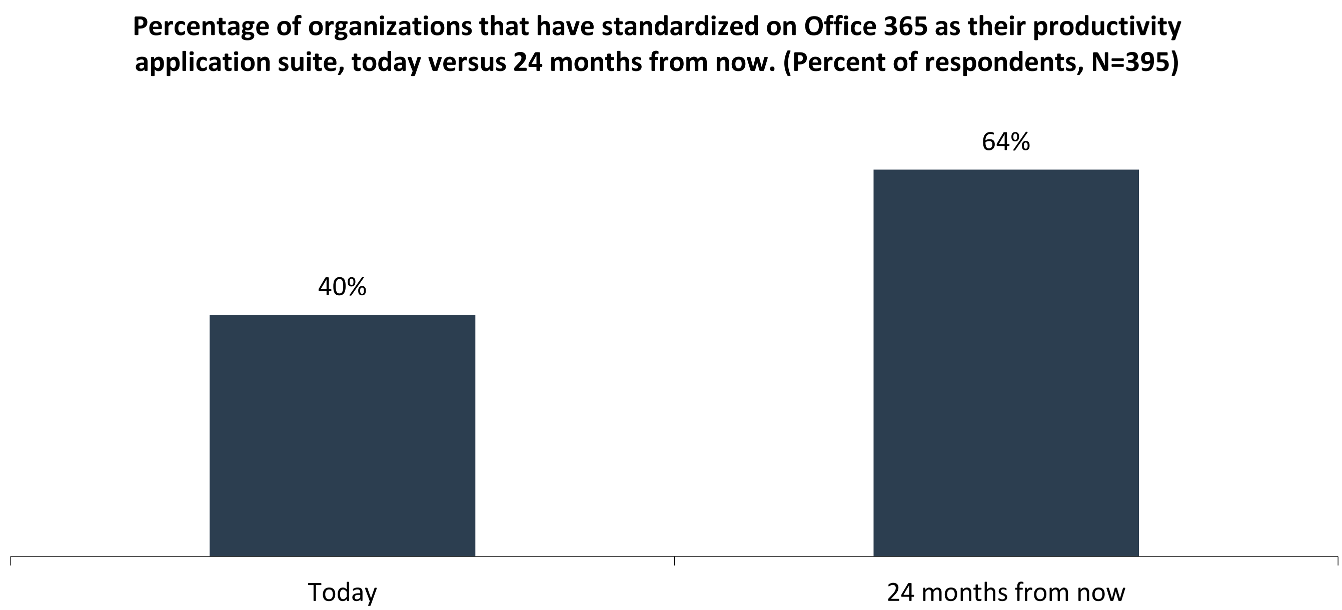
One example of a SMART vendor who not only survived but thrived during this transformation is Microsoft. The largest software company in the world, who made more money than anyone else by selling traditional software licenses and CDs of media, made a conscious decision to halt that money train and offer their customers a better way to consume Microsoft technology—namely Office 365. Indeed, recent ESG research revealed nearly two-thirds (64%) of midmarket and enterprise organizations expect to be standardized on Office 365 within two years (see Figure 1).[1]

After Microsoft changed their focus to Office 365, the average transaction went from $1,000 in software/licenses to $20/month—with ZERO IT support required. No servers, no network, no cables, no mess. No upgrades. No CapEx at all. And guess what happened? They made more money than ever before, secured an already secure customer base, and provided real value back to their buyer. Hard to do, for sure.

The ecosystem that Microsoft plays in was perhaps the biggest risk in the entire strategy. Unless Microsoft truly wanted to eliminate the channel, they needed to find partners willing to come along for the ride in the new world. Many have not been able to adapt.

[1] Source: ESG Brief, *Microsoft Wins the Office Productivity Game Regardless of the Venue*, May 2016.

Figure 1. Office 365 Will Continue to Gain Market Traction As Most Organizations' Standard Productivity Suite



Source: Enterprise Strategy Group, 2016

Daymark Solutions Embraces the New Cloud Realities

But other Microsoft partners have been able to adapt—and have prospered. Solution providers and other channel partners have made a living for years adding services and taking margin off of the products they sell from the vendors to the ultimate buyers of IT stuff. Buy it for $550, sell it for $600, and everyone is happy. But when someone like Microsoft tells them that now they are going to buy it for $18/month and sell it for $20/month, the channel tends to panic—at least those who fear the realities of the future.

Daymark Solutions, a New England-based solutions provider of traditional storage and kit for decades, made the jump. But as opposed to an "all or nothing" strategy, they did something more interesting—they did both.

Daymark had no interest, nor desire, to stop serving the customer base who counts on them to design, implement, and often manage complex enterprise backup, server, and storage environments. On the other hand, they wanted to be able to help those same customers move into the cloud in a less disruptive way. Enter Microsoft Office 365 and Azure.

Daymark has found a way to not only continue to add value to their customers' infrastructures, but to extend that value into net-new revenue streams by helping those customers also navigate to the cloud via Office 365 and Azure. They provide line of business and application owners a means to move lower value services off their own premises out to Microsoft, which gives the internal IT folks more bandwidth to focus on optimizing their own environments. By adopting tried and true on-premises architecture and deployment strategies to the cloud, Daymark has been able to successfully transition IT shops while maintaining a consistent approach. They realize that in the real world there is no such thing as a pure cloud shop; they are all hybrid—or soon will be.

The Bigger Truth

We have spoken with other solution providers/channel partners who simply can't figure out how to transform their own businesses to the new hybrid models, and while nothing happens fast in the world of IT (people still run VAXes), the writing is on the wall. They may not like it, but they will either deal with the inevitable realities or they will be in some other business. You don't have to be a genius to see what is happening to the disk array market, for example. It has begun its never-ending slide to obscurity. It may take many years to perish, but perish it ultimately will—in the cloud and in the data center.