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# The Partner Opportunity For IBM Cloud Paks

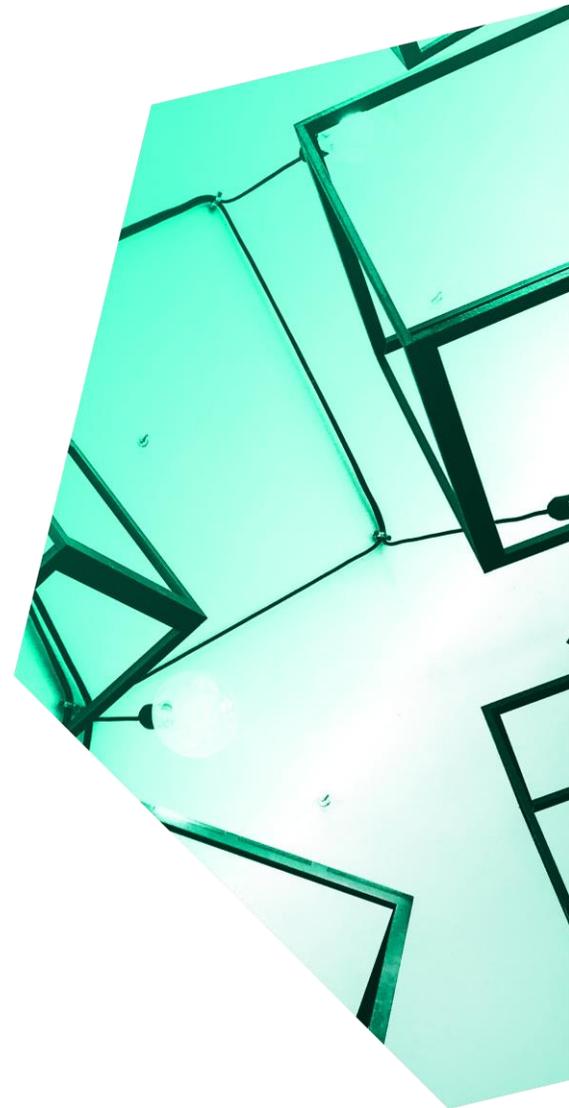
A Total Economic Impact™ Partner Opportunity Analysis

DECEMBER 2021

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## ABOUT FORRESTER CONSULTING

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## Executive Summary

IBM's GSI partners are well aware that their clients are increasingly using a hybrid cloud approach to their data storage and workflows. Most partners are creating a strong practice around advising, implementing, and leveraging clients' hybrid cloud journey. IBM Cloud Paks are containerized, pre-integrated and tested software products that simplify and accelerate the client's digital transformation and open up future high-margin revenue opportunities worth eight times the value of the original Cloud Paks sale.

[IBM Cloud Paks](#) are AI-powered software packages, built on [Red Hat OpenShift](#), that can help organizations modernize and manage applications securely across any cloud. They include precertified containerized software and foundational services that provide customers with a common operations and integration framework. For IBM partners, Cloud Paks offer a reliable and cost-effective base on which to build hybrid cloud solutions for their clients.

IBM commissioned Forrester Consulting to conduct a Total Economic Impact™ (TEI) study to examine the potential business opportunity and return on investment (ROI) partners may realize by building and scaling an IBM Cloud Paks practice.<sup>1</sup> The purpose of this study is to provide potential and existing partners with a framework to evaluate the potential business opportunity associated with building, managing, and selling Cloud Paks as part of the IBM partner ecosystem.



Multiplier effect of  
Cloud Paks sales

8X

To better understand the revenue streams, investments, and risks associated with a Cloud Paks practice, Forrester interviewed five existing Cloud Paks partners with experience collaborating with IBM to build or innovate and ultimately sell and scale their

### KEY STATISTICS



Return on investment (ROI)

**64%**



Net present value (NPV)

**\$151.1M**

Cloud Paks business. These partners were among the largest global systems integrators (GSIs) in the world. To illustrate the financial impact and subsequent partner business opportunity for Cloud Paks partners, Forrester aggregated the characteristics of these interviewed partners and combined the results into a single [composite organization](#).

### KEY FINDINGS

**Revenue opportunities.** The composite partner organization captures the following revenue streams, which are representative of those experienced by the companies interviewed:

- **Cloud Paks software subscriptions deliver \$16.3 million in gross profits.** The core enabling product in the partner's IBM Cloud Paks business is the software itself, although it is a relatively small piece of the total. The composite GSI receives subscription revenues from its

“ Once a client has bought one of these Paks, you’ve sold a platform on which you can build lots of other deals.”

— Leader, cloud native lab

clients for one or more Cloud Paks at an average gross margin of 9%.

- **Cloud-Paks-related services account for \$114.2 million in gross profit.** In addition to the software itself, the partner sells related products and services, such as integration, custom-developed applications, and managed services. This work is sold as part of the original Cloud Paks deal; it generally comprises two-thirds of the total (i.e., twice the size of the subscription income) and is significantly more profitable to the partner than the subscription.
- **Cloud-Paks-related consulting services deliver \$255.3 million in gross profits.** Over the three years covered by the model, the composite partner organization completes multiple engagements for Cloud Paks clients. Some of these involve deploying, maintaining, and exploiting the capabilities of the software; others are related projects identified during the partner’s ongoing Cloud Paks relationship.

**Key outcomes.** Benefits that are not quantified for this study include:

- **Positive halo to the IBM brand.** Interviewed executives told Forrester that, while their clients universally trust and rely on IBM technology, some of them tend to see it as “legacy.” Cloud Paks provide IBM partners an opportunity to bring clients truly innovative and cutting-edge options that may change the way they see the IBM brand.
- **Easier, faster sale.** Several interviewees expressed the opinion that Cloud Paks brings together a unique set of factors that make it easy to tell the story of its value. This makes the conversion process easier than it is for many other products and services they sell.
- **Higher likelihood of success.** Because IBM Cloud Paks are prepackaged and pre-tested, they provide the GSI with a faster deployment and better success rate than solutions the partner builds.

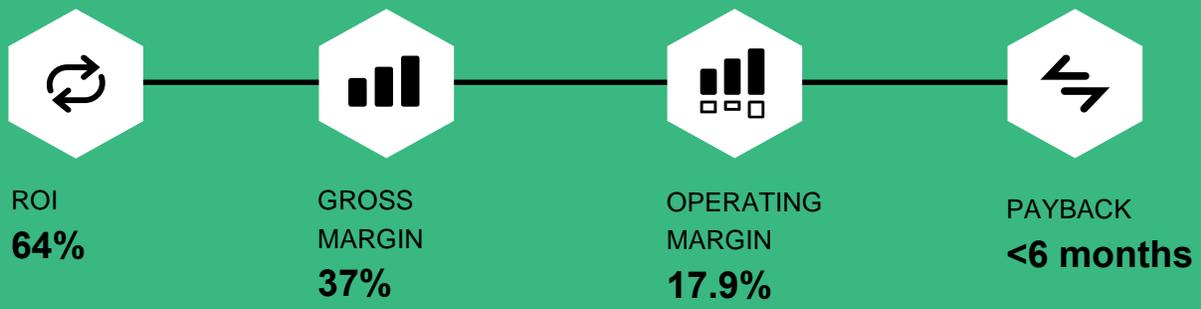
**Investments.** Beyond the product cost and the technical, sales, and delivery teams, which are embedded in the gross margin calculations of each revenue stream, partners also invested in

- **Additional staff and training totaling \$36.8 million.** Supporting the additional business associated with Cloud Paks requires that the partner hire additional non-billable staff (pre-sales and other support personnel). It may also involve training sales and technical staff to ensure they are up to date on the Cloud Paks offering.
- **General and administrative (G&A) costs total \$52.0 million.** The growth of the Cloud Paks business results in additional G&A (management, office expenses, utilities) at a similar percentage of sales as the rest of the partner's business.
- **Solution development is an investment of \$130.2 million.** The partner's ability to benefit from the multiplier effect of selling IBM Cloud Paks relies on its ability to develop its own Cloud-Pak-related intellectual property and custom solutions for its customers. That entails significant investment in the personnel and resources required to create, deploy, and maintain those products.
- **Partner marketing spending adds \$15.6 million to the expense line.** The partner finds marketing activity more important than ever in the increasingly competitive hybrid cloud space. Based on its investments and sales volume, the partner qualifies for various sources of funding from IBM that significantly offset the cost of that marketing activity.

The partner interviews and financial analysis found that a composite partner organization experiences total present value (PV) gross profits of \$385.8 million over three years versus investments and overhead expenses of \$234.6 million, adding up to a net present value (NPV) of \$151.1 million and an ROI of 64%.

**Cloud Paks Partner Pro Forma Revenue And Margin Opportunity: Three-Year Analysis (USD)**

Ref.	Metric	Source	Year 1	Year 2	Year 3
PL1	Cloud Paks	A3	\$60,000,000	\$69,000,000	\$80,000,000
PL2	Cloud-Paks-related services	B1	\$120,000,000	\$138,000,000	\$160,000,000
PL3	Cloud-Paks-related consulting projects	C1	\$108,000,000	\$304,200,000	\$423,000,000
PL4	Total revenue	PL1+PL2+PL3	\$288,000,000	\$511,200,000	\$663,000,000
PL5	Total gross profit	At+Bt+Ct	\$96,000,000	\$191,400,000	\$253,000,000
PL6	Total gross margin	PL5/PL4	33%	37%	38%
PL7	Additional staff and training	Dt	\$10,378,080	\$14,158,080	\$18,478,080
PL8	G&A	Et	\$11,520,000	\$20,448,000	\$26,520,000
PL9	Solution development	Ft	\$33,750,000	\$59,062,500	\$67,500,000
PL10	Marketing	Gt	\$3,456,000	\$6,134,400	\$7,956,000
PL11	Total operating expenses	PL7+PL8+PL9+PL10	\$59,104,080	\$99,802,980	\$120,454,080
PL12	Operating income	PL5-PL11	\$36,895,920	\$91,597,020	\$133,095,920
PL13	Operating margin	PL12/PL4	12.8%	17.9%	20.1%



**Benefits (Three-Year)**



The margin on the Cloud Paks sale itself is a very small part of the total value, as the sale generates eight times the revenue in higher-margin intellectual property (IP) and service work for the GSI.

## TEI FRAMEWORK AND METHODOLOGY

From the information provided in the interviews, Forrester constructed a Total Economic Impact™ framework for those partners considering building and growing an IBM Cloud Paks practice.

The objective of the framework is to identify the revenue streams, investments, flexibility, and risk factors that affect the investment decision. Forrester took a multistep approach to evaluate the holistic opportunity for partners building and growing an IBM Cloud Paks practice.

### DISCLOSURES

Readers should be aware of the following:

This study is commissioned by IBM and delivered by Forrester Consulting. It is not meant to be used as a competitive analysis.

Forrester makes no assumptions as to the potential ROI that other organizations will receive. Forrester strongly advises that readers use their own estimates within the framework provided in the study to determine the appropriateness of an investment in a Cloud Paks practice.

IBM reviewed and provided feedback to Forrester, but Forrester maintains editorial control over the study and its findings and does not accept changes to the study that contradict Forrester's findings or obscure the meaning of the study.

IBM provided the partner names for the interviews but did not participate in the interviews.



### DUE DILIGENCE

Interviewed IBM stakeholders and Forrester analysts to gather data relative to Cloud Paks.



### PARTNER INTERVIEWS

Interviewed five decision-makers at partner organizations with existing Cloud Paks practices to obtain data with respect to costs, benefits, and risks.



### COMPOSITE ORGANIZATION

Designed a composite partner organization based on characteristics of the interviewees' organizations.



### FINANCIAL MODEL FRAMEWORK

Constructed a financial model representative of the interviews using the TEI methodology and risk-adjusted the financial model based on issues and concerns of the interviewed decision-makers.



### CASE STUDY

Employed four fundamental elements of TEI in modeling the impact of a Cloud Paks practice: revenue, investments, flexibility, and risks. Given the increasing sophistication of ROI analyses related to IT investments, Forrester's TEI methodology provides a complete picture of the total economic impact of investment and partnership decisions. Please see Appendix A for additional information on the TEI methodology.

# The IBM Cloud Paks Partner Journey

■ Drivers leading to the Cloud Paks practice investment

Interviewed Decision-Makers			
Interviewee	Industry	Region	Practice revenue
Director, analytics platform lead	GSI	Global, HQ USA	\$200M
Global practice head, digital business integration	GSI	Global, HQ India	\$8.2B
Leader, cloud native lab	GSI	Global, HQ India	\$10B
Global relationship head for IBM	GSI	Global, HQ India	\$24B
Director, global cloud alliances	GSI	Global, HQ India	\$1.6B

## PARTNER GOALS, CHALLENGES, AND DRIVERS

The partners Forrester interviewed were diverse in size, background, functional and vertical specializations, type, and degree of engagement with IBM. They partnered with IBM to build and scale their Cloud Paks businesses for a myriad of reasons, including:

- **Responding to the complex needs of clients undergoing significant digital transformation with the most appropriate tools.** Partner organizations participating in this study facilitated some of the most complex and expensive initiatives their clients had ever undertaken. Although the partners had successfully helped many clients through this transformation, no two situations were the same; partners needed to customize the journey for each client's unique business needs. It was often challenging to find or build the right solution for a particular situation.
- **Providing innovative solutions in the growing hybrid cloud space.** Interviewees were aware of growing interest among many of their clients in keeping some of their data and operations on premises, as well as the need to integrate activities on multiple cloud platforms for reasons unique to each client. They were motivated to

explore new solutions, such as Cloud Paks, to meet their goals of delivering on client needs and staying relevant in the market.

- **Managing scarce engineering and technical resources while still delivering on high client expectations.** All participating organizations depended heavily on technical talent to deliver successful client outcomes. The interviewees explained that this type of talent was particularly difficult to find and retain over the past few years and therefore was a critical and expensive resource. This constraint was another key factor driving partners to adopt and promote a prepackaged, pretested solution such as IBM Cloud Paks.

## SELECTING THE RIGHT PARTNER PROGRAM

In choosing a partner and platform around which to build their Cloud Paks business, decision-makers emphasized the importance of the following factors:

- **Solutions that allowed them to deliver cutting-edge technology to clients.** As global technology consultants, these partners were expected to deliver solutions to problems their clients could not solve on their own. One thing they brought to the table was a superior awareness of the latest technology and how to

leverage it in different situations. The partners wanted to work with technology providers who would allow them to be seen as delivering new and innovative approaches to clients.

- **Reliable and prevalidated products to minimize development and deployment time.** Given the challenge of recruiting and retaining talent, interviewees told Forrester they were particularly interested in products and services that allowed them to lighten the loads of technical resources when possible. Although they all felt capable of developing similar in-house solutions on a case-by-case basis, they were happy to have Cloud Paks as a foundational element that required minimal engineering.
- **A business partner who understood and supported the value of the ecosystem.** As they were building their business, one key advantage executives looked for in their technology providers was appreciation for the role of the GSI in bringing the technology to life in a client environment. They have worked with, and declined to work with, providers who did not understand how to work with them and take advantage of the value they bring to the sale.

## COMPOSITE ORGANIZATION

Based on the interviews, Forrester constructed a TEI framework, a composite partner organization, and an ROI analysis that illustrates the areas financially affected. The composite organization is representative of the five companies that Forrester interviewed and is used to present the aggregate financial analysis in the next section. The composite organization has the following characteristics:

- A GSI that is an existing IBM partner with a global presence.
- Overall revenues of \$10 billion, of which \$60 million is IBM Cloud Paks sales and another \$400 million or more is products and services related to those Cloud Paks sales.

### Key assumptions

- **GSI**
- **\$10B overall revenue**
- **\$60M IBM Cloud Paks revenue**
- **Global presence**

# Analysis Of Partner Revenue Streams

■ Quantified revenue data as applied to the composite

Revenue Streams And Gross Profits						
Ref.	Revenue Streams	Year 1	Year 2	Year 3	Total	Present Value
Atr	IBM Cloud Paks	\$5,700,000	\$6,555,000	\$7,600,000	\$19,855,000	\$16,309,166
Btr	IBM Cloud-Paks-related services	\$39,900,000	\$45,885,000	\$53,200,000	\$138,985,000	\$114,164,162
Ctr	IBM Cloud-Paks-related consulting projects	\$41,310,000	\$116,356,500	\$161,797,500	\$319,464,000	\$255,277,799
	Total gross profit (risk-adjusted)	\$86,910,000	\$168,796,500	\$222,597,500	\$478,304,000	\$385,751,127

## IBM CLOUD PAKS

**Evidence and data.** Partner executives told Forrester that Cloud Paks were an innovative, reliable, and effective new software product they found increasingly useful with their clients.

- According to one practice head, Cloud Paks were “one of the very few technologies out there at, at least from a technological point of view, tries to be an integrated offering.”
- Several interviewees were of the opinion that the most common targets for Cloud Paks were clients who were already running workloads on

**“It’s containerized, it’s preintegrated, and it’s pretested. That is attractive. Clients who are already considering an upgrade are looking at Cloud Paks instead to get the latest and greatest advances, but also to get all the cloud native capability.”**

*Director, global cloud alliances*

IBM technology and were considering upgrading and/or moving workloads to the cloud. Partners positioned the Cloud Paks as an alternative to an upgrade with additional benefits.

- In addition to providing clear value to partners’ clients, the Cloud Paks delivered significant benefits to the partners. One of the interviewed decision-makers explained that “some of these products are very complex, and just getting them to work is difficult enough. Getting them to work together can be painful. The fact that Cloud Paks comes pre-integrated and pretested means it reduces the risk for us and the client. That saves us money, saves the client money, and also brings an acceleration to the client’s journey.”

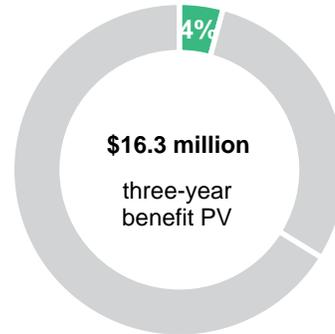
**Modeling and assumptions.** Forrester modeled the value of this benefit using the following assumptions:

- The average deal size for Cloud Paks software alone is \$100 million.
- The partner closes 60 deals per year at the beginning of the three-year period and experiences approximately 15% annual growth throughout the period.
- Cloud Paks subscription gross margins average 9%.

**Risks.** The likelihood that other organizations will experience the same type of value from this benefit is related to:

- The initial size of their IBM Cloud Paks business.
- The rate of growth they experience as a result of their sales success.
- The extent to which their gross margin on the software differs from the composite.

**Results.** To account for these risks, Forrester adjusted this revenue stream downward by 5%, yielding a three-year, risk-adjusted total PV gross profit (discounted at 10%) of \$16.3 million.



**IBM Cloud Paks  
4% of total**

Cloud Paks					
Ref.	Metric	Source	Year 1	Year 2	Year 3
A1	Average IBM Cloud Paks deal size	Interviews	\$1,000,000	\$1,000,000	\$1,000,000
A2	Number of new IBM Cloud Paks deals	Assumption	60	69	80
A3	IBM Cloud Paks revenue	A1*A2	\$60,000,000	\$69,000,000	\$80,000,000
A4	Gross margin	Interviews	10%	10%	10%
At	IBM Cloud Paks	A3*A4	\$6,000,000	\$6,900,000	\$8,000,000
	Risk adjustment	↓5%			
Atr	Cloud Paks (risk-adjusted)		\$5,700,000	\$6,555,000	\$7,600,000
<b>Three-year total: \$19,855,000</b>			<b>Three-year present value: \$16,309,166</b>		

## IBM CLOUD-PAKS-RELATED SERVICES

**Evidence and data.** Interviewees explained that a significant portion of Cloud Paks deals comprised the set of services and activities the partner was engaged to provide in addition to Cloud Paks itself.

- Several partners mentioned that clients might even have bought Cloud Paks directly from IBM but then looked to the partner to deploy it, manage it, migrate associated applications, integrate it with other software, and deploy accelerators and other partner intellectual property (IP) to support their digital transformation.
- Forrester learned in these conversations that Cloud Paks generally accounted for only one-third of the initial deal. One major contributor to this related revenue was the opportunity for the partner to act as managed services provider for the client as it moved toward a hybrid cloud type of environment. This managed services revenue was significant and ongoing and also provided the partner with deeper insight into the client's overall business goals and needs, as well as the opportunity to assist them with those needs.

**“They are looking at their partner system in a very different way and they are saying, ‘Okay, where is IBM strong? IBM is strong on technology. Let’s focus on technology, let the services be done by partners, and let’s actively promote this together with partners.’”**

*Director, analytics practice lead*

- Interviewees pointed out that they also provided products and services associated with Cloud Paks to help clients make the most of their

investment. For instance, one interviewee said, “Applications modernization is probably the top service related to Cloud Paks. I’m moving all these legacy applications to the cloud. I’m probably going to want to tweak them or improve them, and that’s a massive revenue opportunity for us. Number two would be creation of net new applications that leverage some of the advanced capabilities.”

**“We’ve invested in IP tools that we’ve built to help us accelerate the customers’ journey even more. A GSI that has existing tools could easily integrate them, as we have done. We build on top of the Cloud Paks.”**

*Leader, cloud native lab*

- These related products and services were developed and delivered by the partner and did not involve reselling IBM technology. For this reason, the margins partners earned on this work were significantly higher than what they earned on reselling Cloud Paks. Interviewed executives estimated that the margins on this business were in the range of 30% or more, making this part of the business an even larger proportion of profits than of revenues.

**Modeling and assumptions.** The quantification of this benefit assumes that the GSI:

- Sells ancillary products and services (including managed services) worth twice the revenue of Cloud Paks.
- Receives an average 30% gross margin on that Cloud-Paks-associated business.

**Risks.** Other organizations’ ability to experience a similar value for this benefit depends on:

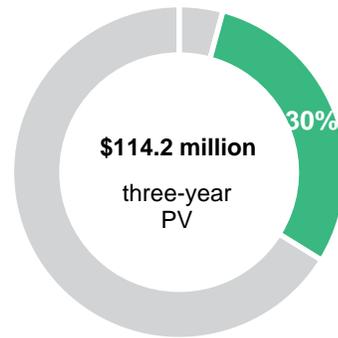
- Selling related products and services at twice the value of the Cloud Paks deal.

- Earning a 30% gross margin on those related products and services.

**Results.** To account for these risks, Forrester adjusted this revenue stream downward by 5%, yielding a three-year, risk-adjusted total PV gross profit of \$114.2 million.

**“We are not making the most money on the managed services associated with Cloud Paks. It’s much more important to be at the client and having a talk with them every month so you’ll be one of the sources they’ll look to if they need a project done. That’s where the value is for us.”**

*Director, analytics practice lead*



**Cloud-Paks-related services  
30% of total gross profit**

IBM Cloud-Paks-Related Services					
Ref.	Metric	Source	Year 1	Year 2	Year 3
B1	IBM Cloud-Paks-related managed services revenue	A3*2	\$120,000,000	\$138,000,000	\$160,000,000
B2	Gross margin on related services	Interviews	35%	35%	35%
Bt	IBM Cloud-Paks-related services	B1*B2	\$42,000,000	\$48,300,000	\$56,000,000
	Risk adjustment	↓5%			
Btr	IBM Cloud-Paks-related services (risk-adjusted)		\$39,900,000	\$45,885,000	\$53,200,000
<b>Three-year total: \$138,985,000</b>			<b>Three-year present value: \$114,164,162</b>		

**IBM CLOUD-PAK-RELATED CONSULTING PROJECTS**

**Evidence and data.** The final and largest revenue stream associated with the partners’ Cloud Paks business is the ongoing consulting work that ensues after the deployment.

- Interviewees told Forrester that they became more integrated into their clients’ businesses as a result of ongoing Cloud Paks interactions. They were thus able to identify roadblocks and issues the clients were facing in their cloud migration, hybrid cloud integration, and overall digital transformation.

They were engaged to work with clients on further leveraging their Cloud Pak investment with industry-specific or client-specific custom solutions. This work went well beyond the scope of cloud migration to address other client business needs and presented the partners opportunities that were not necessarily directly related to supporting or leveraging Cloud Paks and its environment.

Partner executives estimated that this ongoing consulting work, generated as a result of the Cloud Paks sale and deployment, generated at least twice the revenue of the original sale over the course of the three years captured in the model. Since Cloud Paks revenue itself was generally only 30% to 50% of the original contract, the ongoing consulting work delivers five to six times the revenue of the Cloud Paks software involved, and at a much higher gross margin for the partner. Depending on the nature of the consulting work, partner margins on these projects were in the range of 35% to 70%.

**Modeling and assumptions.** To model the value of this benefit, Forrester assumes the partner organization:

- Generates associated consulting engagements worth three times the value of the original (Cloud Paks and services) deal.
- Executes 34% of those engagements in the first year (heavily skewed toward the second half of the year), 50% in the second year, and 16% in the third year.
- Forty-five percent gross margin on consulting engagements.

Consulting project gross margins

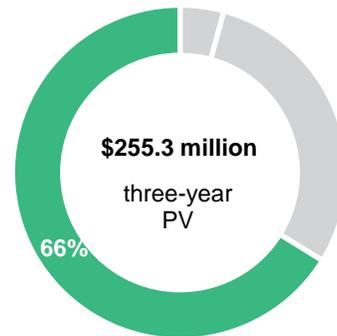
35% - 70%



**Risks.** The likelihood that other organizations will experience this same type of benefit depends on:

- Their profit margin on consulting engagements.
- Their ability to generate a strong stream of consulting engagements from the Cloud-Paks-based relationship.
- The extent to which the engagements are front-loaded rather than evenly spread over three years.

**Results.** To account for these risks, Forrester adjusted this benefit downward by 15%, yielding a three-year, risk-adjusted total PV gross profit of \$255.3 million.



**Cloud-Pak-related consulting projects 66% of total gross profit**

IBM Cloud-Paks-Related Consulting Projects					
Ref.	Metric	Source	Year 1	Year 2	Year 3
C1	Consulting revenue from Year 1 customers	(A3+B1)*2, spread 30%/50%/20%	\$108,000,000	\$180,000,000	\$72,000,000
C2	Consulting revenue from Year 2 customers	(A3+B1)*2, spread 30%/50%		\$124,200,000	\$207,000,000
C3	Consulting revenue from Year 3 customers	(A3+B1)*2*30%			\$144,000,000
C4	Total annual consulting revenue	C1+C2+C3	\$108,000,000	\$304,200,000	\$423,000,000
C5	Average consulting gross margins	Interviews	45%	45%	45%
Ct	IBM Cloud-Paks-related consulting projects	C4*C5	\$48,600,000	\$136,890,000	\$190,350,000
	Risk adjustment	↓15%			
Ctr	IBM Cloud-Paks-related consulting projects (risk-adjusted)		\$41,310,000	\$116,356,500	\$161,797,500
<b>Three-year total: \$319,464,000</b>			<b>Three-year present value: \$255,277,799</b>		

**UNQUANTIFIED BENEFITS**

Additional benefits that customers experienced but were not able to quantify include:

- **Positive halo to the IBM brand.** Partner executives expressed frustration that their clients sometimes tend to see IBM as a “legacy” brand that is not as relevant as others whose products may be more familiar to them. Cloud Paks offer

**“Customer confidence in IBM is pretty high, except they think that if they want new, they have to move away from IBM. Cloud Paks has helped us in terms of turning around that feeling with our customers.”**

*Global practice head, digital business integration*

an opportunity to update existing software with the latest technology in an innovative package. Interviewees told Forrester that this offering was actively repositioning the larger IBM brand in the minds of many of their clients.

**“What we say to the client is ‘You can take that legacy IBM software, for example, to the cloud. We’ve got new versions of all those pieces of software. They’re embedded in this thing called Cloud Paks. It’s going to simplify the journey for you.’”**

*Leader, cloud native lab*

- **Easier, faster sale.** Interviewees reported that they were able to sell Cloud Paks more easily than many other products associated with cloud migration. The product provides a unique combination of familiar software, new technology, and promised ease of use. This gives consultants various “ways in” to interest clients and explain to them the benefits of the product.
- **Higher likelihood of deployment success.** Partners were grateful to have a packaged option that not only saved them the time and technical resources required to build the solution themselves, but also gave them the assurance that, once installed, it would work. They were able to deliver a solution that not only accelerated their client’s transformation journey but reinforced their own reliability.

## FLEXIBILITY

The value of flexibility is unique to each partner. There are multiple scenarios in which an IBM GSI partner might implement a Cloud Paks practice and later realize additional opportunities, including:

- **Longer-term access to client work teams.** A key benefit of using Cloud Paks as part of a partner’s solution for a client is the opportunity it provides to stay in touch with that client on a regular basis. By building ongoing relationships within the client organization, partners can identify new opportunities at those partners for the foreseeable future.
- **Expanded OpenShift skills within the partner organization.** Interviewees stated that it is increasingly important for consultants and technical staff to be familiar with OpenShift technology and how to use it to solve client problems. Building their Cloud Paks business has provided another opportunity for their people to become more capable and confident in their OpenShift skills, not only with Cloud Paks but with other solutions that incorporate the technology. The partners will be able to leverage this skill base for other initiatives in the future.

**“If you’re a traditional IBM partner, you’d better find a way to acquire Red Hat skills really quickly. If you don’t have those OpenShift skills, you’re dead in the water.”**

*Leader, cloud native lab*

Flexibility would also be quantified when evaluated as part of a specific project (described in more detail in [Appendix A](#)).

# Analysis Of Partner Investments

■ Quantified investment data as applied to the composite

Total Investments							
Ref.	Investments	Initial	Year 1	Year 2	Year 3	Total	Present Value
Dtr	Additional staff and training	\$0	\$10,896,984	\$14,865,984	\$19,401,984	\$45,164,952	\$36,769,284
Etr	G&A costs	\$0	\$12,672,000	\$22,492,800	\$29,172,000	\$64,336,800	\$52,026,446
Ftr	Solution development	\$0	\$33,750,000	\$59,062,500	\$67,500,000	\$160,312,500	\$130,207,551
Gtr	Partner marketing spending	\$0	\$3,801,600	\$6,747,840	\$8,751,600	\$19,301,040	\$15,607,934
	Total investments (risk adjusted)	\$0	\$61,120,584	\$103,169,124	\$124,825,584	\$289,115,292	\$234,611,215

## ADDITIONAL STAFF AND TRAINING

**Evidence and data.** To support the growth of the Cloud Paks business, executives related that they needed to hire additional nonbillable support and administrative personnel.

- In some cases, these resources were dedicated specifically to the Cloud Paks business, but in many cases, they were resources shared with other IBM businesses.
- Even in these cases, the partners found that they needed to dedicate additional FTEs to the appropriate teams to support the growing Cloud Paks business.

**“We have to invest in people who can manage the registration, backend rebate, coordination for pricing with distributors, all those things, right? But that’s not Cloud Paks specific — it’s IBM specific.”**

*Global relationship head for IBM*

- Partner executives also found it advantageous to invest in additional training for the people involved in delivery of these projects.
- They tended to measure this in hours of training per employee each year. Employees received this additional training on an as-needed basis each year, so most partners were only providing additional training to a subset of these key employees in any given year.

**Modeling and assumptions.** Forrester assumes the following about the composite partner organization:

- The partner hires an additional 75 pre-sales and support employees in the first year of the model and continues growing that team as the business grows.
- The non-billable employees earn, on average, a fully burdened salary of \$108,000.
- Billable personnel such as sales and technical staff receive additional training over the course of the three years to ensure in-depth understanding of the product and its capabilities.

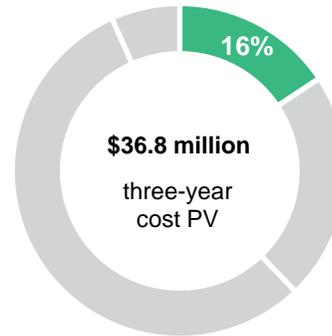
- The average fully burdened hourly salary for these employees is \$94.92 (based on a \$100,000 base annual salary).

**Risks.** The size of this investment for other IBM partners may vary based on:

- The size of the nonbillable team hired to support the growing business.
- The amount of additional training provided for sales and technical employees.
- The salaries of sales, support, and technical personnel involved in the Cloud Paks business.

**Results.** To account for these risks, Forrester adjusted this investment upward by 5%, yielding a

three-year, risk-adjusted total PV investment (discounted at 10%) of \$36.8 million.



**Additional staff and training  
16% of total investments**

Additional Staff And Training						
Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
D1	Additional pre-sales and administrative staff for Cloud-Paks-related business	Interviews		75	110	150
D2	Hours of Cloud Paks technical and sales training	600*40 hours		24,000	24,000	24,000
D3	Pre-sales/administrative fully loaded annual salary	Interviews		\$108,000	\$108,000	\$108,000
D4	Technical/sales fully loaded hourly salary	Interviews		\$94.92	\$94.92	\$94.92
Dt	Additional staff and training	(D1*D3)+(D2*D4)	\$0	\$10,378,080	\$14,158,080	\$18,478,080
	Risk adjustment	↑5%				
Dtr	Additional staff and training (risk-adjusted)		\$0	\$10,896,984	\$14,865,984	\$19,401,984
<b>Three-year total: \$45,164,952</b>			<b>Three-year present value: \$36,769,284</b>			

**G&A COSTS**

**Evidence and data.** The growth of the partners’ business also drove growth in overhead-type expenses for the organizations in the study. Expenses such as additional executive hires, administrative support team hires, office costs, and hardware/technology support for consultants naturally grew along with the business. Interviewees felt that their organizations worked to manage these costs well and that they did not generally exceed the

industry standard for G&A as a percentage of revenue.

**Modeling and assumptions.** This investment model assumes that the composite partner spends an industry average of 4% of sales on G&A expenses.

**Risks.** Variations in the magnitude of these expenses will depend on the overall size of the partner’s IBM Cloud Paks business and the extent to which it is

able to hold down G&A expenses in relation to revenue.

three-year, risk-adjusted total PV investment of \$52.0 million.

**Results.** To account for these risks, Forrester adjusted this investment upward by 10%, yielding a

G&A Costs						
Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
E1	Total revenue	Pro forma		\$288,000,000	\$511,200,000	\$663,000,000
E2	Average G&A percentage of revenue	Industry sources		4%	4%	4%
Et	G&A costs	E1*E2	\$0	\$11,520,000	\$20,448,000	\$26,520,000
	Risk adjustment	↑10%				
Etr	G&A costs (risk-adjusted)		\$0	\$12,672,000	\$22,492,800	\$29,172,000
<b>Three-year total: \$64,336,800</b>			<b>Three-year present value: \$52,026,446</b>			

**SOLUTION DEVELOPMENT**

**Evidence and data.** Interviewees spoke proudly of the investments they had made in developing their own products and intellectual property, as well as customized solutions for individual clients or industry verticals. Often this investment resulted in high-margin software products they could sell to clients that were valuable door openers for their consultants. Executives also pointed to these proprietary solutions as competitive differentiators for their business.

This type of innovation has a cost. The partners in this study, as a rule, had established dedicated teams that created these tools and provided them with the access to technology (the “sandbox”) they required to imagine, explore, and develop them.

**Modeling and assumptions.** To model the value of this benefit, Forrester makes the following assumptions:

- The partner begins with a global team of 200 solution architects building proprietary tools and custom software for Cloud Paks clients.

- The team scales up with the growth of the business to a total of 400 in the third year of the model.
- The average fully burdened salary of team members is \$135,000, although it varies greatly according to the specific locations in which the team works.

**Risks.** The impact of this investment may vary from one organization to another based on:

- Size of the team deployed for internally developed solutions and tools.
- Average salary of team members based on mix of seniority and market conditions in the partner’s countries of operation.

**Results.** To account for these risks, Forrester adjusted this investment upward by 25%, yielding a three-year, risk-adjusted total PV investment of \$130.2 million.

Solution Development						
Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
F1	Solutions architects/engineers	Interviews		200	350	400
F2	Average fully loaded salary	Pay scale		\$135,000	\$135,000	\$135,000
Ft	Solution development	F1*F2		\$27,000,000	\$47,250,000	\$54,000,000
	Risk adjustment	↑25%				
Ftr	Solution development (risk-adjusted)			\$33,750,000	\$59,062,500	\$67,500,000
<b>Three-year total: \$160,312,500</b>			<b>Three-year present value: \$130,207,551</b>			

### PARTNER MARKETING SPENDING

**Evidence and data.** Interviewees agreed that marketing had become increasingly important to their business in recent years.

- They included in this category lead-generating investments (from purchasing lists to creating and promoting white papers), CRM tools and activities, as well as sponsorship and participation in numerous industry- and technology-specific conferences.
- Although their marketing investment has grown significantly over the years, the partners were able to tap into various IBM funding programs to

help offset these costs. Interestingly, several executives told Forrester that, although in the past they often managed their marketing budget to the amount of IBM funding they qualified for, they now willingly invested additional marketing funds because of the demands of the marketplace.

**Modeling and assumptions.** Forrester assumes the composite partner organization:

- Spends 3% of revenues on marketing activity.
- Qualifies for various sources of reimbursement funding from IBM, which offset 60% of this cost.

**Risks.** The likelihood of another organization making an investment of a similar magnitude depends on whether it spends at the same 3% level and qualifies for a similar 60% reimbursement from IBM.

**Results.** To account for these risks, Forrester adjusted this investment upward by 10%, yielding a three-year, risk-adjusted total PV investment of \$15.6 million.

**“We have dedicated people in our center of excellence to build industry-specific accelerators and other solutions on top of Cloud Paks, and we’ve also invested in an instance of IBM Cloud for them to do that work.”**

*Director, global cloud alliances*

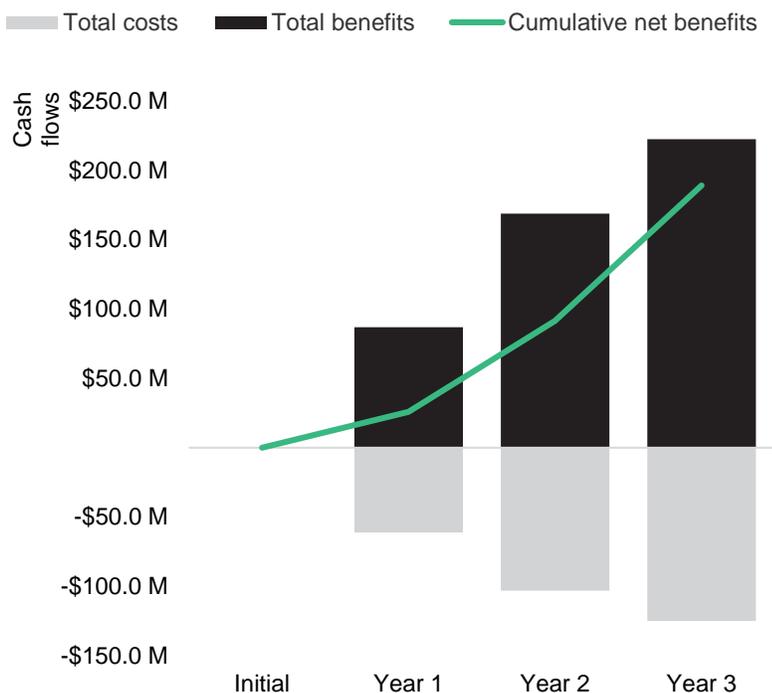
**Partner Marketing Spending**

Ref.	Metric	Source	Initial	Year 1	Year 2	Year 3
G1	Total Cloud-Paks-related revenues	Pro forma		\$288,000,000	\$511,200,000	\$663,000,000
G2	Average marketing percentage of revenues	Industry sources		3%	3%	3%
G3	Total marketing spending	G1*G2		\$8,640,000	\$15,336,000	\$19,890,000
G4	IBM potential funding sources	G3*60%		\$5,184,000	\$9,201,600	\$11,934,000
Ft	Partner marketing spending	G3-G4		\$3,456,000	\$6,134,400	\$7,956,000
	Risk adjustment	↑10%				
Ftr	Partner marketing spending (risk-adjusted)			\$3,801,600	\$6,747,840	\$8,751,600
<b>Three-year total: \$19,301,040</b>			<b>Three-year present value: \$15,607,934</b>			

# Financial Summary

## CONSOLIDATED THREE-YEAR RISK-ADJUSTED METRICS

### Cash Flow Chart (Risk-Adjusted)



The financial results calculated in the Revenue Streams and Investments sections can be used to determine the ROI, NPV, and payback period for the composite organization's investment. Forrester assumes a yearly discount rate of 10% for this analysis.

These risk-adjusted ROI, NPV, and payback period values are determined by applying risk-adjustment factors to the unadjusted results in each Revenue Stream and Investment section.

### Cash Flow Analysis (Risk-Adjusted Estimates)

	Initial	Year 1	Year 2	Year 3	Total	Present Value
Total investments	\$0	(\$61,120,584)	(\$103,169,124)	(\$124,825,584)	(\$289,115,292)	(\$234,611,215)
Total gross profits	\$0	\$86,910,000	\$168,796,500	\$222,597,500	\$478,304,000	\$385,751,127
Net benefits	\$0	\$25,789,416	\$65,627,376	\$97,771,916	\$189,188,708	\$151,139,912
ROI						64%

## Appendix A: Total Economic Impact

Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

### TOTAL ECONOMIC IMPACT APPROACH

**Benefits** represent the value delivered to the business by the product. The TEI methodology places equal weight on the measure of benefits and the measure of costs, allowing for a full examination of the effect of the technology on the entire organization.

**Costs** consider all expenses necessary to deliver the proposed value, or benefits, of the product. The cost category within TEI captures incremental costs over the existing environment for ongoing costs associated with the solution.

**Flexibility** represents the strategic value that can be obtained for some future additional investment building on top of the initial investment already made. Having the ability to capture that benefit has a PV that can be estimated.

**Risks** measure the uncertainty of benefit and cost estimates given: 1) the likelihood that estimates will meet original projections and 2) the likelihood that estimates will be tracked over time. TEI risk factors are based on "triangular distribution."

The initial investment column contains costs incurred at "time 0" or at the beginning of Year 1 that are not discounted. All other cash flows are discounted using the discount rate at the end of the year. PV calculations are calculated for each total cost and benefit estimate. NPV calculations in the summary tables are the sum of the initial investment and the discounted cash flows in each year. Sums and present value calculations of the Total Benefits, Total Costs, and Cash Flow tables may not exactly add up, as some rounding may occur.



### PRESENT VALUE (PV)

The present or current value of (discounted) cost and benefit estimates given at an interest rate (the discount rate). The PV of costs and benefits feed into the total NPV of cash flows.



### NET PRESENT VALUE (NPV)

The present or current value of (discounted) future net cash flows given an interest rate (the discount rate). A positive project NPV normally indicates that the investment should be made, unless other projects have higher NPVs.



### RETURN ON INVESTMENT (ROI)

A project's expected return in percentage terms. ROI is calculated by dividing net benefits (benefits less costs) by costs.



### DISCOUNT RATE

The interest rate used in cash flow analysis to take into account the time value of money. Organizations typically use discount rates between 8% and 16%.



### PAYBACK PERIOD

The breakeven point for an investment. This is the point in time at which net benefits (benefits minus costs) equal initial investment or cost.

## Appendix B: Endnotes

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<sup>1</sup> Total Economic Impact is a methodology developed by Forrester Research that enhances a company's technology decision-making processes and assists vendors in communicating the value proposition of their products and services to clients. The TEI methodology helps companies demonstrate, justify, and realize the tangible value of IT initiatives to both senior management and other key business stakeholders.

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