

White Paper

Roadmap to Increased Profitability

A Worldwide Study of IT Software Business Partners

RONIN Corporation

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Study Background and Methodology

IBM Software Group commissioned RONIN Corporation to conduct this Global Business Partner Profitability Study. As an IBM strategic research partner for over 23 years, RONIN is a global market research and consulting firm that specializes in IT industry research. RONIN operates from two offices - a corporate headquarters and research center in Princeton, NJ and an operations center in London, England from which it conducts research into over 50 countries from a 24x7 Global Call Center and web farm for web-based surveys. RONIN has undertaken several thousand engagements with leading IT vendors over the last three decades. RONIN is also well known to IT decision makers and Business Partners worldwide.

RONIN conducted this study in the US, UK, China and Japan to determine current levels of middleware Business Partner profitability as well as the impact that certification and other aspects of the vendor/Business Partner relationship have on profitability. The study consisted of top-tier IBM Software Business Partners as well as comparable Business Partners of Microsoft, Oracle and Hewlett-Packard.

The methodology for IBM Software Business Partners consisted of a 25 minute Web survey with IBM identified as the sponsor of the study. A total of 262 surveys were completed across the four countries: 66% were Premier, 27% Advanced and 7% were Member level.

Competitors' Business Partners were surveyed via telephone and IBM sponsorship was not disclosed. A total of 90 interviews of competitors' Business Partners were completed in each of the four countries.

The IBM and competitor Business Partner respondents were individuals responsible for managing their company's Business Partner relationship with IT vendors and were knowledgeable about their company's financials. The vast majority were top-tier Business Partners whose companies had revenue of at least \$ 50,000 USD in business infrastructure revenue in 2008.

IBM BP Demographics		Industry Focus	
BP Level	Premier (66%) Advanced (27%) Member (7%)	Healthcare & Pharmaceutical	46%
Avg. number of years in business	19	Banking	41%
Avg. number of years in the BP Program	12	Energy & Utilities	39%
Avg. number of locations worldwide	9	Government	38%
Industry – vertically focused	36%	Retail	34%
Mean % of 2008 revenue from:		Education	30%
Resale of another company's offerings	42%	Automotive	28%
Development and sales of its own products	18%	Insurance	28%
Its own IT services	35%	Telecommunications	28%
Other	5%	Aerospace & Defense	26%
Expected 2009 revenue change:		Financial Markets	24%
Increase	28%	Travel & Transportation	24%
Stay the same	20%	Chemical & Petroleum	22%
Decrease	51%	Life Sciences	22%
Mean % change -2009 revenue:		Wholesale	22%
Increase	+24%	Consumer Products	19%
Decrease	-19%	Electronics	19%
		Professional Services	18%
		Engineering	17%
		Media & Entertainment	17%
		Digital Media	16%
		Wireless	15%

Executive Summary

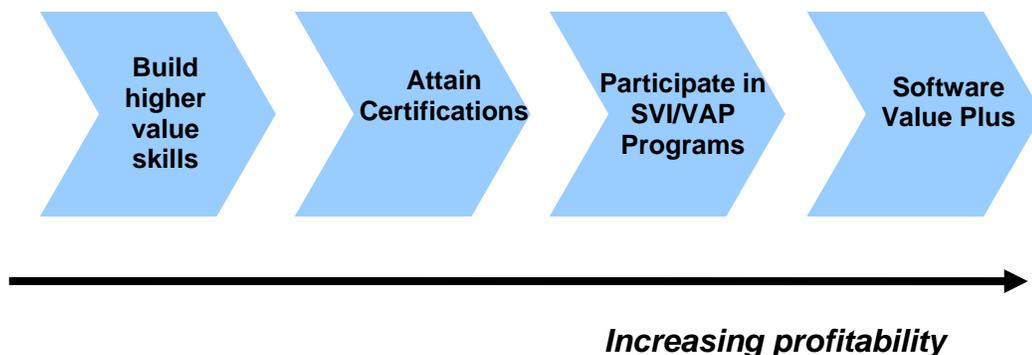
Roadmap to Increased Profitability A Worldwide Study of IT Software Business Partners

As we move into the next decade, economies across the globe are starting to emerge from the worldwide recession. In recent years, however, every company has felt the pressure to decrease IT spending. Many companies are demanding lower prices and are hesitant to make critical upgrades to their systems infrastructure and business applications.

Business Partners have not been immune to these difficult economic times. Revenues have declined more often than not, and internal cost reduction exercises have forced difficult trade-offs. During these times the business partner community has become even more focused on the bottom line - profitability. Weathering the storm is a fundamental goal for Business Partners around the world.

Against this backdrop, RONIN conducted a study of the impact of the business partner programs for IBM and its largest infrastructure software competitors. The ultimate goal is to understand how different program elements contribute to the profitability of top-tier middleware Business Partners. In this study we found that there is a logical progression that, if followed, will lead to increased Business Partner profitability. Business Partners with higher skill and certification levels realize higher profit levels:

IBM Business Partner Profitability Progression



In January 2010, IBM launched a new software distribution strategy called IBM Software Value Plus (SVP), supporting all IBM Software Business Partners. Software Value Plus encourages and rewards Business Partner skill development and certification. A component of this program introduces a new authorized distribution model which splits the software product portfolio between products which will be available to all IBM Business Partners for resale and products which will only be available to “authorized” resellers. In our study, we asked Business Partners about authorized distribution and found that 65% of high skilled IBM Business Partners expect increased profitability from participation in the program.

Build higher skills to improve profitability: By investing in skill development both now and in the future, IBM Business Partners can achieve greater profitability. Our study found that high skilled IBM Software Business Partners report significantly higher gross profit margins on middleware deals than low skilled Software Business Partners.

Attain certifications: Business Partners surveyed by Ronin demonstrate their belief in the value of skills. Our study reveals that over 80% of IBM’s top-tier Software Business Partners plan to invest in additional IBM certifications in the next 6 months. Further, the planned certification rate for IBM business partners averages 20% higher than the rate for competitors’ top-tier Business Partners.

Participate in SVI/VAP Programs: Our study found that IBM Business Partners realize higher profitability through participation in IBM’s Software Value Incentive (SVI) and/or Value Advantage Plus (VAP) programs. IBM Business Partners who participate in these programs are 50% more likely than non-participants to report high total gross profit margins (greater than 20%) on middleware deals.

Comparable profitability: IBM Software’s top tier Business Partners make more profit and revenue on middleware deals than competitors’ top-tier Business Partners. IBM Software Business Partners recognize 60% higher incremental revenues than the average of all competitors’ Business Partners surveyed and 36% higher gross profit dollars than the closest competitor.

Looking forward: Survey participants indicated that technical enablement and new technology delivery models will be critical drivers of profitability. In particular, more than 50% of believe that SaaS/Cloud, Unified Communications and Hardware/Software Appliances will be important drivers of their profitability over the next two years.

Summary: Overall we found that IBM Software Business Partners are more profitable than comparable competitors’ Business Partners. And, IBM Business Partners realize more profit on their middleware deals than competitors’ Business Partners. By embracing skills development, gaining certifications and participating in the SVI and/or VAP programs, IBM Business Partners’ opportunity for profitability increases overall. Further, with the implementation of IBM’s authorized distribution model, IBM Business Partners expect their profitability to increase even more.

As one of the Business Partners told us “Why do I like being an IBM Business Partner? It’s just better.”

Detailed Findings

Higher skill levels drive greater profitability

A higher skill level has a clear impact on gross profit margins. Our study shows that high skilled IBM Software Business Partners, those who have a high number of certified employees / total employees, report higher gross profit margins on middleware deals than low skilled IBM Software Business Partners. To further highlight the impact by skill level, IBM Software Business Partners with low skill levels are 40% more likely to realize low gross profit margins on middleware deals (less than 10%) than highly skilled Business Partners.

The emphasis on skill development was also evident in the factors that IBM Software Business Partners identified as the greatest contributors to their profitability. Specifically, Technical Education was ranked by 36% of IBM Software Business Partners and by 25% for Sales Education as being among the top contributors of profitability derived from participation in IBM's Business Partner Program.

Certification plans attest to value of high skill levels

Certifications are important to IBM Software Business Partners and over 80% of IBM's top Business Partners plan to seek additional IBM certifications. Overall, certification rates for IBM top-tier Software Business Partners average 20% higher than for competitors' top-tier Business Partners. The primary factors driving IBM Software Business Partners to attain this greater level of certification – increased customer satisfaction and deal wins - demonstrate a customer-focused approach.

Participation in the SVI and/or the VAP programs also contributes to increased profitability

With the focus on skills and certifications, IBM Software Business Partners are able to take advantage of the Software Value Initiative (SVI) and/or Value Advantage Plus (VAP) programs, both of which stress a value-add sale rather than a sale based on "lowest cost". Most of the top-tier IBM Software Business Partners participate in one or both of these programs.

The benefits of participating in IBM's SVI and/or VAP program are clear: Participants in IBM's SVI and/or VAP programs are 50% more likely to report gross profit margins on middleware deals in excess of 20% compared with non-participants.

And as IBM recently announced, Software Business Partners can expect their costs to decrease based on the new, simplified SVI payment request process. Under this program enhancement, Business Partners will no longer be required to submit sales documentation for middleware deals of \$50,000 USD or less.

IBM Software Business Partners believe that the new IBM authorized distribution model will increase profitability further

In January 2010, IBM launched a new software distribution strategy called IBM Software Value Plus (SVP), supporting all IBM Software Business Partners. Software Value Plus focuses on encouraging and rewarding Business Partner skills and certifications to serve customer wants and needs. A component of this program introduces a new authorized distribution model, which splits the software product portfolio between products which will be available to all IBM Business Partners for resale and products which will only be available to “authorized” resellers.

Further underscoring the relationship between profitability and skills, our study also found that not only do 65% of the high skilled Software Business Partners expect increased profitability from participation in authorized distribution, but nearly 60% of IBM Software Business Partners overall expect to achieve increased profitability as well.

IBM Software Business Partners are more profitable

One of the major objectives of this study was to gauge the relative profitability of top-tier IBM Software Business Partners compared with equivalent top-tier competitors’ Business Partners. To this end, we interviewed both IBM and competitors’ Business Partners, asking them similar questions about their level of skills, certifications, membership levels, program participation as well as their gross margins, program investment levels.

Our study reveals some significant differences between IBM and competitors’ Business Partners in terms of profitability. Over the years, IBM has encouraged its Business Partners to increase the value-add in their solutions rather than adopt a “low cost” provider approach.

A key component of this increased profitability is based on a higher level of gross margins. IBM top-tier Software Business Partners currently realize up to 36% more gross profit dollars on middleware deals than the closest competitor’s top-tier Business Partners.

Additionally, IBM top-tier Software Business Partners currently recognize 60% more associated revenue (Hardware, Software, Services) in their IBM middleware deals than competitors’ top-tier Business Partners.

Partner program costs

There are several startup and ongoing costs associated with participation in an IT vendor's partner program including program enrollment fees, sales and marketing expenses, and education, certification and technical enablement.

While some IT vendors currently charge program enrollment fees upward of \$9,995, there are no fees required for Business Partners to participate in IBM's Partner Program. Furthermore, IBM's overall startup and ongoing partner program participation costs are 30% and 34% less, respectively, than its largest competitor.

Timely recovery of investment costs is important to a Business Partner's financial operations. Nearly 50% of IBM Software top-tier Business Partners recoup their program startup investment in less than a year.

New Technologies, New Opportunities

Looking forward, new technologies will also add to the profitability picture of the future. More than 50% of IBM's top-tier Business Partners believe that SaaS/Cloud, Unified Communications and Hardware/Software Appliance offerings will be important drivers of profitability over the next two years.

Conclusions

As we enter 2010, there are signs that the IT market may be improving. Business Partners across the globe will be gearing up to face the post-recession world with leaner, more focused operations. A key part of their strategies will be to position themselves as either low cost providers or value-added players. IBM has encouraged the value-added approach and our research shows clearly that this is a more profitable path to take.

The higher margins, higher skill levels, and the higher level of certifications attained by IBM Software Business Partners are not a coincidence. Our study reveals that IBM top-tier Software Business Partners are more highly skilled (confirmed by certifications) than competitors' Business Partners and that they sell solutions with a greater level of value-add. These higher skills and greater value-add, in turn, lead to greater profitability for IBM Software Business Partners. And, through participation in SVI, VAP and/or IBM's authorized distribution, IBM Software Business Partners anticipate even greater profits ahead.

This whitepaper was prepared by RONIN Corporation based on research that RONIN conducted on behalf of IBM. The views expressed are those of RONIN and are based on the data collected (see Study Background and Methodology).

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