

RONIN Corporation

2009 IBM Global Software Business Partner Profitability Study

December 2009

RONIN Corporation (sponsored by IBM)



IBM Global Software Business Partner (BP) Profitability Study: Background & Objectives

- This research was designed to address four key objectives:
 - Assess the current needs, attitudes and behaviors related to certification
 - Establish a base line for comparisons of IBM Software Business Partners' profitability before and after the move to authorized distribution
 - Understand IBM's competitive position on Business Partner profitability and financial health
 - Communicate findings to new and current Business Partners
- Information collected through the survey provides answers to the following specific questions:
 1. What is the value of Software Value Plus certification to IBM Software Business Partners?
 2. How does IBM's Business Partner program compare to the competitor programs, in terms of profitability?
 3. What are the benefits and costs of participating in the IBM Business Partner programs?
 4. What new/emerging software models are attractive to Business Partners for future profitability?

2009 IBM Global Software Business Partner Profitability Study: Key Findings

Value of Authorized Distribution and Skills

- 65% of high-skilled IBM BPs expect increased profitability as a result of authorized distribution
- Over 80% of IBM's top-tier BPs plan to invest in skills and certifications
 - *20% higher rate than our competitors' top BPs*
- 36% of IBM BPs rank technical education as a top partner program profitability driver

Middleware Profit Margins

- IBM Software high value BPs make 36% more profit on middleware deals than competitors' top BPs
- IBM 60% more associated revenue (hardware, software, services) than our competitors top tier BPs
- SVI/VAP participating BPs are 50% more likely to report high gross profit margins (>20%) on middleware deals than non-participants
 - *similar for both Enterprise and Midmarket focused BPs*
- IBM BPs with low skill levels are 40% more likely to realize low gross profit margins on middleware deals (<10%) than highly skilled BPs

Program Fees

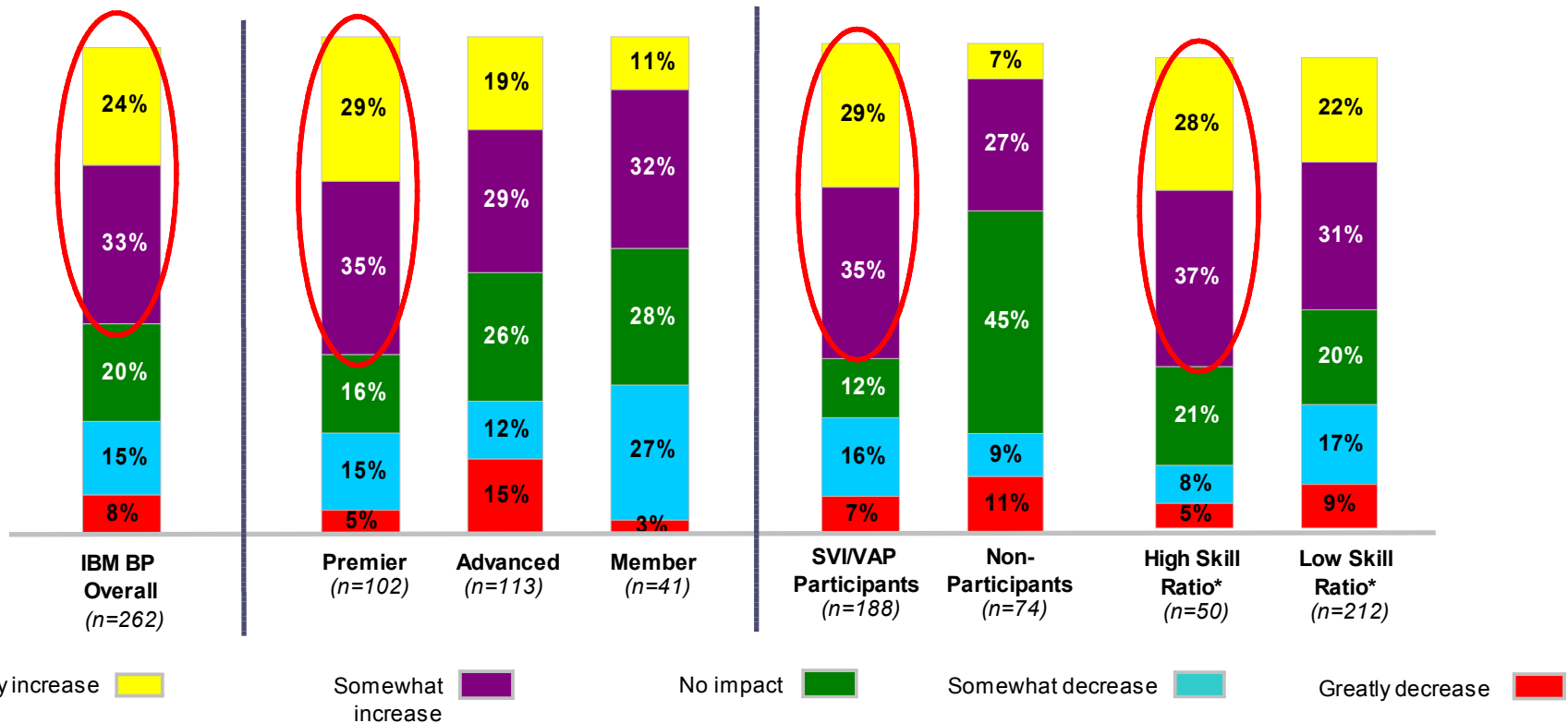
- In addition to charging no enrollment fee (unlike Oracle) start-up costs for top-tier IBM BPs are 30% less and ongoing costs are 34% less than those reported by our closest competitor's BPs
- Nearly 50% of IBM BPs recoup startup investment in less than a year

Future Growth Opportunities

- Leading middleware BPs express interest in growth areas including SaaS/Cloud, Unified Communications, and HW/SW Appliances
- More than 50% of IBM's top-tier BPs report that cloud offerings will be a leading driver of their profitability over the next 2 years

Study results show that 65% of high skilled IBM Software BPs expect participation in Software Value Plus (SVP) authorized distribution will lead to increased profitability

- 60% of all IBM BPs expect increased profitability with authorized distribution
- 2/3 of Premier, SVI/VAP, and high skilled participants expect increased profitability with authorized distribution



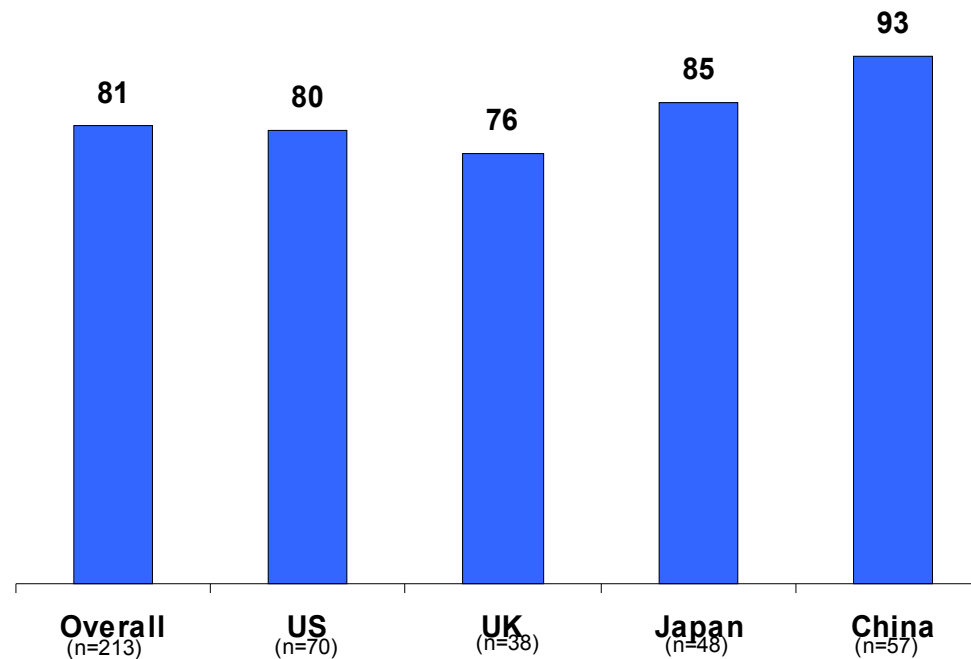
*Skill ratio defined as ratio of # of vendor-specific certified employees over # of total employees. High ratio:40%+; Low ratio:<40%

Q10. If IBM were to limit the distribution of its Infrastructure/Middleware Software to a set of qualified partners who are certified to sell the product, how would this impact your company's profitability with IBM?

Over 80% of IBM's top-tier BPs plan to invest to grow skills and increase certification rate

- IBM BP certification rate among top partners averages 20% higher than competitive top BPs across all markets evaluated
- Certification is strong in growth markets such as China with 93% investing over the next 6 months

IBM Software BPs % Planning to Seek Additional Certifications in the next 6 months



Q7. Does your company plan to seek additional software certification from the following vendors in the next 6 months?

IBM BPs indicate top drivers for certification are increased customer satisfaction and deal wins that will be realized

- IBM BPs believe certification positively impacts customer satisfaction

IBM Software BPs Top Drivers for Certification

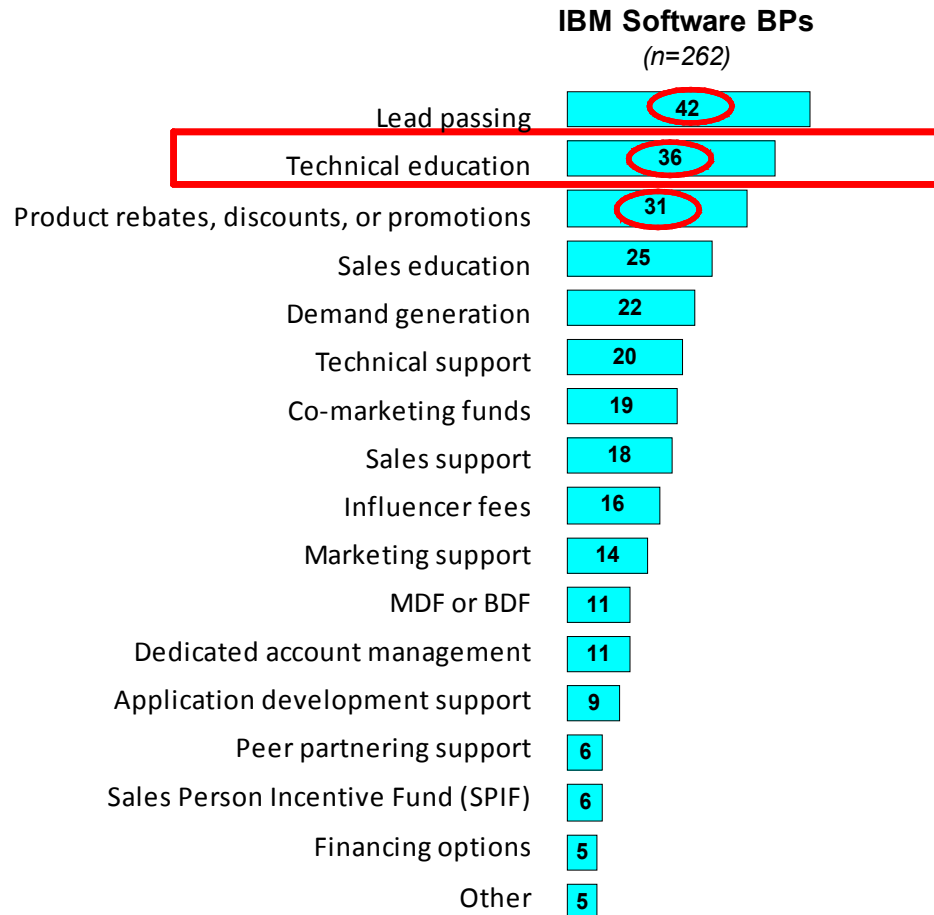
	IBM BP
Base size	262
Meet the requirements for reselling a specific vendor's products	1
Increase number of deals	2
Higher customer satisfaction	3
Increase average deal size	4
More market differentiation	5
More market credibility	6
Gain additional benefits from a specific vendor	7
Reduce risk of poor implementation	8
Improve employee retention	9
Less dependence on vendors for pre-sales support	10

Top 3 ranked drivers

Q9. Which of the following would be the top drivers for your company to pursue additional Infrastructure/Middleware Software certification? Please select the top three drivers and rank order them in the sequence of importance by putting the most important driver on the top.

36% of IBM BPs rank technical education as a top partner program element that contributes to their profitability

% considering it as among the top three contributors to profitability

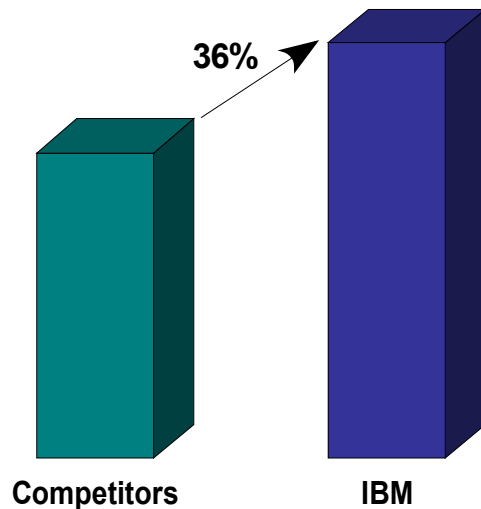


Q26. What are the TOP THREE elements of an Infrastructure/Middleware Software vendor's partner program that MOST contribute to your company's profitability?

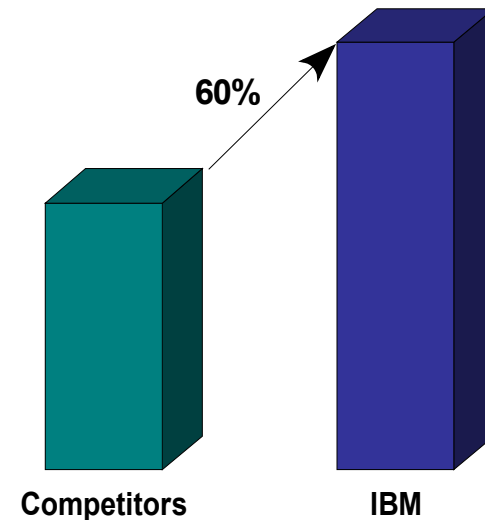
IBM Software's high value BPs make more profit and revenue on middleware deals than competitors' top tier BPs

- IBM top tier BPs make an average of 36% more gross profit dollars per middleware deal than competitors' top tier BPs
- These same BPs realize 60% more associated revenue (hardware, software, services) than competitors' top tier BPs

**Gross Profit Dollars
from Middleware Deals**



**Associated Revenue
from Middleware Deals**

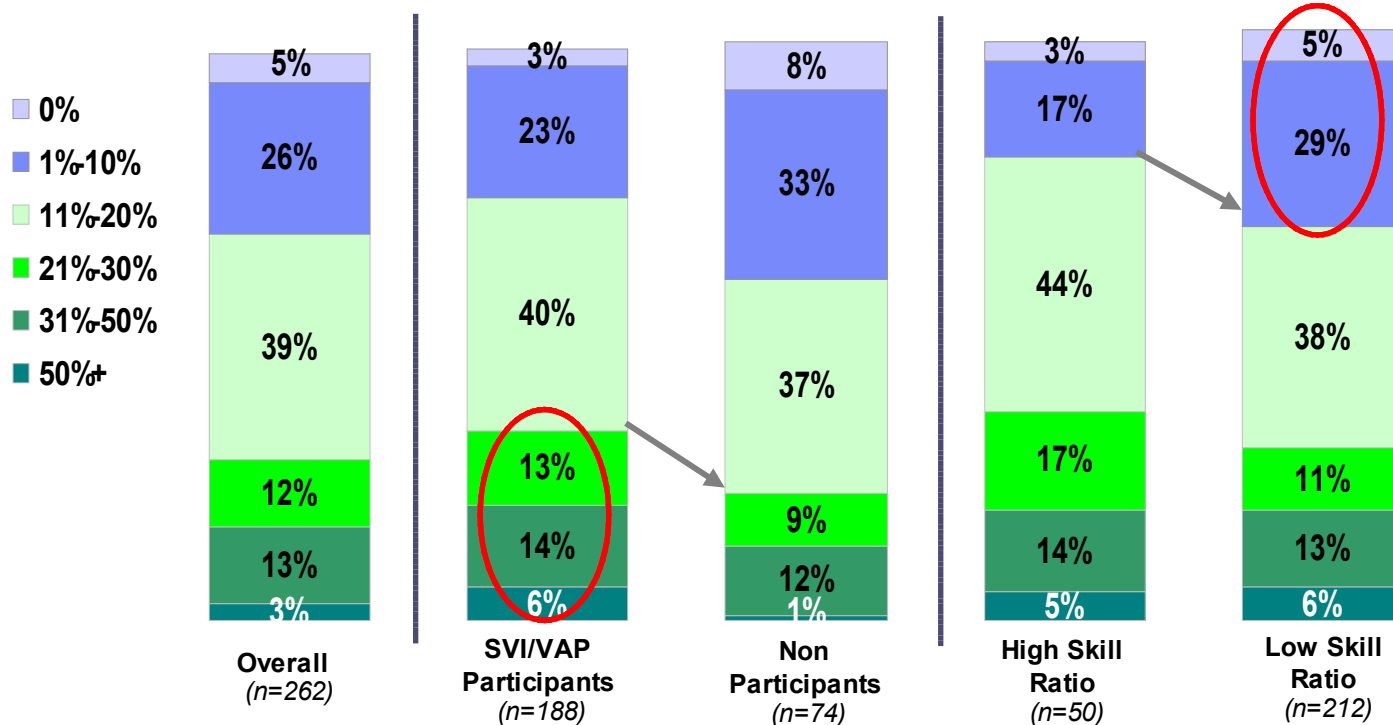


Q20. And what was the average gross-profit margin on those deals involving resale, integration or recommendation of Infrastructure/Middleware Software from the following vendors?

Results confirmed that SVI/VAP participating BPs are 50% more likely to report high gross profit margins on middleware deals than non-participants

- 50% more SVI/VAP participants realize high gross profit (> 20%) margins than non-participants
- IBM BPs with low skill levels are 40% more likely to realize low gross profit margins (<10%) than highly skilled BPs
- Benefits of SVI/VAP participation are realized by both Enterprise and Midmarket focused BPs

Average Gross-Profit Margin on Middleware Deals



Q20. And was the average gross-profit margin on those deals involving resale, integration or recommendation of Infrastructure/Middleware Software from the following vendors?

In addition to charging no enrollment fee (unlike Oracle), start-up and ongoing costs are less than those reported by Oracle's top-tier BPs

- *Start-up costs for top-tier IBM BPs are 30% less than the closest competitor's BPs*
- *Ongoing annual costs for top-tier IBM BPs are 34% less than the closest competitor's BPs*
- *Nearly 50% of IBM BPs recoup startup investment in less than a year*

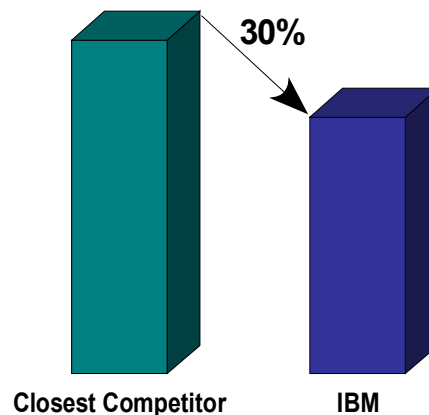
IBM

Premier: \$0
Advanced: \$0
Member: \$0

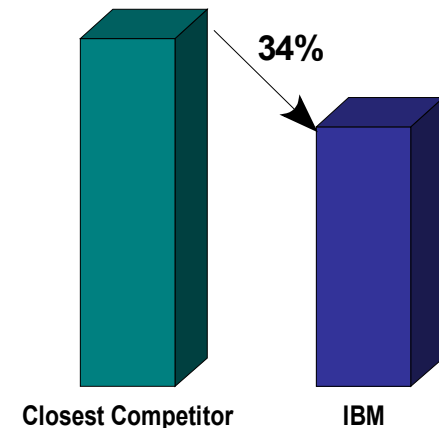
Oracle OPN Specialized Fees *

Platinum: \$9,995
Gold: \$2,500
Silver: \$500
Remarketer: \$0

Startup Costs



Ongoing Annual Costs

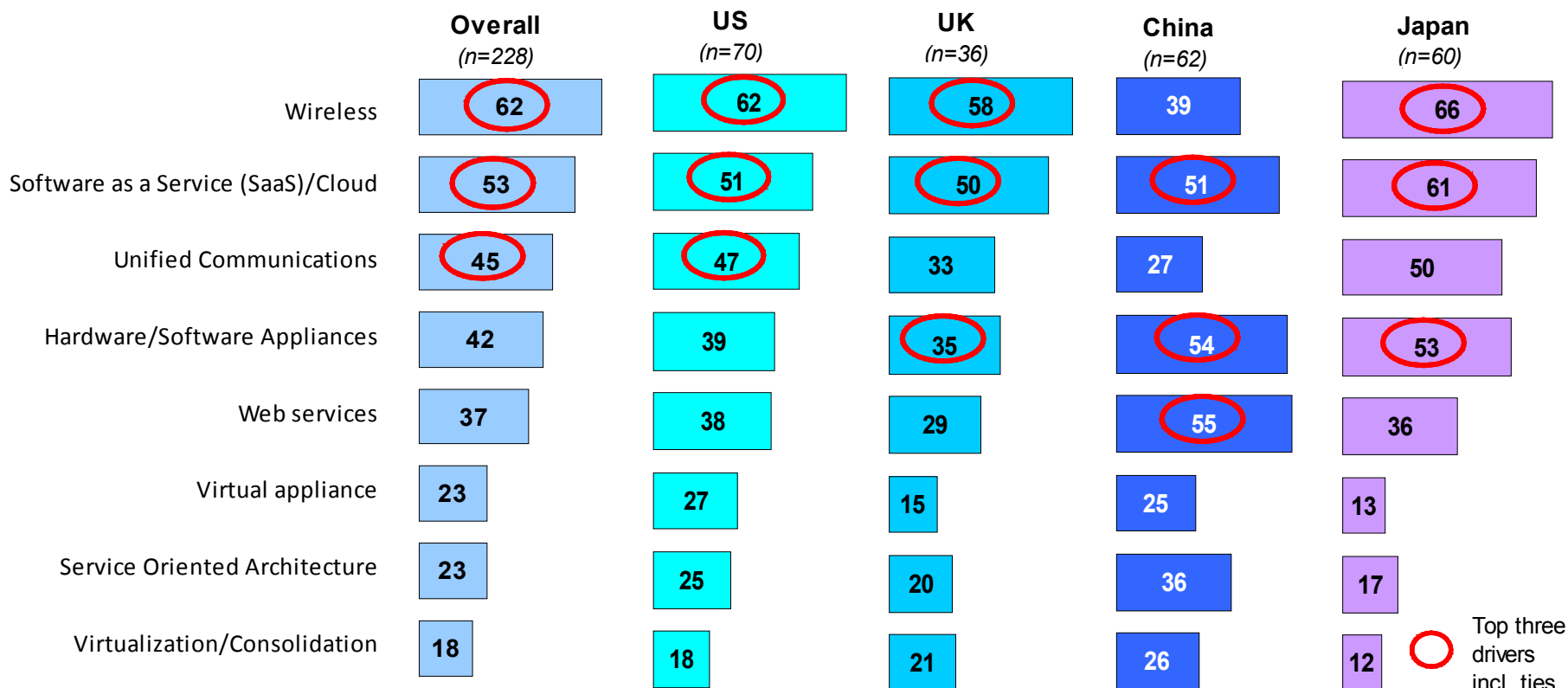


*Source: Oracle web site (<http://www.oracle.com/corporate/opn-specialized-media-faq.pdf>, <http://www.oracle.com/partners/en/most-popular-resources/035913.htm>)

Leading middleware BPs express interest in growth areas including SaaS/ Cloud, Appliances, and Unified Communications where IBM has leading industry offerings

- More than 50% of IBM's top-tier BPs report that cloud offerings will be a leading driver of profitability over the next 2 years
- Appliance offerings are another area of interest to respondents

% Top Three Box Ratings (8/9/10)



Q23. How important will each of the following new or emerging business models, technologies or trends be to your company's profitability over the next two years? Please rate on a scale of 0 to 10, where 0 means "not important at all" and 10 means "very important."

Backup

Methodology

BP Profitability – IBM Business Partners

Research Method:

- 25-minute web survey
- IBM identified as the sponsor of the survey
- Incentives paid in every country except Japan

Conducted in 4 countries:

- US, UK, China, Japan

Number of interviews:

- 262 surveys of IBM Business Partners

Sample Source

- IBM supplied sample (PartnerWorld Profiling System, Pure ISV, Focus databases)

Respondents

- Those who manage the relationships with IBM and are knowledgeable about company's financials
- Companies with at least \$50,000K+ business infrastructure software revenue (influence + resale)

Fieldwork:

- Conducted in August & September of 2009

Country	Counts	Percents
US	80	31%
UK	43	16%
China	70	27%
Japan	69	26%
Total IBM BPs	262	100%

IBM BP Demographic Summary

IBM BP Profile	
BP Level	Premier (66%) Advanced (27%) Member (7%)
Avg. number of years in business	19
Avg. number of years in the BP Program	12
Avg. number of locations worldwide	9
Industry – vertically focused	36%
Mean % of 2008 revenue from:	
Resale of another company's offerings	42%
Development and sales of its own products	18%
Its own IT services	35%
Other	5%
Expected 2009 revenue change:	
Increase	28%
Stay the same	20%
Decrease	51%
Mean % change -2009 revenue:	
Increase	+24%
Decrease	-19%

% of IBM BPs Focusing on Each Industry	
Healthcare & Pharmaceutical	46
Banking	41
Energy & Utilities	39
Government	38
Retail	34
Education	30
Automotive	28
Insurance	28
Telecommunications	28
Aerospace & Defense	26
Financial Markets	24
Travel & Transportation	24
Chemical & Petroleum	22
Life Sciences	22
Wholesale	22
Consumer Products	19
Electronics	19
Professional Services	18
Engineering	17
Media & Entertainment	17
Digital Media	16
Wireless	15

Company Information: RONIN Corporation

IBM partnered with RONIN Corporation to conduct this Global Software Business Partner Profitability Study. As a strategic research partner for IBM 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 over 1,500 engagements for IBM over the past 23 years working with every business unit and every geography, and is well known to IT decision makers and Business Partners worldwide.