

The Google Cloud Business Opportunity For Partners

Introduction

Forrester Consulting conducted a Total Economic Impact (TEI) study to understand the business opportunity for partners that build and scale Google Cloud practices. This study, which represents an update to a 2016 study on the profitability of Google Cloud partners, assessed the partner business opportunity and profitability across Google technologies, engagement models, and regions. Since the 2016 study, partners have made significant investments in their Google Cloud practices, owing to marketplace demand for Google Cloud resources, services, and expertise.

For this analysis, Forrester interviewed 19 Google partners with well-established Google Cloud practices across North America, Western Europe, and Asia Pacific. Interviewed partners adopted a variety of engagement models, ranging from reselling businesses built around selling G Suite and Google Cloud Platform (GCP), professional services, and system integration practices, to independent software vendor (ISV) business models built around resalable intellectual property (IP). While partners have built highly profitable businesses around each of these partner engagement models, findings from this study show that partners generally realize a larger total addressable market and higher margins as they move along the path from selling to providing services and building their own intellectual property on the Google Cloud Platform. This executive summary highlights some of the key findings from the Forrester Consulting case study titled, “The Google Cloud Business Opportunity For Partners.”

Increase In
Average Deal
Size Since 2016

▲ 3x-6x

Cloud migration

▲ 3x-5x

Cloud modernization
and application
development

Why Partners Are Choosing Google Cloud

Partners interviewed for this study cited several factors for their continued investment into their Google Cloud practices:

- › **Multicloud and open source approach.** Many of the organizations interviewed for this study also work with other hyperscale cloud solutions. Several described themselves as cloud-agnostic: They make technology choices based on their customers’ needs and requirements. However, when a conversation starts around open source, multicloud, or a Google technology like Kubernetes, partners reported that they recommend the Google Cloud Platform for optimal performance, even though these technologies can be deployed on any platform. One partner executive explained: “Kubernetes means that you’re effectively able to run any cloud — we’re cloud agnostic. . . . But because Google created Kubernetes, we believe that the Google Cloud is the best place to run Kubernetes. We can very reasonably recommend it over and above other cloud solutions, while still maintaining our independent perspective.”

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-- EMEA partner executive



- › **Strength of Google Cloud Platform data and analytics capabilities.** Nearly 90% of global data and analytics technology decision makers told Forrester in 2018 that making better use of data is a priority for their firms.¹ In some areas of the world, firms plan to invest heavily in advancing their understanding of business data, with Chinese and Indian decision makers reporting that their firms plan to spend more than half of their IT budgets on data, analytics, and insights. Not surprisingly, Google partners are seeing a significant number of opportunities in the data and analytics space.

In addition, customers are already aware of the value that Google technologies like BigQuery, DataFlow, Dataproc, and TensorFlow can bring to their organizations, and they request them by name. Google partners that build capabilities beyond infrastructure migration to include analytics, artificial intelligence (AI), and machine learning (ML) stand to capitalize on the growing share of corporate IT budgets that are being allocated to data and analytics initiatives.

- › **Ability to innovate and drive service revenue growth on Google Cloud.**

Google technologies such as Cloud Machine Learning Engine, Cloud AI, Kubernetes, and Anthos require skill sets and expertise that many businesses don't have available in-house. As such, partners see a wealth of opportunity in assisting businesses as they seek to onboard, adopt, and effectively utilize these technologies, creating significant one-time and recurring service opportunities. For instance, one partner explained how it built a subscription-based business around core Google technologies, offering training materials and a dedicated technical support manager to customers for a monthly fee. Google Cloud has also announced a goal of 100% partner attach to customer deals, creating more opportunity for partner innovation in the delivery of business solutions for customers.

Our analysis found that approximately 70% of Google partner revenues comes from professional and managed services. Professional service project gross margins ranged from a low of 25% to a high of 60% across interviewees, with higher margins associated with higher value analytics, AI/ML, cloud modernization, and cloud-native application development projects. Lastly, partners that built their own custom IP on or for Google Cloud solutions were able to sell these offerings to customers, often attaching them to larger cloud engagements and earning margins in excess of 60%.

- › **Ability to build deep specializations to differentiate in the marketplace.**

Almost every interviewed partner had achieved several specializations in various technology domains, including infrastructure, machine learning, data analytics, cloud migration, application development, and location-based services. Given the general lack of in-house expertise and the highly specialized ecosystem of Google partners, many partners revealed that customers seek them out specifically. Furthermore, according to a partner executive, specialization had another added benefit: They had to do little outbound marketing.

What Big Opportunities Exist For Partners And What Investments Are Partners Making In Google Cloud

Google partners interviewed for this study are leveraging Google Cloud technologies to deliver a wide range of solutions that enhance their customers' ability to compete and win in the marketplace. To capitalize on these opportunities, Google partners made several strategic investments to build, market, and scale their Google Cloud practices. Highlighted partner business opportunities and strategic investment areas include the following:

"The demand for Google Cloud is growing rapidly. I often think about whether we are being aggressive enough — whether we are hiring aggressively enough."

-- EMEA partner executive



"Over the last 12 months, we've probably worked with 30 customers. But the actual number of engagements with those customers was 80 to 100. Projects follow on very quickly."

-- North America partner executive



"The interesting thing with data analytics and machine learning is that it's not so much about going deeper; it's about going horizontally across the organization."

-- North America partner executive



- › **Service.** While the business mix of each individual partner varied depending on its engagement model and client base, professional and managed services accounted for just over 70% of interviewed Google partner revenues at the time of the interviews. Google Cloud partners are selling and delivering a diverse array of professional and managed services spanning strategy and business consulting; cloud migration; cloud modernization; cloud-native application development; data, analytics, and insight services; and cloud managed services. Gross profit margins across these service offerings can be as high as 60% depending on the engagement type, the degree of partner specialization required, and the degree of automation and repeatability embedded in service delivery.

Notably, partners have seen a 3x to 6x increase in average deal sizes in GCP cloud migration deals since 2016, while cloud modernization and application development deal sizes on GCP have increased 3x to 5x since 2016.

- › **Sell.** Partners can resell a variety of Google products, including Google Cloud Platform, G Suite, Chrome Enterprise, and Google Maps Platform, bringing resell margins ranging from 10% to 30% depending on the product, deal characteristics, and each partner’s standing in the Google Cloud Advantage program. Furthermore, partners are regularly able to attach and resell third-party applications, including cloud management, disaster recovery, application performance management, security management and intrusion detection, and communication and collaboration software across their Google Cloud customer bases, further boosting contract values and profitability.

The Sell model remains strategically important for partners, as the frequency of customer touchpoints associated with serving these accounts creates more opportunities for partners to sell add-on services and solutions, increasing revenue per client.

- › **Build.** Google partners are building proprietary software and solutions that enhance or complement Google Cloud technologies or solve a vertical or line of business problem. Since partners build solutions once and license them to many customers, margins can reach upwards of 60%. As an added benefit, revenues from subscription-based services are more predictable than project-based revenues, and they help to “smooth out” uneven cash flows typically associated with the professional services business model. Notably, licensable intellectual property (IP) can also speed the delivery of professional services engagements, improving project-level profitability.
- › **Talent acquisition.** Partners are investing heavily in growing their Google Cloud talent base, with some reporting hiring growth as high as 800% over a roughly four-year period. In addition, partners are investing in Google Cloud certifications, which bolster partners’ credibility in the marketplace. When organizations dedicate certified staff to a project, they can justify higher fees, either on a project or hourly basis. As a result, partners are aggressively investing in Google Cloud certifications, with one partner reporting that his organization aims to have 70% of its technical staff certified on Google Cloud products and solutions. In many cases, Google Cloud offers partners with no-cost certification training and incentives for these certified individuals to continue their professional development.

“Once the technology has been vetted, and there’s a clear business case for it, we work with them through our managed services to make the transition to Google Cloud. That’s where you go from a little bit of consumption to a hockey stick.”

-- North America partner executive



“Last year, our billings for GCP tripled. This year, the business is much larger, but we’re expecting to see 40% growth.”

-- North America partner executive



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What Opportunities Are Ahead For Partners To Grow With Google Cloud

Partners are heavily investing in new services and solutions, research and development, and talent acquisition to leverage Google Cloud to solve acute business problems and to enable them to deliver strong customer experiences. Across Forrester’s interviews with 19 Google partners, four areas of opportunity stood out:

› **Move up the Google Cloud stack with higher-level Google Cloud capabilities.** As cloud migration services increasingly become a commodity and IT spend on data and analytics continues to grow, strong capabilities in data analytics, artificial intelligence, and machine learning will further bolster partners' value propositions and differentiation in the marketplace. These capabilities were a key entry point for new deals, with one North American partner stating: "Most of our clients already have infrastructure in the cloud. When the conversation comes up about why Google Cloud should be a part of their environment, one of the key reasons is to take advantage of some of the structured AI and ML models and capabilities that are already out there for their industry."

In addition, given that data and analytics proofs of concept and pilot programs are clearly demonstrable, partners have a high likelihood of seeing follow-on project work, increasing share of wallet within accounts. These higher-level capabilities ensure partners see annuity revenue streams from repeat business and larger contract values by aligning a partner's expertise to clients' business problems.

› **Differentiate with proven Google Cloud expertise and specializations.** Investments in Google specializations and expertise help partners differentiate in the marketplace and generate demand for their products and services. By acquiring these capabilities, partners are able to fill the skill set gaps that many businesses have with in-house resources, while maintaining a premium for their unique and proven expertise.

› **Expand into new engagement models.** Forrester's analysis found that it is possible to build highly profitable businesses around each of the three engagement models — Sell, Service, and Build — especially when partners specialize in a particular technology domain. However, the findings also show that partners with the most profitable Google Cloud practices engage with customers across all three models and that there is strategic value in doing so.

› **Build custom IP to increase margins and drive growth.** Custom IP is primarily built for two purposes: as an accelerator for service delivery or as a value-added, resalable asset to solve a common business problem in an industry or line of business. As a service accelerator, custom IP helps partners accelerate project timelines, bolster engagement profitability, and provide unique value that other providers can't easily match in a streamlined fashion. Resalable IP can be packed and resold to customers in a specific industry vertical or line of business, creating high-margin annuity revenue streams for partners. Continued research and development investments in custom IP will continue to be associated with improved profitability and revenue growth for partners.

This document is an abridged version of a case study commissioned by Google, titled: "The Google Cloud Business Opportunity For Partners."

Forrester's Total Economic Impact™ (TEI) framework identifies the revenue, margin, investment, and risk factors that affect investment decisions. Forrester took a multistep approach to evaluate the business impact of building a Google Cloud practice area, including interviews with Forrester analysts, Google stakeholders, and 19 Google partners. Forrester constructed a composite organization and aggregate financial analysis based on the interviews, and risk-adjusted the financial model to account for uncertainties in estimates.

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Endnotes

¹ Source: Forrester Analytics Global Business Technographics® Data And Analytics Survey, 2018.