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Microsoft recently to stated, “We estimate that this year, 60% of the market will still be traditional servers, while 30% will be virtualised and 10% will be in private Clouds .By 2015, however, we expect to see just 10% as traditional servers, 20% virtualised, 40% will be in private Clouds and 30% will be in the public Cloud.”

With such change expected and happening, it is key that channels engage and plan around how to adapt to selling cloud solutions with special focus on the financial aspects.

If previously you dealt predominantly in software, the business model was relatively simple. Customers bought licenses from you and paid you for them accordingly and you hence paid your sales people a % cut upon receipt of those orders or payments. Renewals were treated pretty much the same with a salesperson or renewals individual owning these and the commissions.

Cloud solutions bring new approaches to these factors. For the customer cloud is a new model for delivering and consuming IT more efficiently, in turn reducing Capex and switching spend to Opex by making use of economies of scale. For the reseller this means extended subscription cycles of up to three years or longer and higher renewal rates, but with varying new billing models to contend with.

The cloud billing model throws up another set of issues for channel players who are already struggling to get their heads around this new concept. Sales compensation and financial planning are important factors to consider. With sales compensation in mind, you might ask the following questions: will my sales team need to undergo a complete change? Is a cloud sales rep a different animal to a traditional product/service sales rep? Will my team be able to adjust? How do I get them involved in the cloud?

Sales teams will have to focus on communicating a different set of value propositions, with more emphasis on business credentials, levels and quality of service, total cost of ownership and quality of on-going customer support, rather than features and functionality or speeds and feeds.

Having a clear strategy and commission model from the outset will save headaches in the long run. You will need to work out whether sales reps are paid on an annualised contract value (ACV) or total contract value (TCV).Are they paid upfront or as their customers are billed/pay? Do they get paid on renewals and subsequent years payments or just the initial payment? Are targets set annually or quarterly? Does a percentage of sales each year go to ensuring staff retention? These are legitimate questions to consider in the planning stages

Unfortunately there is no one solution or a one-size-fits all approach to the transition to the cloud—it is a case of finding the strategy that works for you and your sales team. Bear in mind that sales people may be worried and potentially resistant to start with; however, a shift in mind-set will be crucial to the development of cloud-based initiatives and compensation that they receive. Sales people will have to learn to work differently, building up their own renewing client base to ensure they receive their commissions.

Also factor in utility billing at the early stages so it is not a shock when it does come into play (which it will down the line in the cloud world). Customer bills can go down as well as up in this model and therefore deliver less predictable commissions and billings than in today’s world. It is important you find ways to accommodate these models as telecom resellers and xSP-type providers are starting to move to the cloud. These providers are adept to these billing models and will adopt them alongside their existing billing systems quickly. This should not come as a surprise, however. You will face new competitors who are familiar with these varying billing models in the cloud world as the channel develops.

As cloud sales grow, we will see more models emerge with billing in arrears and on-usage billing, shifting pressures of cash flow from the customer to the provider. As old models are compared to new, this will impose pressure on a reseller's cash flow and financial models. For that reseller, this process needs to be thought through well in advance. For those reliant on existing software renewals and legacy delivery methods, this shift in alignment combined with the recessive market place could add more uncertainty and risk. For those embracing and planning for the market balancing brought about by cloud solutions this could prove a lucrative time for growth and customer acquisition. It will be wise to be the provider that takes a competitor's customers from their traditional software solution to a service delivered model before someone does it to you.

Cloud billing models may include variants such as:

- **Billed annually up front**: You sell the customer a year's contract and bill them for a year and collect the payment now. Much like selling a product to the client.
- **Multi-year up front:** You sell the customer a multi-year contract and collect the full payment for the term up front— e.g.sell a 24-month contract and get paid for 24 months service now.
- **Multi-year annualised billing:** You sell the customer a multiyear contract, but bill them annually in advance.—e.g.you collect only the initial 12 months service payment up front and then bill again in 12 months time, and so on.
- **Quarterly and Monthly billing:** Similar to the annualised billing. You may sign a 12-month contract, but only bill quarterly or monthly during the term of the contract, collecting monies across the year, so the customer pays for the month or quarter ahead before using it. This can also be combined within a multi-year contract.
- **Utility-based billing:** This is where the customer pays for what they use as they use it, typically on a monthly basis, billed in arrears. The service provider reports on and produces a bill each month for clients, based on what they used in the previous month. This has good and bad implications to consider such as the administration required around billing and collecting monies in smaller more regular amounts. Also the fact that the end user and reseller will get unpredictable bills that may go up as well as down. It can end up with customers querying their bills compared to fixed contract billing that is agreed up front.
- **Aggregated billing:** A billing method whereby you as the channel partner of the cloud vendor simply resell licenses each month and pay the cloud vendor for your total users in use at the end of each month. Often used where you are providing managed services to the end clients and you are the aggregator for the vendor.
- **Vendor Referral Commission Models:** Many vendors are adopting a direct end user customer billing model and paying a reseller anywhere between 5 - 15% margin on initial contract sales. The vendor bills the end user directly and paying a commission to the reseller when the customer payment has been made. Renewal years often pay between 5-8% commission to the reseller in these models .Thus treating the reseller as an agency with the vendor performing the support services and provisioning of the services.

With billing models and cycles changing, combined with some cloud vendors billing direct and paying commissions to the channel partner, there is a need to evaluate how sales commissions are structured and consider new models for rewarding your employees.

This compensation challenge is one that many vendors are already struggling with as they add cloud solutions to their portfolio and it proliferates down through distribution and the reseller channels. A pure cloud vendor and new salesperson can easily adopt such commission models, but changing the mind-set from an existing legacy model is more challenging. Paying commissions on cloud is a key factor that needs to be thought through and built into your sales plans. You will need to be able to scope for a variety of billing models as outlined above and be open to change in order to ensure a motivational commission structure for your teams in this changing world.

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