

# Microsoft Cloud OS Partner Solution Case Study



## pcMedia Makes 2-Seat Deals Profitable; Revenues Rise 23 Percent, Margins 100 Percent

### Overview

**Partner:** pcMedia

**Partner Website:** [www.pcmmedia.co.nz](http://www.pcmmedia.co.nz)

**Partner Size:** 9 employees

**Country or Region:** New Zealand

**Industry:** Professional services

### Partner Profile

pcMedia, based in Blenheim, New Zealand, is a fast-growing cloud services provider serving corporate, small business, and individual customers.

### Business Situation

When the recession hit, competition rose and margins fell, forcing pcMedia to seek new ways to maintain and expand its SMB customer base.

### Solution

The company discovered that it could be first to the cloud in its territory with Microsoft Office 365, and that it could use the service to profitably serve customers that were previously too small for its business model.

### Benefits

- Revenues up 23 percent; 275 percent gain projected over five years
- 100 percent boost in margins; profits from 2-seat deals
- Shift to cloud reduces risk, volatility
- Subscriptions spur 10x managed/hosted services revenue

“Shifting our business model to cloud services is the most powerful thing we’ve ever done. We wouldn’t be where we are today without it.”

Lee Harper, Managing Director, pcMedia

How does an IT provider make money in cloud services? Many providers use Office 365 and related services to go after larger customers, where economies of scale contribute to profitability. pcMedia did that—but it also did something relatively rare. It pushed down into the lower end of the market, making profitable deals with SMB customers having just two-to-five seats. It’s working. In its first full year as a cloud services provider, pcMedia’s revenues are up 23 percent, profits are up 53 percent, margins are up 100 percent—and the company makes 10 dollars in services revenue for every dollar it sells in Office 365 subscriptions.

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Lee Harper, Managing Director, pcMedia

## Situation

pcMedia is a small (nine employees) IT services provider in a small town (Blenheim population 30,000) in the heart of New Zealand’s wine country. Many of its customers are even smaller than it is.

So how in the world did it become the Microsoft New Zealand Cloud Partner of the Year? And why did 3,500 attendees at the 2013 Worldwide Partner Conference turn out to hear what the company’s managing director, Lee Harper, has to say about selling the cloud?

pcMedia has not only succeeded in selling cloud services, it’s succeeded with a segment of the market that most Microsoft partners deem inherently unprofitable and consciously avoid: the smallest of the small, SMB customers with as few as 2 seats.

One could say that pcMedia’s success gives its story a very happy ending—except that Harper and his staff are convinced that this is only the beginning, and that the best is very much yet to come.

Regardless of how far pcMedia will go, what’s undeniable is how far it’s come. The company was founded 21 years ago in a garage, to sell floppy disks. It became a dial-up modem provider, and then made and sold its own PCs and servers.

By the 2000s, the company came to specialize in consulting and projects for the SMB market; that made up 90 percent of its revenue, with on-premises managed services completing the pie. Increasingly, managed services looked like more trouble than it was worth, with pcMedia technicians spending hours each day in their cars, driving across the rural Marlborough Region to support 50 email servers scattered across a 4,500 square-mile territory.

But pcMedia felt it had little choice. Managed services were what those customers, with 5 to 25 seats, needed—and

the company wasn’t in a position to compete for larger customers, which were in the sights of the nation’s large telecom providers.

The global recession eventually found rural New Zealand. Competition tightened. Providers cut prices. Margins fell. pcMedia looked for a way to reinvigorate its business.

## Solution

What it found was Office 365. The cloud-based email service would solve pcMedia’s problem of servicing its customers’ on-premises email servers. And it would do more: “We were looking to differentiate ourselves from the competition,” recalls Harper. “We assumed that if we didn’t get into the cloud, our competition would. We wanted to be there first.”

### **Wanted: A New Business Model**

The company’s interest in Microsoft cloud services both deepened and took a more concrete form after Harper attended a 2011 Microsoft Business Transformation Workshop in Wellington. The event convinced Harper of the Microsoft commitment to the cloud.

It also showed him how pcMedia could be successful in selling cloud services: by changing its business model from traditional, project-based, time-and-materials billing to a fixed price-list of services sold on a per-seat basis. The latter was faster and simpler to quote, which would expedite the selling process, boosting sales productivity. And it was easier for customers both to understand and to afford, which would provide competitive advantage and help boost market share.

### **Managing Organizational Change**

A major shift in almost any organization raises the issue of change management; pcMedia was no exception. “We had to get the tech staff singing from the same hymn sheet,” Harper says. “And we had to get the



pcMedia gives its Office 365 services prominent space on its website, and its customers a concise tutorial on how the service can benefit them.

sales team to stop aiming for large, one-off server deployments.”

To accomplish that, pcMedia sent technical staff for training, and brought in a Microsoft trainer for a day. It also replaced two of its staff with technicians already familiar with the cloud. In the shift, it reduced its number of Exchange Server experts from two to one.

On the sales side, pcMedia introduced quoting tools and templates, which added to the sales productivity his staff would achieve through the introduction of standardized prices. Harper says that in the time it used to take to produce one large quote—a day—a sales rep can now produce three or four similarly sized quotes. As a result, sales reps are bringing in about the same revenue despite smaller deal sizes, so sales commissions are about the same.

Another key to pcMedia’s strategy was not to rely solely on Office 365 subscriptions. The company also offers managed services for Office 365, as well as private cloud hosting for backup and remote desktop services.

### Getting the Word Out

Having made these changes, pcMedia needed to get the word out to potential customers. So, it increased its marketing expenditures. It hired a marketing firm that helped the company to rebrand itself with new graphics, colors, and logo. It moved to a more prestigious building.

pcMedia also launched an ongoing effort to position itself as a thought leader on cloud. For example, it sponsored a cloud event that featured a Microsoft speaker. The event was attended by 128 people and pcMedia gained 60 qualified leads—and 42 new customers. It also initiated a newsletter and raised its profile via local news stories and social media.

### Benefits

pcMedia’s transformation into a cloud company is a success. Revenues and margins are both up. The customer base is, too. And recurring income is up, which means risk is down.

### Revenues up 23 Percent; 275 Percent Gain Projected over Five Years

In pcMedia’s latest fiscal year, its first full year as a cloud-focused provider, revenue

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Lee Harper, Managing Director, pcMedia

rose by 23.1 percent, compared to 1.6 percent in its last fiscal year selling only on-premises services. That’s close to the 30 percent average revenue gain for cloud services providers identified in a recent IDC worldwide survey.

The gain comes from 102 customers over that 12-month period (it has 128 cloud customers in all) and 525 seats sold (678 in all). According to Microsoft, that two-customer-a-week average means that pcMedia has made more Office 365 deals than any other New Zealand partner for the 12 months that ended in April, 2014.

Certainly it represents a major gain in customers for pcMedia, which was making deals at just 25 percent of this rate before adopting cloud services. Many of those customers come from outside pcMedia’s traditional geographic territory; Harper estimates that the company’s geographic reach has expanded three-fold.

If pcMedia’s projections are correct, the best is indeed yet to come: The company expects to achieve a 275 percent revenue increase over the next five years.

#### **100 Percent Boost in Margins; Profits from 2-Seat Deals**

For its latest fiscal year, pcMedia’s profits were also up, by 53 percent—again, close to the 60 percent average for cloud providers in the IDC study. The gain was fueled by a 100 percent increase in margins, which in turn was fueled by a reduction in costs. For example, of those 50 customers with on-premises email servers that pcMedia used to serve on-site, 49 have migrated to Office 365.

Where pcMedia’s customer base formerly ranged from 5 to 25 seats, the company now serves companies from 2 to 75 seats. While most of the revenue and profit growth has occurred through the acquisition of larger customers, what’s perhaps most distinctive about pcMedia’s story is that it has expanded profitably at

the lower end of the market, serving customers that cloud providers elsewhere often consider too small to serve. So how does pcMedia do it?

“The smallest deals are quite easy to win and to serve,” says Harper. “With our sales process, we can give them quotes with almost no effort. Because other providers ignore them, there’s less competition so our win rate is higher. They’re the easiest to migrate and they tend to be extremely loyal, which means greater contributions to revenues and margins per seat over time.”

#### **Shift to Cloud Reduces Risk, Volatility**

By focusing on the cloud, pcMedia has successfully shifted its revenue mix. Previously, the business was 90 percent project/consulting and 10 percent managed services. Today, the mix is 70 percent project and 30 percent managed services and private cloud. Over the next six months, Harper expects that shift to accelerate, with projects dropping to 50 percent, and managed services and private cloud rising to 50 percent

That shift means more recurring revenue, which means reduced risk and volatility. On top of the projected increase in revenues, it means an even larger increase in profitability.

“Shifting our business model to cloud services is the most powerful thing we’ve ever done,” says Harper. “We wouldn’t be where we are today without it.”

#### **Subscriptions Spur 10X Managed/Hosted Services Revenue**

Selling Office 365 subscriptions has a powerful multiplier effect for pcMedia. Harper estimates that each dollar in subscription revenue for Microsoft generates an additional 10 dollars in services and hosting revenue for his company. And the effect is indeed causal, with Office 365 subscriptions typically coming first and leading to the managed services and hosting revenue as add-ons.

## For More Information

For more information about Microsoft products and services, call the Microsoft Sales Information Center at (800) 426-9400. In Canada, call the Microsoft Canada Information Centre at (877) 568-2495. Customers in the United States and Canada who are deaf or hard-of-hearing can reach Microsoft text telephone (TTY/TDD) services at (800) 892-5234. Outside the 50 United States and Canada, please contact your local Microsoft subsidiary. To access information using the World Wide Web, go to:

[www.microsoft.com](http://www.microsoft.com)

For more information about pcMedia products and services, call 03 5781100 or visit the website at: [www.pcmmedia.co.nz](http://www.pcmmedia.co.nz)

“A customer that doesn’t want to move content or applications to the cloud might at least be prepared to move email to the cloud,” explains Harper. “Then, six months later we can go back and sell SharePoint Online and more of Office 365, along with our own private cloud services. The Microsoft hybrid model is great because we can use it to migrate the customer at the customer’s pace.”

## Microsoft Cloud OS

Microsoft Cloud OS helps businesses benefit from converging technology trends such as big data, cloud services, and 'bring your own device' initiatives. From rapidly building and deploying applications to supporting real-time analytics across all forms of data, IT can drive efficiency and deliver new value with Cloud OS.

For more information about Microsoft Cloud OS, go to:

[www.microsoft.com/en-us/server-cloud/cloud-os/default.aspx](http://www.microsoft.com/en-us/server-cloud/cloud-os/default.aspx)

### Partner Designations

- Microsoft New Zealand Cloud Partner of the Year
- Asia Pacific Platinum Partner
- Cloud SMB Finalist