



The Deloitte On Cloud Podcast

David Linthicum, Managing Director, Chief Cloud Strategy Officer, Deloitte Consulting LLP

Title: How cloud software goes global via hyperscaler partnerships

Description: Ever wonder how software developers get those lucrative partnerships with cloud hyperscalers? In this episode, David Linthicum talks with 13three founder Jeff Aden about how 13three helps cloud software vendors begin, or accelerate, their partnerships with major hyperscalers such as AWS to take their software global. Jeff's view is that success takes the right tools and culture, but it also takes a cloud-native mindset and an understanding that change is the only constant in the market.

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David Linthicum:

Welcome back to the On Cloud Podcast. Today on the show I am joined by Jeff Aden, founder and managing director of 13three. Jeff Aden has a passion for, and an experience in, building and operating high-growth companies over the course of his technology career. As the founder of 13three, he brings decades of experience in building one of the most accomplished and recognized cloud-native companies to date. From founding to operating 2nd Watch, the company grew from a seed round of just a half a million dollars led by Madrona Venture Group to raising \$60 million—good job—in venture and growth capital, with hundreds of employees around the United States. So, hey, number one, welcome, Jeff. That's a pretty impressive career. Tell us about how you kind of came to 2nd Watch, what you did there, and what was kind of the eureka moment behind starting 13three?

Jeff Aden:

Yeah, thanks, David. We started 2nd Watch coming out of the recession in 1997, when we were working at a publicly-traded company that was like many companies. We had to do more with less, and that meant a lot of budget cuts. And we started cutting IT budget and spending a lot of the marketing and IT budget in cloud services as Amazon was starting to take off. Formed 2nd Watch, became one of the first premier partners with them, MSPs. And I left after we had done an agreement for majority ownership with ST Telemedia and started 13three, which is essentially a network of professionals that works with large partners that are a little late to the party or trying to accelerate their growth with AWS.

David Linthicum:

So, in other words, I'm a new startup and I have a new management and monitoring tool, but I've only been in the business for a couple, three years. I have a good amount of venture capital behind me. So, you would assist me in becoming part of the marketplace of AWS, part of the partner of AWS, taking this out to the customers, or the market in general?

Jeff Aden:

Well, that could be one scenario, but that's not the core customer that we work with. So, think of a company that's greater than a billion dollars, that is maybe trying to transition from one specific service into cloud services to look more like a GSI, or to offer consulting services and cloud services with adjacent services or products. And if they hadn't started in the last five years, they may not know who to hire, they may not know who to acquire, and they may not know what product offering—how to bring that to AWS, even from a services standpoint. So, that's really our core customer. Most of the individuals that are in the network with 13three, whether they be principal architects or consultants, have five-plus years of hardcore enterprise experience.

David Linthicum:

Got it. So, you're leveraging the heritage of 2nd Watch's partnership with AWS and how you leveraged that into a business and assisting other folks, typically global 2,000 companies, larger technology companies, in doing the same?

Jeff Aden:

Correct, correct. Or there are also the other use cases, partners that have tried to partner with Amazon, but may have had a slow start and haven't figured out how to integrate with their sales teams or their marketing teams, really to leverage the experience that they have to help their customers.

David Linthicum:

Yeah, I think this is kind of a very good service, because, if you think about it, a lot of the older technology players—and I've been working with those guys for years—they're many-billion-dollar companies, but they're not used to partnering with other market makers to kind of take them to the next level. They're used to being the market maker. So, while the partnerships exist, they typically exist within their ecosystem, at their pleasure, where they're finding they're going to be beholden to, and need to create relationships with, other companies, typically cloud companies, that are going to take their cloud offering, their new cloud offering, typically, to the next level. And they have no clue how to do that. They just don't have a culture of reaching out and making these partnerships work. Do you assist them in not only making the relationships, and also the mechanisms to connect things up or integrate with the various systems, but also changing the culture in terms of accepting the fact that you're going to have to work tightly-coupled with these other companies?

Jeff Aden:

Yeah. I think you hit on the actual hot topic, right? So, when a lot of these larger, established companies try to transition to a partnership with Amazon, they want to mirror that partnership with partnerships they've had in the past. And Amazon doesn't work that way. Amazon is very unique in how they partner and what they look for in partners, even so far as down to how you articulate your message to those sales teams and sales management. And what worked last year, or what worked with the last ten partnerships, is quite a bit different. Even managing the relationships between a Snowflake service offering and Amazon data offering has to be articulated and managed in a very unique way with AWS, right? So, all of those things kind of come together for the positioning of that partner, and that's where we come in and really help them.

Again, it's a breadth of experiences, so everything from contracts, how do I negotiate with Amazon, a partner contract that's beneficial for both, all the way to pricing to the end customer, as well as sales incentives internally. And then you hit on the big one, culture. How do I start to change the culture internally in my company from what we've always done in the past to how we leverage this new technology to really drive customer success?

David Linthicum:

Yeah, this struck a nerve with my CTO career prior to doing consulting in trying to set these things up. This was a larger—and it wasn't hyperscalers at the time. It was other things, and enterprise players, and integration occurred, and the integration technologies play, and you had to basically partner with everybody, and just kind of the difficulty and latency in making that happen. And the fact of the matter is you're depending on other businesses for your success at the end of the day. Well, doing that now, and still—and I think the reality is that successful technology organizations, no matter how big they are, have to work and play well together with others in their ecosystem to get their technology promoted because it's going to be a one plus one equals three kind of scenario. So, are you finding that they just don't have a relationship, they want you to do it, it's kind of net new? Or are you finding that they're breaking their pick on it and they want you to fix it?

Jeff Aden:

Yeah. Well, I mean, as a CTO, you'll know that you look for key advisors. So, the way we package 13three is partner with the C-level and look across their teams, look across their skill sets, their capabilities, and then really advise them on the three to five things they've got to do right away in order to come out of the gates and really have success with AWS. We're not operators, so we're not like what we did at 2nd Watch, hands on keyboards, anything like that. This is really advisory, to give them a vision, help them paint that vision or execute on that vision, and help them make sure that they have the right tools, people, and capabilities.

David Linthicum:

So, back in the day when I was running a technology company and starting a technology company, the most difficult thing I've ever done in my career was getting that seed round, getting that initial interest from a venture group or angel investors, and actually putting your own money in to kind of take the

whole thing to the next level, where the second round, I think once you've proved yourself, wasn't that hard. Did you find the same thing? Was the seed round easier and the second round harder, or both easy—

Jeff Aden:

Yeah, you know—

David Linthicum:

Is there money to be made these days?

Jeff Aden:

It was a very unique time. We were blessed in the early 2000s to be able to raise those funds. Cloud was just taking off. And then aligning with AWS, a large majority of leads would come directly from AWS, because we had the capabilities, we had the services, and we had the people. And so, we were able to take advantage of first-mover advantage to really accelerate those rounds. Obviously, we made some mistakes along the way and had some learning, obviously, there and that's been beneficial. And that's also the experience we bring to working with these partners that are trying to build a true business with good margins and good revenue, is really bringing those experiences of what worked and what didn't work as well.

David Linthicum:

So, I'm a huge enterprise software company. I've been in business for 30 years, and I'm trying to get into the cloud. I've been trying to get into the cloud for the last ten years, built some fairly good, well-funded, billion-dollar cloud products in the market. Now I'm trying to take it into the partnership level. Walk me through how I would engage you and what the pitch is—you can sell me this time, even though this is not a sales show—as to what I need to do to get ready and what you are going to do to help me become a more successful partner.

Jeff Aden:

Yeah. Well, I think you really hit on the use case that's the most difficult use case out there, versus a service partner. Where traditional software companies will struggle is a lot of times, their offering may not even be actually running on AWS. So, they have a cloud offering, but it's really hosted on their internal cloud and plugs into AWS. And those things will operate quite a bit differently. The other issue that large software companies face is their traditional distribution channels. That's a barrier for sales adoption across AWS's services.

So, unless there's a commitment at the very top for change, we're probably not the right fit, right? Because what we're going to propose is that cloud-native, cloud-first approach, not just in the vernacular but also in execution. And, again, that's why you hire advisors. It's not to tell you what everybody else in your company is telling you. It's to tell you what you need to do to be successful. And it takes time. A lot of times it'll take companies multiple years to pivot and transition. We're kind of set up more on short-term advisory-type projects, 30 to 90 days, and then re-engage with those companies when they meet certain hurdles. But the traditional software companies kind of have those two major things that they have to work through, and then there's whole systemic issues that follow that, internal incentives, external incentives, working with AWS Marketplace, et cetera, contractual agreements with the customer. There's a whole host of tactical things down the chain that have to be worked out in order to meet the profitability targets of these companies.

David Linthicum:

I like the fact that you give them real-world advice, in effect that you're going to have to take your product to a cloud-native state where it is going to be a truly partnership play, because if you have a complementary partnership, you're in essence—I'm not naming the partners here. Take a large enterprise company and push it together with a large hyperscaler. Ultimately, the enterprise company has to adapt and adjust to the fact—the way in which they want to sell their technology. So, that's going to be a huge transformation they have to do before they go and actually have a successful partnership. But you provide them with that feedback, right?

Jeff Aden:

Correct, and—exactly, and also help them work through the financials, right? Part of the reason they haven't made the transition is the margin is extremely high in what they're currently doing. But whether it's a product company or a services company, what we have seen over the last year and half, two and a half, three years with 13three is that a number of partners have come to us, well-established partners, and they didn't realize that in the last five years they've started losing business to the cloud. Now they're at the point where they're offering a cloud offering, but their customers are already down the path, right? And so, time is relevant. We're still day-one in cloud services, I believe, along with a number of people at Amazon, so it's never too late. It's just going to make it a harder trajectory to get there.

David Linthicum:

So, moving forward, do you think that your business will change from creating the initial success, or the platform of success, or the relationship for success, to tuning up relationships so they can become more profitable?

Jeff Aden:

Again, that's kind of the two use cases. So, one is a customer, a partner, that comes in that is new. They're looking to establish a partnership, get to advanced or premier partner with AWS. Maybe they have budget for—or investment to do some M&A, so they want to understand which companies they should target, which companies maybe are structured internationally in a certain way, to understand those hazards, et cetera, as well as how tightly-aligned are they with AWS. Then you have the other use case of partners that, hey, we spent five years trying to grow this, and how come all these other companies are seeing much more sales alignment than we are? How do we get aligned like them? And that's where we come in and can help them accelerate their current partnership with AWS.

David Linthicum:

Is this kind of a bit of a technology play? Because in other words, I've gotten—I'm certainly an amateur at doing this, but I've gotten organizations, big software companies into marketplaces on the hyperscalers in the past. And there was a technology integration that had to occur, and the ability to set up co-billing situations, things like that. And not naming any particular hyperscaler in particular, do you go through the technology steps or do they pretty much get it, or do they go somewhere else for that advice?

Jeff Aden:

Yeah. There's a network of individuals that we work with that will dive into the tech element of it, but a lot of times it's more on the business side. So, again, going back to distribution channels or ULAs, some of these things can actually interrupt the volume of business that they can do on the marketplace. And so, a lot of the conversations we engage with is how to, without radically disrupting the current business, how do they package and position for the cloud business? Because it does operate different, right?

If I put an offering on Marketplace, what I'm looking for is that buy button. I want somebody just to press that buy button rapidly. And a lot of times, it's not so much the technology that's preventing that; it's the business and operations that need to be tweaked a little bit to be able to work with that type of system. Because, traditionally, right, you go in and you sign an enterprise contract and number of licenses, and you're kind of set up for a year or two before you even see your—or three or five before you even see your rep again, right? You have customers all over the world, all different sizes, trying to leverage your product, and volume matters.

David Linthicum:

Yeah, it does, and also—and I think you mentioned this earlier—not conflicting your current business, and that's the big thing. Ultimately, if I am changing into a cloud business, I'm moving from a product-based system, where you're doing license revenue deals into a service business, where in essence you're becoming a utility. And there's a whole bunch of things that need to occur in doing that: changing the culture, changing the way you report and deal with revenue, all these sorts of things. And the cultural change I think is the more difficult thing to get around. Are you finding the same thing, that this becomes really something where they need to take major surgery to the business or something where they can just do some treatments?

Jeff Aden:

Well, I wouldn't maybe use either one of those. *[Laughter]* Surgery, especially nowadays, can be a little different, right? But what I would say is there's a cultural element that has to be driven from the top and vision that has to be driven from the top. The people that embrace the cloud—and this is pretty consistent across the board in the last ten years—I've never seen anybody that embraced the cloud that actually lost their job. It was people that tried to fight the cloud that actually lost their job. So, there's a big cultural element.

But the margins—take a holster today, or a software company. They're locked into these multiyear contracts, high margins, and when they look at AWS, they initially will price it to try to match that type of margin, or that type of revenue, et cetera. And what they fail to realize is that there's competitors like 2nd Watch and others out there that will come in and actually price it the way cloud should be priced. And where they'll gain revenue margin is as that company grows and uses cloud services far beyond what they saw with their traditional offering set. So, really, it's helping them understand both the short-, mid-, and long-term potential of how they take their product and really get engrained and drive solid, healthy revenue.

David Linthicum:

Yeah, and I think that is healthy moving forward. So, the future of partnerships moving forward, do you think we're going to become more interconnected and dependent and that partnerships are going to be hugely-valuable going forward, more valuable, about the same, less value, or they're going to change some way that we don't anticipate right now? Love to get your vision on that one.

Jeff Aden:

Well, I think, yeah, I mean, pretty broad question but I'll bring it to a very good example –

David Linthicum:

Open-ended, open-ended, not broad.

Jeff Aden:

Yeah, yeah, on a very specific example. Snowflake, as an example, runs on top of AWS, and AWS loves that revenue. AWS has a competing product, right? So, if I'm a company or service that has—if I'm software company like a Snowflake, I have to manage that partnership a certain way to grow my business, but also take advantage of the vast number of customers that AWS has. If I'm a partner, and I have a Snowflake service offering and an AWS Redshift offering, or data offering, I need to understand how to manage those with AWS, and that become very tricky, but it is doable, and similar to multicloud or any other position that you take, other than all-in on AWS.

And customers and partners need to understand how to manage those, and they're not mutually exclusive, especially for the largest customers of these partners. It's not one of the other; it's going to be a mixture of technologies. It's a matter of making sure you're using the best technology, at the best price, with the long-term innovation that will help meet your needs. And today Amazon's AWS is still the clear leader on that, especially in the migration space. There's still kind of a race towards the future applications where these applications get totally rebuilt on all-native services that the three cloud providers are really kind of going after, and we'll see that race increase over the next ten years.

David Linthicum:

So, is your prediction of the future—and I totally agree with what you said—are you going to change your business model, or the way in which you do your business, to accommodate those changes? And how quickly do you think you're going to have to change?

Jeff Aden:

It's a good question. I think it will always change because AWS always changes. We've seen them mature on the sales side of their business this last year and brought in a number of new staff across sales and marketing and support services. So, they'll continue to mature and continue to grow, and that will require obviously new skillsets. I believe customers will—partners will see success and have frustrations in working with the cloud providers, so for the longevity of what I'm doing with 13three, I think we'll continue to grow and see success.

I also think with COVID we're seeing people adopt a greater importance on lifestyle. And really that's what I'm trying to do with the culture at 13three, is—again, it's more shorter-term projects, give some flexibility if somebody wants to take the winter or the summer off, depending on availability. But it allows them to really dive in, be all in on a project, but not be stuck in office for four to five years, or on a plane for four to five years on a single customer or partner. So, the network really enjoys kind of the format that we're working with, but we'll adjust as needed.

David Linthicum:

Yeah, we're the same way. Work where you want; do what you want. I think that's what people are going to expect, and I think those are the cultures that are going to be succeeding moving forward. So, plug your business. Plug yourself. Where can we go to find out more information on this? Where do you typically go for information?

Jeff Aden:

Yeah. You can check me out on LinkedIn obviously with Jeff Aden. You can go to 13three.com. We're not for everybody, so it's kind of a reverse plug, and the analogy I use is you don't use the Navy SEALs for everything. But if you are a C-level executive, and you're struggling with needing some initiatives for the board around cloud services or your partnership with Amazon and you have the investment behind you, we're a good alternative. And again, more—less about the volume of people and it's more about the experience that we bring to the table that can get you there faster.

David Linthicum:

Yeah, I think it's a great idea. I just—I think you guys are going to do well because it's a need out there. I see it all the time and I never know how to tell people how to solve those issues. I'll be glad to point them your way now.

Jeff Aden:

I appreciate it.

David Linthicum:

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