



How technology OEMs can guide channel partners into XaaS

Enabling channel partners to transform
technology infrastructure

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Introduction

TECHNOLOGY HARDWARE OEMS (original equipment manufacturers) face a dilemma: Their success relies heavily upon strong relationships with their channel partners, but many of those partners lack capabilities that the OEMs' enterprise customers increasingly demand. What can tech OEMs do to bring their channel partners up to speed?

Specifically, many customers want to shift toward everything-as-a-service (XaaS) solutions, and OEMs are responding by looking to provide new forms of value. This new value proposition often revolves around highly tailored solutions that reflect a deep understanding of each customer's business and desired outcomes. Increasingly, those outcomes go beyond simply improving efficiency and lowering costs; many leaders see XaaS as critical to helping them harness new technologies and innovate faster.¹

The rise of XaaS is driving many tech OEMs to transform their operating models. Several have launched XaaS solutions targeted at enterprises, and in addition to delivering flexible, subscription-based customer solutions, OEMs are redesigning both customer operations and sales models.

But tech OEMs can't make the move on their own. They have long relied on indirect channel partners to drive their business growth. And with the shift to XaaS, OEMs will likely continue to depend on partners' domestic presence and localized knowledge to serve customers across regions.

Some channel partners are changing their business models to match tech OEMs' XaaS transformation efforts and deliver new forms of value. But many are struggling to adapt their business approach for the new as-a-service world. Their challenges range from a lack of specialized talent to worries about the near-term financial implications of transforming their business models.

Who are OEMs' "partners of the future"?

TO REMAIN VIABLE in an XaaS environment, tech OEMs typically must rely on channel partners as much as ever—and that means identifying those best equipped to deliver the customized solutions and support that enterprise customers now demand. OEMs have a vested interest in helping these “partners of the future” hone their XaaS capabilities.

For example, five large US-based tech OEMs currently generate more than 80 percent of their global revenues through channel partners.² As cloud adoption skyrockets across industries, OEMs will likely increasingly need XaaS-savvy partners to help them understand customer requirements and articulate the business value of XaaS solutions. This requires a laser focus on customer experience and proven methods of measuring customer success.

Channel partners can also enable OEMs to penetrate the small and medium-sized business (SMB) market and reach emerging geographic regions. The opportunity is especially enticing among SMBs—only 30 percent have a dedicated IT staff, with the rest relying on relationships with local SMB channel partners to deliver XaaS solutions.³

For tech OEMs, partners of the future will likely be those channel players that recognize the urgency to transform *now*. IT solutions provider Velocis Systems is one such partner. “If indirect channel partners do not change their operating models today,” says Atul Bansal, cofounder and managing

director of IT solutions provider Velocis Systems, “they run the risk of losing out to nimbler start-ups and other competitors in this changing IT landscape.”

Channel partners can also enable OEMs to penetrate the small and medium-sized business market and reach emerging geographic regions.

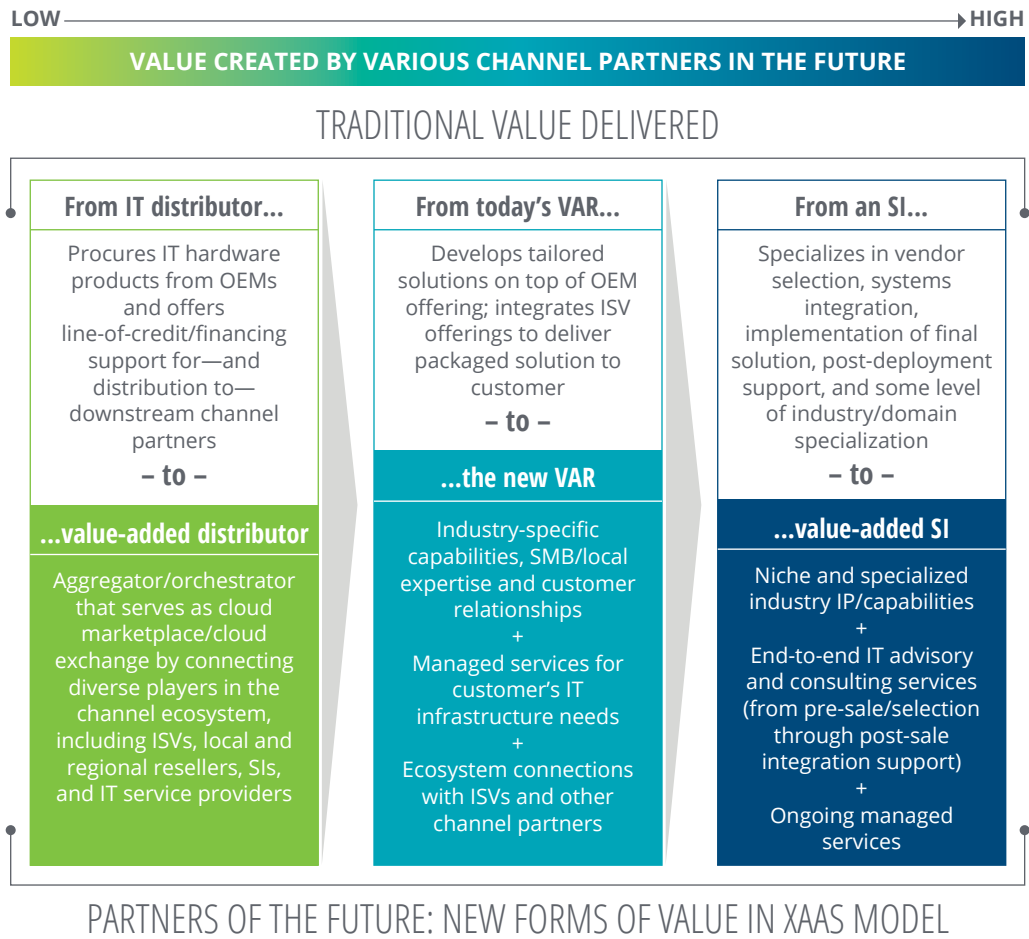
Many early-mover channel partners are already taking action (see figure 1):

- Some traditional systems integrators (SIs) are developing industry-specific solutions and capabilities, while expanding their IT advisory and integration support throughout the customer journey.
- A small percentage of value-added resellers (VARs) are offering similar capabilities while providing SMB or local expertise by partnering with other channel players, such as independent software vendors (ISVs).
- Select large global distributors are operating as channel orchestrators or aggregators that connect ISVs with other channel players to meet specialized customer needs.

But many—perhaps most—indirect channel players are finding it challenging to transform their operating models to XaaS.

FIGURE 1

Changing face of value delivered by channel partners



Source: Deloitte analysis.

Changing expectations, new challenges

IN THE NEW as-a-service world, many traditional roles played by channel partners are losing relevance. Tech OEMs now expect their partners to add value by focusing on helping enterprise customers achieve business outcomes by delivering highly tailored solutions and by engaging in end-to-end IT management, from vendor selection through post-deployment. Channel partners should transform their business models along specific dimensions that include customer and industry expertise, deeper knowledge of OEM solutions, dealing with new competitors, bolstering employee skills, and addressing the financial impact of transformation.

Simply put, in an XaaS business model, indirect channels should move up the value chain (see figure 2). They can accomplish this by:

- Keeping pace with external marketplace changes to meet the evolving IT needs of enterprise customers
- Engaging more deeply with line-of-business (LoB) executives by developing a better understanding of LoBs' strategic priorities
- Using enhanced industry and regional expertise to adapt to a system that compensates partners based on how customers derive value from various technology solutions

By transforming their business approach in this way, channel partners can achieve notable bottom-line benefits. Our analysis of select indirect channel partners' financial data suggests that as-a-service

transformation could boost EBIT margins by 300 to 600 basis points over a three-year period.

In an XaaS business model, indirect channels should move up the value chain.

While XaaS offers compelling benefits for channel partners, it can present several serious challenges:

- The importance of developing a **customer-centric mindset**, moving from a transactional to a relationship-based approach
- The imperative to address the emergence of **LoB executives as key IT influencers and buyers**
- Threats from **new kinds of competitors**, including hyperspecialized ISVs, cloud-native start-ups, and accounting/legal/compliance firms offering niche technology solutions
- The need to acquire **talent and expertise** to develop customized capabilities and solutions
- **Potential negative near-term financial implications** of moving to a XaaS business model, such as increased difficulty in making business investments

Tech OEMs have a critical role to play in helping their channel partners surmount these obstacles. Fortunately, there are several examples of tech OEMs that are already doing this.

FIGURE 2

How XaaS is changing the role of channel partners

What is changing?

CURRENT	FUTURE
What channel partners sell	
<p>ROLE: Primarily resell OEM hardware and software, along with services</p> <p>EXAMPLE: Resell network routers and switches, along with systems integration, implementation, and ongoing maintenance and support services</p> <p>VALUE: Rapid deployment and fixed, cost-based pricing</p>	<p>ROLE: Deliver integrated IT portfolios, including custom software solutions built on top of OEM's offerings</p> <p>EXAMPLE: Delivering integrated network solutions that address network monitoring, security, conferencing, and workforce mobility</p> <p>VALUE: Meeting evolving IT needs of enterprise customers by keeping pace with external marketplace changes</p>
Who channel partners sell to	
<p>ROLE: Selling to a corporate IT executive</p> <p>EXAMPLE: Selling data center server systems to the head of IT or CTO</p> <p>VALUE: Being able to deliver best-of-breed solutions to enterprise</p>	<p>ROLE: Engage deeper with LoB executives to better understand their strategic priorities</p> <p>EXAMPLE: Customized solution to a marketing organization, enabling the CMO to track performance of all marketing campaigns on real-time basis</p> <p>VALUE: Managed solution, customizable to a business unit and delivered on a flexible budget</p>
How channel partners sell	
<p>ROLE: Primarily one-time payment from OEM, in line with traditional sales structure and compensation</p> <p>EXAMPLE: One-time payment based on perpetual license price for big data storage systems sold to customer</p> <p>VALUE: Closing the deal and adding to OEM's top-line sales, executed per pre-allocated cost/budget</p>	<p>ROLE: Leverage technology solutions to generate business value and unlock new use cases for customers</p> <p>EXAMPLE: Payment linked with value that an integrated big data storage and analytics solution generates for retail customers, based on its unique business need across all outlets in a specific region</p> <p>VALUE: Demonstrating deeper understanding of customer's business issues, showcasing industry proficiency or regional insight</p>

Source: Deloitte analysis.

How technology OEMs can help develop their XaaS partners of the future

IN THIS SECTION, we'll look at real-world examples of how some technology OEMs are taking the lead in helping their channel partners address the specific challenges identified above; figure 3 offers a summary.

Challenge: Develop a customer-centric mindset, moving from transactional to relationship-based interactions

Because the world of XaaS places a premium on fully understanding enterprise customers' business issues and desired outcomes, channel partners should establish dedicated teams focused on

FIGURE 3

How tech OEMs can help their partners transform

Partners' XaaS challenges	How tech OEMs can help
Develop a customer-centric mindset; move from transactional to relationship-based interactions	Engage channel partners throughout a customer's IT buying and implementation journey; find talent and expertise; emphasize data and analytics competencies
Address increased role of LoB executives in making technology buying decisions	Promote value of focusing on achieving business outcomes for LoB executives
Tackle new competitive threats driven by changing market dynamics	Expand channel's opportunity by broadening portfolio of services; prioritize specific geographic and customer market segments to determine targeted go-to-market approach
Acquire specialized talent and expertise to develop custom solutions	Design targeted programs; create a common platform or framework
Manage short-term financial impacts, including increased difficulty in making investments for business growth	Enable channel partners to transform in a phased manner; develop new pricing and billing capabilities

Source: Deloitte analysis.

customer success. However, building such an organization can strain the financial resources of many midsize and smaller channel players.

Technology OEMs can help.

For starters, OEMs should embed their channel partners throughout customers' IT journeys to help build sustainable relationships. In addition, to offer highly customized services that businesses demand, OEMs should assist channel partners with attaining expertise in emerging areas such as artificial intelligence and the Internet of Things. This effort should include targeted training and development programs.

And finally, OEMs should responsibly share customer data so that their partners can become more informed about those customers' technology-usage behaviors. This can enable partners to plan and conduct more effective customer interactions.⁴ When it comes to analyzing customer data, OEMs typically have three options: jointly develop a data analytics platform with partners, help fund a platform that partners develop themselves, or assist partners in finding their own data analytics talent.

Real-world solutions: Connectivity Solutions, one of Cisco Systems Inc's Asia-Pacific channel partners, has changed its approach to make "business outcomes" an integral part of all discussions with customers. The company sees customer success—not just sales or business volume—as a critical performance metric.

Hewlett Packard Enterprise Company (HPE) recently introduced the Channel to Edge Institute to help its partners effectively recommend, sell, implement, and manage the company's Intelligent Edge solutions.⁵ The program provides training based on specific business use cases and offers research initiatives that drive commercialization of

“We impressed upon our channel partners the need to build solutions with Cisco and our large ecosystem of solution providers to address our customer needs effectively.”

— *Kartika Prihadi, managing director, Cisco APJC*

intelligent edge technologies. Through the program, HPE facilitates joint go-to-market programs with its channel and ecosystem partners.

In the area of customer data analytics, channel partner Insight Enterprises Inc. (Insight) teamed with a large tech OEM to solve several business challenges for an Australia-based mining company.⁶ After studying specific issues faced by the company, Insight designed a data science platform, then implemented an edge computing and advanced analytics solution by incorporating AI capabilities. The solution helped the mining company optimize its production rates, enable early detection of issues at its mining sites, and reduce unplanned outages at its core processing facilities.

Challenge: Address the increased role of LoB executives in making technology buying decisions

With LoB executives increasingly making IT buying decisions in the as-a-service world, tech OEMs and their channel partners should be able to prove the business value of their solutions. However, many channel partners are accustomed to dealing only with IT departments; engaging with LoB executives often requires a nuanced understanding of the business's needs.

“A key expectation from us was to align our services with the business outcomes of our customers, raising the difficulty bar for us,” explains Atul

CISCO HELPS PARTNERS ALIGN XaaS SOLUTIONS WITH CUSTOMER NEEDS

When leaders at Cisco sensed a shift in business demand toward XaaS-based IT solutions, the network technology provider responded by transitioning its portfolio of hardware products to a flexible consumption-based model. However, this move alone was not enough to address the market transition: The majority of Cisco's sales were generated via its channel partners, many of which weren't equipped for such changes.

Cisco began identifying ways it could enable its partners to sell recurring revenue-based IT solutions. For starters, the company identified and worked with select channels to help them develop the required capabilities, such as building their own IP and enhancing the breadth of customer service-delivery capabilities. The goal was to enable channels to focus on strengthening targeted customer relationships rather than large-scale, transactional deals.

The company helped its partners create integrated solutions encompassing infrastructure hardware, software, and services. "We impressed upon our channel partners the need to build solutions with Cisco and our large ecosystem of solution providers to address our customer needs effectively," explains Cisco APJC managing director, Kartika Prihadi.

Further, Cisco educated its channels on the new role sales executives should play, as well as emphasizing the need to incentivize them differently. It encouraged its channel partners to create their own IP, provide efficient professional/consulting services to end customers to support the sales cycle, and engage with customers in a more digital manner.

Having implemented the indirect channel transformation plan, Cisco is convinced that its channel partners are well-positioned to increase their EBITDA margin by 600 to 800 basis points over the next two to three years. These efforts can enable it to create partners of the future that can deliver integrated solutions and value-added services to customers.

Bansal, cofounder and managing director of Cisco channel partner Velocis. The company made business-outcome alignment its top priority.

OEMs should consider launching initiatives that provide pathways for channel partners to self-assess and build their LoB-specific solution capabilities.

Real-world solution: To support its objective of becoming a major player in IoT technology, Hitachi Vantara (Hitachi) significantly upgraded its partner program—and the partner base itself.⁷ The company worked to identify partners that could drive value, not just margins.

To help meet its goal, Hitachi developed the Stairway to Value, a framework designed to show the incremental value delivered at each stage of

Hitachi's business model.⁸ The framework has four competencies: storing and protecting data; enriching the data by applying metadata and context, including legal compliance frameworks; activating the data to drive business value; and monetizing data through effective decisions aided by visualization and automation. These four "stairs" lead to the successful monetization of IoT investments.

The initial goal of the program was to get partners beyond the first step, with a focus on elevating the customer experience. According to Hitachi, as of September 2018, about 30 percent of its partners had achieved the Stairway to Value's first three competencies.

The program also emphasizes the importance of collaboration to success, with multiple partners

and vendors all contributing part of the solution. In the hypercompetitive world of XaaS and IoT, this sort of collaboration is critical to delivering highly customized LoB solutions in a timely manner.

Challenge: Tackle new competitive threats driven by changing market dynamics

Demand for XaaS solutions is fueling channel partners' competitive concerns about threats, not only from other channel players but from the tech OEMs themselves.

Tech OEMs can help lessen their channel partners' competitive anxiety by expanding the breadth of solutions that their channel partners can take to market. OEMs can also identify specific geographic regions and customer segments for which they require a more focused channel partner approach.

Real-world solutions: The recently expanded Dell Technologies (Dell) Partner Program now enables partners to cross-sell and procure products and solutions across Dell's complete portfolio, including its storage and next-generation cloud solutions.⁹ Through the Dell Technologies Cloud, partners can now act as trusted advisers for a more integrated and simplified customer offer. In addition, using the Dell Technologies Unified Workspace, partners with services delivery competency can co-deliver complementary onsite services.

In terms of creating regional opportunities for partners, CA Technologies engaged a local value-added distributor to more effectively target midmarket customers in India and other parts of South Asia.¹⁰

Challenge: Acquire specialized talent and expertise to develop custom solutions

As tech OEMs redesign their own XaaS solutions, it's vital that they create targeted programs to help their channel partners gradually embrace the XaaS business model. This begins with enabling partners to develop their own proprietary IP, supported by standardized tools and training.

OEMs can take the first step by offering a common application development platform upon which their channel partners can further develop industry-specific solutions. This could involve having the partner build an additional application service layer on top of the OEM's platform to address, for example, a retail customer's unique business demands or workloads.

As tech OEMs redesign their own XaaS solutions, it's vital that they create targeted programs to help their channel partners gradually embrace the XaaS business model.

Real-world solutions: Through its AppExchange enterprise cloud marketplace, customer relationship management (CRM) provider Salesforce.com Inc. offers an industry solution framework called Lightning Bolt that hundreds of its partners use to build custom vertical applications.¹¹

Similarly, HPE introduced the "Pro" series program to help its channel partners develop their teams, transform customer experiences, and drive mutual business growth.¹² Through the program, HPE offers standardized tools, training, resources,

and support mechanisms—in essence, the same learning and collaboration opportunities that HPE employees enjoy. The HPE Sales Pro Community also offers a highly interactive collaboration space for HPE and channel partner sales teams, industry-recognized certificates and digital badges, and continuous, role-based learning paths.

Challenge: Manage short-term financial impacts, including increased difficulty in investing for business growth

To minimize potential negative short-term financial impacts, OEMs and their channel partners should consider taking a phased approach to XaaS transformation. They can adopt a “bimodal” strategy by continuing to grow their business while simultaneously investing in the business of tomorrow.

To develop new capabilities, OEMs should help channel partners determine where in the value chain they want to build new XaaS services:

- Presale: consulting, design, referral
- During the subscription process: custom software, implementation, integration
- Post subscription/sale: ongoing solution management and monitoring support, exception handling, scale and expansion support

As business models shift from products to services, OEMs are increasingly determining the optimum balance between recurring and one-time sales.¹³ This shift in revenue mix will adversely affect short-term cash flows for some channel partners.

Further, this transformation can introduce revenue-recognition challenges.

To address these issues, technology OEMs should help channel partners develop new capabilities around pricing, billing, consumption-based metering, and other related financial processes and systems. OEMs should anticipate how their channels should deal with the resulting financial and tax-related implications, including the way they recognize revenue. In addition, OEMs’ continued commitment to support channel partners’ sales and marketing programs (for example, via market development funds) can help create some financial cushioning for channel partners as they adapt to XaaS.

Real-world solution: Hitachi’s previously-mentioned Stairway to Value framework provides a prime example of how tech OEMs and channel partners can manage the impact of XaaS transformation (see “Challenge: Address the increased role of LoB executives in making technology buying decisions” earlier in this section).

Most partners adopted two of Hitachi’s “stairs,” with nearly one-third of them reaching the third level, but some partners had trouble adapting and left the program. Hitachi accommodated the departures either by retaining those partners on a transactional basis (for one-time/annual deals), or as part of Hitachi’s regional distribution model. Less-engaged partners were moved to pure distribution status.¹⁴

Besides making provisions for financial incentives and rebates, Trend Micro Inc. in India has created market development funds for working with select channel partners.¹⁵

Identifying your partners of the future: Next steps

FOR C-LEVEL EXECUTIVES and senior leaders championing channel and alliance programs at tech OEMs, now is the time to start building your strategic *partners of the future* ecosystem.

Consider beginning by assessing your channel mix and portfolio, and then determine which channel partners are currently adopting an ecosystem approach for delivering customer solutions. Align with partners that emphasize specialization versus generalized offerings. And seek alliances with partners that have strong client bases in specific markets (SMB/regional/local) and relationships with the customers that matter to you most.

Some key strategic questions to consider as you evaluate your *partners of the future*:

Shared vision. Do the channel partner's strategic objectives align with those of your company? Does the partner seem fully committed to your corporate vision and desired end state? Do the partner's solution mix, level of customer engagement, and aspirations align with your go-to-market strategy?

Customer focus. Across offerings and customer segments, where does the channel partner possess expertise? Does the partner direct its sales force to drive thoughtful conversations with customers, emphasizing business value over simply closing the sale?

Differentiation. How differentiated are the channel partner's XaaS value proposition and competitive advantage? Does the partner show an inclination to become a value-added "specialist" (for example, vertical)?

Capability assessment. Which capabilities does the channel partner need to bolster as it shifts to a XaaS model? Can the partner close those capability gaps in the near term? Is the partner proactively taking steps to build those capabilities?

Metrics and outcomes. Does the channel partner have relevant KPIs and metrics anchored on end-customer experiences and customer success? Which decision systems and processes has the channel partner identified to measure its overall channel transformation effort?

Once you've identified your partners of the future, you can take a channel-segmentation approach to determine your level of investment in each one (see figure 4). Investment in building that future ecosystem will likely be higher during initial years as you transform your existing channel partners. To help ensure success, consider using a programmatic approach for managing your channel transformation efforts, with both clear short-term goals (for example, six- and 12-month milestones) and long-term objectives.

FIGURE 4

Channel-segmentation approach for investing in XaaS channel partners

Level of channel partner investment	Partners of the future			Channel partners unable to adapt to your XaaS vision and strategy
	Large channel partners with multicountry presence, strong customer base	Midsize channel partners with strong capabilities and ability to move up XaaS value chain	Smaller channel partners with niche capabilities and/or strong customer relationships	
Engage in joint go-to-market efforts and strategy development for select markets and customer segments	●			
Coinvest and/or support establishing “customer success” practice and related efforts	●	●		
Communicate value of focusing on customer outcomes and end goals of IT buyers (LoB executives)	●	●		
Set up a dedicated team to work with partners to develop new, value-added capabilities (e.g., finding new talent, building data analytics capabilities)	●	●	●	
Make introductions to complementary channel partners in the OEM’s ecosystem	●	●	●	
Offer online training and certifications, general tools, and APIs for integration		●	●	●
Minimize support and move to reseller- or distributor-only status				●

Source: Deloitte analysis.

Conclusion

TECH OEMS SHOULD invest the time required to make their channel partners an integral part of the XaaS transformation journey. This includes providing a clear XaaS transformation vision to partners, as well as articulating the potential long-term benefits. At the same time, channel partners should work closely with OEMs to implement changes, learn and adapt, and build

their own ecosystem to serve end customers more effectively.

This is a two-way street, where tech OEMs and their channel partners jointly work to create a value-based ecosystem, helping lead to greater joint relevance now and in the future.

Endnotes

1. In Deloitte's 2018 flexible consumption models study, 27 percent of respondents indicated that innovation capabilities (e.g., AI-as-a-service, IoT-as-a-service) will be critical in the next one to two years. For more information, see: Gillian Crossan et al., *Accelerating agility with everything-as-a-service*, Deloitte Insights, September 17, 2018.
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The Deloitte Center for Technology, Media & Telecommunications

Jeff Loucks

Executive director | Deloitte Center for Technology, Media & Telecommunications | Deloitte Services LP
+1 614 477 0407 | jloucks@deloitte.com

Jeff Loucks is the executive director of Deloitte's Center for Technology, Media & Telecommunications. An award-winning thought leader in digital business model transformation, Loucks is especially interested in the strategies organizations use to adapt to accelerating change.

About the authors

Kamesh Mullapudi | kmullapudi@deloitte.com

Kamesh Mullapudi is a leader in Deloitte Consulting LLP's Technology, Media & Telecommunications industry and Monitor Deloitte Strategy practice. He helps clients achieve revenue growth and transformation through innovative business and operating models. He leads Deloitte Consulting LLP's Strategy and Analytics, and M&A and Restructuring services teams based in India, and advises clients globally. He is based in Hyderabad. Connect with him on LinkedIn at www.linkedin.com/in/kamesh-mullapudi-a18215/.

Gopal Srinivasan | gopsrinivasan@deloitte.com

Gopal Srinivasan is a principal and leader in Deloitte Consulting LLP's Technology, Media & Telecommunications industry and Monitor Deloitte Strategy practice. He focuses on corporate strategy, growth, product innovation, go-to-market, and new business models in the high-tech sector, helping clients play to win in the era of digital business models and technologies such as cloud, XaaS, artificial intelligence, and the Internet of Things. He is based in San Francisco. Connect with him on LinkedIn at www.linkedin.com/in/gopalsrinivasan/.

Karthik Ramachandran | karramachandran@deloitte.com

Karthik Ramachandran is a senior research manager with Deloitte's Center for Technology, Media & Telecommunications. He has more than 14 years of experience in performing industry deep-dive analysis, strategic business research, and financial benchmarking. Through his research work, Ramachandran provides pragmatic solutions to help high-tech and telecom companies identify and address long-term issues and growth opportunities. He is based in Hyderabad. Connect with him on LinkedIn at www.linkedin.com/in/karthik-ramachandran-03447b6/.

Manmeet Singh Bawa | msbawa@deloitte.com

Manmeet Singh Bawa is a manager in Deloitte Consulting LLP's Monitor Deloitte Strategy practice. With nearly a decade of consulting experience, he specializes in helping C-suite and business-unit leaders across industries and sectors successfully navigate key strategic issues around growth strategy, portfolio strategy, business model innovation, and go-to-market. He is based in New York. Connect with him on LinkedIn at www.linkedin.com/in/manmeetbawa/.

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