Time To Deliver

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There's a rush of activity in and around the office of Girish Krishnamurthy, the MD and CEO of Kaseya India. It's the month of March, and like in any other business there's number pressure on the Kaseya team.

But Krishnamurthy is busy planning ahead. He is trying to finalize a deal with a drama troupe in Chennai which will, over the next few months, present a skit at customer-facing events organized by Kaseya's partners to convey how automated managed services (AMS) will help customers make the best of their IT infrastructure. The man is frequently interrupted by different members of his team to remind him about a number of pending items on his agenda—the targets in March, the visit of a prominent Delhi-based channel partner, an appointment with the CTO of a telco giant,

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and price clearances for some volume deals.

Amid all these activities Krishnamurthy is also multi-tasking on a presentation for his internal team on the future of AMS, and the strategies they need to adopt to ensure that the momentum is maintained. “We have just about seen the tip of the iceberg,” he says. “The potential that lies untapped is huge. Customers who have seen the advantages of AMS and Smart SLA are asking for more. They require more intelligent and more proactive services that are based on historical data and that would aid faster decision-making.”

Kaseya is closing a 12-month period where its strategies have changed many times. During this period it has completely altered its pricing model, inked deals with around 50 partners, taking its total MSP (managed services providers) to 93 across the country, and helped TCS to roll out its ambitious iON program—an end-to-end IT-as-a-Service (IaaS) offering targeted at SMBs.

The AMS vendor managed to sell close to 5,50,000 licenses during 2010, and is expected to add another 2,50,000 licenses in the first quarter of 2011. Krishnamurthy estimates that the licenses sold should have created a services market for the partners worth around Rs 66 crore, with margins of anything upward of 30 percent.

He has bigger plans for the rest of 2011: he intends to sell 1.5 million licenses during the year. He estimates that this would create for the partner network a market for services in excess of Rs 200 crore.

There are partners who are excited by this opportunity. Take for example Mumbai-based Orient Technologies. Orient has set up a 700 sq ft 10-seater NOC which is presently working in multiple shifts and managing around 5,000 end points. “We are confident of the number reaching 10,000 by April this year, and anything between 20,000 and 30,000 end points by [the end of] 2011,” says Ujjwal Mhatre, Director, Orient.

Adds Nanda Kumar, Vice President, Sales, Kaseya, “It’s difficult for us to estimate the exact partner investments in NOCs or in the RIMs business. But it’s safe to say that most partners have built a business model where their overall margins are in excess of 30

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EDITOR'S BLOG

Learnings from 2010

The year 2010 witnessed major shifts in the IT landscape, driven by considerable changes in customer behavior and new concepts such as cloud computing and unified computing taking center-stage

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percent."

Moving spirit

If there's one executive who has captured the attention of the top honchos of mid-market enterprise channels over the past two years it has to be Girish Krishnamurthy.

He was literally a non-entity for Indian IT channels till three years back. No one knew him, and he knew very few in the channels in the country. This despite a career spanning multiple continents, consulting with KPMG, and then heading the business of enterprise CRM vendor Talisma.

His rise has been mercurial. From being the top executive of a software vendor trying to capture market and mind share in India in 2008, Krishnamurthy is now regarded as the catalyst who helped several partners to transform their business by 2011.

"If you see it purely from the technology point of view, what Kaseya has brought in is nothing new," notes KV Jagannath, MD, Choice Solutions. "It has existed before with other vendors such as IBM with Tivoli or HP with OpenView. However, unlike with these vendors, who have been largely focused on the enterprise market, with Kaseya an SMB customer can be serviced by a partner. This is true partner enablement, and the effort which the Kaseya team has put in is remarkable."

Adds Ganesh Mahabala, Senior Vice President of Bengaluru-based Value Point Systems, "Krishnamurthy has been instrumental in at least seeding the thought of becoming a service provider (SP) in the minds of many channel partners. It does not matter how many of them actually become successful in the business; I am seeing a number of peers going beyond box-selling and entering the world of services, and Kaseya is laying out a platform with the lowest entry-level costs."

Yet the ride so far has been anything but smooth for Kaseya and Krishnamurthy, and the vendor's progress has been riddled by many mistakes. Indeed, Krishnamurthy is the first person to admit that he has made mistakes. "There have been more misses than hits. In fact, I would put our success ratio at just

about 20 percent of what we had planned to achieve. But that's not going to stop us from dreaming and trying."

In the beginning

Kaseya India set up its sales operations in early 2008. "In the early days we followed the same model as an IBM or a CA, and chased the enterprise IT infrastructure management space. But no one was willing to listen to us. We spoke with large national systems integrators (SIs), and again there were few buying into us," recalls Krishnamurthy.

He realized that the top-down approach was not working, and that what Kaseya really required was a bottom-up approach. "We knew that there were a few thousand partners in the country who sold and supported computers. They addressed customers ranging from home users to big public sector organizations. We wanted to come up with an offering that would change their business."

The pricing model was therefore changed. While globally Kaseya sells perpetual licenses for a one-time fee, in India, where they were already being sold at discounted rates, a new pricing model was evolved that would further amortize the licensing costs over a period of 3 to 5 years. Things then started looking attractive because the new costs amounted to as low as Rs 20 per end point per month for servicing.

Another major learning was that the Indian market is different from Western markets. Notes Krishnamurthy: "The cost of an IT technician in India is far lower, between Rs 8,000 and Rs 20,000, hence the traditional licensing model was not going to work in India. This forced us to think beyond product sales, and to build a platform-based approach."

Also, in the latter part of 2008, Kaseya changed its original plan and started to target mid-market SIs and solutions providers. "The new plan looked great on paper," says Krishnamurthy. "I was sure that everyone would buy into it and that we would start making millions. We rolled out an aggressive marketing program to go after these partners."

Over the next few months Kaseya conducted 11 events, connected with 450 channel partners across major cities, and tried its best to sell licenses. The result? Only one partner signed up. "While everyone at the events showed enthusiasm, we had just one conversion. Biren Selarka of Acma Computers was the first to see the value, and actually set up an NOC. He became our poster boy for the next year," Krishnamurthy recalls.

Despite this extremely poor conversion rate, and the lack of conviction among the mid-market reseller and SI community, Krishnamurthy says he never lost hope. "We knew the partner community was genuinely interested. We identified around 125 top mid-market SPs and went after them, not missing a single opportunity to make our presence felt on any platform targeted at them."

According to Krishnamurthy, the turning point was an event Kaseya organized for around 25 partners in Sri Lanka. "We flew in the partners along with their families and organized a workshop. We didn't discuss our product line; we merely explained the potential that the platform offered. We pointed out that over the next five years there was a potential of $28 billion of MSP business that could be outsourced to India, and that the existing channel partners had an equal chance to grab this opportunity even if they had to compete with an Infy or TCS." Soon, partners such as Choice Solutions in Hyderabad and Frontier Solutions of Bengaluru started investing in the platform.

In May 2009 Kaseya decided to brand its offering as 'Automated Managed Services,' and announced the AMS platform. "But it was more than a branding exercise," Krishnamurthy insists. "We felt that partners needed a better story to take to their customers. Since the economics of the break-and-fix model was threatened by the spiraling costs of manpower and travel, it became easier for us to sell."

Thus started a signing spree, and by July 2010 the vendor had signed on around 93 of the top 125 SIs in the country. In between, Kaseya launched Smart SLA, which is a service on top of the Kaseya platform, and helps partners to use a rule-based expert system to design and deliver SLAs across a number of domains. "The idea was to move up the value chain and offer services which would add real value for the customer and provide proactive and pre-emptive services," explains Krishnamurthy.

Plenty of critics

Yet for every admirer of the software vendor there's a detractor. Over the past few months Krishnamurthy has been described as a flawed dream-merchant, someone who has promised a lot but delivered little.

A classic case of disenchantment was Kaseya's Operation 1111. The objective was to usher in the first day of the first month of 2011 with 1,111 organizations adopting the AMS platform. While the company's partner network did actually sign up 1,080 customers, the services revenue target of $50 million and end-point target of 5,00,000 were not met. "It's true that we set a very high target in terms of end points. We believed we could sign up customers who on the average would sign up with 500 end points, but our final average was only about 186. We missed out on those numbers," admits Krishnamurthy. Still, he says that over 2,050 pilots were implemented, and that nearly 600 of those who have not yet signed up are likely to come on board.

Then there's the change in the pricing model, which upset some of Kaseya's early adopters who had signed for volume pricing on perpetual licenses. "But we have resolved the issue with these partners by providing them lifetime perpetual licenses for the amounts they have paid so far, and moving them to the subscription model," informs Krishnamurthy. "Going forward, the new pricing model will be the preferred way."

There's another issue. A number of partners feel they have lost out in the race as the attention has completely moved to larger partners. Complains Rajeev Mehta, the MD of Zest Systems, Delhi, "I am not at all happy with the way Kaseya has handled the sales effort. We have invested and had a promising start. But then they seemed to have changed strategies, and we are very disappointed."

Krishnamurthy defends his position. "In December we took a call to work closely with a set of 25 partners at a time because with a larger set of partners our attention was getting divided and there was a lack of focus. This list will be dynamic, and will change from month to month, and we will sign on more partners in future."

Some of the partners also feel that they are not able to build a differentiated service model because most of the mid-market resellers with an interest in the platform have moved to Kaseya. To this grouse Krishnamurthy replies, “We are a support system to the partner, a platform to build a service delivery engine. The most important cog in the wheel is the customer, and how well the partner understands the customer. A partner will be easily able to build a differentiated approach if he understands the customer because no two customers are the same, and every customer poses individual challenges. What we have seen among partners who have been really successful is that they understand what each customer wants, what the customer pain-points are, and hence they are able to provide a differentiated solution.”

Others feel that Kaseya needs to do more to make end users aware. “While I am very happy with Kaseya, they need to make AMS and the Kaseya brand more popular among end users so that we see pull for the brand and services surrounding it,” says Selarka, Acma’s CEO.

Counting numbers

During Q12011 Kaseya launched an aggressive marketing program along with select partners, depending on the commitment or target set. For example, for a partner targeting the signing of 50,000 (and above) end points by September 30, 2011, Kaseya would manage a marketing budget of Rs 30 lakh where the vendor contribution would be around Rs 19 lakh with the rest managed by the partner. The marketing would include events, microsites, EDM campaigns, and print and Web advertisements. For every large partner who is working on a committed target in excess of 10,000 end points, a dedicated manager helps the partner team in all aspects of the business. There are also numerous training packages thrown in to help partners to upgrade their skill sets.

“Over the past three years we have invested over $6 million in our operations, and a very high percent of that has been spent in educating the market. This is the year of consolidation for us, and we are expecting a bumper year,” says Krishnamurthy.

According to Nanda Kumar, the number of end points clocked averages between 5,000 and 15,000 every week. “We expect the numbers to scale up as more pilot programs are being launched."

Krishnamurthy says that the thrust this year is to ensure that everyone in the ecosystem is profitable. "We are not actively looking to sign more partners. Rather, we want to ensure that our existing partners are profitable."

The focus will also be on offering more features on the platform and making these available at an extra cost in the subscription offer. "According to our studies, when a partner bills Rs 100 for a service, he is sharing between Rs 15 and 25 with us for the AMS platform license fee; the rest are margins to support the customer," Krishnamurthy informs. "As partners scale up and offer more value-added services, our share of the earnings goes down and the partner makes more money."

While there are rumors about Kaseya being acquired, Krishnamurthy says that plans for the liquidation of stake have been put off for at least another 18 months. "I am not denying that there were offers in the past. We are growing very quickly in several markets, especially in Europe and Latin America, and the potential is huge, hence partners must not worry about us being acquired."

He says that in the next 12 months the company's focus will be to acquire customers from the BFSI, ITeS and education segments. "We are already in touch with the top 25-50 customers in these segments, and partners have been identified."

Kaseya has also formed a team for setting up AMS forums for verticals such as BFSI and ITeS. Krishnamurthy expects the BFSI segment to account for some of the larger deals during the next two quarters.

A lot of his focus has been on building collaterals and guides for partners to implement the AMS business. An example is the Kaseya Blue Book, a ready reckoner for any partner who wants to venture into the world of AMS. In addition, the Kaseya team has created a communication set which includes covering letters for proposals as well as templates for different market segments. The company is also working on weekly targets. These targets are not about the number of licenses sold to channels but about partners signing-up end points with customers.

An estimated three million end points have been added over the last year in the enterprise and SMB market, and the potential is huge. There are also considerable opportunities in the home market. “To deliver the support the home user needs, we will align with telcos, with delivery done through a cluster of Kaseya partners,” informs Krishnamurthy. “But this will take time.”

The biggest change which Krishnamurthy is seeing is within Kaseya itself. “We today account for around 8-10 percent of Kaseya’s global business. This month we have a number of teams from across APAC coming over to India to understand our business model and go-to-market strategy. I see other Kaseya teams following our model soon.”

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