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Business Value Highlights

4,969%
three-year ROI

49%
higher revenue for software products certified by Red Hat

5.4%
higher overall revenue

19%
improvement in win rate

5%
more efficient customer support teams

17%
faster to market for new services and applications

Build Partners Improve Business Results Through Red Hat Certification of Their Software

EXECUTIVE SUMMARY

Software has become a ubiquitous feature of the IT landscape, driven by widespread adoption of cloud and hybrid computing, innovative technologies such as containers, and services that include artificial intelligence (AI). Software development has also become a key activity and differentiator for many businesses via faster and more agile software development tools and CI/CD and DevOps models. These businesses include partners of vendors such as Red Hat, which categorizes them as build partners.

However, the development, sale, and support of software are still costly endeavors, whether it's on premises, in the cloud, or both. For this reason, software investments made by build partners should have a clear path to returns based on the value proposition of a chosen platform vendor. Many leading platform vendors verify build partner software and provide formalized programs that outline the technical and business benefits on offer.

This IDC Business Value White Paper provides a perspective on the tangible value to build partners of the Red Hat Partner Connect software certification program and process for the RHEL and OpenShift platforms. This Business Value review includes analysis of the benefits and costs associated with obtaining Red Hat software certification for build partner applications/solutions. The findings are based on interviews with Red Hat build partners conducted to obtain real-world data and perspectives.

IDC's research confirms the strong value proposition of achieving and maintaining Red Hat certification for build partner products. Interviewed build partners reported both significantly higher revenue by meeting customer demand for certification and accessing new customers through their partnerships with Red Hat and gaining operational efficiencies related to software development and support. For study participants, achieving and maintaining Red Hat

certification generate benefits that IDC quantifies as worth over 50 times the investment costs over three years by:

- **Winning the business of new customers** that either require Red Hat software certification or prefer certification for reasons of performance, trust, and flexibility
- **Demonstrating technology leadership to customers** through Red Hat software certification related to innovative technologies such as containers and OpenShift Kubernetes
- **Leveraging Red Hat marketing support and activities**, including events, the Red Hat ecosystem catalog and Red Hat Marketplace, OpenShift OperatorHub, and joint marketing activities, to better reach and sell to existing and potential new customers
- **Achieving efficiencies in developing and supporting software** through use of best practices, application of certification-related learnings, and higher-quality software releases

SITUATION OVERVIEW

Software has become a ubiquitous feature of the IT landscape, driven by widespread adoption of microservices, cloud, and hybrid computing for delivering on the digital transformation journey. Innovative technologies such as containers and Kubernetes, along with growing services that include AI, are helping foster this trend.

Software development has also become a key activity and differentiator for many build partners via faster and more agile software development models that embrace CI/CD and DevOps. Meeting the immediate and quickly changing IT and business needs of end customers has never been more accessible for build partners.

However, the development, sale, and support of software are still costly endeavors, whether it's on premises, in the cloud, or both. For this reason, it's important for build partners to maximize the value of their vendor relationships and to pick the technologies and platforms that help create the greatest opportunity and profit.

While growth in software has opened market opportunities for build partners, it has also created a more competitive environment as more born-in-the-cloud build partners emerge. Under these conditions, it becomes important for build partners to have differentiated offerings that stand out with end customers.

Software investments made by build partners should also have a clear path to returns based on the value proposition of a chosen platform vendor. It's important to review the myriad benefits provided by any one vendor meant to enable the successful market expansion of build partner software.

The value of software certification and its resonance with end customers should be considered an important factor in the vendor–build partner relationship. Key attributes or metrics for partners to consider include increased revenue, competitive differentiation, and end-customer confidence/satisfaction, among others.

RED HAT SOFTWARE CERTIFICATION FOR BUILD PARTNERS

Red Hat software certification is a process by which build partner–developed software and/or solutions are validated for interoperability with Red Hat platforms (i.e., Red Hat Enterprise Linux, OpenShift, and OpenStack). All build partner software/solutions that carry the Red Hat Partner Connect Certified Technology logo are commercially supported by Red Hat and its partners.

Benefits of Red Hat software certification include free Red Hat software for development and demos, training, technical assets, marketing resources, and collaborative customer support. The process for build partners to get their software/solutions certified includes registering at Red Hat Partner Connect and providing a product profile, creating a project, and completing a checklist.

At the end of the process, build partner software/solutions may be published in the Red Hat ecosystem catalog, OpenShift OperatorHub, and/or Red Hat Marketplace. Red Hat software certifications are available for Red Hat Enterprise Linux, Containers, OpenShift Operators, and OpenStack.

THE BUSINESS VALUE OF RED HAT CERTIFICATION FOR BUILD PARTNER SOFTWARE

Study Demographics

IDC interviewed 12 Red Hat build partners to understand the impact of achieving and maintaining Red Hat certification for their software products. Interviews were in-depth in nature and focused on understanding the effect for them of developing and selling Red Hat–certified software from both a quantitative and a qualitative perspective. Interviewed build partners included leading companies in the database, analytics, and security software segments.

Table 1 provides additional information about interviewed build partners. On average, these build partners had 1,230 employees with total annual revenue of \$437.7 million. They were mostly based in North America, with one interviewed organization headquartered in India. In terms of how they deliver their software and related services, just over one-half of revenue comes from on-premises software (54%), with roughly another one-quarter cloud-delivered (23%) and software-related services (24%).

TABLE 1 Demographics of Interviewed Red Hat Build Partners

	Average	Median
Number of employees	1,294	198
Number of development staff	497	95
Revenue per year	\$444.98 million	\$35.27 million
Countries	United States (11), India	

n=12 Source: IDC, 2020

Decision to Certify Software with Red Hat

Interviewed build partners tied their decisions to achieve and maintain Red Hat software certification for certain products to three primary criteria: confirming their capabilities for innovative technologies, meeting customer demand, and improving access to go-to-market enablement activities. In detail:

- Demonstrating capabilities for innovative technologies:** Interviewed build partners explained that Red Hat software certification confirms their expertise and capabilities in

innovative technologies that drive their software's functionality, including containers and Red Hat OpenShift Kubernetes. One study participant commented: *"Certification for our software is important because we think the technology is foundational for our future activities, which will matter in helping our customers deploy our product on Kubernetes."*

- **Meeting customer demand:** Interviewed build partners unanimously connected their decisions to certify software products to customer expectations and demand. One explained: *"Market adoption of Red Hat OpenShift is one of the more significant reasons we're pursuing certification, and it's being driven both by our current and future customer base ... If our customers want us to certify on OpenShift, then we will support what they want."*
- **Accessing go-to-market enablement:** A number of interviewed build partners referenced increasing access to go-to-market enablement programs with Red Hat through certification. One interviewed company reported: *"Red Hat has become a go-to-market partner for us as well as a technology integration partner ... The most important certifications for us are for containers or Operators because customers know that our products will work in the OpenShift environment."*

Red Hat–Certified Software Environments

Interviewed build partners reported achieving and maintaining certification with Red Hat for critical technologies for important revenue-generating software products. In terms of certifications types, their efforts thus far have focused on attaining Red Hat Container certification and Red Hat OpenShift Operator certification, with all 12 companies reporting having those certifications. In addition, 7 interviewed Red Hat build partners reported having Red Hat Enterprise Linux software certification, with 2 having Red Hat OpenStack certification.

Table 2 provides details about the software that interviewed build partners have certified with Red Hat. On average, they have achieved and are maintaining certification for two software products with significant reach in terms of both sales (\$69.5 million per year on average) and number of developers who actively work on developing and releasing new features for this software (187 developers on average). The revenue attributable to and developer time spent on these software products reflect the centrality of these Red Hat–certified software products to interviewed build partner businesses.

TABLE 2 Interviewed Build Partners' Red Hat–Certified Software Environments

	Average	Median
Number of developers working on certified software	187	28
Revenue per year, Red Hat–certified software products	\$69.53 million	\$11.57 million

n=12 Source: IDC, 2020

Business Enablement Through Red Hat Software Certification

Interviewed build partners described Red Hat software certification as a cornerstone of their ability to sell their software as well as a potential competitive differentiator. They explained that certification not only responds to customer demand but allows them to demonstrate their capabilities with regard to innovative technologies and better leverage their partnerships with Red Hat in support of sales activities. The result for interviewed build partners is significant business enablement through Red Hat certification of their software; they linked significantly higher sales of these software products to Red Hat certification, attributing an average of:

- \$22.88 million in higher revenue per year per interviewed build partner
- \$11.94 million per certified software product in higher revenue per year
- 49% higher revenue for the software products they have certified with Red Hat
- 5.4% higher total revenue for their overall organizations

These results underscore the substantial extent to which interviewed build partners link Red Hat certification to business results (see Table 3 and Figure 1).

TABLE 3 Business Productivity Benefits: Increased Revenue

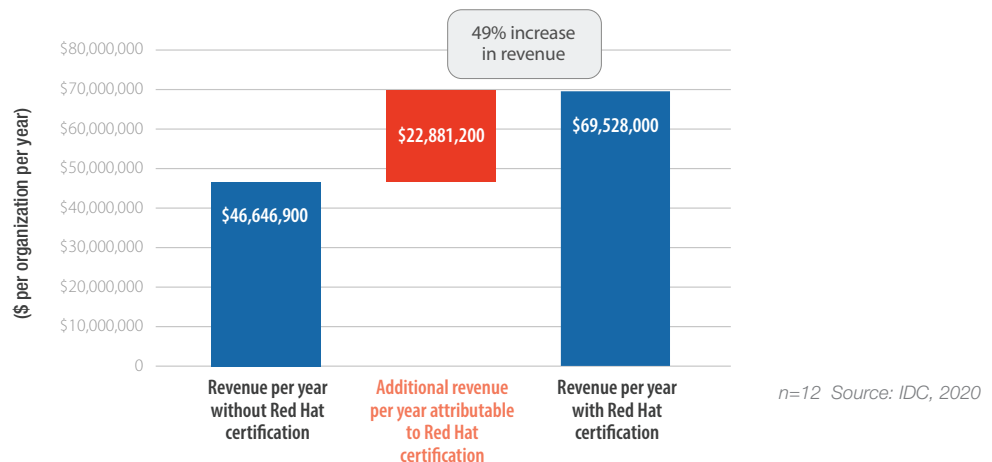
	Per Organization	Per Red Hat–Certified Software Product
Average increase in total revenue (%)	5.4	5.4
Additional revenue per year	\$22.88 million	\$11.94 million
Recognized net revenue per year, IDC model*	\$2.29 million	\$1.19 million

n=12 Source: IDC, 2020

* The IDC model assumes a 10% margin for all additional revenue.

These revenue gains related to having Red Hat–certified software account for an even more significant 49% revenue gain for the specific software products certified.

FIGURE 1 Revenue per Year from Red Hat–Certified Software Products



The sections that follow provide more details about how certification of software delivers these types of results for interviewed build partners.

Business Enablement Through Demonstrating Technological Leadership

Interviewed organizations must build their software on new and innovative technologies and approaches to maximize their value proposition in competitive database, analytics, and security software markets. However, reliance on these technologies, which include containers, Kubernetes, and the OpenShift platform, also brings challenges: in particular, they must demonstrate capabilities and competence to their customers. Their customers understand the potential power of these technologies but also want to ensure that they are buying from a build partner that can ensure strong and consistent experiences with these technologies.

Interviewed build partners discussed how they view the link between their ability to leverage innovative technologies and Red Hat software certification, including synergies between Red Hat's core technological focus and their use of these technologies:

- Competitive differentiation through certification:** *"We see synergistic technology and business models with Red Hat in terms of focusing on enterprise use of open source software ... We are an open source software business that sells enterprise distributions, and the certification of our distribution and software with Red Hat is an important differentiator relative to freely available open source distributions."*

- **Customer demand and linkage between Red Hat products:** *“Having certifications for Red Hat products is basically a requirement for us. Very few corporations are going to do business with us unless we have these certifications. Additionally, if we go into an account to sell OpenShift, and they haven’t moved to OpenShift yet, we can easily transition to asking if they are on RHEL, because we’re certified on RHEL too ... It’s definitely increased our sales because the perceived value to potential customers gives us advantages in competitive situations.”*
- **Increasing synergies with Red Hat in terms of focus on cloud and containers:** *“Over the years, we’ve been working more closely with Red Hat, pursuing various certification and partnership programs that they have. As we get into cloud and containers, there’s more of an overlap.”*
- **Red Hat technology leadership and centrality of certified products to new business:** *“Red Hat is the leader in certain hybrid cloud solutions with OpenShift and automation with Ansible, and we are seeing most of our customers adopt Ansible as well as containers ... I would say our Red Hat partnership influences 10–20% of our new deals, all of that is from certified software.”*

As noted by interviewed build partners, software relying on these innovative technologies is increasingly important to their business prospects. This makes it critical for them to communicate their leadership and capabilities in use of such technologies, including through Red Hat’s software certification program.

Business Enablement Through Meeting Customer Demand

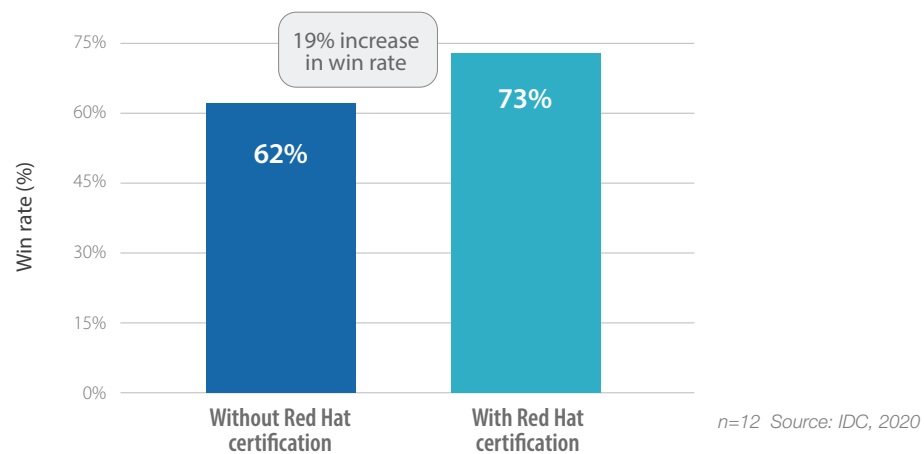
Interviewed build partners closely linked success in selling certain software products and having Red Hat software certification. They explained that certification enables their businesses because many of their customers either explicitly require certification for the software they purchase or strongly prefer to buy certified software. One commented: *“For our customers, certification is more of a requirement than a happiness thing. Customers want to know that you’re testing on the platform that they’re going into production with.”* Another tied customer confidence in its software to certification, which affects its business prospects: *“Our customers won’t use our software unless it’s certified. Certification dramatically increases their confidence of using it ... If we didn’t certify with Red Hat, some opportunities wouldn’t be available to us.”*

Build partners interviewed for this study spoke to why their customers prefer certified software. All of these reasons factor into customers’ greater willingness to purchase their software and ultimately drive increased sales and revenue for their software:

- **Access to trusted Red Hat marketplace:** *“Our customers prefer to pull our software from a known marketplace like Red Hat’s OpenShift OperatorHub because they know they are getting a secure vendor-tested, marketplace-certified product that is ready for their use.”*
- **Greater confidence in quality:** *“Customers prefer our Red Hat–certified software because ... they can adopt our technology and they know it’s going to work, and we have a relationship with Red Hat to make sure that it works.”*

Interviewed build partner perspectives on the importance that their customers attach to Red Hat software certification of their software reflect the significant impact of certification on their ability to maximize sales of certain software products, which contributes to a higher overall win rate and increased revenue. Figure 2 shows the extent to which interviewed build partners have increased their win rates, increasing them by 19% on average from 62% to 73% due to Red Hat software certification.

FIGURE 2 Impact on Win Rate



Business Enablement Through Improved Software Flexibility and Functionality

Interviewed build partners also reported that their customers prefer certified software because they can use it more easily and dynamically across their on-premises, private cloud, and hybrid cloud environments. For their customers, this increases the value of the software and ensures relevancy as they implement hybrid cloud approaches to running and delivering applications. One interviewed build partner noted the increased flexibility of certified software: *“Certification helps our customers deploy in different footprints because they can either do it in the public cloud or in their own containerized environment — there’s a portability to it.”* Another spoke to enhanced

flexibility for its customers in deploying its software either in OpenShift environments or on premises: *“Certification with Red Hat enables our customers to deploy on OpenShift, and in addition to that, other people are deploying it also on premises. The Operator certification allows them to run in OpenShift, and indirectly, because they can run on OpenShift, they can deploy on any environment.”*

For interviewed build partners that pursue Red Hat certification, this feedback reflects their sentiment that certification makes their software more relevant and impactful for their customers, helping establish or maintain competitive differentiation for their products.

Business Enablement Through Deepening Red Hat Partnership

Interviewed build partners also described seeing value from deepening their partnerships with Red Hat through certification efforts. They described completing the certification process as resulting in more integrated and synergistic cooperation with Red Hat, which positively impacts various business development activities that involve Red Hat, including webinars, events, and joint sales activities. Interviewed build partners spoke to these partnership-related benefits:

- **Robust engagement including joint customer development:** *“Red Hat is bringing in more opportunities for us to engage. There are webinars with them, we’re participating in panels with them, we have sponsored events, and we brief their sales team. We even have joint customers they brought through the Red Hat Marketplace Operator concept. Red Hat is really engaging and providing us more opportunities.”*
- **Collaborative customer experience:** *“Most of our enterprise customers are also Red Hat’s customers. We want to make sure that our mutual customers have a stellar experience working together ... Partnership and certification have opened some opportunities for us to go to market together but also to offer our customers and our prospects confidence that our two companies have a productive working relationship and we can address any issues that come up.”*

For interviewed build partners, the ability to access new customers through enhanced and more robust partnership activities is an important benefit as they seek to maximize their potential customer base.

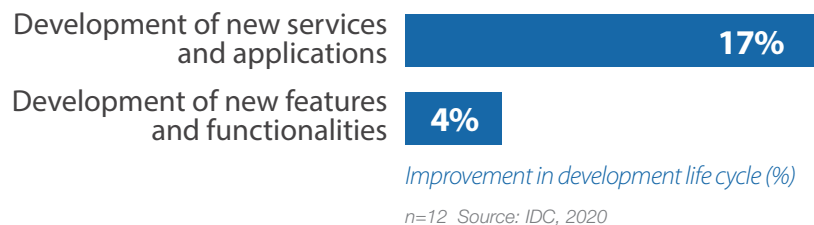
Operational Efficiencies

Interviewed build partners spoke to not only business enablement tied to achieving and maintaining software certification but also efficiencies and improvements in terms of

developing, securing, and supporting their software. They tied these benefits to access to best practices, knowledge gained while certifying products, and higher quality of certified software.

Interviewed build partners referred to benefits associated with certification beginning with development. They tied more efficient and robust development to early access to code and the need to maintain consistent development processes (see Figure 3). One interviewed build partner commented: *“Red Hat allows us access to early code and early versions of OpenShift ... We’ve always been certified, so I have no baseline for what would have happened without certification, but I think we would have more errors if we didn’t go through the certification process because of early access to code.”* Another referred to efficiencies tied to increased understanding of requirements for certification: *“There are benefits in the development process to being certified by Red Hat. Basically, because understanding certification requirements is essential, certification helps to guide our development process by staying in step with Red Hat ... The 8–10 people save probably, overall, hundreds of hours of development time per year — 100–200 hours/year.”*

FIGURE 3 Impact on Application Development



Interviewed build partners also spoke to benefits from certification flowing to their security and customer support activities. Like with development, their security operations benefit from access to and reinforcement of best practices. One interviewed build partner explained: *“Red Hat certification has forced us to incorporate best practices required by that certification in our development process ... Also, it has been helpful for our security efforts to get Red Hat’s best practices. I’m not sure if it saves time, but I think it still helps.”* Meanwhile, customer support teams benefit from more robust and consistent software performance and software releases that create less friction in implementation. One Red Hat build partner noted: *“We’ve saved time on supporting customers because, having gone through the certification process, the setup and install process on their certified platforms became easier, so it’s reduced support tickets ... I do think that we’re saving more time than we invested in certification.”* Table 4 shows the impact on customer support teams, with each team member at interviewed build partners gaining an average of 94 hours per year in efficiencies and higher productivity as a result of certifying software with Red Hat.

TABLE 4 Customer Support Team Impact

	Without Red Hat Certification	With Red Hat Certification	Difference	Benefit (%)
FTEs per organization per year	7.0	6.7	0.3	5
Hours saved per team member per year	94			
Value of staff time required per organization per year	\$701,600	\$668,300	\$33,300	5

n=12 Source: IDC, 2020

ROI Summary

Table 5 presents IDC's analysis of the benefits and costs for interviewed build partners in pursuing Red Hat certification and of achieving and maintaining certification for their software products. IDC projects that over three years, they will realize discounted benefits worth an average of \$8.42 million per interviewed build partner in higher revenue and staff efficiencies. These benefits compare with three-year discounted average investment costs of \$166,100 measured by the value of staff time required to achieve and then maintain certification for their software products. These levels of benefits and investment costs would result in an average three-year return on investment (ROI) of 4,969%, reflecting the strong value proposition for interviewed build partners of certifying their software products.

TABLE 5 ROI Analysis

	Three-Year Average per Organization	Three-Year Average per Red Hat-Certified Software Product
Benefit (discounted)	\$8.42 million	\$4.39 million
Investment (discounted)	\$166,100	\$86,700
Net present value (NPV)	\$8.25 million	\$4.31 million
Return on investment (ROI) (%)	4,969	4,969
Payback period	2 months	2 months
Discount rate (%)	12	12

n=12 Source: IDC, 2020

CHALLENGES/OPPORTUNITIES

Build partners are in high demand by vendors like Red Hat that are seeking to increase the value of their technology/platforms with end customers. The Red Hat Partner Connect software certification process for software/solutions is one way for Red Hat to increase the frequency and speed of development on Red Hat Enterprise Linux, OpenShift, and OpenStack through the business value realized by its build partners.

The business value experienced by Red Hat build partners from software/solution certification will not remain static and will require the vendor to continually iterate to maintain its relevance. Red Hat's ability to articulate and market the value of its certification to end customers on an ongoing basis will help ease the build partner sales journey.

Keeping its certification process agile and within the cost/benefit expectations of build partners will also help increase the software/solutions that are certified. This is especially relevant as more and more build partners engage with Red Hat.

Red Hat also has an opportunity to further the value of its build partner relationships through its marketplace strategy. OperatorHub.io, launched in collaboration with Google, AWS, and Microsoft last year, was a good first step in driving market exposure. Red Hat build partners will benefit from expanded listing and transactional engines, whether that's the Red Hat Marketplace (enterprise.redhat.com) or third-party relationships.

CONCLUSION

Red Hat understands the importance of build partners in extending the value of its technology/platforms with end customers. This is validated through the multiple business value rewards build partners receive from having their software/solutions Red Hat certified.

IDC's research demonstrates the significant value that interviewed Red Hat build partners have achieved through software certification. Interviewed build partners linked having Red Hat certification for their software with winning substantially more business by meeting customer demand, improving the quality and flexibility of their software, and leveraging their partnership with Red Hat in support of business activities.

For interviewed build partners, the results speak for themselves — they attributed 49% higher revenue for the software products certified by Red Hat, equivalent to an overall revenue gain of \$22.88 million per year per interviewed build partner, or 5.4% higher overall revenue. For build partners operating in very competitive and fluid markets, this underscores the potential for software certification to serve as a competitive differentiator to enable better business results.

APPENDIX

Methodology

IDC's standard Business Value methodology was utilized for this project. This methodology is based on gathering data from build partners that have gone through the process of certifying software with Red Hat. Based on interviews with build partners that have Red Hat–certified software products, IDC performed a three-step process to calculate the ROI and payback period:

- 1. Gathered quantitative benefit information during the interviews using a before-and-after assessment of the impact of Red Hat certification on build partner software products.** In this study, the benefits included revenue gains and staff time savings and productivity benefits.
- 2. Created a complete investment (three-year total cost analysis) profile based on the interviews.** Investment includes staff time required to achieve and maintain Red Hat certification status for the relevant software products.
- 3. Calculated the ROI and payback period.** IDC conducted a depreciated cash flow analysis of the benefits and investments for having Red Hat certification for certain software products. ROI is the ratio of the net present value (NPV) and the discounted investment. The payback period is the point at which cumulative benefits equal the initial investment.

IDC bases the payback period and ROI calculations on a number of assumptions, which are summarized as follows:

- Time values are multiplied by burdened salary (salary + 28% for benefits and overhead) to quantify efficiency and productivity savings. For purposes of this analysis, IDC has used assumptions of an average fully loaded salary of \$100,000 per year for IT staff members.
- The net present value of the three-year savings is calculated by subtracting the amount that would have been realized by investing the original sum in an instrument yielding a 12% return to allow for the missed opportunity cost. This accounts for both the assumed cost of money and the assumed rate of return.
- IDC has applied a 10% margin assumption against all revenue gains for purposes of quantifying the value of revenue gains for its return on investment analysis.

Note: All numbers in this document may not be exact due to rounding.

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