CLOUD

Stuart Lauchlan, editor of Business Cloud 9, reviews the latest in all things cloud and gives his steer on whether it’s friend or foe for the outsourcing industry.

Cloud and outsourcing – opportunity or threat?

“We’ve been doing Cloud for years – we just call it outsourcing!” So declared one grizzled ICT veteran at an industry event recently as the debate turned to the impact of Cloud Computing on traditional service delivery models.

Up to a point, he’s right of course. There’s nothing much new under the sun and Cloud is not the latest magic silver bullet that’s going to solve all the ICT woes of organisations struggling to manage their infrastructure. But it is a viable model and one that will undoubtedly impact on the nature of the outsourcing industry – from both the buy and the sell side.

From the buy side, the allure of the Cloud lies in some powerful words: cheaper, quicker, easier. Now these are all claims that are open to forensic scrutiny and will – to a greater or lesser degree – be both proved and disproved on a case by case basis. What works for some organisations won’t for others. (For some, the main attraction is not having to run and manage your own infrastructure, but this of course is also one of the attractions of outsourcing in its simplest form…)

Research firm K2 Advisory notes that the promise of the Cloud is not as simple as it might initially seem, arguing in its report Sourcing IT Services ‘For The Journey’, that: “Ultimately Cloud shifts the focus to delivery of business services rather than delivery of IT solutions. For example, you can take 20-30% of costs out by changing technology, but the majority of long-term cost reduction will come by creating solutions that will enable your organisation to cater ‘for the journey’ of a transforming business or public service. In this way Cloud begins to transform the cost-to-value ratio of delivering IT services.”

K2 principal analyst Katy Ring talks about new challenges on the buy side with the emergence of Cloud Ecosystems that in turn need to be managed. “Cloud delivery can also allow new cost-to-value ratios by enabling you to work more nimbly within relationships of buyers and suppliers to create value for your organisation in ways that were more difficult to achieve before the arrival of Cloud,” she argues.

“And yet 44% of CIOs in the UK say an outsourcing supplier has never mentioned the value of such an ecosystem to them, while 48% say that the phrase may have been used, but they either have no idea how this will benefit their organisation or assume it means the supplier simply has a traditional sales relationship with the main technology suppliers.”

For the suppliers themselves, Cloud poses both an opportunity and a threat to traditional outsourcing models. Mike Pearl, partner and Cloud Computing leader at PriceWaterhouse, sums up the challenge: “Service providers in the IT outsourcing space have, after all, profited handsomely by taking on their customers’ highly complex, one-off collections of IT assets and finding ways to manage them more efficiently than their customers are able to. But the essence of Cloud Computing is a move towards highly standardised racks of commodity servers. Where’s the IT outsourcing opportunity in that?”
But the major outsourcers have been lining up, eager to demonstrate that there is a future for them in the Cloud. So outgoing CSC CEO Mike Laphen can declare: “Our business is navigating significant shifts in the outsourcing market to take advantage of innovations and virtualisations, applications migration and Cloud Computing...We believe that CSC is competing for the market of tomorrow. We are Cloud-enabling our data centres, leveraging strategic alliance partners, supporting multiple development platform environments and generally enabling the ambitions of our clients.”

It’s an ambition and a roadmap that is echoed in the strategic directions of every major outsourcing giant, from Infosys and Wipro through Capgemini and Steria to Hewlett Packard and IBM. But what does it mean in practice? What will the new role of outsourcing firms be in a Cloud-dominated market?

One approach is to take on the new mantle of the Cloud Broker (see p113) – an increasingly popular term and one that will be heard a lot more in 2012 and beyond.

Another is to embrace the change management opportunities that Cloud brings. Introducing Cloud service delivery into an organisation isn’t as simple as swiping a credit card and getting started. There are significant infrastructure consolidation, integration and change management challenges to be taken into account. This is bread and butter stuff for the services industry and should provide an ongoing revenue stream for the big players.

According to research in 2011 by IDC, European enterprises will spend $8.2bn on Cloud professional services in 2015, an increase from only $560m in 2010, but the demand for traditional services will still be there. New outsourcing contracts will include Cloud services, and as much as 25% of Cloud professional services will be delivered as part of outsourcing contracts.

According to IDC European services group research director Mette Ahorlu: “Some believe that Cloud is just plug and play, but that is not the case for the more complicated existing or new solutions. The new IT environments will have elements of traditional IT, private Cloud, and public Cloud, and management and integration will become a challenge for which European enterprises will typically choose to hire an external service provider, driving further growth in the Cloud professional services market. There is a huge migration and integration task ahead, which is good news for service providers, who can expect their traditional revenue to start falling because Cloud services are so standardised.”

Another area of opportunity has to lie in the public sector’s uptake of Cloud Computing. With the publication of the G-Cloud strategy (see p114), interest in Cloud in this market is set to explode in 2012 and beyond through a combination of carrot and stick from Whitehall. Given that the major outsourcing providers have enjoyed a profitable time in the public sector for decades, they find themselves as incumbent providers here and should be well placed to leverage existing relationships to ease into a Cloud-based future.

That said, the providers on the sell side will need to demonstrate new approaches to service delivery. Dressing up outsourcing as Cloud is a gambit that risks swift exposure. “Public sector CIOs should look to the leading Cloud Computing providers for insights into architecting the next generation of government IT infrastructure as an agile whole-of-government utility – rather than creating outdated, inflexible shared services and outsourcing arrangements,” suggests Steve Hodgkinson of research firm Ovum. Governments should understand when and where to leverage the Cloud and how to create agile public sector Clouds – not just a rehash of out-dated, inflexible shared services and outsourcing arrangements.

It is then all to play for. Cloud Computing has been perceived as something of a threat in some areas of the market, but traditional outsourcing firms should in reality regard the Cloud as a new opportunity. But it will demand a shift in attitude and go-to-market model in many cases and that’s going to be the real challenge.

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**BUY SIDE CONSIDERATIONS FOR MOVING TO THE CLOUD**

- Understand what infrastructure you already have. Both private and public sector organisations suffer from “tech sprawl” where the ICT estate is far larger than it was thought to be. Use a move to the Cloud as an opportunity to assess and rationalise your existing investment.

- Have a short and a long term view on cost benefits. While the short term cost savings offered by Cloud are inevitably going to be immensely appealing in the current climate, there are longer term considerations to be taken into account – and almost certainly hidden costs. Make sure you understand the full implications of your move.

- Choose your provider with care. You need a provider who is going to be able to offer you the levels of uptime, scalability and security that your organisation demands. This is particularly true of Public Cloud models where you are ‘at the mercy’ of the resilience of the service being delivered by a third party such as Amazon or Salesforce.com.

- Step by step – take it easy. There’s no ‘all or nothing’ about moving to the Cloud, whatever the more zealous evangelists will tell you. Layer in Cloud to your organisation, application area by application area – email today, CRM tomorrow, HR next month etc., etc. You’re going to need help with this as there are change management and integration implications clearly, so working with a Cloud services provider will often be of assistance.
THE CLOUD BROKER COMETH

So what is a Cloud Broker anyway? It’s an entity whose existence depends on the notion that the emergence of Cloud ecosystems and the integration challenges of enabling Cloud and on premise infrastructure to co-exist will demand the creation of a broker to assist the buy side to procure and deploy Cloud services.

Inevitably there have been accusations from some quarters that this is an expedient claim by service providers to ensure their revenue streams don’t dry up, but there is considerable validity to the concept.

Gartner’s Cloud Computing Hype Cycle sees Cloud brokerage poised at the start of the hype curve — the ‘technology trigger’ area. It predicts that “through 2015, Cloud service brokerage will represent the single largest revenue growth opportunity in Cloud Computing”.

According to the National Institute for Standards and Technology (NIST) there will be three subsets of Cloud Brokers based on the service they provide:

• Service Intermediation: An intermediation broker provides value added services on top of existing Cloud platforms, such as identity or access management capabilities.

• Service Aggregation: An aggregation broker provides the “glue” to bring together multiple services and ensure the interoperability and security of data between systems.

• Service Arbitrage: A Cloud service arbitrage provides flexibility and “opportunistic choices” by offering multiple similar services to select from.

Those are clearly key skills for the services industry and as such on the sell side, there is undoubtedly market opportunity for traditional outsourcing and services firms. As Stefan Reid at research firm Forrester suggests: “The Cloud Broker model represents the most promising, but also the most ambitious, Cloud approach. It offers IT and telecom service providers — but also other vendors — the timely and unique opportunity to overcome the rapid commoditisation of their existing services business and build a sustainable, more margin-rich service delivery model.”