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An industrial revolution

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The IT services game is not what it used to be. Transformation in the sector appears to be accelerating as the industry shifts towards cloud computing and increased mobility, while the demise of traditional reseller revenue streams approaches maximum warp.

For Ben Davies, managing director of network and server support services provider Comms-care, the most important challenge for services providers in the next few years is driving demand for a range of new services.

“Remote working practices and cloud-based solutions are really starting to take hold,” Davies says. “On-premise network infrastructures as we know them today will dramatically change their appearance over the next few years, and service providers need to embrace that change.”

Get your strategy sorted now, he says. The main emerging market trend that Comms-care is focusing on is datacentre technologies, which are becoming increasingly converged with the emergence of VMware’s vBlock and NetApp’s FlexPod offerings. The service provider is developing new advanced technical services teams, for instance.



“In parallel, we will be assisting our partners with all the necessary tools to market and sell these services to their customer base,” says Davies (*pictured, right*). “If anything, we are seeing continuing double-digit growth in these markets, with the rapid uptake of cloud-based services. These services generally require high-throughput, resilient, high-capacity storage and switching capabilities, and this is where our real growth will come over the next two to 18 months.”

Davies says the service provider community needs to ensure players can provide value-added service propositions for cloud and the infrastructure that delivers cloud offerings. The services that generate revenue will become increasingly commoditised. As a result, new services must be developed.

“Those service providers that have invested heavily in recent years in enhancing their technical expertise and capabilities, along with installing frameworks around IT service delivery, will be the ones that grow their market share across these new technology areas,” he adds. “Looking ahead, there will be many more collaborations formed within the service provider community as specialist service organisations look to build solutions across a number of cloud-related technologies.”

Davies was commenting on findings from Gartner’s recent Outsourcing and IT Services Summit 2011. The market analyst says industrialised, low-cost IT services are transforming the market, and that by 2015 industrialised services will make up at least 30 per cent of the overall IT services market.

Risk control

According to Gartner, CIOs will favour such services because they will help cut the cost of running their businesses. At the same time, such commoditised IT services are likely to help them control risk, integration and customisation issues.

Bob Dalton, chief executive officer of white-label infrastructure life cycle services provider Intact Integrated Services, points out that the changes we are seeing today and predicting for the future of IT services actually look much like business as usual.

“The one thing that jumped out for me was that Gartner uses the phrase ‘better and less-expensive services’. The keyword is ‘better’,” he says. “Over the past 15 years, there has been a rush to outsource and industrialise a lot of IT-related services functions.”

If a service being provided is not better, no matter how low the cost, demand will shift back towards a higher-quality offering - rebalancing itself, as it were. As costs are reduced and commoditisation increases, it becomes possible for users to move towards a higher-quality offering. The trend moves in both directions and is cyclical, Dalton notes.

“If it is not ‘better’, it is not so much that it will fail, but that it will not be all-encompassing,” he explains. “You need to get it right and get it to the right level [of quality for customers].”



Dalton (*pictured, left*) says Intact IS provides services to telcos, carriers, integrators and others, and its business challenge over the past few years has been to focus on complexity. Once that level of service has been reached, it is inevitably challenged - whether by an offering that is lower cost to the customer or by one that gets commoditised. Then it becomes Intact’s role to seek out and focus on a new or emerging area of complexity. That is the value-add. It’s a strong philosophy and one that would seem to fit within a variety of channel challenges.

“You do not focus on what was new and exciting [and complex] 10 years ago. You have to find the tricky bits at the time [to focus on],” says Dalton. “About five years ago, just about everything we did was about technology. Today, however, it is about bandwidth, timescales, geographies and commercial complexity. I don’t think there is anything new here.”

He highlights the switching business as an example. Years ago, many technology providers focused on switches, but today it is hard to imagine a company building a business around selling switches. They are a commodity now and networking companies of the past - even big ones such as Cisco, HP and Juniper - have trained their gaze on other challenges.

Dan Scarfe, chief executive officer and co-founder of Microsoft Azure VAR and business apps developer Dot Net Solutions, agrees. He says there is definitely a drive for lower-cost, perhaps more industrialised, services in the market.

“Everyone keeps on about the fact that cloud is not particularly new - and they are right. It is really about the scale these services provide from Microsoft, Google and the like, and the level of automation they bring to bear. The reality of that is the savings we can get from doing it,” he says.

Scarfe adds that customisation of such offerings and other innovation is the critical point, and that can be done more cheaply and effectively by the partner community of such industry behemoths whose own services, because of their vendors’ scale, tend to remain very vanilla. As a result, the market is in line for a comprehensive shake-up, although the primary channel opportunity will remain around wraparound services that fit specific customer needs.

Dot Net Solutions is thinking about developing intellectual property around Windows 8 and in the hybrid space. “There is no end-user support with these big cloud providers,” he explains. “There is still going to be a lot of optimisation business stuff [to do] for at least the next five to 10 years.”

Easy choice?



For customers, he points out, opting for cheaper, perhaps commoditised, solutions in the first instance seems quite an easy choice. They will obviously prefer a service that delivers the benefits they need priced at £6 per month or even £12 per month over a traditional on-premise setup costing £50 to £100, with additional costs still to factor in, so long as real savings are being made.

“I think we can also see a shift in the role of the CIO, who has traditionally been responsible for delivering IT. They are going to move more into a procurement type of role, looking at SLAs, for example, and working out what are the best solutions for their enterprise,” Scarfe (*pictured, above right*) says.

Mike Wilkinson, channel partner sales manager at communications services provider Kcom, says a layer of services needs to be delivered cost-effectively. “Customers will choose their supplier based on their broader needs and their supplier’s ability to deliver. It is in this area that service providers have to step up to the plate and demonstrate their ability to understand their customers’ businesses beyond this base layer,” he says.

Wilkinson believes channel partners should work to understand the changing dynamics of their customers’ needs to ensure they are empowered to address their requirements during these tough times, nevertheless creating a platform that allows for future growth. This means taking up the challenge of the hosted, cloud or “low-touch” approach. “Describing these services as industrialised is just another way of referring to the methodology of delivering services to end users in a way that fits commercially with the demands of the marketplace,” he says.

Warwick Everett, director at IT support and services provider Freestyle IT, says the key demands will be to give customers clarity and transparency that is sufficient to enable them to select the best option from a range of IT services. They will often need the wherewithal to choose between on-premise infrastructure, rented datacentre space or services, private cloud, public cloud, hybrid cloud, or even a combination of them all.

The channel will perhaps be the most important link in the chain, underpinning the whole with assurance about security and availability of systems and data where necessary. Many may not feel comfortable handing over varying levels of control to a faceless third party, says Everett, and that healthy scepticism

will remain a challenge.



“Where we are unable to deliver the preferred service ourselves, we will build partnerships with the best-of-breed providers to give us a full portfolio of options,” Everett adds (*pictured, left*). “In short, the services market in terms of revenue will increase, but potentially be delivered by a smaller number of providers.”

Consolidation may threaten services providers that fail to adapt -and that includes those whose core business remains designing, delivering and supporting non-business-critical systems.

“They could face a slow ebb of business moving to larger-scale cloud providers. Those who are more geared towards complex, business-critical services will have an opportunity to grow their business and become more valuable,” concludes Everett.

Enter industrialised services

Gartner’s predictions come from its Executive Program (EXP) 2011 CIO Agenda Survey. Gartner notes there are multiple ways of reducing the cost of delivering IT. However, the trend is towards increasingly industrialised, low-cost IT services that nevertheless offer the end user better value.

Frank Ridder, research vice president at Gartner, claims not all corporate IT will be delivered through such services, though.

“Many ‘good-enough’ services will remain in-house,” Ridder says. “However, industrialised services represent the destiny of the IT services industry. They are the next step in outsourcing and managed service provision, and they span all layers of the IT services value chain: infrastructure, applications and business processes.”

For a good example of what is going on, Ridder points to what has already happened in the airline industry over the past 11 or so years. “Overall, we believe that from a pricing perspective, the IT services industry is where the airline industry was in 2000. It is ready to be transformed - and disrupted.”

Cloud services will tip \$177bn (£113bn) globally in revenue terms by 2015, and \$77bn of that will be based on business models charging per user, per unit or per length of time, according to Gartner’s research.

Managed, multi-tenant, ready-to-use IT services for infrastructure, apps or business processes will be offered no-frills, with optional add-ons. A number of such services - for things such as email or SaaS - are already appearing, although the segment overall is still in its infancy.

Such email services should realistically cost about \$6 per unit, or per user per month, with entry-level offerings advertised today at between \$3 and \$4. Infrastructure utility services such as the one available for SAP should cost about \$17, according to Gartner. And prices remain under pressure.

“A historical analysis of IT services pricing showed that organisations tolerate high IT usage costs for an activity, capability, deliverable or outcome - but only if there are no alternatives,” Gartner notes.