IBM

CLOUD
INDUSTRY
FORUM

Cloud UK & Ireland

Paper eleven

The critical role of Channel in driving Cloud adoption

11

Executive summary

Cloud remains a core topic at the heart of the IT industry. Research on end user attitudes shows substantial interest and commitment, significant levels of adoption and satisfaction and an expectation of further new and expansive growth over the coming years.

Today, 63 per cent of the IT Channel (for the purpose of this report defined as Managed Service Providers, Systems Integrators and technical VAR's) in the UK and Ireland claim to offer Cloud-based services for their customers. Over the last 30 months that represents just a 2 per cent increase in the number of organisations offering Cloud Services to their customers and most of the Channel is currently focused on selling SaaS as the primary Cloud delivery model, and the most common business model is to offer a blend of own-brand solutions alongside reselling third party solutions.

This report aims to explore the attitudes, market focus and readiness of the UK and Ireland IT Channel, their optimism for growth and the challenges they face in securing that growth. In summary this report touches on 4 inter-related areas:

Customers: Cloud continues to grow on the agenda of the end user and continues to offer long term benefits, however, key barriers remain that the Channel have a vital role to play in over-coming.

Capability: Channel that already offer Cloud Services are hitting a reality check, pushing past the Cloud hype and reframing their expectations whilst also clearly identifying areas for improving their capability.

Confidence: Both from an end user and Channel perspective, confidence remains high in the viability of Cloud as an IT delivery model. However, more needs to be done to establish the credentials and capability of Channel organisations to build trust in the supply chain.

Collaboration: Cloud changes the supply chain from selling IT to delivering a service. This requires data centres, applications, implementation skills, monitoring and management. Often there are multiple parties engaged in the delivery of Cloud Services and Channel are becoming more savvy about building the right partnerships and framing the services to market as an end to end solution backed up by appropriate contracts.

Since the original base of research in 2010, the IT Channel has developed in terms of its expectations of the market, what capabilities it requires, what solutions it offers and the challenges that need to be overcome to drive success. Arguably though, the Channel is, if anything, more cautious than the end users in terms of looking at the predicted pace of growth in the market and this reflects a disconnect or lack of confidence in their approach still. In sections 4 and 5 we look to provide some basic guidance and insights into measures that can help improve clarity of the market opportunity and sales performance.

A core belief of the authors based upon the research, and comparing it with the needs and expectations of the end users, is that the IT Channel is vital to the evolution and growth of the Cloud Services market in the UK and Ireland. Whether in educating the market on the opportunity that Cloud represents, managing the transition to the Cloud and/or delivering the on-going solutions, the Channel remains a key influencer, and provides the critical path to Cloud adoption.

However, the impact of offering Cloud Services to the market does have a dramatic impact across the whole Channel organisation though, and clarity of awareness and a realistic approach to adopting Cloud within the portfolio is essential to avoid costly mistakes or failed performance. Achieving this is necessary though as most participants signalled confidence in growth of Cloud revenues over the next three years whilst believing more traditional revenue streams will slow.

63% of the IT Channel in the UK and Ireland claim to be offering Cloud Services to their customers. This represents an increase of 2% since the last survey in 2010

The majority of Channel see Cloud as a growing revenue base over the next 3 years

Methodology and sampling

In December 2012, Vanson Bourne conducted a second body of research on behalf of the Cloud Industry Forum to determine the level of Cloud adoption within the portfolio of the traditional IT Channel. This research, sponsored by IBM, would enable trends to be identified from the original Channel research carried out by CIF in 2010.

The research was specifically targeted at organisations who have the ability to deliver Cloud Services (e.g. Systems Integrators, Managed Service Providers and technical VAR's) and covered those organisations that consider themselves either transactional vendors and technical vendors. All responses are from senior business decision makers from companies who are based in the UK and Ireland.

CHANNEL RESPONSE

Does your company currently offer any Cloud-based services?

Total

- Yes
- No

37%

63%
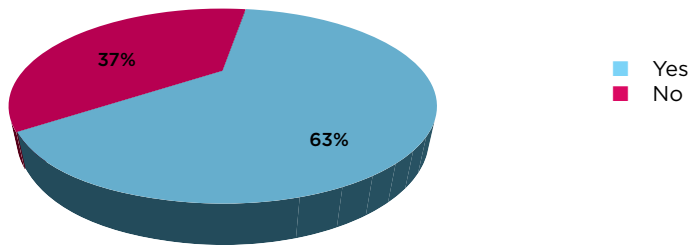
Sample: 150

The research polled 150 executives through questionnaires and interviews to achieve a consistent set of data from which the findings of this White Paper are based. 25 of the businesses only delivered services in Ireland, 125 offered services primarily in the UK.

Which of the following best describes the services you provide?

Respondents whose organisation offers Cloud Services	Total	*Transactional	**Technical
Offer solutions focused on industry or business process (e.g. Cloud delivered CRM)	**55%**	36%	57%
Cloud consulting and implementation of private Cloud, systems integrators	**52%**	27%	55%
Public Cloud service provider, telco, web hoster, or strategic outsourcer	**33%**	45%	31%
Provider of Cloud technology – resale of software licenses or SaaS delivered models, hardware, and tools	**32%**	45%	30%
Base	**95**	11	84

Of the 150 Channel organisations questioned, 15 per cent considered their businesses to be purely transactional, whereas the majority considered themselves as offering technical services. 63 per cent of the company's participating claimed to be offering Cloud-based services in 2013.

This White Paper summarises the results of this research and examines the perceptions of the IT Channel in regard to the maturity, attractiveness and risks of offering Cloud-based services to end user organisations. We also draw upon the findings of the CIF Channel research in 2010 and the CIF end user research in 2012 to explore, compare and contrast findings to illuminate trends, disparities and changes over time and between communities.

*Transactional: Organisations primarily focused on selling IT as point solutions.

**Technical: Organisations that offer comprehensive value added services such as design, implementation, integration and support.
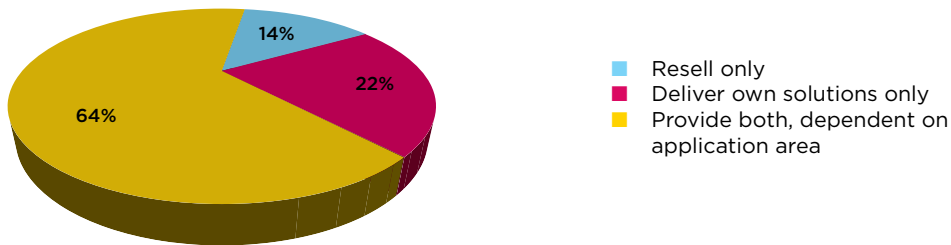
1. Channel adoption of Cloud Services

This survey polled 150 respondents responsible for business strategy, from a wide range of Managed Service Providers, systems integrators and technical VAR's based in the UK and Ireland.

The results of the survey show that whilst there has been little growth in the number of vendors offering Cloud Services (63 per cent today up 2 per cent since 2010), these organisations are now taking a more experienced, pragmatic and qualified view of the market opportunity, clear on the importance of the market but more cautious on the changes necessary for them to make to realise the full potential of the opportunity. Interestingly, there has been no shift in the primary business models with the majority (64 per cent) still offering a hybrid portfolio of own services and resale of 3rd party solutions.

CHANNEL RESPONSE

Do you purely resell the services you offer or do you manage your own?

Total

- 14% Resell only
- 22% Deliver own solutions only
- 64% Provide both, dependent on application area

Sample: 95

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39 per cent of the IT Channel participating in the research run services from their own data centre, whilst 42 per cent co-locate at a third party facility with the balance making a decision based upon customer requirements. 31 per cent operate a third party service under their own brand.

For the 55 Channel organisations that are not offering Cloud Services today, 44 per cent state they intend to in the future, 35 per cent are not convinced of the Cloud opportunity, 16 per cent believe they do not have the skills or resources and 5 per cent did not see it as relevant to their business. Interestingly, from the same sample, 27 per cent saw Cloud Services as a problem to the current business model, whereas 73 per cent did not.

In regards to those that are offering Cloud Services, perhaps the two most surprising responses related to pre and post sales services.

- In regard to presales, the number of companies that actively consult on Cloud-based services dropped from 87 per cent in 2010 to 73 per cent going into 2013. The primary reason cited for not offering consulting was lack of demand, followed by a concern about being seen as biased or lack of expertise. However, the bulk of organisations offering both Cloud and on-premise services do actively promote Cloud as a viable alternative to on-premise, though this has reduced slightly from 2010 (from 76 per cent to 68 per cent).

- In regard to post sales implementation services, only 59 per cent claimed to offer such services despite the recent CIF end user research highlighting that only 16 per cent of end users approach implementation on their own without assistance. However, when it came to offering managed services, 84 per cent of companies offering Cloud solutions claim to provide them.
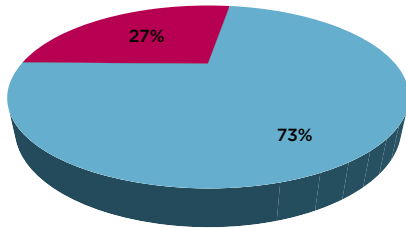
Almost three quarters of the IT Channel offer Cloud consultancy services and 57% offer connectivity services

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CHANNEL RESPONSE

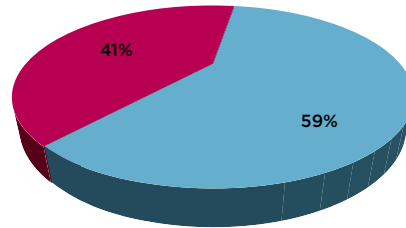**Does your business actively consult on the delivery of Cloud-based services?**

Total

27%

73%

Sample: 95

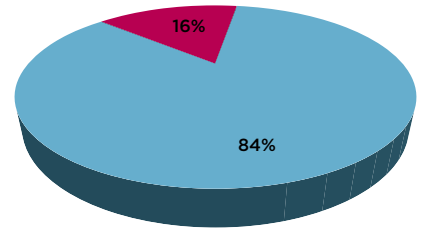**Does your business offer implementation services for migrating to the Cloud?**

Total

41%

59%

Sample: 150

Does your business offer ongoing managed services for Cloud-based solutions?

Total

16%

84%

Sample: 95

- Yes
- No

Looking in a little more detail at the service delivery models adopted by the IT Channel, we can see another marked shift in perceptions. Whilst those offering SaaS based solutions has seen a small uplift since 2010 (from 79 per cent to 81 per cent), those offering IaaS solutions has dropped from 51 per cent in 2010 to just 29 per cent entering 2013. PaaS suffered a similar downgrade in focus moving from 47 per cent to 28 per cent. In terms of focus, the Channel are quite evenly split between those that offer Cloud Services as a general capability (49 per cent) versus those that intend to specialise on Cloud Services (51 per cent).

Which of the following service models do you offer?

CHANNEL RESPONSE

Respondents whose organisation offers Cloud services	2012 Total	*Transactional	**Technical	2010 Total
SaaS	**81%**	91%	80%	79%
IaaS	**29%**	0%	33%	51%
PaaS	**28%**	18%	30%	47%
Base	**95**	11	84	121

Arguably, this downgrading of focus on IaaS and PaaS is more likely to be related to refinement of the service propositions being offered by the Channel to their customers, whereby whole solutions are likely being provisioned for customers that may in their own right be based/built on IaaS/PaaS capability but are sold on as a SaaS solution. Interestingly, the reduction is only noticeable in the UK as in Ireland IaaS represents 56 per cent of the local provider's capability.

*Transactional: Organisations primarily focused on selling IT as point solutions.

**Technical: Organisations that offer comprehensive value added services such as design, implementation, integration and support.

Looking into the platforms upon which solutions are built, the same players and rankings were reported but with some shifts in percentages as set out below. IBM has increased share by 3 per cent, Google by 9 per cent, Microsoft remained stable and Amazon EC2 appears to have lost ground.

			CHANNEL RESPONSE
PaaS Provider	**2012 Adoption Rate**	**2010 Adoption Rate**	**Movement (real)**
IBM	44%	41%	+3 points (7.3%)
Google	33%	24%	+9 points (35.5%)
Microsoft Azure	22%	22%	Stable
Amazon EC2	11%	15%	-4 Points (-26.6%)
Force.com	11%	9%	+2 points (22.2%)
Our own platform	22%	N/A	N/A
Other	7%	13%	-6 points (-46%)

Base 27

When looking at the overall delivery of Cloud Services to their customers 57 per cent of the IT Channel also manages the bandwidth/connectivity requirements for their customers and 82 per cent of the IT Channel offer Software Licencing advice for the applications being used. 71 per cent of the Channel also offer their customer the option of purchasing software licences under SPLA (Service Provider Licensing Agreements). These statistics are encouraging when looking at the components needed to deliver Cloud Services effectively.

The drivers for the IT Channel offering Cloud Services are manifold, however the most commonly cited drivers by those already offering services are:

- The ability to secure long term revenue from customers   45%
- The ability to extend the services portfolio (& revenue)   44%
- The ability to offer a full portfolio of solutions to customers   40%
- The ability to increase competitive advantage   32%
- The ability to improve customer choice   24%
- The ability to increase profitability   24%
- The ability to extend market reach   22%

In terms of revenue attributed to Cloud Services, those currently offering such services gain around 15 per cent of revenue on average from Cloud vs on-premise (68 per cent of current service providers have between 2 per cent and 15 per cent of annual revenue from Cloud Services). That same audience when looking out to 2015, believe that 26 per cent of their revenue in 2015 will be directly attributable to Cloud Services, whereas new organisations launching Cloud Services this year believe that just under 10 per cent of their income will be from the Cloud by the same date.
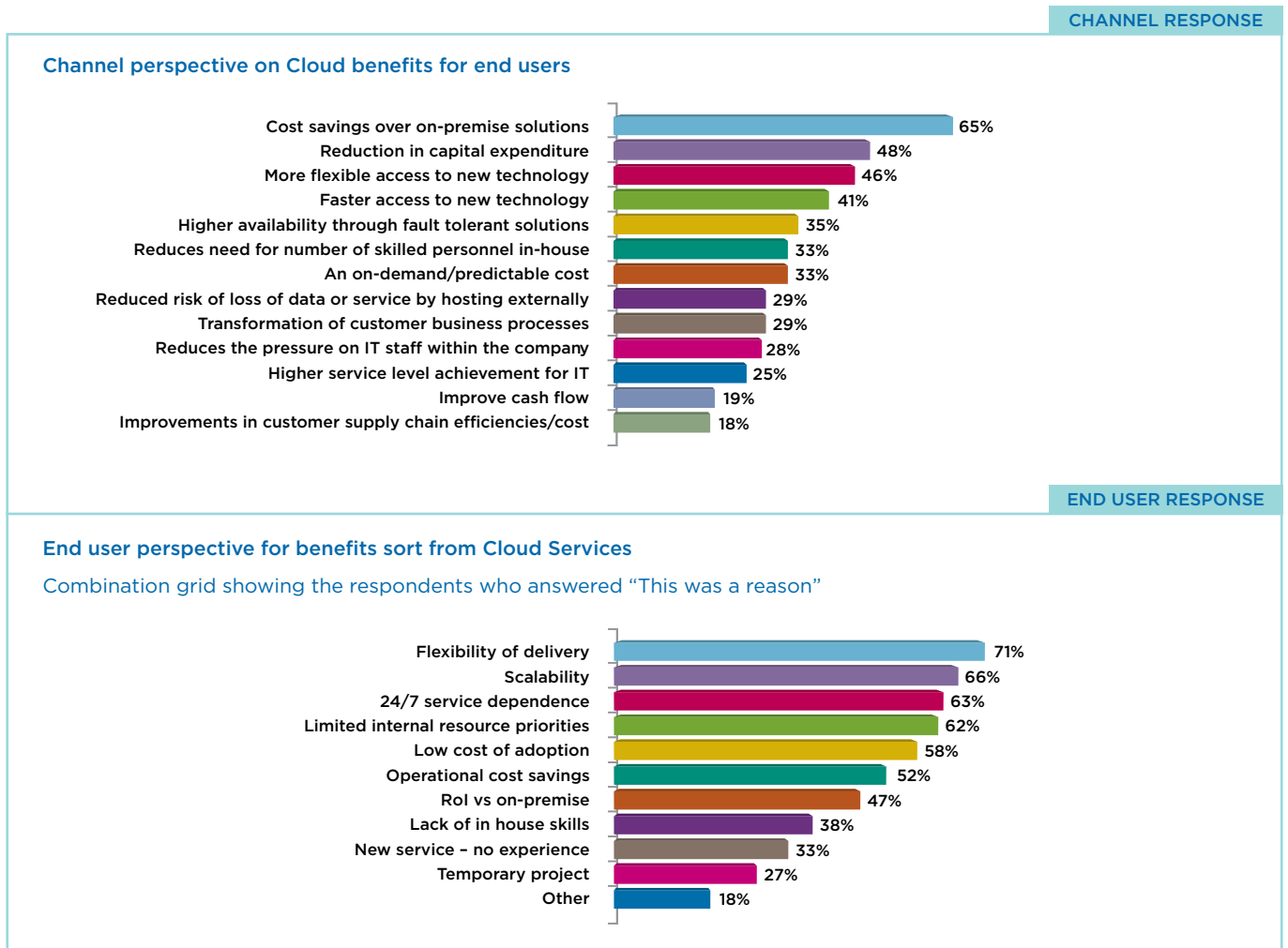
Current active Channel achieve an average of 15% of annual revenue from Cloud related services

2. Contrasting end user and Channel expectations

In order to reflect a sense of perspective on the Channel responses to delivery of Cloud Services within their portfolios, it is helpful to compare and contrast the responses of end users to those of the Channel on key topics such as drivers and constraints to Cloud adoption, pace of adoption and market expectations on what is delivered. In this chapter we will compare the Channel responses to that of 250 UK based end user organisations.

2.1. Drivers of Cloud adoption:

The IT Channel largely perceive the 'number one' benefit that end users' seek in adoption of Cloud Services is that of cost savings, closely coupled with a reduction of capital expenditure in favour of an Opex led purchase. However, this is not backed up by end user research which clearly shows that whilst costs savings are a real driver of adoption, the primary reasons for initial adoption of Cloud service relate to flexibility of the delivery model, a need for scalability and a focus on 24/7 availability driven by limited internal resources and lack of in-house skills.

CHANNEL RESPONSE

Channel perspective on Cloud benefits for end users

Cost savings over on-premise solutions	65%
Reduction in capital expenditure	48%
More flexible access to new technology	46%
Faster access to new technology	41%
Higher availability through fault tolerant solutions	35%
Reduces need for number of skilled personnel in-house	33%
An on-demand/predictable cost	33%
Reduced risk of loss of data or service by hosting externally	29%
Transformation of customer business processes	29%
Reduces the pressure on IT staff within the company	28%
Higher service level achievement for IT	25%
Improve cash flow	19%
Improvements in customer supply chain efficiencies/cost	18%

END USER RESPONSE

End user perspective for benefits sort from Cloud Services

Combination grid showing the respondents who answered "This was a reason"

Flexibility of delivery	71%
Scalability	66%
24/7 service dependence	63%
Limited internal resource priorities	62%
Low cost of adoption	58%
Operational cost savings	52%
RoI vs on-premise	47%
Lack of in house skills	38%
New service – no experience	33%
Temporary project	27%
Other	18%

The IT Channel places too much emphasis on cost reduction as the driver for Cloud adoption when end users more significantly value flexibility, scale and operational performance.

Whilst this disconnect is not fundamental, as the IT Channel do recognise the majority of opportunities that end users seek, it does raise the risk that too much emphasis can be put on the area of costs savings and financing, when end users are more concerned about agility, time to market and de-risking operational delivery. A point worth noting though in regard to end user behaviour is that when they seek a supplier of Cloud Services, cost of the solution is the number 1 factor upon which they filter their choice, followed by relevant industry expertise, reputation and proven SLA's.

End user response:

What were the reasons for choosing these third-party organisations as partners?

Only asked of respondents who worked with, or relied on a third party services company to implement Cloud Services		END USER RESPONSE				
	Total	**No. employees Fewer than 20**	**20 - 200**	**More than 200**	**Public**	**Private**
Cost	**55%**	58%	57%	50%	55%	56%
Industry expertise	**48%**	42%	50%	50%	36%	61%
Reputation	**45%**	42%	50%	43%	36%	56%
SLAs	**38%**	42%	21%	50%	41%	33%
Our Cloud provider bundled partner's services as part of contract	**28%**	25%	50%	7%	32%	22%
Experience with our Cloud provider	**20%**	8%	29%	21%	27%	11%
Location	**18%**	8%	21%	21%	18%	17%
Recommended by our Cloud provider	**13%**	8%	21%	7%	9%	17%
RoI	**8%**	8%	7%	7%	5%	11%
Other	**5%**	0%	14%	0%	9%	0%
Base	**40**	12	14	14	22	18

Further, end users when reviewing their experience on the migration to Cloud Services believe that it could have been more swiftly, simply and cost effectively achieved and that their supplier could have offered more effective tools and services. It is encouraging to note that the majority of Channel (59 per cent) do offer implementation services for their customers, as this is seen as a critical part of demonstrating competence and relevance to the end user community.

End user response:

How could your chosen method of migration have been improved?

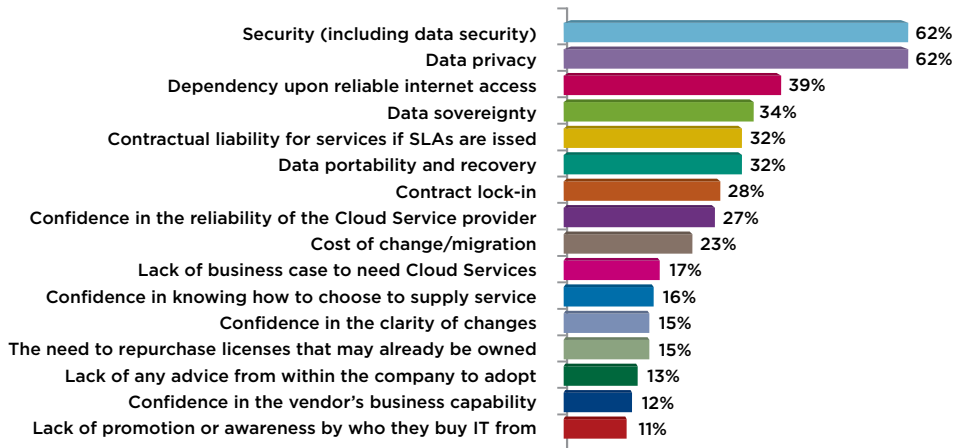| Only asked of respondents whose company has hosted or Cloud-based services in use		END USER RESPONSE				
	Total	**No. employees Fewer than 20**	**20 - 200**	**More than 200**	**Public**	**Private**
Quicker	**38%**	35%	39%	39%	36%	39%
Easier	**35%**	33%	33%	39%	42%	32%
Cheaper	**33%**	37%	33%	30%	30%	35%
Cloud provider could have offered more/ better tools	**31%**	33%	26%	34%	34%	29%
Cloud provider could have offered more/ better support	**23%**	26%	24%	20%	21%	24%
Cloud provider could have offered a more customised service	**14%**	12%	11%	18%	21%	10%
Other	**2%**	0%	4%	2%	4%	1%
The migration into the Cloud was excellent and could not be improved	**15%**	19%	15%	13%	13%	16%
Base	**153**	43	54	56	53	100

2.2. Managing fears around adoption of Cloud Services:

When it comes to understanding end users concerns about Cloud computing, the Channel is largely in line with its target market as shown in the table comparisons below:
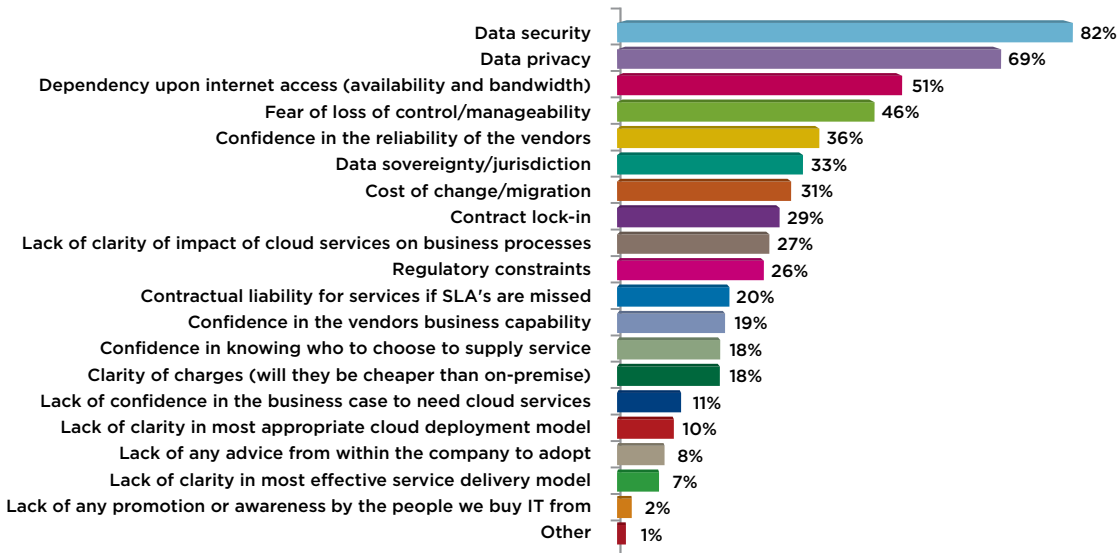
CHANNEL RESPONSE

Channel perspective of end use concerns around Cloud adoption

Concern	%
Security (including data security)	62%
Data privacy	62%
Dependency upon reliable internet access	39%
Data sovereignty	34%
Contractual liability for services if SLAs are issed	32%
Data portability and recovery	32%
Contract lock-in	28%
Confidence in the reliability of the Cloud Service provider	27%
Cost of change/migration	23%
Lack of business case to need Cloud Services	17%
Confidence in knowing how to choose to supply service	16%
Confidence in the clarity of changes	15%
The need to repurchase licenses that may already be owned	15%
Lack of any advice from within the company to adopt	13%
Confidence in the vendor's business capability	12%
Lack of promotion or awareness by who they buy IT from	11%

END USER RESPONSE

End user perspective of concerns relating to Cloud adoption

| Concern	%
Data security	82%
Data privacy	69%
Dependency upon internet access (availability and bandwidth)	51%
Fear of loss of control/manageability	46%
Confidence in the reliability of the vendors	36%
Data sovereignty/jurisdiction	33%
Cost of change/migration	31%
Contract lock-in	29%
Lack of clarity of impact of cloud services on business processes	27%
Regulatory constraints	26%
Contractual liability for services if SLA's are missed	20%
Confidence in the vendors business capability	19%
Confidence in knowing who to choose to supply service	18%
Clarity of charges (will they be cheaper than on-premise)	18%
Lack of confidence in the business case to need cloud services	11%
Lack of clarity in most appropriate cloud deployment model	10%
Lack of any advice from within the company to adopt	8%
Lack of clarity in most effective service delivery model	7%
Lack of any promotion or awareness by the people we buy IT from	2%
Other	1%

Unsurprisingly the issues of data security and privacy continue to top the bill, with sovereignty, internet connectivity and establishing trust with the service provider following closely behind.

However, data suggests that is that the Channel does not feel as confident as they should in helping end users navigate these obstacles and pursue Cloud Services, and this may be the reason why some Channel organisations are less optimistic on the rate of adoption of Cloud Services for their business. When asked "Does your business have the skills to address these concerns proactively with end users?" the response was as follows:

Does your business have the skills to address these concerns proactively with end users?

Total

2%
20%
21%
57%

■ Yes - all of them
■ Yes - most of them
■ Yes - some of them
■ No - none of them
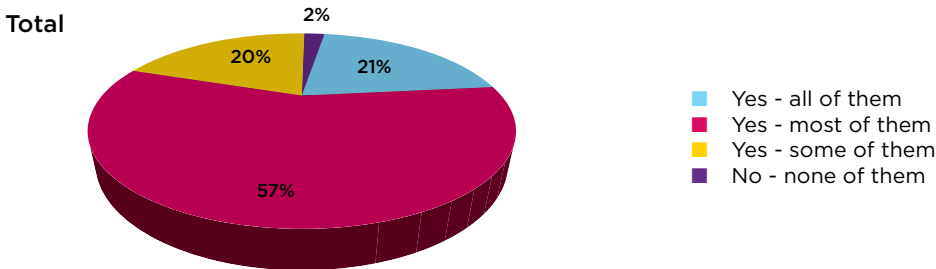
We will explore in the next chapter the reasons why the Channel does not always feel prepared to fully support end users in their adoption of Cloud Services. However, it is clear from the end user responses that the pace of adoption of Cloud Services (61 per cent of companies to date have 1 or more formal Cloud Services), backed up by the satisfaction rating on services adopted to date (currently 92 per cent) and their expectation to increase use of Cloud Services (76 per cent of current users will expand their use in the next 12 months), then it is clear the uncertainties Channel are concerned about are not absolute barriers, but rather issues end users want clarity on before proceeding. Any supplier that can articulate their approach to overcoming these issues has a natural market advantage in the eyes of an end user.

2.3. Pace of adoption

As articulated above, end user confidence in Cloud is growing with three quarters of existing customers expanding their current Cloud footprint and 25 per cent of non-users claiming to invest in their first Cloud service during 2013. In real terms this suggests end user adoption of additional Cloud Services will equate to 45 per cent of all end users and new users will increase the pool of active customers by 10 per cent, and that rate of growth is also increasing. Statistically this would suggest the market has tangible sales opportunities within 12 months across 55 per cent of UK and Ireland businesses, and that in turn represents growth of around 80 per cent of new sales opportunities YoY.

Now it is accepted that revenue recognition is slower on a service as opposed to a capital project (typically a third of the value per annum), it is also accepted that some end users (16 per cent according to the research) will purely self-serve, and some may just opt for a SaaS solution without utilising a previously trusted Channel partner. These are risks to the traditional supply chain, but ones the Channel should be seeking to combat by demonstrating their value and relevance in orchestrating an overall hybrid IT strategy and assisting in the implementation and ongoing delivery of Cloud Services.

When looking at the data for Cloud Services revenue growth predictions, the current base of active Channel are only forecasting growth of around 73 per cent over 3 years (from a small base), and this could be argued that it is less than one third of the confidence levels of the end user market if the natural pattern of adoption continues in line with historical trends. So how do we align the expectations of the end user with the experience of the Channel to date?
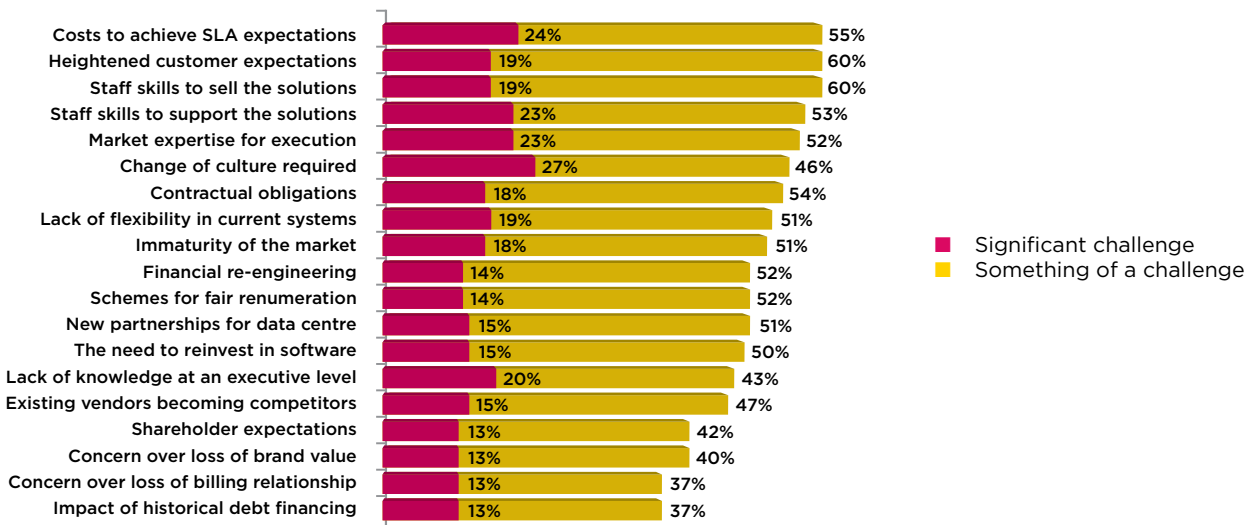
The Channel potentially undervalues the rate of growth of Cloud Services within their business by as much as two thirds over the next 3 years compared to end user demand

3. Business model challenges in delivering Cloud solutions

The majority of IT Channel organisations interviewed recognise the importance of Cloud Services to their future strategy and are factoring in material growth of Cloud revenues compared to the more traditional revenue streams. However, there is a notable degree of caution being voiced in terms of their business readiness to successfully offer Cloud Services. In the chart below we summarise the response of participants when asked to rate the challenge involved in addressing key business tasks.

CHANNEL RESPONSE

Companies have to overcome numerous challenges in order to offer Cloud Services

Challenge	Significant challenge	Something of a challenge
Costs to achieve SLA expectations	24%	55%
Heightened customer expectations	19%	60%
Staff skills to sell the solutions	19%	60%
Staff skills to support the solutions	23%	53%
Market expertise for execution	23%	52%
Change of culture required	27%	46%
Contractual obligations	18%	54%
Lack of flexibility in current systems	19%	51%
Immaturity of the market	18%	51%
Financial re-engineering	14%	52%
Schemes for fair renumeration	14%	52%
New partnerships for data centre	15%	51%
The need to reinvest in software	15%	50%
Lack of knowledge at an executive level	20%	43%
Existing vendors becoming competitors	15%	47%
Shareholder expectations	13%	42%
Concern over loss of brand value	13%	40%
Concern over loss of billing relationship	13%	37%
Impact of historical debt financing	13%	37%

- ■ Significant challenge
- ■ Something of a challenge

At least half of all respondents admit that each of the listed factors above has been a challenge to some degree, and around a quarter of them point to changing the internal culture and the cost base for delivering acceptable SLA's as being the most significant challenges to overcome. Heightened customer expectations, staff skills and market expertise are also cited regularly as a challenge to manage for the Channel.

Without doubt, Cloud Services represent a significant departure from more traditional IT delivery models and requires a fundamental review of the impact upon an organisation's infrastructure, processes, skills, contracts, training, customer relationships, compensation schemes, changing landscape of competitors, as well as the very real risks associated with changing the basis of earning revenue and generating cash flow. This is a radical change for many and it is essential to understand the wider business impact in order to proactively attempt to mitigate any negative risk during the transition. Of course, for most, this is not a wholesale overnight change but a gradual one, and the threat facing the Channel is the temptation to stick to the familiar way of doing business rather than embrace the opportunity for change.

Culture change and cost of delivery of SLA's are the two most prominent challenges faced by the Channel in moving to deliver Cloud Services

One area of the challenges faced by the Channel is regarding their relationship with key suppliers of Cloud solutions. For companies already offering Cloud Services, there is a reasonably high level of satisfaction with third party vendor support (71 per cent satisfaction), which is similar to that identified in 2010. However, when you look at the entire base of Channel organisations including those that have not yet offered Cloud Services, satisfaction on the support of vendors drops to 48 per cent, and as low as 40 per cent in Ireland specifically.

CHANNEL RESPONSE

Are the vendors you work with or wish to work with doing enough to educate you and support your business in the transition to Cloud?

Total

- Yes
- No
- We are not working with any other vendors on this

32%
48%
20%
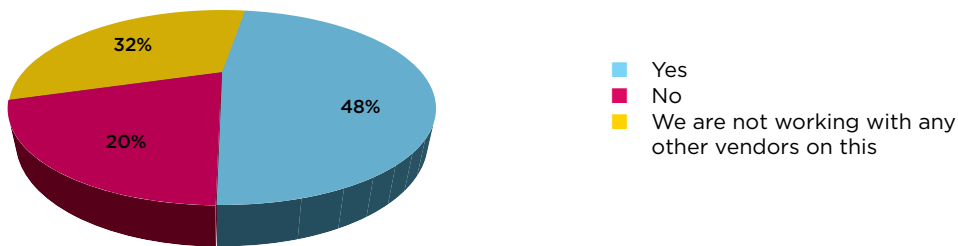
Sample: 150

Another consideration is that many Cloud Services are delivered via a complex supply chain ecosystem. The contracted supplier may own the commercial relationship with the customer directly, but they in turn may have agreements with Data centre service providers, software vendors and consulting firms to build and deliver services.

CHANNEL RESPONSE

Channel organisations are relying on external Cloud suppliers to complete their service offering

Total

- Relies on external providers
- Solely operates own data centre(s)

23%
77%
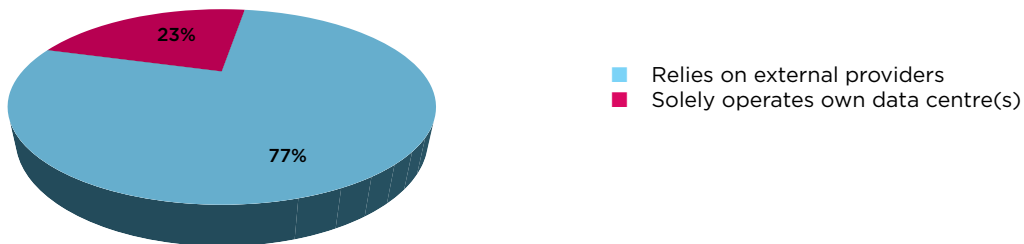
At its simplest level, this added complexity just needs to be managed transparently via back-to-back agreements so that there is no disconnect between the parties as to what is contracted, who is liable for elements of service delivery and who is accountable in the event of a service interruption etc. For many though, this contractual structure is not in place, and its absence heightens concerns among end users, who take more confidence from clear and concise contracts that are created with service delivery and availability in mind. The Cloud Industry Forum is actively developing a Model Agreement to provide guidance to both end users and suppliers as to what constitutes best practice in various aspects of contracting Cloud Services.
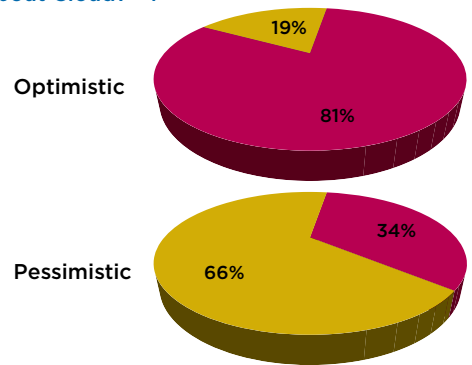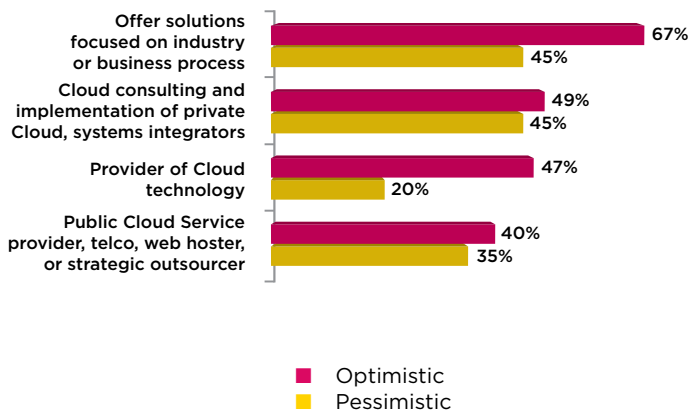
3.1. Optimism vs pessimism:

As in any industry there are characteristics that correlate to a more pessimistic view of the opportunity and characteristics that appear to correlate to a more optimistic outlook. In this section we have used revenue growth as a sign of Optimism (where growth over 3 years delivers Cloud revenue of more than 20 per cent of total revenue) and Pessimism (where growth over three years delivers revenue of less than 10 per cent relating to Cloud Services).

Perhaps unsurprisingly, those with the greatest expectations of growth are those that offer the broadest range of Cloud solutions and also offer implementation services to assist customers in their transition.

CHANNEL RESPONSE

What's the difference between those who are optimistic and pessimistic about Cloud? - 1

Offer solutions focused on industry or business process — 67% / 45%
Cloud consulting and implementation of private Cloud, systems integrators — 49% / 45%
Provider of Cloud technology — 47% / 20%
Public Cloud Service provider, telco, web hoster, or strategic outsourcer — 40% / 35%

- Optimistic
- Pessimistic

Optimistic — 81% / 19%
Pessimistic — 34% / 66%

- Offers implementation services for migrating to the Cloud
- Does not offer implementation services for migrating to the Cloud

Optimistic companies are likely to offer a hybrid approach to IT with both On-premise and Cloud-based services, but there is no material difference as to whether they resell their own services or provide their own unique solutions. They are, however, more likely to be engaged in working successfully with their Cloud suppliers on market education and support to transition their business to the Cloud.

CHANNEL RESPONSE

What's the difference between those who are optimistic and pessimistic about Cloud? - 2

Resell only — 14% / 5%
Deliver own solutions only — 19% / 25%
Provide both, dependent on application area — 67% / 70%

- Optimistic
- Pessimistic

Optimistic — 65% / 15% / 21%
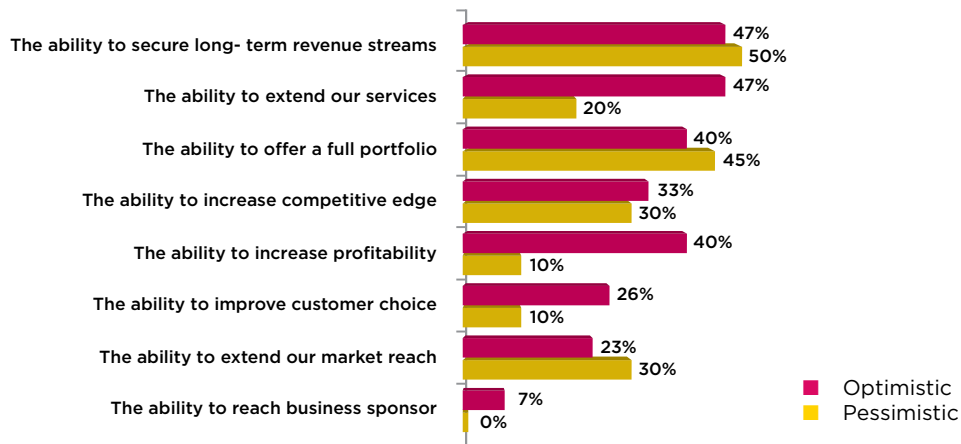Pessimistic — 30% / 23% / 47%
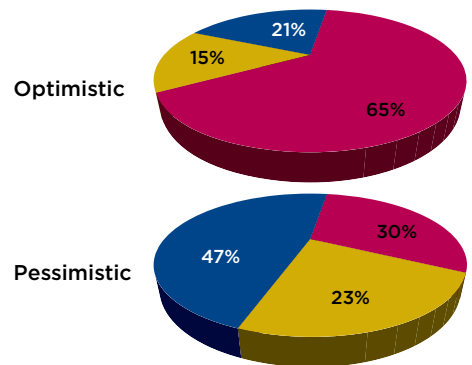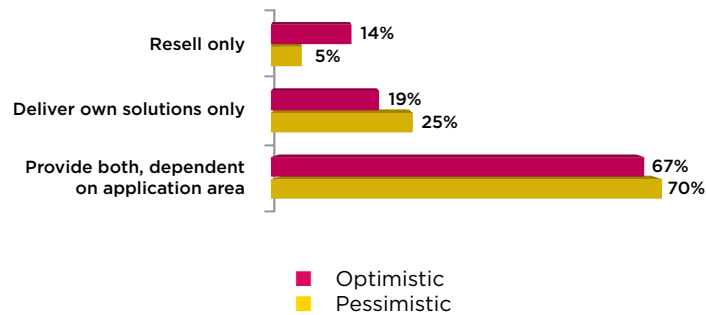
- Working effectively with suppliers
- Not working effectively with suppliers
- We are not working with any other suppliers on this

In terms of their aspirations, optimistic firms are also ones that are pursuing the Cloud opportunity to extend their service revenues, increase profitability, reach the business sponsor, improve customer choice and increase competitive edge. They are less likely to pursue new markets or just see it as an extension of their current offering. In other words, it is a strategy of depth in competence and customer relationship, not a change in target markets per se.

What's the difference between those who are optimistic and pessimistic about Cloud? - 3

	Optimistic	Pessimistic
The ability to secure long- term revenue streams	47%	50%
The ability to extend our services	47%	20%
The ability to offer a full portfolio	40%	45%
The ability to increase competitive edge	33%	30%
The ability to increase profitability	40%	10%
The ability to improve customer choice	26%	10%
The ability to extend our market reach	23%	30%
The ability to reach business sponsor	7%	0%

■ Optimistic
■ Pessimistic

4. Qualifying the market opportunity

This section of the White Paper is opinion and general advice from the Cloud Industry Forum in light of the research findings.

Cloud is a term that is all too easily pigeon holed in the realm of 'technology', but in reality Cloud is not about technology, but more about how it is delivered. As discussed previously it impacts supply chains, responsibilities and accountabilities of parties, contracts, financial operations, reward systems and service expectations. It is at its heart enabling transformation, not just of the end users's IT capabilities, but in the way IT is sold and delivered. It has often been compared to enabling an opportunity impact similar to Business Process Re-engineering.

When approaching any new business opportunity it is essential that a sound, pragmatic and thorough assessment of impact is made. What is clear is that Cloud is deemed a viable and strategic IT delivery model regardless of size of end user organisation, vertical sector, application area or new for existing capability as is evidenced by the detailed end user research shared in White Paper 8.

When it comes to looking at the Supply-Side opportunity it is essential that the Channel is able to weigh up its ability to meet end user requirements for the delivery of a service rather than a set of products and installation/support capabilities. At the centre of this challenge is moving a business relationship from being one of a vendor (sales organisation) to being a service provider (an organisation tasked with delivering operational capability typically on a 24/7 basis). The essential ingredients to make this transformation are those that engender 'trust'. An end user needs to establish confidence in the service provider's capability to deliver the services to their expectation, to be responsive and where appropriate accountable for resolving issues that may occur and to have credibility as a competent and sustainable business partner. Price is a contributory factor, and fairly high on the agenda of the buyer, but confidence in reliability of performance and incident management will be the critical deciders.

As with any evolution of a business strategy, when moving from traditional IT sales to delivering Cloud Services (alongside current services or as a replacement), the executive team of the company should be able to clearly articulate answers to following questions to validate their approach and bring transparency and clarity to the employees of the business:

a. Strategy

I   Why are we seeking to offer Cloud Services?

II   What will demonstrate success in offering Cloud Services?

III   Do we expect Cloud to be the primary line of business in the future?

IV   What are the consequences of not offering Cloud Services?

b. Market focus

I   Will our Cloud Services be aimed at our existing market or address a new market?

II   Who do we believe we will compete with and what will be the primary basis of competition?

III   Is it intuitive to the market that we will offer Cloud Services?

IV   Are we able to advise (or assist) on the delivery of sufficient bandwidth to enable effective customer access to the services?

c. Skills, structure & culture

I   Will our Cloud Services complement our existing skills and capabilities?

II   Do we have the skills to establish and operate Cloud Services?

III   Do we have the skills and reward systems to sell Cloud Services effectively?

IV   Will employees understand the change in business strategy and are they able to support it from skills, culture and motivation perspectives? Are we clear on the impact of the changes on peoples current roles and responsibilities?

V   Do we have clear support from our suppliers to establish. Launch and service our contractual obligations?

VI   Are we able to provide clarity to end users on Data security, privacy, sovereignty and portability?

VII   Do we have clear internal accountability for service delivery and appropriate reporting to monitor performance operationally and financially against targets?

d. Operations

I   Will our current customers also be likely to adopt these Cloud Services and what impact will that have on our business if they do?

II   Do we have the appropriate credentials to establish trust as a service provider? What standards or external credentials will we seek to support our commitment to being a service provider (e.g. CIF Code of Practice, ISO 27001 etc).

III   Which Cloud service models will be supported in our customer offering?

IV   Will services be resold (i.e. delivered by third parties) or delivered from internal operations?

V   What will be our service delivery window – 24/7 or weekdays etc?

VI   Do we have the operational disciplines in place to monitor and manage service delivery, handle incidents and escalations with appropriate problem and service management practices?

VII   Will we operate our own DC or partner to deliver service?

VIII   Do we have, or can we access, the capability to implement solutions for customers and on-board them?

IX   Do we have clarity on the nature of the contract we need to enter into with customers? Is it clear on roles, responsibilities, service levels, liabilities etc and is it back to back with any suppliers we will be dependent upon for delivery of a Cloud service?

e. Financial

I   When do we expect the delivery of Cloud Services to be contributing to profit and growth?

II   What is the impact on P&L during the transition and will this impact our credit rating?

III   How many Cloud customers do we need to break even on our investment?

IV   Do we have a cash flow challenge in moving to a services model (e.g. debt factoring)?

5. Considerations for enhancing business performance

This section of the White Paper is opinion and general advice from the Cloud Industry Forum in light of the research findings.

The Cloud Industry Forum have now conducted 5 research projects (2 Channel/3 end user) over 30 months looking at Cloud adoption in the UK and Ireland, and as such have a sound basis for assessment and evaluation of trends. The following statements are put forward as best practice advice to organisations contemplating launching Cloud Services or looking to review their existing performance in this area.

1. **Know your customers: They will be the first litmus test of success!**

   a. **Understand their drivers:** Whilst cost is often high on the agenda for a buying decision, end users consistently cite flexibility, agility, time to market, overcoming skills gaps etc as their drivers for Cloud service adoption. It is essential to understand the customer strategy deal-by-deal, but it is equally important that you talk to the broader opportunity and build references for scenarios where you have driven business benefit beyond pure cost efficiency of IT. The critical attribute of Cloud solutions is the ability to transform ways of working and it is advantageous for Channel organisations to engage customers in determining solutions that drive innovation and efficiency through new ways of working.

   b. **Transition your customer base:** There is a risk or temptation to 'protect' your current investment in your customers by offering Cloud Services to either new customers or even new market areas. This has several negative ramifications. First, you have no basis of trust in new markets with new customers with which to launch. Second, your existing customers have the greatest trust in your company, and to actively exclude them would increase risk to that base, and third; understanding the impact and opportunity for your customers to adopt Cloud Services is an essential proof point for your future success.

   c. **Secure references up front:** It can be seen as standard practice to secure references in any negotiation where possible, but arguably it is even more important when changing the basis of your relationship with your customers. Having clear satisfied customer testimony as to the quality of services, the ease of transition and the benefits realised will help you expand your market reach beyond your existing customer base more swiftly.

2. **Stick to your competencies: New solutions should not stretch your relevance!**

   a. **Know your capability:** There is a fundamental difference from being a transactional sales company to becoming a services delivery company. There are equally challenges in moving from selling CRM solutions to back up and recovery or storage services. The important considerations when launching Cloud Services are to ensure your subject matter expertise, relevance and capabilities are not stretched to the point that the risk of failure is heightened because the company lacks knowledge, experience or expertise. A pragmatic approach for many Channel organisations is to complement currently successful on-premise capabilities with an equivalent option for Cloud service delivery. By taking this approach more effort is invested and experience gained in evolving a service capability and culture which will enable the organisation to adapt to the wider business changes that will need to be sustained.

   b. **Establish key partnerships:** Some Channel organisations may not have the capital to invest in Data Centre facilities or may not have field based staff to support migrations from on-premise to Cloud delivered. Equally, solutions may be available that complement your customer base but are delivered by a third party. The important issues to resolve are to determine what is to be offered to your customers, how it will be delivered and the accountability of the parties to ensure it is a seamless experience of the customer. It is not in any way essential to own your own data centre or build your own applications to succeed in the Cloud delivery market, it is however, essential that you establish appropriate relationships with third parties to bring the desired portfolio together in a cohesive and commercially viable form.

   c. **Back to back your supplier and customer agreements:** The Latin phrase caveat emptor (buyer beware) is sage advice when constructing supply agreements to your customers. When multiple parties are engaged in the delivery of components that in turn become an overall solution to the customer it is essential that roles, responsibilities, escalation procedures, liabilities and SLA's are all clearly identified an traceable through the supply chain via back to back agreements. It is essential to be prepared for the worst and understanding how to manage a negative issue to ensure you are prepared to prevent or mitigate such issues should they threaten to arise. This will make your clarity of communication clearer and more beneficial and relevant in setting expectations.

3. **Proactively educate your target market: Demonstrate understanding and competence as it builds relevance!**

   a. **Be prepared!:** Cloud is unfortunately a broad and often misunderstood phrase, conjuring up different attitudes and expectations depending on the perspective of the customer. However, research has proven that the market does have a common set of rational fears that need to be satisfied to enable Cloud adoption ranging from security, privacy and sovereignty of data, to avoiding contract lock-in, to having sufficient network bandwidth, to establishing trust with a provider. White Paper 8 gives a deeper assessment of these concerns. The important issue for any organisation wishing to offer Cloud Services is to have a pre-prepared proactive stance that demonstrates they have thought about these issues, they can articulate them and they have workable and acceptable solutions. By proactively addressing these issues, organisations engender confidence by reflecting awareness and experience, and further reinforcing their role as a knowledgeable expert. So the best advice, is don't wait to be asked, establish your credentials and document them in a form that is accessible and transparent internally (through training) and externally through customer engagement processes.

4. **Build trust: Focus on all the areas that establish confidence and clarity with your customers and prospects!**

   a. **Reference your credentials:** As previously discussed the best way to build trust is on independent validation of happy customers. Lead with this activity to demonstrate by example what customers have achieved in partnership with you.

   b. **Enable "try before you buy":** 59 per cent of end users claim to have tested solutions before they purchased them. To be clear this is less about proving functionality and more about validating the service experience. Enabling a free trial or a short term paid trial to enable customers to gain confidence in the end user experience is a valuable way to establish trust.

   c. **Support customer transitions:** Only 16 per cent of end users claim to have made their transition to Cloud Services on their own, the majority needed assistance in selection, implementation and migration. The more services you can offer (directly or through partnership) to enable customers to move forward with your business, the more successful you will be.

   d. **Offer transparent intuitive contracts:** Customers are cautious about effectively outsourcing their IT services. Whilst there should not and cannot be an unfair bias of responsibility and reward, it is essential that agreements are thorough, clear and intuitive. Companies that offer agreements that reflect they understand the needs and concerns of end users will increase respect and trust from the buyer.

   e. **Report on your service levels:** Whilst it need not be a matter of public record, it is important that any Cloud-based service operates with the same levels (or better) of transparency and control as was available with on-premise IT. As such by making SLA information available it helps educate your organisation on issues needing remedial action and builds confidence with the customer community.

   f. **Explain your business continuity options:** Whilst downtime is not something to celebrate, it is a real world issue. Cloud Services rarely deliver 100 per cent uptime and customers need to be able to clearly understand what is offered in terms of business continuity within the price they pay for the service, and they also need to know if there are any chargeable options for additional levels of service assurance. If a service delivered on-premise needs a business continuity plan, that need does not go away just because it is delivered as a service. Consider the options and offer the appropriate ones to market on commercially viable terms.

   g. **Show best practice:** Demonstrating that your organisation operates in line with industry best practice helps to build confidence that your solutions are not proprietary and likely to lead to lock in. By demonstrating certification against relevant Codes of Practice such as that provided by the Cloud Industry Forum offer a means of external comparison and reference.

5. **Evolve internal culture and commitment: Service outcomes are as much about attitude and belief as they are about technology and process!**

   a. **Establish a clear structure and accountability:** In all likelihood, becoming a service provider will stretch existing norms and expectations with your company. To make an effective transition it is essential that the business is well structured, with clear accountabilities for service delivery and responsive to issues that arise. By reducing ambiguity of who is accountable and having clearly established processes, internal confidence in action is promoted and becomes intuitive over time.

   b. **Champion a service mentality:** There is no bigger impact on your business than having a customer feel confidence in the team delivering the service. A change of culture from a supplier to a service provider will not happen overnight, nor will everyone naturally buy in to the decision, but it is essential that explicitly and implicitly the behaviour and focus of the business reinforces the principle that service is king. Measure KPI's such as Net Promote Scores (NPS) and SLA's, monitor customer experience, celebrate successes, highlight and triage failures, showcase and reward individuals that lead the development of positive customer experience. This is a broad subject in its own right, but rightly highlighted by the research base as the most significant challenge.

   c. **Update your reward systems:** In essence this is all about putting your money (or recognition systems) where your mouth is. You cannot claim to be pursuing Cloud but fail to recognise progress or reward appropriate outcomes. Whether it is the basis of sales commission, the improvement of NPS, the attach rate of new services to customers, the delivery of on target SLA's etc, the business needs to back up its commercial strategy with a comprehensive and aligned set of motivational and reward systems.

6. **Model cash flow and P&L targets: A realistic plan will stop knee jerk reactions!**

   a. **Accounting** can often be considered as much an art as a science, but essentially making the transition from selling IT products to delivering services will have a dramatic impact on the P&L, Balance Sheet and cash flow of most organisations. It is essential that you have a thorough and realistic understanding of the impact on the P&L from the change in sales make-up through to the cost base to support the sales. Critical points will include how services are packaged, what levels of consultancy are offered, what are the contract and payment terms, how do you calculate commissions and what per cent of the initial sale does this relate to etc. In addition understanding any capital commitments for the new business and/or any legacy financing costs such as debt factoring of historic income need to be reflected in the cash flow impact during the transition.

Conclusion

It is clearly evident from the research that the IT Channel in the UK and Ireland are largely engaged in the Cloud, have a healthy perspective on the business impact of adopting Cloud Services and see Cloud as an increasing part of their portfolio over the coming years.

Contrasting Channel responses with recent end user research suggests that the opportunity for the Channel is more significant than the Channel is currently preparing for, representing a significant opportunity for these organisations to skill up, align business practices and establish trust in the service delivery arena.

Returning to the principles outlined in the Executive Summary, this research arguably demonstrates opportunity for the Channel in four key areas as follows:

Customers: End user expectations of Cloud adoption remain very high and positive, however, on many occasions they require assistance in defining the appropriate deployment model for IT solutions, need assistance in implementation and are open to working with a trusted supplier to deliver IT as a service.

Capability: Channel organisations that offer a higher degree of services to implement, integrate and manage IT services are likely to see greatest success in their Cloud business. However, this requires appropriate skilling of the organisation, demonstrable performance and an effective working relationship with key suppliers to ensure a seamless experience.

Confidence: The Channel is more pragmatic in its approach to assessing market readiness for Cloud, however, some of the conclusions on growth opportunity are likely to be hampered by an internal perspective on skills and capability rather than a reflection of market demand. Confident and optimistic organisations have clear focus on their approach and strategy for engaging in Cloud Services.

Collaboration: Cloud is fundamentally changing the ecosystem for delivering IT and often involves many parties in the establishment, hosting, management and selling of services. Channel need to ensure that they have clear understanding of the roles of all parties in the delivery of the services they take to market, have clear back to back agreements from key suppliers through their own contracts to their end user and have effective on-going partnerships with suppliers to align expectations and performance management. Effective selection and engagement with suppliers in a Cloud Service market is a critically important responsibility.

By way of advice on next steps we would conclude that from a Channel perspective, organisations should:

- Engage a strong vendor relationships to support – not just technical platform but one that can bring sales skills, marketing etc and continually bring new business opportunities.

- Establish a clear supply ecosystem – those working alone are more pessimistic and see less growth.

- Require vendors to assist in simplifying the ecosystem using standard contracting and terms.

- Show evidence of delivering on time, meeting SLAs and response to a failure to improve confidence.

So in summary, the Channel remain central to the evolving IT marketplace that encompasses the option of Cloud Services. Those organisations that recognise that delivering a service has a fundamental impact upon their organisational structure and processes; impacts their market reputation and future, and, has a healthy insight internally, a positive staff culture and an effective programme of engagement with key suppliers to deliver effective solutions are those that will prosper in the growing Cloud Services market in the UK and Ireland.

CLOUD INDUSTRY FORUM

The Cloud Industry Forum (CIF) was established in direct response to the evolving supply models for the delivery of software and IT services. Our aim is to provide much needed clarity for end users when assessing and selecting Cloud service providers based upon the clear, consistent and relevant provision of key information about the organisation/s, their capabilities and operational commitments.

The Cloud Industry Forum

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