CLOUD INDUSTRY FORUM

Cloud UK

Paper two

The Impact upon the IT Supply Chain

2

Executive summary

The UK IT channel is both aware of and seeking to, embrace the opportunity of cloud services.

Over recent months there has been a noticeable increase in speculation over the future of the IT channel as a direct result of the end user adoption of cloud computing and the associated convergence of previously disparate markets which now enable the likes of telecommunications, web hosting and software vendors to also offer IT capabilities to customers as a service via the cloud in what some have perceived to be direct competition with the traditional Reseller, Service Provider and Outsourcer models. What these findings indicate is that the IT channel is in fact evolving and embracing the cloud as part of its value proposition, intending to bring real value to its customer base in turn.

In terms of maturity of adoption, the larger MSP's and SI's seem better placed to exploit cloud services today over the more local consultancies and resellers. However, the traditional IT reseller appears to be nearer to the end user organisations current focus on where cloud adoption is most likely to occur. This seeming contradiction is probably best explained by the different IT channel segments' focus on end user organisations. The traditional VAR and IT consultancies tend to have a broader market reach than MSP's and SI's who tend to work with the upper mid market and enterprise scale organisations. And with Cloud services enabling the SMB sector to participate actively at the early stages of the market development, we are seeing a change over historical technological adoption patterns as this capability brings in to play a broader mix of what services can or should be provided to a broader mix of customers.

However, in regard to how well the message is being communicated and received, a contrasting survey of end user attitudes toward cloud computing raised a concern that a primary reason for lack of adoption by some end users was the lack of awareness they had from the traditional suppliers of IT to their company suggesting that the IT channel is not yet striking all the right chords in terms of messaging their value proposition to market.

This White Paper aims to set out the current perceptions of the UK IT channel in regard to their intent and market readiness to offer cloud services, and then to compare and contrast the focus and understanding of the IT channel with the awareness and expectation of the end user customers.

Contradictions do appear in this research, and this is considered to be a reflection of the pace of change that can occur when you have a relatively immature market (in terms of operational maturity) but significant importance being placed around cloud services for the future of the way the IT channel evolve and IT solutions are provided. Whilst we risk being subjective, we assert that what we are potentially seeing is a blurring of aspiration with reality at this pivotal time in redefining the way IT is procured and consumed. Further, we appear to be seeing more activity centred around the natural desire and need to be seen to market cloud solutions more than any real sense of widespread game-changing in the day-to-day activity of IT channel at this time.

Methodology and sampling

In January and February 2011, Vanson Bourne conducted research on behalf of the Cloud Industry Forum to determine cloud adoption attitudes and trends both among end users and the IT channel.

The research polled 200 respondents from the UK IT IT channel; as well as 450 senior IT and business decision-makers in small-to-medium businesses (SMBs), enterprises and public sector organisations.

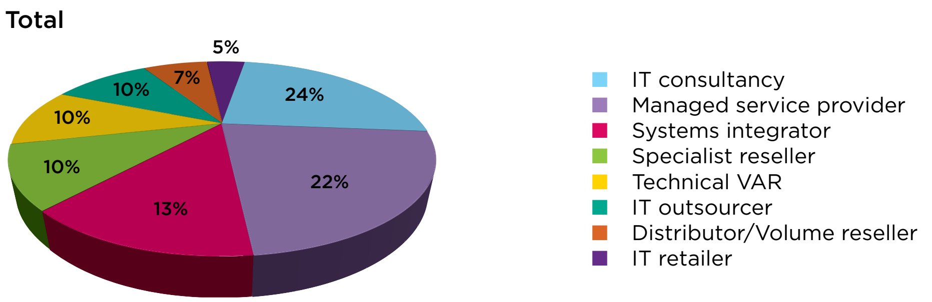
The IT channel base of 200 covers a broad cross-section of business models and is split between IT consultancies making up 24 per cent of the sample; managed services providers at 22 per cent; systems integrators at 13 per cent, specialist resellers at 10 per cent; technical VARs at 10 per cent; IT outsourcers at 10 per cent; Distributors and large Resellers comprising 7 per cent and finally IT retailers on 5 per cent.

Overall, 24 of the participants defined themselves as transactional vendors, the remaining 176 as more technical focused organisations.

Again to ensure that the sample was as broad and reflective of the overall market, the organisations ranged in size from those employing under 50 (39 per cent) to those classed as mid-sized companies (25 per cent); the large enterprises - those organisations employing over 500 – was 39 per cent of the overall sample.

Channel participants split by IT channel type:

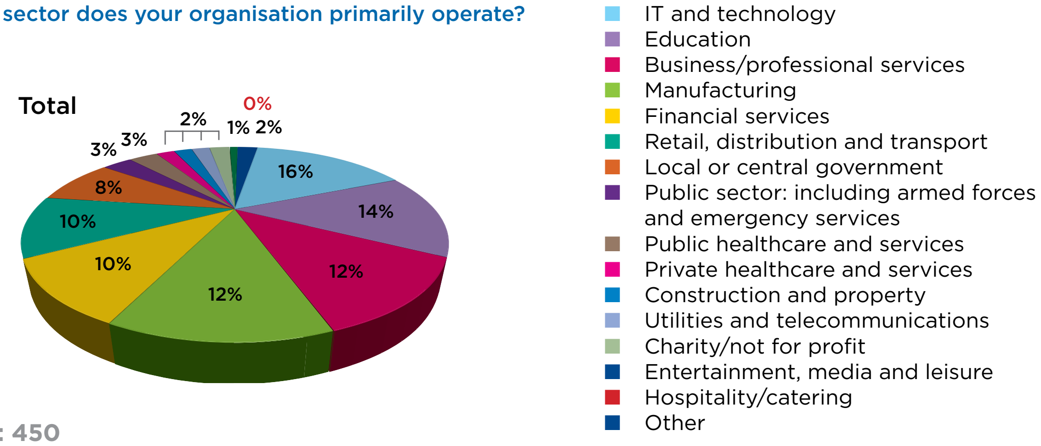
Which of the following best describes your organisation?



Sample: 200

End user participants split by market sector:

In which sector does your organisation primarily operate?



Sample: 450

1. Cloud Adoption and the UK IT channel

With 200 IT channel organisations questioned in detail about their attitudes and actions surrounding cloud services adoption a number of key significant signs of market expectation were identified:

- 73 per cent believed the market was ready to embrace cloud services and were fairly evenly split on whether the market messaging was over-hyped.
- 83 per cent of the participants rated cloud services as equal to or better than on-premise solution (46 per cent specifically cited 'better than' on premise).

Do you believe cloud services are equivalent to, better than, or worse than on-premise solutions?

All respondents	Total	Distributor Volume Reseller (LAR)	Specialist Reseller	Technical VAR	IT Consul-tancy	Managed Service Provider	IT Outsourcer	IT retailer	Systems Integrator
Better than on-premise solutions	**46%**	36%	25%	47%	31%	64%	53%	70%	46%
Same as on-premise solutions	**37%**	57%	55%	26%	46%	25%	42%	10%	27%
Worse than on-premise solutions	**18%**	7%	20%	26%	23%	11%	5%	20%	27%
Base	**200**	14	20	19	48	44	19	10	26

In regard to the current level of cloud services adoption, 63 per cent of participants claim to be offering some element of cloud services today, with more planning to do so in the future.

Of those who are offering cloud services 14 per cent purely resell third party branded services, while 22 per cent solely deliver their own solution/s. The majority (64 per cent) offer end users a mix of both models.

Do you resell services or do you manage your own?

Only asked of respondents who offer cloud based services	Total	Distributor Volume Reseller (LAR)	Specialist Reseller	Technical VAR	IT Consul-tancy	Managed Service Provider	IT Outsourcer	IT retailer	Systems Integrator
Reseller	**14%**	43%	10%	17%	21%	11%	7%	0%	8%
Manage our own	**22%**	0%	30%	50%	25%	17%	14%	14%	25%
Both resell and manage our own	**64%**	57%	60%	33%	54%	71%	79%	86%	67%
Base	**121**	7	10	12	24	35	14	7	12

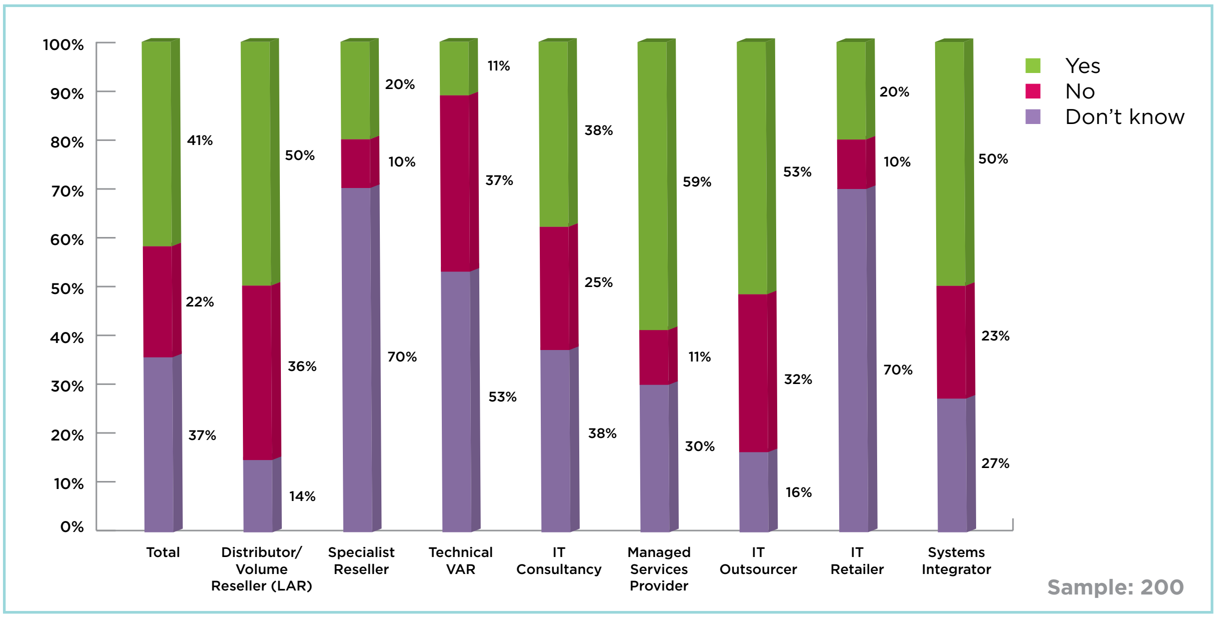
Looking a little deeper at the operational delivery, 39 per cent of suppliers claim to operate their own Data centre, 33 per cent manage their own infrastructure but using a co-location Data centre partner, 11 per cent OEM a service from a third party white label provider and 17 per cent resell services on behalf of other providers.

More than six in 10 organisations surveyed currently offer cloud services

The majority of IT channel organisations offering cloud services are doing so across a broad range of applications and cloud provisioning solutions ranging from Software-as-a-Service (79 per cent) Infrastructure-as-a-Service (51 per cent) and Platform-as-s-Service (47 per cent). Many partners offering cloud services stated they offer both IaaS and SaaS capabilities.

A key issue in deciding which cloud solutions an IT channel organisation offers relates to the ability to White Label services under their own brand to manage their own customer experience and reputation. 41 per cent stated this was a key consideration versus 22 per cent who did not see it as an issue. The remaining 37 per cent were as yet undecided.

Are white-labeled services an important factor in deciding whose cloud to resell?



2. IT channel services

A wide range of SaaS based services are being offered by the IT channel to their customers, reflecting the a similar breadth of cloud based applications previously identified by the research Vanson Bourne conducted amongst end users.

The top three services offered are back-up and disaster recovery, storage and, in a critical difference to the end user research, business intelligence.

What SaaS services do you offer?

Only asked of respondents who offer SaaS services	Total	Distributor Volume Reseller (LAR)	Specialist Reseller	Technical VAR	IT Consul-tancy	Managed Service Provider	IT Outsourcer	IT retailer	Systems Integrator
Back-up/Disaster recovery and security	**59%**	43%	0%	67%	50%	70%	85%	71%	57%
Storage	**48%**	57%	0%	56%	28%	67%	46%	57%	57%
Business intelligence	**46%**	71%	38%	56%	44%	41%	38%	43%	57%
Security	**36%**	29%	13%	44%	28%	37%	54%	43%	43%
Service desk	**35%**	14%	0%	44%	33%	44%	54%	29%	29%
Financial accounting	**31%**	29%	38%	22%	28%	33%	23%	57%	29%
Personnel/Payroll	**26%**	14%	13%	44%	22%	26%	31%	29%	29%
Collaboration	**25%**	14%	13%	44%	39%	11%	31%	29%	29%
Time/Productivity management	**22%**	14%	13%	22%	17%	22%	31%	29%	29%
Other	**13%**	0%	25%	11%	11%	11%	15%	14%	14%
Base	96	7	8	9	18	27	13	7	7

It is worth examining the end user at this stage because according to the research the four key cloud applications end users are currently using are:

- Email management
- Data back-up and recovery
- Webhosting
- Data storage services

While this by no means defines the cloud, it gives a very helpful indication of how the cloud is most popularly and effectively employed by end users.

The question that needs to be asked is just why is there an apparent disconnect between the end user and the IT channel providers of cloud based services? The answer could lie in the rise of self-service with organisations migrating certain business processes to the cloud without the need of the historic IT channel, while more complex applications such as business intelligence, remaining the preserve of the IT channel. However, another clue is found in the segmentation of the IT channel which reflects more traditional resellers and transactional companies being more aligned to the broader end user requirements where the early adoption by SMB's is driving a more generic agenda, whereas MSP, SI's and outsourcers, by nature working with mid market to enterprises are providing more sophisticated hosted services.

Breadth of cloud services are available through the IT channel today

3. Drivers for IT channel adoption

Those IT channel organisations currently offering cloud services are seeing a number of tangible benefits.

The scale of market adoption and its impact upon revenue performance within the channel is covered in Section 4. However, for many in the IT channel the fact that they are already able to identify long term income opportunities from the cloud contradicts the prevailing pessimistic view of the future.

The research also highlighted a number of other benefits that the IT channel is already taking advantage of. Offering both on-premise and online services is seen as an attractive option by 18 per cent of the sample, while 15 per cent felt that the cloud extended customer choice to their advantage.

The message here is that by extending existing product and service portfolios the IT channel can and is benefiting financially.

Furthermore, this drive to offering cloud services is driven by a recognition that the market is moving dramatically in that direction and the IT channel needs to evolve to meet this demand.

The IT channel believe the benefits for end users are flexible access to technology, cost savings and an on-demand/ predictable cost

Which of the following do you believe are the greatest tangible benefits of cloud services for your business?

Only asked of respondents who offer cloud based services	Total	Distributor Volume Reseller (LAR)	Specialist Reseller	Technical VAR	IT Consul-tancy	Managed Service Provider	IT Outsourcer	IT retailer	Systems Integrator
Ability to secure long term revenue streams from customers	**28%**	14%	20%	17%	29%	43%	36%	14%	8%
Ability to offer a full portfolio to your customer (on-premise and online)	**18%**	29%	20%	17%	29%	11%	0%	57%	8%
Ability to improve customer choice	**15%**	14%	10%	8%	17%	14%	21%	14%	17%
Ability to extend your services portfolio and revenue	**14%**	14%	0%	42%	4%	14%	14%	14%	17%
Ability to increase competitive edge in the market	**14%**	14%	20%	8%	8%	11%	21%	0%	33%
Ability to extend your market reach	**11%**	14%	30%	8%	13%	6%	7%	0%	17%
Base	121	7	10	12	24	35	14	7	12

But the move to offering cloud services has not been a simple process for many in the IT channel. Of those that have stated that they are now offering cloud services, the most common obstacle they had to overcome has been the view that the market is still immature, and that little data exists to present a compelling business case for the delivery of a new service model.

Not only that, but there is a genuine issue over the need to financially re-engineer their own business, from one based on an on-premise, traditional licensing model, to one which increasingly is based on a pay-as-you-go model.

Staffing has also been a key issue for many as investment has had to be made in retooling and reskilling existing staff to take advantage of this new technology

Half of respondents believe data security and data privacy are the most significant concerns about cloud adoption

How challenging are the following obstacles to adoption of cloud services you had to/or have to overcome?

Only asked of respondents who offer cloud based services	Total	Distributor Volume Reseller (LAR)	Specialist Reseller	Technical VAR	IT Consul-tancy	Managed Service Provider	IT Outsourcer	IT retailer	Systems Integrator
Concerns over immaturity of the market	**81%**	71%	90%	75%	83%	80%	71%	86%	92%
Financial re-engineering from on-premise income to include online income	**79%**	86%	70%	75%	75%	86%	79%	71%	83%
The need to reinvest in software as an end user if you already have purchased on premise licenses	**79%**	86%	90%	83%	67%	86%	79%	57%	75%
Staff skills to sell the solutions	**74%**	71%	60%	75%	75%	80%	64%	71%	83%
Staff skills to support the solutions	**73%**	100%	60%	92%	75%	63%	71%	86%	67%
Concern over new partnerships for data centre or technical services that may need to be forged to deliver a complete solution	**70%**	71%	70%	58%	71%	74%	100%	43%	50%
Concern over vendors becoming competitors	**70%**	43%	90%	75%	63%	71%	86%	57%	67%
Lack of knowledge at an Exec level of the impact upon the business performance	**69%**	71%	90%	58%	79%	63%	71%	29%	83%
Concern over loss of brand value with customers in a resale model	**69%**	57%	90%	92%	63%	69%	50%	71%	67%
Company schemes to remunerate the right behaviour fairly	**68%**	71%	60%	58%	71%	69%	86%	43%	67%
Shareholder expectations over the short to mid-term	**62%**	43%	70%	50%	67%	60%	79%	29%	75%
Concern over loss of the billing relationship if applicable	**56%**	86%	50%	75%	50%	51%	64%	29%	58%
Impact of historical debt financing	**54%**	57%	50%	42%	54%	51%	79%	43%	50%
Base	**121**	7	10	12	94	35	14	7	12

As seen earlier, 63 per cent of the UK IT channel claim to offer some form of cloud service today. The question therefore is why is 39 per cent of the market reticent?

Of this sample of 79 organisations, 51 per cent stated that this was simply because they had not yet got their own offering ready for the market and did intend offering cloud services.

Significantly 30 per cent of this sample – while relatively statistically small – are not considering a cloud offering at all as they were yet to be convinced of the market opportunity.

4. Revenue achievement and expectations

On average, 18 per cent of 2010 revenues were generated by the IT channel from cloud based services. In many ways this could be seen as a high figure given the perception in the market that the IT channel has yet to take advantage of the market opportunities. However, analysis by channel type reflects that the average is by nature impacted by organisations already centred on a service delivery business model.

Analysing the data in much closer detail gives the reader a far better picture as this is a top-level figure averaged out across the sample.

What percentage of your 2010 revenue was derived from cloud services?

Only asked of respondents who offer cloud based services	Total	Distributor Volume Reseller (LAR)	Specialist Reseller	Technical VAR	IT Consul-tancy	Managed Service Provider	IT Outsourcer	IT retailer	Systems Integrator
0 - 5%	**21%**	14%	70%	25%	25%	9%	7%	43%	17%
6 - 10%	**20%**	14%	10%	33%	17%	11%	29%	14%	42%
11 - 15%	**16%**	0%	20%	17%	17%	17%	29%	0%	8%
16 - 20%	**17%**	29%	0%	8%	29%	20%	7%	0%	17%
21 - 25%	**8%**	14%	0%	8%	8%	9%	7%	29%	0%
26 - 50%	**12%**	29%	0%	8%	4%	17%	21%	14%	8%
More than 50%	**6%**	0%	0%	0%	0%	17%	0%	0%	8%
Average %	**18.09%**	20.79%	5.15%	12.04%	12.88%	28.30%	17.25%	14.21%	17.25%
Base	121	7	10	12	24	35	14	7	12

It could be argued that this reflects both the relatively young cloud services market not yet impacting partner revenue streams as significantly compared to in-premise sales, or that the high rates of perceived end-user adoption identified in the research clearly involve some end users taking a self service approach to accessing some cloud services.

The IT channel does appear to have recognised this and is already making provision in its future thinking and future revenue projections. Indeed when asked what percentage of their revenue do they feel will come from cloud services by 2014, the average figure leapt to 32.87 per cent.

A closer examination of the figures also reveals a dramatic leap in revenue expectations across all segments of the IT channel, with the greatest expectations unsurprisingly in the MSP space where 17 per cent of the sample stating that they expected over 50 per cent of their revenues to come from cloud services alone. Overall the gains expected in each segment are profound and would require a dramatic change in the operational structure and capability of many channel organisations if they are to be achieved.

By 2014 one third of IT channel revenue could be derived from cloud services

What percentage of your revenue do you feel will come from cloud services by 2014?

Only asked of respondents who offer cloud based services	Total	Distributor Volume Reseller (LAR)	Specialist Reseller	Technical VAR	IT Consul-tancy	Managed Service Provider	IT Outsourcer	IT retailer	Systems Integrator
0 - 5%	**1%**	0%	0%	0%	4%	0%	0%	0%	0%
6 - 10%	**7%**	14%	10%	0%	4%	3%	7%	29%	17%
11 - 15%	**12%**	0%	10%	33%	8%	9%	14%	29%	0%
16 - 20%	**20%**	29%	40%	25%	29%	6%	14%	0%	33%
21 - 25%	**12%**	0%	30%	8%	8%	11%	29%	0%	8%
26 - 50%	**31%**	43%	10%	25%	42%	34%	14%	43%	33%
More than 50%	**17%**	14%	0%	8%	4%	37%	21%	0%	8%
Average %	**32.87%**	33.29%	20.00%	26.50%	27.65%	45.89%	33.07%	22.29%	28.17%
Base	121	7	10	12	24	35	14	7	12

5. Cloud: IT channel friend or foe?

Interestingly when asked whether the cloud was a threat to their existing business model, those IT channel suppliers currently not offering cloud based services overwhelmingly believe that it is not (86 per cent).

Fifty five IT channel organisations questioned stated categorically that they were not convinced that the market is ready to embrace the cloud.

Indeed, they identified their reasons, and top of that list was data security which is in line with end user concerns. However, this was seen by end users as an issue to overcome and not a reason not to proceed in stark contrast to some of the channel organisations. In addition, other reasons given by some IT channel organisations for non-participation were a lack of market understanding in the customers' mindset and the belief that many end users are still geared to an on-premise model for IT delivery. Again, however, these do not stack up as fundamental barriers to entry but appear reflect a lack of confidence and clarity on how those channel organisations can overcome such concerns internally and with their customers.

Around one in seven organisations who don't provide cloud services see them as a threat

Why do you think that the market is not ready to embrace cloud services?

Only asked of respondents who do not believe that the market is ready to embrace cloud services	Total	Distributor Volume Reseller (LAR)	Specialist Reseller	Technical VAR	IT Consul-tancy	Managed Service Provider	IT Outsourcer	IT retailer	Systems Integrator
Security concerns	**53%**	50%	33%	71%	53%	59%	43%	0%	60%
Lack of market understanding	**44%**	50%	67%	29%	44%	47%	71%	0%	30%
Customers operations are still geared towards on-premise IT delivery	**42%**	25%	50%	29%	42%	53%	43%	0%	30%
Unproven concept / too much to lose if use of cloud isn't successful	**33%**	25%	50%	0%	33%	53%	29%	0%	30%
Infrastructure concerns	**27%**	25%	17%	29%	27%	41%	29%	100%	0%
Commercial Lock-in and interoperability concerns	**22%**	25%	33%	29%	22%	29%	0%	0%	0%
Other	**13%**	25%	33%	14%	13%	0%	14%	0%	10%
Base	55	4	6	7	55	17	7	1	10

It is also worth revisiting the results about the perceived differences between cloud and on-premise models as almost half (46 per cent) of resellers said that cloud services are better than on-premise solutions as opposed to less than a fifth (18 per cent) that preferred on-premise provisioning. For those that believed cloud services are worse than on-premise the key message that came out from the research was that the cloud does not offer the same level of control for them or their customer over the services or data.

It is worthwhile contrasting the end user research with the IT channel research at time to identify differences in the perspectives of these audiences:

One figure stands out in the research conducted amongst end users. When asked if cloud services could change the nature of how their organisation buys IT solutions, 66 per cent stated that it could encourage self-service.

The same research did however find that 60 per cent of end users had an existing relationship with a specific IT reseller. And the bigger the organisation the stronger the relationship!

Furthermore, when considering a new IT solution 93 per cent of end user organisations are currently taking advice from third parties, such as existing IT channel partners. This figure alone should give heart to those in the IT channel concerned about the impact of the cloud on their existing business relationships and business models.

But this does come with a health warning. When analysed in detail 24 per cent of the entire end user sample turned to independent IT consultants for advice on cloud services, 20 per cent to the web, and 35 per cent to their existing systems integrator or IT reseller.

When asked if they are having an active dialogue with their channel partners on cloud provisioning, a total of 62 per cent of end users confirmed that they are, a figure that was broadly similar across all company roles and sizes. However, that leaves almost 40% who don't perceive that they are, of which the majority believe this is because their suppliers (the Channel) have not raised it with them.

It is also of note that 60 per cent of end users questioned are already actively engaging in direct conversations about the cloud with solution provider rather than the IT channel, and clearly stating that they are receiving the educational support they need from them. This represents a major opportunity for the IT channel in educating the end user on cloud services and the way they buy IT solutions in general.

According to the research, a third of end user organisations do not intend changing their existing procurement practices in the near future. But before the IT channel views such conservatism as an opportunity, it needs to be aware of the reasons why end users also believe that self service could become a reality. Cost reduction, stated by 69 per cent of the sample, came out as the top reason. In other words disintermediation is perceived to lead to dramatic cost savings in the minds of the customer. Furthermore, flexibility of choice and speed of delivery also factored and scored highly amongst end users on 63 per cent and 47 per cent respectively. However these are all aspects of supply that an effective IT channel can deliver value around.

Almost nine in 10 providers of cloud services consult on the delivery of cloud services

What is true across both the end user research and the IT channel research is that expectations of cloud services adoption are high and increasing and that both communities are still finding their feet in the rapid pace of change. As such there is a material opportunity for the IT channel to provide sound guidance, support and services to their customers to adopt cloud based services in the areas that they want at the pace that they want, and to establish an effective balance between on-premise and cloud based solutions. There is still a strong bias toward trusted supplier relationships and there is therefore a window of opportunity for the IT channel to take and maintain the initiative. But end user expectations are growing and the need for the IT channel to have a confident sand clear proposition is essential.

6. Contractual relationships

Contractual relationships between cloud resellers and cloud service providers (CSPs) is broadly similar to that between end users and CSPs: Only 40 per cent of participants consciously negotiated their supplier agreement and one in four resellers are able to negotiate the legal terms of their contracts ongoing. Half are offered the chance to agree changes to their CSP's contract. Resellers appear, however, better protected from having their contracts changed without notice, with less than a fifth (19 per cent) saying that their CSP can change a contract simply by posting a new version online.

While around two fifths of resellers' contracts with CSPs are automatically renewed, most (64 per cent) have a warning system in place in case they want to migrate to a new provider.

As with end users, the majority of resellers look for assurances beyond the standard terms of the service level agreement (SLA), with the most commonly-sought protection being data access / privacy controls / audit.

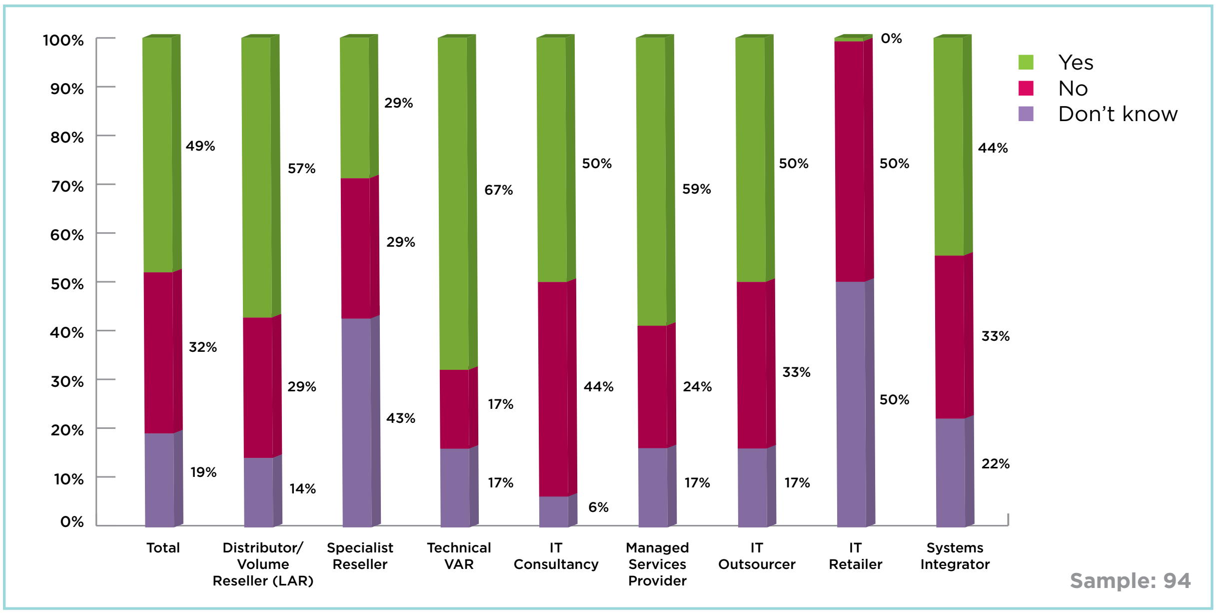
Liability varies greatly depending on the CSP: resellers reported that more than a quarter (27 per cent) of CSP's accept full liability; 31 per cent cap liability at a stated value; while 20 per cent disclaim all liability.

On the issue of indemnity, more than a third of resellers feel there are circumstances when they must indemnify their CSP, while a similar proportion report that CSPs offer indemnities back. Overall, this seems not to be a key area of concern, with fewer than half of resellers worried about CSP indemnities.

However, a far greater concern to resellers is the issue of data location. Almost three quarters (73 per cent) of respondents said it was important that their CSP only stores data inside the UK, European Union (EU) or European Economic Area (EEA). Interestingly, when looking at the need to store data only in the UK, only 22 per cent of the IT channel believed this was essential, whereas over 40 per cent of end users required this (increasing to over 50 per cent for smaller companies and public sector).

Around four in 10 respondents have their CPS contract set to renew automatically

Can your CSP publicise the fact you are a customer?

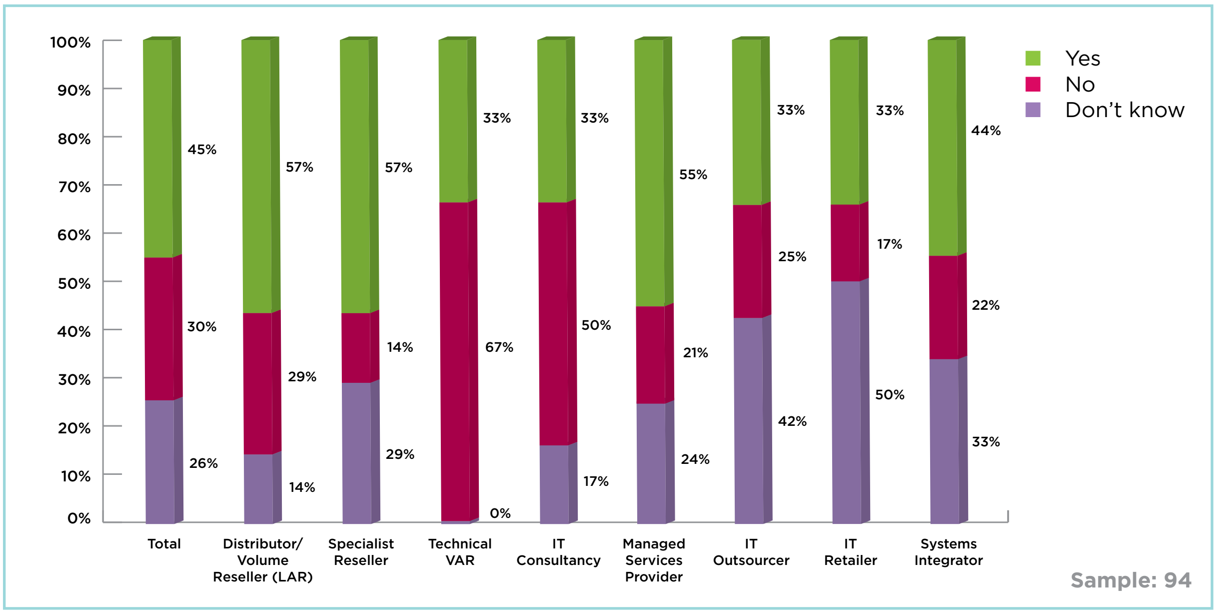


The potential impact of different countries' laws mean that more than two thirds of resellers would insist that their data only be stored in the UK, EU or EEA.

When it comes to data and document ownership, resellers are somewhat less likely than end users to have confidence that CSPs will not take ownership of their data, or their customers' data; although two thirds of resellers were confident that their contracts do not give data ownership to CSPs. Again, less than half of resellers (46 per cent) have considered who controls documents stored by CSPs if they were to be involved in a court case.

Finally, the survey found that many resellers are failing to plan for emergencies, with more than half lacking a plan to migrate services if their CSP terminates abruptly. What is more, less than half of respondents have defined what constitutes an "emergency" should their CSP suspend their service

If your CSP terminates abruptly for your breach, do you have a plan to migrate the service to another CSP?



7. Conclusions:

1. The IT channel in the UK recognises the importance of Cloud Computing and the need to carry cloud solutions and services as part of their overall portfolio.

2. In regard to understanding the end user attitudes to cloud computing the IT channel participating in cloud services were fairly in tune with general market sentiment and cited technical flexibility, cost containment and cost predictability as key end user drivers and data privacy, security and network capacity as key end user concerns.

3. In terms of the business case for IT channel to offer cloud services the key drivers were jointly to secure long term revenue streams and to offer their customer base greater choice by handling both on-premise and hosted solutions.

4. Those partners that perceived cloud services to be worse than on-premise believe this is because cloud cannot offer their customers sufficient control over their IT services and does not provide enough enterprise scale feature sets reflecting a bias in the mindset of these organisations that cloud = SaaS, and that SaaS was by nature a standardised (feature set) and fragmented (by vertical application) approach to fulfilling an IT strategy.

5. Most IT channel organisations (61 per cent) claim to already offer some form of cloud services, more notably in the MSP, Outsourcer and Technical VAR segments. Of these, the preferred commercial model is to offer a combination of their own managed services and to resell third party solutions.

6. 76 per cent of active IT channel partners provide proactive advice and guidance on cloud services and 48 per cent of them prefer to sell cloud services over on-premise and a further 40 per cent had no preference between on-premise and cloud solution sales.

7. For those organisations not yet offering cloud services, 51 per cent intend to but are not ready, 19 per cent do not believe they have the skills to sell or manage cloud services and 30 per cent do not ever intend to offer them as they believe the market opportunity is not tangible. 14 per cent of the companies not offering cloud services believe them to be a threat to their business (primarily driven by responses from Technical and Specialist VAR's), whereas the majority (86 per cent) do not.

8. The primary beliefs of partners not yet engaging in delivery of cloud services are that end users concerns over cloud security, investment in on-premise infrastructure and lack of cloud market understanding will hinder market adoption.

9. Where partners see cloud as a competitive threat, 36 per cent believe cloud competes with their primary offering, 27 per cent believe cloud diminishes their relationship with their customers and 18 per cent do not believe there is a viable commercial business model for them to participate in.

10. Surprisingly 43 per cent of the total participants claimed to already operate their own data centres and a further 31 per cent owned their own infrastructure but hosted it in co-location facilities. Only 11 per cent OEM'd services and 17 per cent resold services under the vendor's brand. When looking at the weighting of those that own data centres, it was unsurprising to note that this was skewed toward organisations that have been offering managed services for some time.

11. SaaS is currently the most preferred model for participation in Cloud Services, followed by IaaS and PaaS in that order.

12. In terms of solutions being delivered to market, the priority of IT channel partners was at odds with the end user community reflecting that the evolution of services in a IT channel community are more likely to evolve from an area of competence rather than an area of market demand. IT channel rated back-up, storage and business intelligence and security solutions as their highest focus areas, whereas the same question to end users ranked email, backup/DR, webhosting and storage.

13. On average the IT channel organisations claimed 18 per cent of current revenues were derived from cloud services and that they predicted this to grow to 33 per cent within three years.

14. IT channel organisations value the opportunity to offer services under their own brand and as such White Label solutions were seen as more attractive to branded solution sales by a factor of 2 to 1. This was particularly important to IT consultancies, MSP's and SI's who believed their trusted brand was important to customer confidence. However, 37 per cent of the participants were undecided on whether White Label was relevant for their specific business, a position held by the majority of Specialist and Technical VAR's and IT Retailers.

15. The most significant issues the IT channel had to overcome in offering cloud services initially were perceived to be:

- **a.** Market seen as unproven so they were early adopters
- **b.** Restructuring their financials from an on-premise model
- **c.** Justifying to customers the need to reinvest in software that the customer had licensed on premise
- **d.** Training the sales and technical teams
- **e.** Establishing new trusted partnerships to offer a complete solution.
- **f.** The fear of software partners becoming competitors.

16. Whilst the IT channel were fairly au-fait with the drivers of end user participation in cloud services, the solutions they chose to offer were less aligned with current end user expectations reflecting that services were being offered based upon ability to deliver rather than on investing to offer market requirements. That said IT consultancies and transactional organisations like Distributors and Large Resellers were more aligned in their portfolio to end user priorities.

17. 72 per cent of the IT channel companies providing cloud services believed that vendors were doing enough to educate and support them in their markets. Of those that were dissatisfied, training and commercial flexibility were the most prevalent issues.

18. Only 40 per cent of IT channel organisations consciously negotiated their supply agreements with cloud technology vendors.

19. 73 per cent of the researched base would prefer to work with cloud vendors that are certified to an independent code of practice, reinforcing the view and activities of the 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.

We achieve this through a process of self-certification of vendors to a cloud Service Provider Code of Practice requiring executive commitment and operational actions to ensure the provision of critical information through the contracting process. This Code of Practice, and the use of the related Certification Mark on participant's websites, is intended to provide comfort and promote trust to businesses and individuals wishing to leverage the commercial, financial and agile operations capabilities that the Cloud based and hosted solutions can cover.

The Cloud Industry Forum

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