Service Provider Opportunities and the Multiple Dimensions of Cloud

Melanie Posey, Research Director, Hosting & Telecom Markets
IDC
Agenda

Putting Cloud in Context
Market Trends
Impact to Hosting
Leveraging the Cloud
Selling the Cloud
Enabling the Cloud
Recommendations
History of “Outsourced” Models: From Time-sharing to Cloud

Key Messages:
- Service model of “cloud” has been around for a long time, taking various names and formats
- Cloud-based services do offer unique capabilities that prior “outsourced” models could not
- Cloud: new way to provide/consume existing capabilities and a new way to develop new capabilities

History of “Outsourced” Service Models

<table>
<thead>
<tr>
<th>Year</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>Telecommunications (Public Switch Telephone Networks)</td>
</tr>
<tr>
<td>1950</td>
<td>Processing Services (FDC, Fiserv)</td>
</tr>
<tr>
<td>2000</td>
<td>Web Hosting</td>
</tr>
<tr>
<td>2010</td>
<td>SaaS</td>
</tr>
<tr>
<td></td>
<td>BPO-SaaS</td>
</tr>
<tr>
<td></td>
<td>Application mgmt</td>
</tr>
<tr>
<td></td>
<td>Data Center Outsourcing</td>
</tr>
</tbody>
</table>

Common Characteristics
- Datacenter centric
- Pricing: Pay-as-you-go; fixed fee
- Capital intensive
- SLA-driven
- Contract-based
- “Perishable” consumption
- Scalable
- Localized

Uniqueness of “Cloud” Services
- Self-configuring and code creation
- Granularity of service
- Personalization of services
- Web-centric
- Speed of provisioning
- Device and location independence
- Magnitude of scalability
## What Are Cloud Services?

<table>
<thead>
<tr>
<th>Cloud Services</th>
<th>Consumer and business products, services and solutions delivered and consumed in real-time over the Internet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits/Attributes</td>
<td>More efficient, Simpler to adopt, Faster to deploy, Scalable to need, Priced to use, Broader reach</td>
</tr>
</tbody>
</table>
| | - Shared (one-to-many) service  
| | - Solution-packaged  
| | - Self-service provisioning  
| | - Dynamic, and fine-grained ("elastic"), service scaling  
| | - Usage/user-oriented pricing (and utilization and cost tracking)  
| | - Accessible via the Internet/IP  
| | - Standards-based UI (browser/RIA and successors)  
| | - Published program/service interface (e.g., web services APIs)  |

### Deployment Models

| Public | open to a largely unrestricted universe of potential users; designed for a market, not a single enterprise |
| Private | designed for/access restricted to a single enterprise (or extended enterprise); internal shared resource, not a commercial offering; IT organization the “vendor” of the shared/standard service to its users |

[Note: large gray zones between these two broad categories]
Delivery Model Shift in Key IT Markets

Worldwide IT Spending by Consumption Model*

<table>
<thead>
<tr>
<th>Year</th>
<th>IT Cloud Services (billion)</th>
<th>On-Premise IT (billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>17</td>
<td>359</td>
</tr>
<tr>
<td>2013</td>
<td>5%</td>
<td>416</td>
</tr>
</tbody>
</table>

CAGR
- IT Cloud Services: 26%
- On-Premise IT: 4%

* This is a subset of the worldwide IT market, representing business IT spending on Business Applications, Systems Infrastructure Software, Application Development & Deployment Software, Servers and Storage.

Source: IDC, 3Q09

Parallels Summit '10

Profit from the Cloud
Cloud’s Position in Asia/Pacific

How familiar are you with the concept of cloud computing?
- 77% I am familiar with cloud computing/cloud services
- 12% Heard of the concept but don’t know much about it
- 11% I have never heard of the concept

What is your opinion of the current state of cloud computing?
- 25% A very exciting opportunity
- 22% Very promising but not enough services available
- 18% Interesting concept but would be resisted by my company
- 17% Too immature at this point to judge
- 10% Just renaming of an old concept

Familiarity is high, but opinion is low!

Source: IDC Asia/Pacific End-user Cloud Computing Survey, 2009
Cloud’s Position in Europe

% of respondents in country/region using 7 or more IT cloud services*

Source: IDC European Enterprise Services Survey, 2009
Bringing Cloud Down To Earth

Cloud services: all about providing customers with a set of third-party datacenter-delivered/hosting-centric services

- External sourcing of IT/application requirements
- Cloud = integrated capabilities, not technology piece parts
- No equipment required: operating expense, not capital investment

Spectrum of service options

<table>
<thead>
<tr>
<th>Traditional IT and private internal cloud</th>
<th>&quot;Bare-metal&quot; resource cloud</th>
<th>Cloud-sourced capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-home washer and dryer</td>
<td>Laundromat</td>
<td>Dry Cleaner</td>
</tr>
<tr>
<td>&quot;In-Sourced&quot;</td>
<td>&quot;Self-Servicing&quot;</td>
<td>Provider-Serviced</td>
</tr>
<tr>
<td>Customer owned and managed</td>
<td>Provider-owned components, customer-managed integration</td>
<td>Provider-owned and integrated solutions</td>
</tr>
</tbody>
</table>
IT Cloud Services: “Crossing the Chasm”

Technology Adoption Life Cycle
Groups are distinguished from each other based on their characteristic response to discontinuous innovations created by new technology.

Source: Chasm Group

Early Markets
- Innovators: 2 ½%
- Early Adopters: 13 ½%
- Techies: Try it!
- Visionaries: Get ahead!

Mainstream Markets
- Early Majority: 34%
- Early Majority: Stick with the herd!
- Pragmatists: Hold on!

Late Market
- Laggards: 16%
- Late Majority: 34%
- Conservatives: No way!
- Skeptics: No way!

We Are HERE

Cloud still evolving but shift from Early Adoption to Early Mainstream is underway:
Now is the time to begin understanding the options!
Convergence in the Hosting Universe

- Infrastructure-as-a-Service
- Security
- Virtual desktop
- Testing & development
- Infrastructure-as-a-Service
- Web Hosting
- Messaging & collaboration
- CRM
- Content management
- Ecommerce/online marketing
- Backup/recovery
- Personal/business productivity
- Software-as-a-Service
- Customer Experience
- Data Management
- Business Process
- Compliance
- App. Platform
- DC Infrastructure
- Network
- Business process-as-a-service

SERVICE PROVIDER PLATFORMS

Profit from the Cloud
Leveraging the Cloud
Next-Generation Service Provider Architecture

Consolidate
- Standardization, Cost reduction, performance improvement

Virtualize
- Simplify access, improve end-to-end mgmt, maximize use

Automate
- Faster provisioning, predictable operations,

Orchestrate
- Flexible service creation, ecosystem development

- Lower Cost
- Improved Operational Efficiency
- Rapid Service Creation

Parallels Summit '10
Profit from the Cloud
Small Businesses May Use Public Cloud Services as Most of IT...

Application Functionality Consumption Emerges

IT Complexity Disappears
Why Cloud? SMB Perceived Benefits

- Pay for what you use: 77%
- Easy/fast to deploy to end-users: 76%
- Monthly payment model: 76%
- Always offers the latest functionality: 67%
- Reduced in-house staff/skills required: 64%
- IT systems standardization: 64%
- Simplified systems/information sharing w/business partners: 63%
- Seems like the way of the future: 50%

% of respondents 3, 4, 5 on a 5-point "importance" rating scale
Panel, 3Q09 (SMBs and large businesses)

Source: IDC Enterprise
Why Not Cloud? SMB Challenges/Issues

- **Security**: 84%
- **Performance**: 81%
- **On-demand payment model may cost more**: 81%
- **Availability**: 81%
- **Bringing back in-house may be difficult**: 78%
- **Lack of interoperability standards**: 76%
- **Limited ability to customize**: 74%
- **Integration with in-house IT**: 72%
- **Major suppliers not yet on board**: 65%
- **Regulatory requirements**: 64%

% of respondents 3, 4, 5 on a 5-point "importance" rating scale
Source: IDC Enterprise Panel, 3Q09 (SMBs and large businesses)
What Do SMBs Want in a Cloud Provider?

Many of the same things they want from any type of IT service provider…

- Competitive pricing: 91%
- Offers SLAs: 88%
- Option to move 'cloud' offerings back on-premises: 86%
- Provides a complete solution: 83%
- Understands my business/industry: 82%
- Offers public and private versions of cloud: 78%
- Large network of partners to leverage: 78%
- Can support many of my IT needs: 78%
- Technology and business model innovator: 76%
- Big, established companies in their market: 66%
- Have already done business with my organization: 52%

% of respondents 3, 4, 5 on a 5-point “vendor requirements” rating scale
Enterprise Panel, 3Q09 (SMBs and large businesses)

Source: IDC
Selling the Cloud: First-Mover Offerings

Q. Rate your likelihood of pursuing the cloud model for the following...

Web hosting, email/collaboration:
- Cloud extends flexibility, interoperability

Data storage and leverage:
- Cloud broadens reach and value proposition of storage, enabling new add-on capabilities around backup, archiving and distribution, analytics

Business/productivity apps:
- Cloud enhances accessibility and enables consumption-based purchasing

<table>
<thead>
<tr>
<th>Service Type</th>
<th>2012</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Web applications/serving</td>
<td>53%</td>
<td>43%</td>
</tr>
<tr>
<td>Messaging/collaboration</td>
<td>53%</td>
<td>45%</td>
</tr>
<tr>
<td>Data back-up/archive</td>
<td>47%</td>
<td>36%</td>
</tr>
<tr>
<td>Personal productivity apps</td>
<td>41%</td>
<td>32%</td>
</tr>
<tr>
<td>Business applications</td>
<td>41%</td>
<td>32%</td>
</tr>
<tr>
<td>IT Management</td>
<td>40%</td>
<td>29%</td>
</tr>
<tr>
<td>Data/content distribution</td>
<td>36%</td>
<td>28%</td>
</tr>
<tr>
<td>IT/Information Security</td>
<td>35%</td>
<td>28%</td>
</tr>
<tr>
<td>Storage capacity on-demand</td>
<td>35%</td>
<td>22%</td>
</tr>
<tr>
<td>Network capacity on-demand</td>
<td>35%</td>
<td>22%</td>
</tr>
<tr>
<td>Server capacity on-demand</td>
<td>31%</td>
<td>21%</td>
</tr>
<tr>
<td>Test/dev</td>
<td>30%</td>
<td>24%</td>
</tr>
<tr>
<td>Business Analytics</td>
<td>29%</td>
<td>22%</td>
</tr>
</tbody>
</table>

% of respondents 3, 4, 5 on a 5-point “current/planned usage” rating scale

Source: IDC

Enterprise Panel, 3Q09 (SMBs and large businesses)
Selling the Cloud: Multiple Approaches

Extend the value of existing services
- Faster provisioning/implementation
- Broader range of service plans and options

Transform the customer experience
- Integrated ‘service catalog’ approach to online selling
- Self-service for deployment and moves/adds/changes

Reinvent the service creation process
- Extensible service delivery infrastructure to easily accommodate new offerings
- Enable third party application/service integration and distribution
- Enable self-service deployment and moves/adds/changes
Enabling the Cloud

Cloud does not mean commoditization: *but thinking outside (and beyond) the box*

- Evolution toward new ecosystem-driven partnerships

Connect all the elements to enable functional integration of partner offerings and expertise

No single entity “owns” or “dominates” the cloud

- Federation/aggregation of cloud-based capabilities – key value chain opportunity for service providers
- Create/enable transaction-oriented framework for multiple actors

Next-generation service provider value proposition: unified delivery environments for deployment, management, and distribution of IT-as-a-service for SMBs
Enabling Cloud Ecosystems

**SMBs**
- Package hardware, software, and application capabilities into easily consumable service functionality
- Low-cost service delivery
- Breadth of capabilities
- Security, availability and performance

**Service Provider**
- Optimize supply chain and capabilities sourcing
- Serve as channel for partner product sales and/or platform for partners’ direct sales efforts
- Help partners’ customers provision smoothly
- New business model enablement

**Partner Ecosystem**
- ISVs
- VARs
- MSPs
- Packaged software vendors
- Cloud tools and enablement
- Online service providers
Service Providers: Essential Guidance

Position cloud as evolution (“next-generation hosting”) not revolution
  • Enhanced ease of use, simplified implementation, new feature functionality, rapid provisioning

Embrace the cloud, but make it your own
  • Access to technology/business applications is key: not infinite scalability or usage-based component pricing

Leverage cloud to refine your brand
  • Expand marketing focus to embrace SMB IT consumers, not just developers, integrators, and IT managers

SMBs are cautious by nature and suspicious of hype
  • Position cloud as a means to an end: a sourcing strategy for unmet business needs

Help SMBs cross the cloud chasm by taking the leap first!
Thank You
Questions? Comments?

Melanie Posey
mposey@idc.com