



Customer Needs and Strategies

U.S. IT Buyer Survey Shows Outsourcers Bring Strength to Cloud

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This is an IDC Excerpt developed for IBM

IN THIS EXCERPT

The content for this excerpt was taken directly from IDC Customer Needs and Strategies: U.S. IT Buyer Survey Shows Outsourcers Bring Strength to Cloud. All or parts of the following sections are included in this excerpt: IDC Opinion, In This Study, Situational Overview, Essential Guidance, and Synopsis. Also included are Figure 2, 6, & 7, and Tables 1 & 2.

IDC OPINION

In a buyer study of U.S. enterprises with 1,000+ employees, involving more than 400 respondents, organizations provided their perceptions of the preferred business models and service providers-outsourcers from which they would want to procure private or public cloud services and infrastructure as a service (IaaS). According to the study, buyers ranked full service outsourcers (e.g., IBM, HP) as their top business model preference for providing cloud services, followed by ISVs (e.g., SAP, Microsoft, Oracle), network operators (e.g., AT&T, Verizon), and SaaS providers (e.g., salesforce.com, NetSuite). When it came to the vendors themselves, buyers selected IBM as their overall top preference among providers they believe can most effectively provision IaaS, whether private or public, followed by Cisco, HP, AT&T, and Google. Based on ongoing IDC research, success for players in offering what are essentially the next generation of outsourcing-managed services, referred to as cloud services (e.g., PaaS, TaaS, IaaS, SaaS, BPaaS), will require understanding how the fundamental landscape is changing, developing a detailed blueprint of what is required to win in this new world of outsourcing, and defining where to position themselves at the optimal point within the industry that aligns with their own business model. Key findings of this study include the following:

- Google and Amazon (AWS) appear to be driving the brand of a new industry and business model for outsourcing using a cloud-based model of consumption and delivery.
- Buyers give strong performance ratings of cloud service providers for quality of service and overall costs, though IDC expects the need for much higher performance levels in the future.
- Misalignment of business model preferences with preferred "branded" providers requires service providers and outsourcers to adapt their business models and brands to align with the business model of a cloud provider and its ecosystem in delivering cloud-based business applications (e.g., ERP, CRM, SCM) and infrastructure (e.g., server, storage).



- There is a need to build to "where the puck is going" and not based on legacy business models of outsourced-managed services.
- Implementing a gap analysis comparing existing capabilities with requirements of a pure-play cloud provider will help define strategic investments.

IN THIS STUDY

This study provides the results of a buyer-side/demand-side survey of U.S. enterprises with 1,000+ employees, involving more than 400 respondents, on their perceptions of the preferred business models and service providers-outsourcers from which they would want to procure private or public cloud services and IaaS. The results of this study rank the top buyer preferred business models from which to procure cloud services that involve 11 industry structures such as full service outsourcers, offshore providers, ISVs, network operators, SaaS providers, and online. In addition, this study provides the results of buyer perceptions of vendors that they believe can provide IaaS most effectively. This study also discusses that while these are today's top buyer choices of preferred business models and service providers-outsourcers, IDC's view is that the long-term winners competing in the market for cloud services will need to build their business models to an end-state structure that mimics the auto industry and increasingly will be dominated by more pure-play cloud service providers. Finally, this study provides essential guidance that it believes competitors in this space need to implement to ensure long-term success.

SITUATION OVERVIEW

Preferred Provider Business Models for Cloud Services

Figure 2 highlights the top business model preferences of U.S. buyers for cloud services, whether private (dedicated) or public (shared). Though these are buyer preferences in today's market, IDC believes that over time, the top preferences will include newer business models such as online and SaaS. IDC believes that while each of these business models is facing a number of challenges in positioning itself as the dominant preference over the long term, IDC thinks that the following factors are likely key reasons for the position of each of these different business models in today's market:

- **Full service outsourcer.** This category of business models for providing cloud services likely leads all buyer preferences as it has deep historical roots (more than two decades) and the brand in providing managed-outsourced services for business applications (e.g., ERP, CRM, SCM) and infrastructure (e.g., datacenter, network, desktops). In addition, this business model can provide, as part of an outsourced-managed services engagement, the required professional services (e.g., technology consulting, systems integration, custom application development, testing services) needed to support buyers in moving to cloud services. The fundamental challenges facing service providers of this business model is moving to a utility-based services model similar to telecommunications and power but in delivering business applications (see *For Traditional Services Firms Moving to the Cloud, the Clock Is Ticking*, IDC #237820, November 2012).
- **Software company or ISV.** ISVs or software companies are the second-most selected business model by U.S. buyers for providing cloud services. Interestingly, while ISVs are not



as well known for providing managed application and infrastructure services, IDC believes that the locus of buyer perception for using cloud services is centered on the business application (e.g., ERP, SCM, CRM). In addition, ISVs have a deep understanding of an organization's business processes as the software essentially houses the IP for these processes. For ISVs, the fundamental challenge is running an outsourcing-managed services business using a utility-based model (see *Success in "Outsourced" Cloud Services Involves Building to the End State, Understanding Your Genetic Code, and Avoiding Potential Pitfalls and Dead Ends*, IDC #224534, September 2010).

- **Network operator.** Network operators, the third-most selection business model option for providing cloud services, have at the core of their business the fundamental financial (pay as you go) and service delivery structure called a "utility" needed to deliver cloud services. Interestingly, the telecommunications industry used the concept of the term "cloud" in the 1990s. In addition, the concepts introduced by this industry of business support systems (BSSs) and operations support systems (OSSs) are being adopted by today's cloud service providers. For firms using this business model, IDC believes that one of their biggest challenges is in managing and delivering business applications (e.g., CRM, SCM, ERP) (see *From Traditional to Cloud-Based Outsourced/Managed Services: Optimal Business Models for Multiprovider Management in Delivering Business Process and Application Services*, IDC #246747, February 2014).
- **SaaS provider.** Though ranking as the fourth choice among U.S. buyers, the SaaS model of providing an outsourced-managed services for applications and infrastructure combines the utilitylike model of telecommunications with the traditional outsourcer's model of managing business applications (e.g., ERP, SCM, CRM). A major challenge for providers using this business model is building the level of trust among buyers that this business model is viable for the long term and can provide the breadth of functionality and flexibility buyers need (see *Computing Utility: Is IT Adopting the Telco Model*, IDC #22463, June 2000).
- **BPO provider.** Though this business model ranks in the middle of the pack of business model options for cloud services, IDC believes that buyers view BPO providers/processors as having both fundamental knowledge of a business process and being able to provide more utilitylike capabilities involving high-volume (scalable) transactions at very low cost and on a pay-as-you-go model, more often in the form of number of transactions processed. However, IDC believes that providers using this type of business model are faced with having to build core expertise in operating and supporting business applications and infrastructure. In addition, IDC has noted in prior research that in the longer term, IDC expects that the business "support" function within a BPO engagement will be increasingly executed independently of the provisioning of the IT services in the form of cloud services. Essentially, there will be one provider delivering the business process support and a second provider managing the IT environment as a cloud service. This is actually very similar to many current engagement models of BPO services (see *Buyer Need for Benchmarking Tipping Point in Outsourcing Private Clouds and Cloud Service Providers*, IDC #242673, August 2013).
- **Consulting firms.** While buyer interest in this business model from which to procure cloud services is relatively low, IDC believes that buyers view consulting firms as having the business knowledge that is key to ensuring that an IT environment supports an organization's business objectives. However, the business models of a consulting firm, with its "high-touch" (e.g., deep relationships), high-priced, and highly customized approach to working with clients, is at extreme odds with the "low touch" and highly transactional nature of consuming cloud services using standardized offerings at much lower prices (e.g., pay as you go). In addition,



skills of a consultancy don't align with the skills of a managed service that centers on operations management.

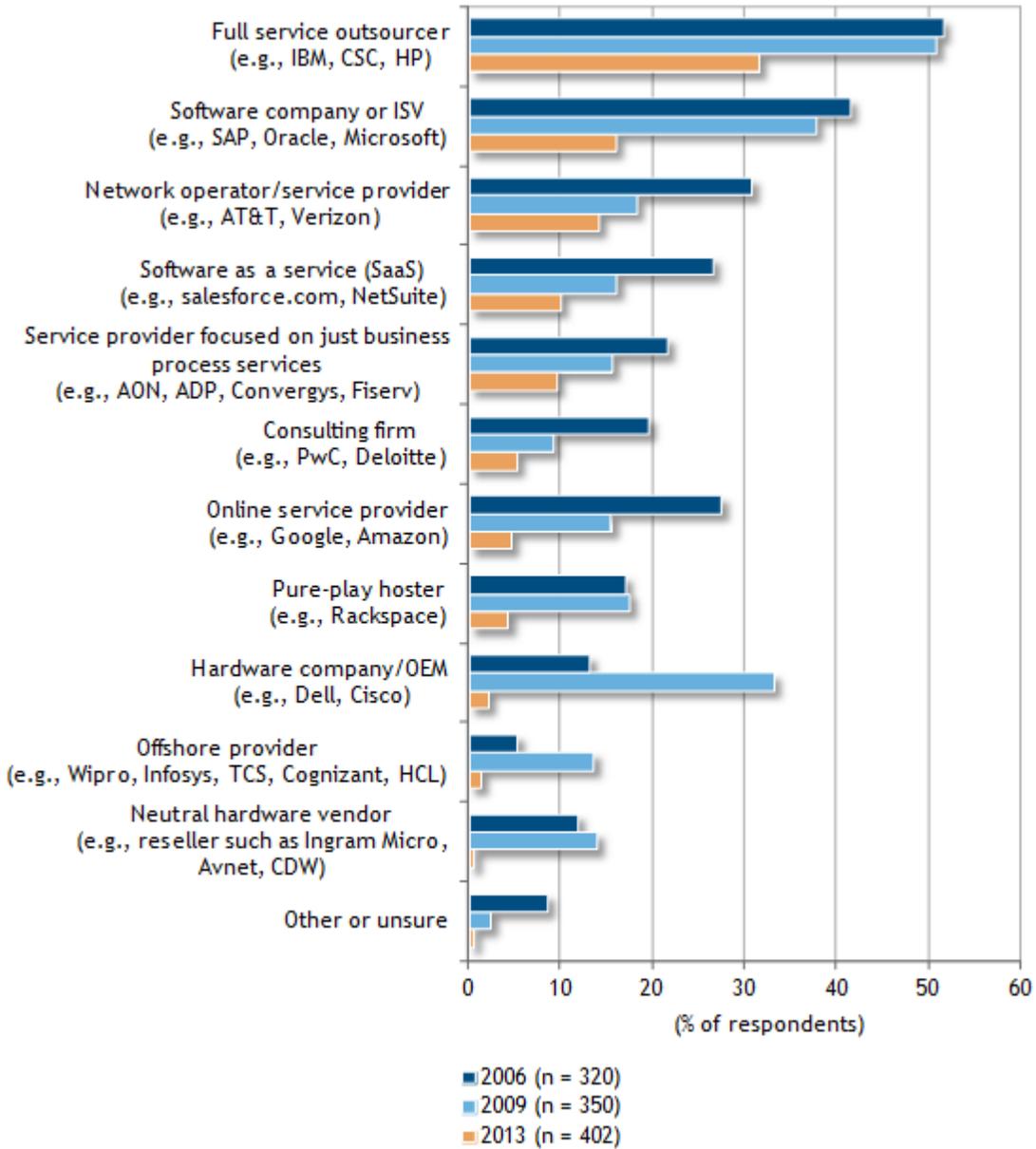
- **Online service providers.** As discussed in a 2004 IDC study, the online service provider model has many of the makings of a utility-based model (e.g., shared infrastructure, scalable on demand). Further, buyers likely view this business model as having shown its tremendous capabilities in not just delivering many types of services (e.g., communications, content, business applications) using a very flexible service delivery model but also its impressive resiliency during peak periods of usage. The biggest challenge for players using this type of business model is proving the ability not just to deliver business applications (e.g., ERP, CRM, SCM) but also the willingness to take on the liabilities that come with managing these types of application environments (see *Disruption from Below: The Emergence of Amazon, eBay, Google, and Yahoo! As On-Demand Service Providers*, IDC #31536, July 2004).
- **Pure-play hosters.** Many of the pure hosters have been acquired by telecommunications providers and traditional outsourcers over the years. Those still competing in the market as pure-play hosters bring with them the strength of managing datacenter and network environments so needed in providing cloud services as well as in-depth knowledge of delivering services via the Web. However, service providers using this type of business model lack the in-depth capabilities to managing and supporting enterprise business applications (e.g., ERP, SCM, CRM) like traditional outsourcers as well as the utility-based pricing and delivery models of telecommunications providers.
- **OEMs.** OEMs are ranked as a limited business model option for providing cloud services. While OEMs do bring with them deep knowledge of infrastructure technologies, their fundamental business model of manufacturing products is in extreme contrast with an outsourcing-managed services business model needed to deliver cloud services. IDC believes players, such as OEMs, that are looking to compete as providers of outsourced-managed cloud services and whose business model does not closely align with that of a utility-based business need to create a disruptive unit that can operate independently as part of a separately incorporated business unit and responsible for providing cloud services (see *Utility Computing Services and the Need for a Disruptive Business Unit*, IDC #31814, September 2004).
- **Offshore providers.** U.S. buyers indicate a very low preference for using an offshore provider business model for cloud services. Offshore providers have many of the same capabilities as the full service outsourcers which buyers would likely view as a strong asset in providing cloud services, particularly when it comes to managing enterprise business applications and infrastructure as part of outsourced-managed services. However, buyers may view this business model option of cloud services as more of a labor-arbitrage model of traditional services (see *Offshore Trumps Onshore, But "On-Demand," Utility Computing Trumps Both*, IDC #32136, November 2004).
- **Neutral hardware vendors.** Neutral hardware vendors are ranked as the least likely business model option for providing cloud services. A key strength of these types of vendors, sometimes referred to as value-added resellers (VARs), is their ability to tap into smaller firms. Essentially, their strength is capturing smaller businesses for which it is very hard or near impossible for large vendors such as outsourcers and consultancies to reach. However, perhaps the biggest challenge facing this business model is the potential for being disintermediated (see *Utility Computing Services: The Midmarket Is the Killer App, But Who Does the Delivery?*, IDC #30502, December 2003).



FIGURE 2

U.S. Buyer Preferences of Provider Business Models: 2006, 2009, and 2013

Q. From what type of provider would you want to buy cloud services, whether private (dedicated) or shared (public)?



Note: Respondents were allowed top 3 choices for the 2006 and 2009 surveys and just one selection for the 2013 survey.

Source: IDC's *U.S. Utility Computing Services Survey*, 2006; *U.S. Infrastructure Outsourcing Services Survey*, 2009; and *U.S. Outsourced Cloud Services Survey*, 4Q13



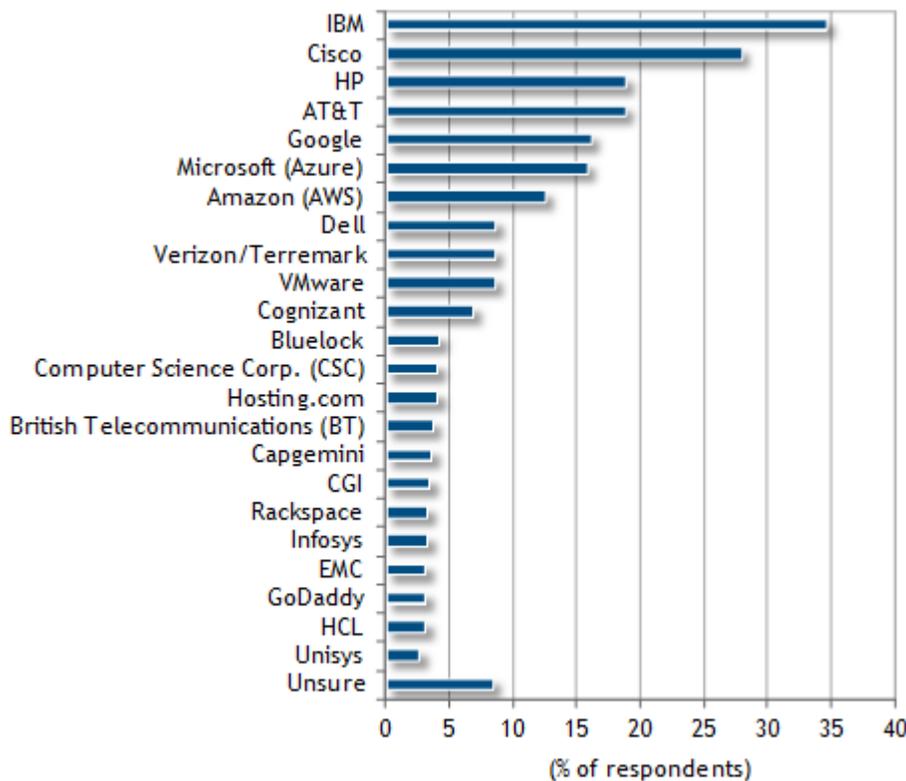
Top IaaS Preferred Providers

Of 43 vendor options, the results of this study highlight that the top 5 vendors that U.S. buyers believe would be most effective in providing IaaS, whether private or public, are led by IBM, followed by Cisco, HP, AT&T, and Google (see Figure 6). The next five respondent selections are led by Microsoft Azure (close behind Google), followed by Amazon AWS, Dell, Verizon/Terremark, and VMware. Each of the vendors beyond these top 10 received 7% or fewer of all responses. It appears that there is a concentration of preferences for the top 10 ranked vendors.

FIGURE 6

U.S. Top IaaS Provider Preferences

Q. Please select the top 3 vendors that you believe can provide infrastructure as a service (IaaS), for private and/or public, most effectively, whether or not you currently utilize these services from third-party providers.



n = 402

Note: The following providers received 3% or fewer respondents' selections: CenturyLink/SAVVIS, BitRefinery, Xerox, Time Warner/Navisite, ScaleMatrix, CIBER, GoGrid, Lockheed Martin, Wipro, Joyent, Atos, SunGard, Tata Consulting Services (TCS), NephoScale, Dimension Data/OpSource, Fujitsu, Northrop Grumman, Tech Mahindra, and Zerolag.

Source: IDC's U.S. Outsourced Cloud Services Survey, 4Q13



Top 10 Preferred IaaS Providers by Company Size

Table 1 ranks the top 10 buyer selections of vendors they believe would be most effective in providing IaaS by the three company-size segments. In general, the named players are fairly consistent across all three company sizes. However, firms with 10,000+ employees ranked offshore provider Cognizant as their ninth preference.

TABLE 1

U.S. Top Buyer Preferences of IaaS Providers by Company Size

Q. Please select the top 3 vendors that you believe can provide infrastructure as a service (IaaS), for private and/or public, most effectively, whether or not you currently utilize these services from third-party providers.

Rank	All Responses (n = 402)	1,000–4,999 Employees (n = 159)	5,000–9,999 Employees (n = 105)	10,000+ Employees (n = 138)
1	IBM	Cisco	IBM	IBM
2	Cisco	IBM	Cisco	Cisco
3	HP	AT&T	AT&T	HP
4	AT&T	Microsoft (Azure)	Microsoft (Azure)	AT&T
5	Google	Amazon (AWS)	HP	Google
6	Microsoft (Azure)	Google	Google	Microsoft (Azure)
7	Amazon (AWS)	HP	Cognizant	Amazon (AWS)
8	Dell	Dell	Dell	Verizon/Terremark
9	Verizon/Terremark	VMware	VMware	Cognizant
10	VMware	Verizon/Terremark	Amazon (AWS)	VMware

n = 402

Source: IDC's U.S. Outsourced Cloud Services Survey, 4Q13

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Top 10 Preferred IaaS Providers by Industry

Table 2 highlights buyer ranking of vendors that they believe would be most effective in providing IaaS by industry. While the patterns of top 10 vendors by industry have many similarities to the overall rankings (refer back to Figure 6), here are some unique selections:

- **Financial services.** CSC is ranked as the 10th preference in financial services.
- **Manufacturing.** Respondents ranked Infosys as their 9th preference.
- **Healthcare.** Hosting.com was the 6th-highest ranked provider for IaaS.
- **Professional services.** Bluelock, Time Warner/Navisite, and GoDaddy are the 8th, 9th, and 10th top preferences, respectively.
- **Telecommunications and media.** Respondents ranked British Telecommunications (BT) as their 9th top preference.
- **Transportation.** Respondents in this industry selected a range of vendors outside the overall top 10. These include Cognizant, CGI, CenturyLink/Savvis, and GoGrid ranked at numbers 5, 7, 8, and 10, respectively.
- **Wholesale and retail.** CSC received a ranking of 9th, followed by Capgemini at 10th.
- **Public sector.** Respondents included EMC with a ranking of 8th and Lockheed Martin at 9th.



TABLE 2

U.S. Top Buyer Preferences of IaaS Providers by Industry

Q. Please select the top 3 vendors that you believe can provide infrastructure as a service (IaaS), for private and/or public, most effectively, whether or not you currently utilize these services from third-party providers.

Rank	Financial Services (n = 84)	Manufacturing (n = 61)	Healthcare (n = 41)	Professional Services (n = 38)	Tele-communications and Media (n = 32)	Transportation (n = 41)	Wholesale and Retail (n = 31)	Public Sector (n = 32)
1	IBM	IBM	IBM	IBM	AT&T	Cisco	IBM	IBM
2	HP	Cisco	Cisco	Cisco	Google	IBM	HP	Cisco
3	Cisco	Microsoft (Azure)	HP	Google	IBM	HP	AT&T	Microsoft (Azure)
4	AT&T	AT&T	Microsoft (Azure)	Microsoft (Azure)	Cisco	Google	Microsoft (Azure)	Amazon (AWS)
5	Amazon (AWS)	Google	Verizon/Terremark	Amazon (AWS)	VMware	Cognizant	Amazon (AWS)	VMware
6	Microsoft (Azure)	Amazon (AWS)	Hosting.com	HP	Amazon (AWS)	AT&T	Dell	Dell
7	Verizon/Terremark	VMware	Amazon (AWS)	AT&T	HP	CGI	Google	AT&T
8	Google	Dell	Google	Bluelock	Verizon/Terremark	CenturyLink/Savvis	Cisco	EMC
9	Dell	Infosys	AT&T	Time Warner/Navisite	British Telecommunications (BT)	Microsoft (Azure)	Computer Science Corp. (CSC)	Lockheed Martin
10	Computer Science Corp. (CSC)	HP	Dell	GoDaddy	Microsoft (Azure)	GoGrid	Cappgemini	HP

n = 402

Source: IDC's U.S. Outsourced Cloud Services Survey, 4Q13



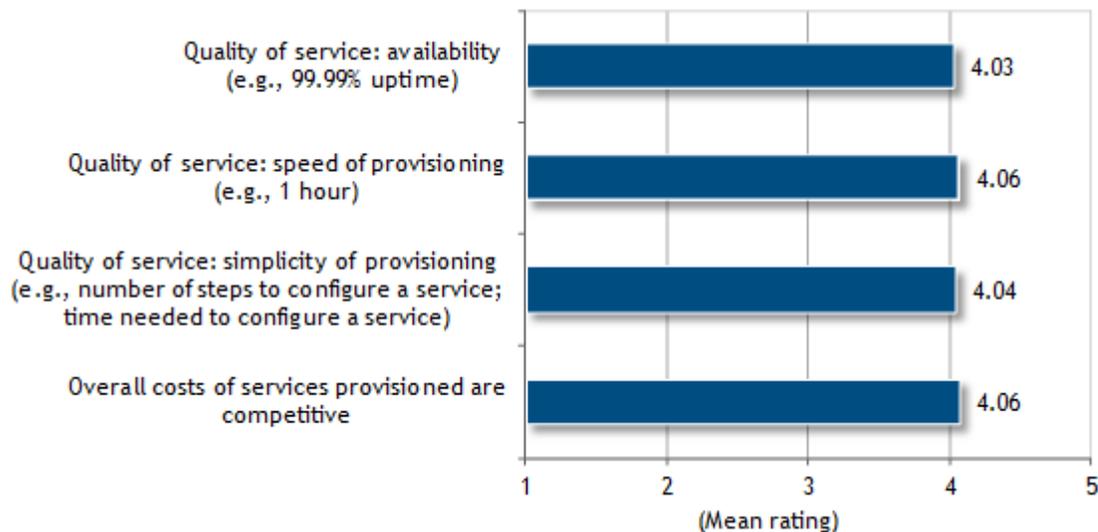
Buyer Satisfaction Ratings of Cloud Service Providers

Overall, U.S. buyers gave their cloud service providers considerably strong average ratings of about 4, with 5 being the maximum rating of top performance. This applies to providing cloud services most cost-effectively as well as meeting the quality of service buyers seek involving availability, speed of provisioning, and simplicity of service provisioning (see Figure 7).

FIGURE 7

U.S. Buyer Ratings of IaaS Providers

Q. Please rank the IaaS providers that you currently use on a scale of 1 to 5 (1 being extremely poor and 5 being extremely good) for the following key attributes.



n = 102

Source: IDC's U.S. Outsourced Cloud Services Survey, 4Q13

ESSENTIAL GUIDANCE

Success for players looking to compete as service providers-outsourcers of cloud services will need to implement the following:

- **Have clear definition of player business models and strategies.** Assess and understand the different business models used by all players competing for cloud services opportunities, which will help ensure optimal positioning in the market based on client needs.
- **Assess the gap between current business model used for cloud services and brand position.** By assessing the market position of a business model (e.g., hardware vendor/OEM ranked as the 9th business model preference) against the specific brand position of a player (e.g., Cisco



ranked number 2), players can create a more detailed view of their key strengths and weaknesses.

- **Don't build cloud services business model based on "legacy" business models.** The need to create long-term viable businesses as providers of outsourced-managed cloud services requires that players build to the future end state of the structure of a pure-play cloud service provider and avoid creating a business model based on legacy structures.
- **Define position relative to evolutionary stages of cloud services industry and end-state business model of cloud services.** Players need to adapt their business models to evolve them as aligned with the end-state structure of a cloud service provider and ecosystem (see *Buyer Need for Benchmarking Tipping Point in Outsourcing Private Clouds and Cloud Service Providers*, IDC #242673, August 2013).
- **Implement gap analysis comparing existing capabilities with requirements as pure-play cloud service providers.** Understanding the maturity level of the market at any given time and the provider's own maturity level will enable a cloud provider to determine its gap from the market. This gap analysis, coupled with the blueprint of the end-state model of a cloud provider's business model and ecosystem, will help determine in what areas to invest and divest (see *Key Financial and Business Factors That Will Shape Future Market Opportunities for U.S. Outsourced-Managed Services*, forthcoming).

Synopsis

This IDC study provides the results of a buyer-side/demand-side survey of U.S. enterprises with 1,000+ employees, involving more than 400 respondents, on their perceptions of the preferred business models and service providers-outsourcers from which they would want to procure private or public cloud services and infrastructure as a service (IaaS). The results of this study rank the top buyer preferred business models from which to procure cloud services that involves 11 industry structures such as full service outsourcers, offshore providers, ISVs, network operators, SaaS providers, and online. In addition, this study provides the results of buyer perceptions of vendors that they believe can provide IaaS most effectively. This study will also discuss that while these are today's top buyer choices of preferred business models and service providers-outsourcers, IDC's view is that the long-term winners competing in the market for cloud services will need to build their business models to an end-state structure that mimics the auto industry and increasingly will be dominated by more pure-play cloud service providers. Finally, this study provides essential guidance that it believes competitors in this space need to implement to ensure long-term success.

"The range of players competing in the market for providing cloud services, what IDC refers to as the next generation of outsourcing-managed services, are using a broad set of different types of business models and represent a wide spectrum of different types of brands," said David Tapper, VP of Outsourcing and Offshore Services at IDC. "Success for all players in the outsourced-managed cloud services market requires that they have a clear definition of player business models and strategies; assess the gap between current business model used for cloud services and brand positioning; don't build cloud services business model based on 'legacy' business models; define position relative to evolutionary stages of cloud services industry and end-state business model of cloud services; and implement gap analysis comparing existing capabilities with requirements as pure-play cloud service providers."

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