Service Providers Put Their Heads in the Cloud

Optimistic about growth potential and comfortable with their business models, IT services companies up their ante in cloud computing

In all fast-developing IT market segments, pundits typically caution against buying too heavily into the inevitable hype around a new way to deliver technology-based services and functionality. But if one segment seems to be justifying all the noise level around its activity, it’s cloud computing.

A host of market research organizations have painted optimistic pictures of cloud computing adoption rates in both small/midsized organizations and large enterprises — across a wide swath of industries and geographies. One important source of optimism for cloud computing’s accelerated adoption is the development of a key cog in the cloud computing ecosystem — third-party organizations delivering cloud services in a variety of formats, helping IT organizations improve agility, flexibility and cost efficiency.
A new market survey conducted with North American-based cloud services providers (CSPs) sheds important light on how these “cloud facilitators” view their business opportunities, challenges and relationships with their primary technology partners. Among the key findings of the research:

- CSPs expect robust growth of nearly 30 percent in 2012.
- CSPs are generally quite upbeat about their performance in executing their business model for cloud services, although they continue to invest in additional sales and marketing resources to increase their business opportunities.
- Cloud services used by customers are increasingly diverse, as are the deployment models for those services.
- Not surprisingly, security heads the list of CSPs’ challenges in running their cloud-based operations. However, security may be less of a concern to CSPs than it appears to be to their end-user customers.
- CSPs generally feel positive about their relationships with key technology providers, although they are concerned that technology companies tend to see them more as a distribution channel for their products than as true partners in helping customers accomplish their goals.

The study, conducted in March 2012, surveyed registered users of SearchCloudComputing.com, and generated 121 responses from a representative cross-section of cloud services providers.

**CSP Attitudes Toward Their Business Performance in Cloud Computing**

Although cloud computing is still a fairly young market segment, survey respondents are far from newcomers to offering IT services in a variety of formats, ranging from traditional turnkey IT solutions to hosting and other managed services. On average, respondents said they have been offering cloud-based managed services since 2009, with more than 22 percent of the respondents having offered cloud-based services before then.

As has usually been the case in the development of a new IT services model, service providers evolved from a variety of skills, backgrounds and business models.

**What was your organization’s business model before you began offering cloud services to customers?**

- Managed services provider: 26%
- Software developer: 22%
- Value-added reseller/turnkey solutions: 16%
- IT consultant: 14%
- Technology outsourcing company: 12%
- Launched as CSP: 11%

Now that CSPs have a few years’ experience under their belts in providing cloud-based services, they’ve had the opportunity to step back and evaluate their own performance in accomplishing their goals. And, for the most part, they feel upbeat about what they’ve accomplished to date — even if they are far from fully satisfied.
Nearly one-quarter of respondents said they were “extremely successful” in their cloud services activities, meeting or exceeding all their goals, while another 35 percent said they were moderately successful in meeting or exceeding most of their goals. However, a full 30 percent of the respondents indicated that they considered their cloud activities to be only somewhat successful, in that they met or exceeded only some of their goals.

One potential contributing factor to CSPs’ view of their success is the lack of focus on specific vertical markets by a sizeable minority of respondents. Almost a full one-third of respondents said their organization didn’t specialize in any vertical markets, which many experts believe to be a prerequisite for success in IT services. Among those that did specialize in a particular vertical, the top industries of focus were the financial services and high-technology sectors, each cited by 14 percent of the respondents, followed by health care and government, each with 9 percent.

**Customer Usage of Cloud Services**

Customers evaluating how best to deploy and utilize cloud services for their organizations have to consider a number of factors, such as choosing between public or private clouds, as well as whether to deploy applications, infrastructure, platforms or virtual data centers in a services-based model. Survey respondents indicated that they are utilizing diverse approaches to cloud models and services.
Slightly more than one-half of all respondents indicated that their customers are opting for a private cloud model; as discussed later in this report, it seems clear that security concerns are a major contributor to numerous organizations’ decision to use a dedicated cloud environment. Still, just less than one-half of the respondents have selected to use cloud services either in a public cloud or as a co-location arrangement, sharing IT services with their third-party provider.

And when looking at the range of cloud-based services offered by CSPs, it appears that adoption of cloud services is becoming increasingly diverse. Market studies conducted by TechTarget among several of its IT audiences, as well as independent research, points to wider user adoption of services including:

- Software as a Service (SaaS)
- Platform as a Service (PaaS)
- Infrastructure as a Service (IaaS)
- Virtual Private Data Center (VPDC)

This is consistent with findings in the study of cloud services providers, which pointed to their sales offerings branching out beyond the traditional SaaS model to include IaaS, PaaS and VPDC more and more often. Although nearly two-thirds of respondents said they are selling SaaS to clients, nearly one-half said they are selling PaaS and a similar number said they are selling IaaS.

**Challenges and Areas of Investment for CSPs**

Even though CSPs are optimistic about their business prospects, the survey pinpointed several significant challenges they face, with the key issues focused on how they interact with their customers. Not surprisingly, topping the list of significant challenges is dealing with customers’ security concerns: Nearly one-half of the respondents said customers’ security concerns were a significant challenge. Second and third, respectively, on the list of significant challenges were “how to charge customers for our services” and “ensuring customer satisfaction.” It’s worth noting that, other than addressing customers’ security concerns, CSPs didn’t feel particularly
challenged by either business or technology issues cited in the survey. Other than security, none of the challenges listed in the survey registered a response of more than 39 percent, which is low for challenge-related questions asked among IT audiences.

Which of the following issues have been significant challenges in your efforts as a cloud services provider?

- Customers' security concerns: 47%
- How to charge customers for our services: 39%
- Ensuring customer satisfaction: 27%
- Maintaining proper mix of cloud/non-cloud services: 26%
- Customer confusion about benefits of cloud computing: 22%
- Marketing and sales resources: 21%
- Managing data center operating costs: 21%
- Competing with larger CSPs: 20%
- Generating high-quality sales leads: 20%
- Finding a market niche where we can specialize: 17%
- Ensuring regulatory compliance for our customers: 17%
- Raising sufficient capital to meet needs for this segment: 13%
- Managing technology supplier relationships: 12%
- Managing data center capital costs: 12%

Still, even with a relative lack of strong concerns about threats to their business, CSPs said they intend to make a number of investments during 2012 in order to grow their cloud-related revenues. At the top of the list is increasing their marketing activities, undoubtedly both to generate more interest in their services among prospects and to differentiate their organizations in an increasingly crowded competitive landscape. Following closely on their 2012 areas of focus is creating new cloud-based services, which is consistent with one of the top concerns CSPs cited: the need to maintain a proper mix of cloud and non-cloud services.

Which activities are you undertaking in 2012 to grow your cloud-related revenues?

- Increase marketing: 55%
- New cloud services: 46%
- Lead-gen programs with vendors: 33%
- Specialized in certain vertical markets: 31%
- Hire more salespeople: 29%
- Add new technology providers: 28%
One area of concern often voiced in emerging markets centers around the need for strong statistical proof about the economic benefits of a new technology or service. But respondents in the survey felt very positive that their clients were comfortable with the available statistical validation on the economic benefits of CSPs’ cloud-based services. In fact, more than five times as many respondents said their customers had sufficient validation than those who said customers lacked that validation.

"Our clients feel they have sufficient validation on the economic benefits of cloud-based services."

![Pie chart showing the percentage of respondents who strongly agree, agree, neither agree/disagree, disagree, and strongly disagree with the statement that their clients have sufficient validation on the economic benefits of cloud-based services.]

**Working with Technology Providers**

CSPs, of course, must maintain strong and tight relationships with key technology providers in order to accomplish their cloud computing business objectives. In particular, CSPs are closely tied to their suppliers of core infrastructure products, such as servers, storage, networking and security software, as well as virtualization hypervisors. That's not to say, however, that there aren’t things they’d like to see improved in their relationships with technology companies.

For instance, CSPs feel their technology partners need to re-evaluate their pricing models in working with organizations like theirs, to better reflect the reality that their business models are fairly different from those of traditional resale channel partners. And, as has always been the case with third-party services organizations, respondents continue to point out that they still run into competition with their suppliers’ direct sales organizations.

**Significant challenges in working with technology companies**

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<thead>
<tr>
<th>Challenge</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Pricing models</td>
<td>36%</td>
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<tr>
<td>Sales force competition</td>
<td>34%</td>
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<tr>
<td>End-user service/support</td>
<td>31%</td>
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<tr>
<td>CSP service/support</td>
<td>22%</td>
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<td>Product line gaps</td>
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<td>Product performance problems</td>
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So, with these challenges in mind, how do CSPs propose that technology companies improve the nature of their relationships? Ideally, CSPs want a mix of improvements on both business issues and technical issues in order to strengthen their relationships with key technology providers. Topping the list was “dedicated support team for our organization,” which was noted by 38 percent of survey respondents; other technical issues cited by the respondents were “improved product performance for cloud environments” (34 percent) and a broader/deeper product line (26 percent).

Among business-related requirements, the most-cited area for improvement was contract terms (36 percent), followed by a greater commitment to CSPs as a way to meet end users’ needs. That point, in particular, has long been a sticking point among service providers. IT services companies have often complained that technology suppliers see their organizations primarily as a distribution channel for their technologies, rather than as the primary conduit to serving the customer. In fact, 63 percent of survey respondents either agreed or strongly agreed with the statement, “Technology companies see cloud services providers as a distribution channel for their products.”

What can technology companies do in order to become a more strategic partner?

- Dedicated support team for our organization: 38%
- Improved contract terms: 36%
- Improved product performance for cloud environments: 34%
- Greater commitment to CSPs to meet end users’ needs: 30%
- Stepped-up marketing support: 27%
- Broader/deeper product line: 26%
- More frequent communication on customer issues: 23%

Summary

Unlike many other technology market segments that display impressive growth potential, cloud computing already is well on its way toward fulfilling its promise of improved agility, flexibility and cost efficiency for small and large organizations alike. One of the keys to the success of the cloud computing market has been the rapid evolution of skilled and trusted service providers to help customers plan, deploy and manage their cloud computing environments.

With deep roots in IT solutions and services often dating back more than a decade, cloud services providers are demonstrating their value both to their customers and their technology partners. CSPs surveyed for this report point to upbeat growth potential in the coming year, fueled by their ability to offer customers the right mix of cloud deployment options and technology expertise, essentially acting as the “extended IT” capability organizations have sought out as they downsized their IT operations staff and budgets.

The traditional challenges of dealing with users’ security concerns and validating the economic value of cloud computing remain near the top of CSPs’ list of issues to overcome. However, those concerns are counter-balanced by the many benefits of cloud-based services, such as lower infrastructure spending costs, increased IT agility and improved responsiveness to user needs in fast-changing business environments. That’s apparently why CSPs express strong...
optimism that demand for their services will grow in direct proportion to their ability to provide scalable, secure and responsive services — not only for today's bread-and-butter applications, but also for more and more mission-critical requirements.

About CA
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