

# SMART GUIDE

## Cloud Providers: Build, Buy or Franchise?

With wireline services on the decline and cloud usage on the rise, telecommunications service providers are quickly looking to reposition themselves in order to enter the rapidly growing market for cloud-based services.



Telecos have three main avenues for entering the market with a cloud services business: build, buy or franchise. They can build their own cloud services infrastructure, buy an existing cloud provider or franchise a solution from an existing service provider. The franchise option may surprise you because it is new and less well known, but it is quickly growing in popularity.

In this smart guide, we look into the advantages and disadvantages of each of these

market entry methods. We go into additional detail regarding the franchise option, as it is the least well known of the three.

### The cloud services opportunity

Cloud services enable business and government users to minimize or eliminate the complexity and cost of investing in large-scale datacenters that require massive capital expenditures and operational costs. Instead, users can access IT infrastructure and applications as a service

from a cloud provider. The cloud provider hosts the infrastructure or applications in its own data center and provides it to the customer over the Internet.

The market for cloud services is growing dramatically—and telcos and other communications service providers are eager to capitalize on this opportunity.

Many service providers are well positioned to take advantage of this new opportunity. They already have relationships with enterprise customers, as they currently provide them with everything from hosting to telecom services. If they can deliver a high-quality and differentiated service, many service providers can leverage these relationships to drive revenue with cloud services.

In some cases, service providers have data center capacity that can be used to offer new cloud services. Some already offer cloud services in some form but want to be more aggressive in that market. Others are just beginning to approach the cloud services opportunity. Wherever they are today, service providers have three options for moving forward in the cloud services market—build, buy or franchise.

### The “build” option

With the “build” option, a communications service provider purchases the tools required to offer cloud services and develops its own offering in-house. The service provider trains its own staff and sales team and develops its own marketing programs and various support functions. Almost every service provider tries some form of “build” option.

One advantage of the “build” option is that the telco retains a high level of control. There also is a lot of room for



innovation, differentiation and opportunity to build something new.

On the downside, the “build” option requires a relatively long lead time. In addition, this option is rather risky relative to the “buy” or “franchise” option because existing personnel and infrastructure may not be equipped to deliver services in time to capitalize on the considerable opportunities available. In some cases, communications service providers initially try the “build” option, but with marginal results and lessons learned, they move on to other options.

### The “buy” option

One way that service providers can jumpstart their cloud services business is to purchase a company that already operates in the cloud market.

Telcos that have used this approach include Verizon, which purchased Terremark, and CenturyLink, which purchased Savvis. Both Terremark and Savvis owned large data centers that they used to offer cloud services. Another communications service provider that opted to use the “buy” approach is Time-Warner Cable, which purchased cloud provider Navisite.

One advantage of the “buy” option is faster time to market—an important consideration when many enterprises are choosing their cloud providers. The “buy” option also is relatively low-risk because service providers can review the cloud provider’s financial and other performance data in advance to get an understanding of what they are buying.

The “buy” option does provide some challenges, however. Integrating the cloud provider’s corporate culture with that of the telco can be difficult—and the telco runs the risk of squashing the very entrepreneurial, new market expertise it set out to obtain.

The “buy” option also tends to be costly. Therefore, it may not be an option for all telcos.

### The franchise option

With a franchise model, a service provider works with a cloud provider that has a successful cloud practice. There are several possible franchise models for offering cloud services:

- The cloud provider offers the service provider some combination of setup materials needed to offer cloud services to its

## Cloud services market entry strategies compared

In determining whether to buy, build or franchise, the right choice for an individual service provider will depend on the importance of five key factors to that provider. The optimal choice for each factor (buy, build or franchise) is indicated by the number of stars—the more stars, the more advantageous to the service provider. (See chart below.)

	Risk	Opportunity to Innovate	Cost	Speed to Market	Margin
<b>Buy</b>	★★	★★	★	★★★★	★★★★
<b>Build</b>	★	★★★★	★★	★	★★★★
<b>Franchise</b>	★★★★	★	★★★★	★★	★

customers: software, services, best practices and marketing collateral and enablement for the service provider to use with its existing hardware infrastructure.

- The cloud provider offers the setup materials and hardware specifications required for the service provider to build out its own hardware infrastructure on which it offers cloud services.
- The cloud provider continues to offer its own services from its own datacenter, and the service provider acts purely as a reseller, leveraging its customer base to drive sales.
- The service provider acquires setup materials from one cloud provider and utilizes it to offer services on top of the infrastructure of another, enabling it to differentiate its services without having to invest in its own hardware.

Depending on the cloud provider's level of involvement, the telco could offer a single capital payment, a subscription

payment, a franchise fee, a share of the profit margin, or a stake in the telco organization as a subsidiary.

Examples of companies that are supporting the franchise model include DNS Europe, Joyent and ScaleUp. DNS Europe provides a scalable cloud platform that supports a range of public and private cloud options that service providers can use to offer cloud services. Joyent helps service providers launch cloud-based data centers that support infrastructure-as-a-service and other offerings. Lastly, ScaleUp offers a cloud business platform that provides a self-service storefront for provisioning, automation and user management that service providers can use as the foundation of their services.

The franchise option has similarities to the “buy” option in that it enables a service provider to quickly enter the cloud services business and is relatively low-risk because the service model has already been proven. One could argue that it is the least risky of the three options because, unlike the “buy” option, the telco does not

encounter cultural integration risks.

The disadvantage of the franchise option is that it offers less room for innovation than the other two options. It also may be a lower-margin option because franchise fees eat away at profit margins.

### Summary

Any of the three major ways of entering the cloud services business, including some combinations of the three, can be a viable option for a service provider. The right choice for an individual company depends on a number of factors, including: available funds, internal resources, existing business models, sales channels and attitude toward risk.

Service providers must consider all the options. While the buy-and-build options are well understood, not everyone is familiar with the franchise model. Because the franchise model can minimize the investment and risk involved in launching cloud services, service providers must plan to enter the cloud market in order to include it among the options under consideration. ■

## About CA Technologies

CA Technologies is an IT management software and solutions company that offers the 3Tera AppLogic platform, which is used by many cloud providers. Interested in learning more? Have a specialist contact you or visit [ca.com/cloud](http://ca.com/cloud) for more resources.



# What service providers need to know about the cloud services franchise option

## A Q&A with Matthew Richards, CA Technologies

As senior director of product marketing, Cloud Customer Solutions Unit, for CA Technologies, Matthew Richards supports service providers in their cloud initiatives. CA Technologies is an industry-leading IT management software and solutions company that offers CA AppLogic, a platform on which many cloud providers offer their services. In this Q&A, Richards answers some of the questions that service providers might ask about the franchise model for delivering cloud-based services.

### Q: When a telecommunications service provider buys a cloud services platform from a franchise platform provider, what are they actually buying?

A: It depends. In some cases, they're buying the software needed to offer cloud services on top of their existing IT infrastructure. In other cases, they're replicating, or even renting, someone else's infrastructure. There are other options in between.

The easiest way to explain the simplest case is to say, "I'm taking from you the initial set-up infrastructure and software, portals and services; I'm copying it, putting it in my data center and deploying it within my own walls. However, I also could be building a datacenter based on your plans, or simply bringing my customers to your data center."

In some ways, it's similar to buying a fast food franchise. There are rules about how you set up and run it, financial models and catalogs to order from, blueprints on how to set it up and more.

There are options in the franchise model. Some people need hardware and some don't. The core part of the franchise is software platform setup, administration capabilities and the portal that is the customer front end.

### Q: Does the telco or communications service provider need to make any capital investment to support a franchise-based cloud strategy?

A: It depends on what the service provider is hoping to accomplish. As a pure reseller, the service provider doesn't have to make any investments, but the margins will be very low. If it intends to build its own practice, there will be a series of decisions about buying or renting both hardware and software from cloud providers. The tradeoffs generally come down to increasing capital payments in an effort to increase margin down the road.

### Q: What if a new service takes off? How scalable is a franchise-based cloud solution?

A: It depends on who owns the hardware. If you utilize your existing hardware or replicate a cloud provider's, you can scale only as fast as you can acquire new hardware. Alternatively, if you build a practice on top of the services offered by a cloud provider (whether or not it's the same one that's giving you the set-up materials needed to establish an offering), you can scale as fast as the cloud provider can handle. You can even source the infrastructure from multiple vendors.

### Q: Are there certain services that telcos are most likely to deliver using a franchise approach?

A: Commodity services will be the fastest and easiest to franchise. Infrastructure-as-a-service and virtual-servers-on-demand are well understood. This simply gives customers the ability to purchase computing power as a service. Offering these services won't differentiate you, but it will get you into the cloud game quickly.

The challenge is to differentiate your ser-

vices in a franchise model. If you're getting them from a franchisor, how do you differentiate them from other franchisees? If you could eat McDonald's over the Internet, what would differentiate one location from another? Ideally you want to be able to customize your offering in some way. One way to do that is by customizing your offering to meet the needs of a specific vertical market.

### Q: What questions should a telco ask in choosing a franchisor?

A: You want to see financials, evaluate the stability of the franchise and review proof points. You also want to make sure there is room to differentiate your offering. In addition, you always want to closely analyze how easy it is to get out of the agreement. What happens if your situation changes? What if you switch from a monthly subscription approach to an annual or perpetual license? What is the out clause? These are important issues to understand.

### Q: What security issues are involved with a franchise approach and how can they be addressed?

A: The franchisor is constantly updating its software—and with the franchise approach, there is a large pool of providers running the exact same configuration. A problem may be found in Europe, for example, but the solution can be applied relatively easily to everyone on the platform around the world. It is critical that you make security a primary priority whether you host your own hardware or not. Remember that hosting something yourself does not necessarily make it more secure. Excellent process and security solutions are needed wherever the data is processed and stored. Security is, and will remain, a key concern for cloud vendors and consumers for the foreseeable future. ■

# can I leverage the cloud to leapfrog the competition?

## you can

Business success in today's hyper-complex, constantly changing global marketplace requires agility, responsiveness and the ability to innovate on the fly. All of which requires more agile IT. And the kind of reliable, scalable and easy-to-use services that help you leverage the cloud.

CA Technologies cloud management and security solutions can help you use the cloud for practical innovation or to radically re-invent new business models to leapfrog the competition. With our experience working in complex and diverse environments, we can also offer the control and insight companies need to take advantage of fast-moving opportunity... long before the market is even aware of it.

CA Technologies. The services, experience and solutions you need to build a more agile business.

To see how we can help make your business more agile, visit [ca.com/cloud](http://ca.com/cloud)



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