REPORT REPRINT

Survey results show persistent demand for specialist service-provider infrastructure

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23 JAN 2018

Hyperscale public cloud dominates the off-premises infrastructure conversation, but a significant portion of businesses continue to want cloud service providers to have infrastructure of their own, outlining the opportunity for the cloud enablers in the market.

451 Research®

Enterprise cloud transformation is well underway. Workloads are increasingly migrating to (or being deployed directly into) cloud and hosted environments, with public cloud IaaS environments playing an especially significant role among those. Responses to 451 Research's Voice of the Enterprise (VotE) Hosting and Cloud Managed Services Vendor Evaluations study indicate that, among businesses using hosting and cloud services, public cloud/IaaS is the most widely used type of service-provider infrastructure environment, currently in use at 62.1% of respondents.

As enterprise cloud transformation takes place, a separation is occurring in the hosting and cloud services market between the generalist businesses that build and operate public cloud platforms at scale (AWS, Microsoft, Google, etc.) and the specialist businesses that help customers consume those services effectively. Service providers in the latter group are seeking to refine and clarify their purpose in an infrastructure market dominated by a handful of hyperscale cloud operators. At the same time, businesses are seeking to effectively match workloads to the appropriate cloud environments, which involves developing strategies for modernizing and refactoring existing applications and deciding how to leverage hybrid and multi-cloud environments. Together, these influences present an opportunity for service providers that have traditionally focused on hosting and managed services to reinvent their businesses via cloud enablement, rather than by building cloud infrastructure.

THE 451 TAKE

Public IaaS platforms support a large and growing share of enterprise workloads. The business of operating those public clouds is dominated by a handful of hyperscale vendors, and competing directly with them is not a viable option for the majority of cloud and hosting providers. But that doesn't mean the majority of service providers must be excluded from customers' cloud consumption. The path is becoming clearer for providers that can assume the roles of cloud service brokers and advisers to customers as they implement cloud technologies. 451 Research VotE survey responses highlight a persistent appetite for cloud providers that can deliver broad sets of services based on their own infrastructure as well as that of partners. This role demands services focused on how cloud is consumed, such as architectural guidance, migration and integration services, and security management. It may also involve supplying consumption-oriented tools, such as management consoles. Part of this role is reconciling the capabilities of cloud platforms with the expectations of customers – and may include influencing those expectations. CSPs operating outside the hyperscale IaaS market should have a clear strategy for incorporating third-party services (particularly public cloud) into their offerings, but this doesn't mean they should cast aside their own infrastructure environments.

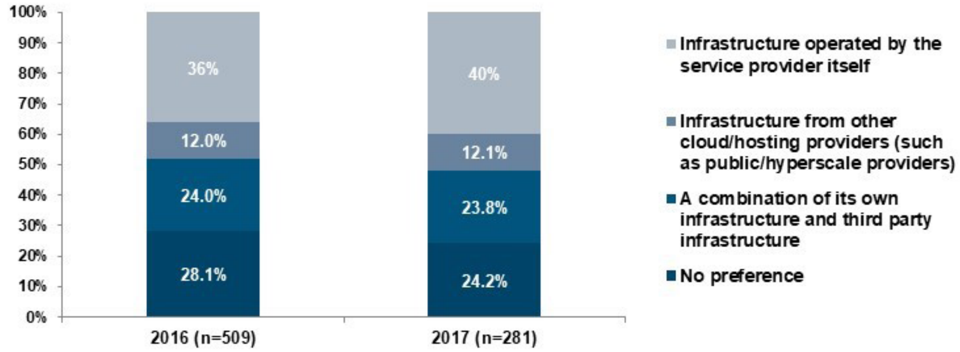
451 Research VotE survey results suggest a persistent role for the majority of service providers that are not hyperscale cloud operators, as well as for the various other infrastructure environments they operate. These environments may include hosted private cloud and other dedicated hardware environments that may act as complements to public cloud or serve as critical components of hybrid IT. We also see a continued role for service providers that support a broad range of services, based either on their own infrastructure or sourced from third parties.

CLIENTS STILL VALUE CSPS WITH SKIN IN THE INFRASTRUCTURE GAME

Although sourcing third-party cloud services has become an important consideration or function for service providers in the hosting and cloud space, enterprise platform preferences suggest that, despite a widespread move toward use of public cloud infrastructure, an appetite persists for provider-owned infrastructure in multi-cloud environments that combine venues. A significant portion of clients want service providers to possess infrastructure environments in which customers can host workloads.

Workload-specific requirements are typically a major determinant of execution environment. However, businesses also express preferences for the types of environment they want service providers to supply, including preference for provider use of third-party infrastructure (see figure below). These preferences may span the many variants of cloud, noncloud, private and multi-tenant hosted infrastructure environments, as well as the variously transparent and opaque uses of third-party platforms by service providers.

Service Provider Infrastructure Environment Preference



Q. Which of the following types of environment does your organization prefer a service provider use as the basis for infrastructure and application services?

Source: Voice of the Enterprise, Hosting and Cloud Managed Services, Organizational Dynamics, 2017

The prevailing preference (40% of respondents) is for infrastructure operated by the service provider itself. However, notable portions of businesses also indicate a preference for infrastructure supplied by third parties (12.1%) and a combination of a service provider's own infrastructure and third-party infrastructure (23.8%).

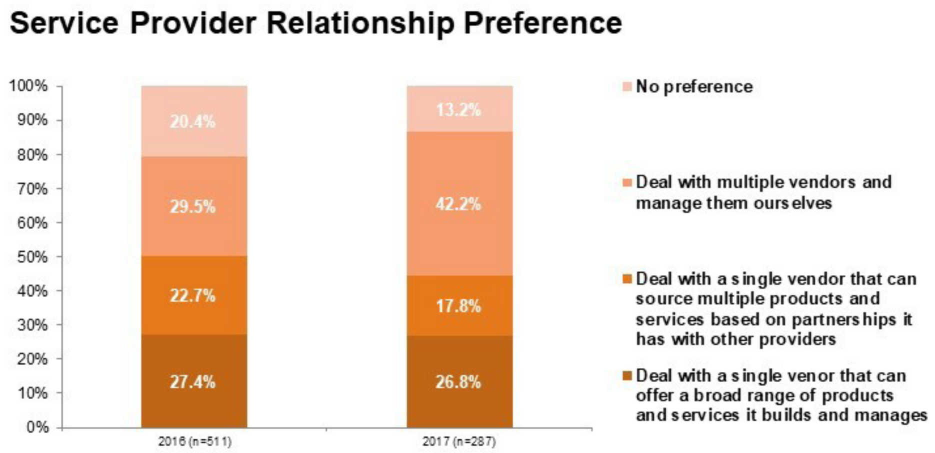
Preference for infrastructure operated by the service provider increased incrementally from 2016 to 2017, with that increase coming almost entirely from the portion of respondents expressing no preference. The appetite for service-provider environments that involve third-party infrastructure (a choice that matches closely with the specialist advisory provider role) remained consistent year to year at just over one-third of businesses.

Vendors looking to assume that advisory role, along with the capability of sourcing public cloud infrastructure for their customers, should recognize that the appeal of this type of service is not universal. However, it addresses a requirement specifically expressed by about one-third of enterprises, and may have additional applications outside of that segment of users.

VENDOR RELATIONSHIP AND THE 'TRUSTED ADVISER' ROLE

Customer preferences around how they manage service-provider relationships show a narrowing, but still significant, demand for relationships in which a single service provider can deliver a breadth of products and services, either via its own tools or partnerships with other vendors (see figure below). A year-to-year decrease in 'no preference' responses suggests the structure of vendor relationships is becoming a more important strategic consideration for businesses.

Breadth of services is not a key differentiator for all customers, but it is a characteristic that matches closely with the advisory role many service providers aspire to fill. Providers of individual point solutions do not typically assume advisory roles concerning their customers' general consumption of hosted and cloud services, but the ability to address several key functions or to help source a variety of services can serve to position a provider that way.



Q. What approach to dealing with hosting and cloud service provider relationships does your organization prefer?

Source: Voice of the Enterprise, Hosting and Cloud Managed Services, Organizational Dynamics, 2017

The portion of respondents that expressed a preference for dealing directly with and managing multiple vendors themselves grew from 29.5% in 2016 to 42.2% in 2017. Faced with a growing set of specialized application and infrastructure services that directly address specific areas of need, many businesses are adding new suppliers to a growing portfolio and viewing this model as important to their operation. Although this doesn't preclude these businesses from putting service providers in advisory roles, they may not view it as a priority.

The portion of businesses that prefer a single vendor that sources products and services via partnerships dipped several percentage points year to year, but the sum of responses that value a single vendor with a breadth of services (in-house or via partnership) remained a significant portion of the overall market (44.6%).

Vendors seeking to fill the trusted advisory role with customers may find that they have to do additional work to demonstrate the value of that relationship among the majority of customers, while some customers will have no appetite for advisers at all.

SERVICE-PROVIDER INFLUENCE ON CUSTOMER PREFERENCE

The desire to acquire multiple services in the same place does not necessarily confer influence on the vendor of those services. However, it does present an opportunity for the service provider to assume an advisory role, and the ability to help customers effectively execute cloud strategies can demonstrate the value of that type of relationship.

Businesses consuming cloud are generally seeking a similar set of benefits from that transformation, such as cost savings, flexibility, performance and security. However, individual hosted and cloud services may not deliver these benefits without effective architectural or implementation work.

Advisory efforts designed around helping customers extract specific benefits from cloud deployments are likely to be the most successful. Service providers can build these into the customer relationship by making professional services (readiness assessment, migration services, integration services, cloud cost optimization and other services) part of the onboarding process. Many VotE Hosting and Cloud Managed Services respondents (39.1%) have recently used professional services from hosting and cloud service providers, or plan to in the next 12 months (41.7%).

Service providers can further help customers address these specific needs by building out their own portfolio of tools, including management consoles, security tools, infrastructure monitoring services, cost calculators and other features that can add value across cloud platforms and environments.

Preferences can help vendors to segment customers and to identify those customers that are a 'best fit' for their services, but they are not exclusive or immutable. Service providers operating in this advisory role should develop strategies for fostering confidence in their advisory capabilities, either within existing customer relationships or in how they introduce their services to new customers.