

Top Ten Reasons Why On-Demand Services Will Soar in 2008

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Since the holidays are traditionally a time for people to take stock of the year past and offer their new year forecasts, here are my top ten predictions why the shift from packaged products to Software-as-a-Service (SaaS), utility computing and managed services will accelerate in 2008:

1. ***Services are Recession Proof:*** Escalating oil prices, the uncertain political landscape and faltering financial institutions beset with the aftereffects of the sub-prime lending debacle could mean a tough year for the economy. In this tenuous climate, consumer and executive confidence could decline, leading to an economic slowdown. As a result, many companies could hold back on their capital investments to mitigate their risks. The ability to adopt on-demand services on a pay-as-you-go basis will be a perfect sourcing strategy for businesses seeking greater cost-controls and flexibility.

2. ***Everyone's Going Virtual:*** Most industry pundits and participants view virtualization as a technology trend, but it is also a business trend. Employees are increasingly working outside the four walls of a traditional office. Gen Y workers are always on the move and online. Traditional, on-premise applications and centralized servers sitting behind a firewall can't effectively serve today's mobile workers. SaaS and managed services are perfectly suited for these new, virtual business requirements.

3. ***Amazon, IBM and Google Bet on Utility Computing.*** After experimenting with its Elastic Compute Cloud (EC2) for the past year, Amazon has found plenty of demand for its computing power on-demand platform from startups, as well as established companies seeking a 'sandbox' for their new initiatives. Amazon is now confident it can deliver its computing power in a reliable and cost-effective fashion to a broader market of business users. So, expect more aggressive PR and marketing efforts to promote and sell this powerful utility computing service.

IBM Blue Tune: IBM originated the term on-demand and then walked away from the

utility computing market seeking new opportunities among the avatars. When Amazon proved that the utility computing concept could become a reality, IBM repackaged its autonomous computing ideas in the form of a new 'blue cloud' initiative. Big Blue will push the idea hard in 2008.

The GooglePlex Makes It Move. Google is tired of sitting on the sidelines while Amazon's success and IBM's new 'blue cloud' initiative, Google has initiated a PR campaign to promote its 'cloud' computing capabilities and strategies. The GooglePlex has long been considered the prototype for a new large-scale computing architecture. Now Google's incredibly scalable and economical computing engine is getting the attention of business pubs like BusinessWeek, the Wall Street Journal and other mainstream pubs.

4. **Nick Carr Returns:** In truth, he never left us. It was Carr who gave utility computing a major push with his seminal article in the Harvard Business Review and follow-on book questioning whether IT mattered. Despite venomous criticisms from many IT pubs and professionals, Carr became a popular speaker at corporate events because his message resonated with business executives and end-users. Now, he is putting the finishing touches on his second book, *The Big Switch: Rewiring the World, from Edison to Google*, which will be published on January 7, 2008. Although IT folks love to hate him, Carr has never lost his luster among corporate executives and end-users who agree with his basic premise that IT is a needless hassle and should be as easy as electricity and as reliable as a utility.

5. **SaaS Solves SOX:** A year ago, most publicly traded companies and other large-scale enterprises rejected the idea of SaaS because they thought they needed to take greater responsibility for their own compliance requirements. Now, they view the process controls, auditability and offsite hosting features common in most SaaS applications as a perfect solution for their Sarbanes-Oxley (SOX) needs. As a result, enterprise adoption of SaaS will accelerate.

6. **Managed Services 3.0, Unified Communications Services and Service Automation:** In the 80s, managed services were really outsourcing agreements offered by carriers to their largest corporate customers. In the 90s, a new generation of standalone MSPs promised managed services for SMBs. Neither model succeeded.

Today, we are entering a new age of managed services. Managed Services 3.0 combines the experience of the past with powerful new technologies to respond to growing customer demand. Cisco Systems will be pushing its IP communications and WebEx capabilities hard, while Microsoft promotes the virtues of its various “software plus services” solutions. The two are on a collision course in the unified messaging and communications market, but that will mean that they will each spend plenty on market education and channel sales programs.

At the same time, Dell will be leveraging its SilverBack Technologies and Everdream acquisitions to deliver a new set of automated, remote desktop and server management capabilities through channel partners and direct support services. Expect to hear more from HP and others.

7. *Carriers and Channel Companies Find Success With New Services:* Carriers have been perplexed about how to package, price and promote profitable managed services. VARs have been afraid that SaaS would ‘dis-intermediate’ them by eliminating their consulting and custom application development business. Carriers now see an opportunity to deliver an integrated package of IT managed services and SaaS business solutions to add value to their commoditized dial-tone services. Channel companies are also discovering that there are still consulting and customization opportunities in the SaaS market. As a result, carriers and channel companies will lend their marketing and sales support to managed services and SaaS.

8. *Failure Doesn’t Matter:* NaviSite suffered an extended outage in November and the on-demand services movement didn’t miss a beat. The trade press is now looking for horror stories rather than success stories regarding SaaS and managed services, but the vast majority of stories have been positive. In fact, my third annual SaaS survey in conjunction with Cutter Consortium found 100% satisfaction among the companies currently using on-demand software services. The upcoming SaaScon conference will highlight some of these customer success stories.

9. *IT Discovers Services are the Solution:* In the past, the IT department was the biggest barrier to managed services and SaaS adoption. Many IT professionals were

afraid these on-demand solutions would eliminate their jobs. Now, a growing proportion of IT people see managed services and SaaS as a way to out-task mundane work or overcome complex application/technology deployment and maintenance responsibilities. As they learn to take advantage of these on-demand solutions, IT departments will finally be able to put their daily firefights aside and focus on addressing the strategic needs of their business users.

10. **Wall Street Buys Into Services:** Some of the most successful IPOs of 2007 were in the SaaS market. Wall Street loves the predictability of subscription services and now that it has a solid set of market 'comps' to measure business success in the services market, it will be encouraging more privately held companies to go through the IPO door. At the same time, private equity funds will be encouraging publicly traded software companies to go private to enable them to shift to a SaaS model without the public market pressures. And, the investment bankers will be pushing a wide array of M&A activity. Expect the offshore IT/business process outsourcers (IT/BPO) and business services companies to buy SaaS vendors. Look for more consolidation in the managed services market.