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How Public Cloud Services may cannibalize the traditional IT Outsourcing Market

A Comparison of traditional Outsourcing with Public Cloud - An Infrastructure Case Study and Benchmark Report

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Abstract

For large international enterprises there is a continuous trend to consolidate and transfer commodity IT infrastructure services to internal and/or external service providers in order to benefit from economies of scale, standardization and flexibility in their IT services. Although the benefits are obvious, in around 15% to 20% of these IT consolidation and outsourcing cases the global transformation fails. Reasons are primarily missing management processes, underestimation of the project's complexity and individual application requirements as well as a lack of central governance structures. The Holy Grail of IT outsourcing, being promised by almost all service providers these days, is to procure IT services from the public cloud with enormous economies of scale, combined with a rigid standardization of services. Compared to traditional outsourcing, here the customer is in charge of the speed and scope of the standardization and the transformation risk.

This paper analyzes the possibilities of moving from a traditional IT infrastructure outsourcing (commonly private cloud environment) to full public cloud services. Public cloud services considered in this study are provided by Amazon, Google and Microsoft. The analysis is based on a representative client outsourcing use case which compares solution designs and enables a benchmark of the different services and prices. Furthermore it discusses legal and compliance matters as well as key issues of the service integration for traditional versus public cloud outsourcing.

Contents

1. Introduction & Approach 1

2. Traditional Outsourcing & Leading Public Cloud Services 3

2.1 A traditional Outsourcing Use Case 3

2.2 Service Mapping & Benchmarking Approach 4

2.3 Amazon Web Services 4

2.4 Microsoft Azure 5

2.5 Google Cloud 5

3. Evaluation Results 6

3.1 Service Congruence 6

3.2 Commercials 6

3.3 Legal & Compliance 8

3.4 Service Integration 10

4. Findings 13

About Navisco AG - Sourcing Professionals 15

1. Introduction & Approach

The consideration of using cloud computing is currently part of most discussions in the IT departments and in the business as well. Because in general business agility is continuously increasing these days, corporate IT is challenged with higher demand of flexibility, cost efficiency and ongoing new requirements in a shorter time-to-market by the companies' business units. Amazon, Microsoft and Google invest heavily to expand their cloud services portfolio and attack traditional IT outsourcing companies such as IBM, HPE/CSC, Atos, T-Systems or the Indian service providers. Those in turn enter the battle for enterprise customers by re-establishing their data center capabilities, offering new services and forming new alliances[1].

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While in the beginning mainly start-ups[2] took the lead as early adopters of the public cloud, an increasing number of established large-scale enterprises is nowadays using cloud services with the demand coming directly from the business units. Public cloud services have become a serious complement to traditional cloud services and on premise solutions. Cloud computing changes the way how IT services are perceived and consumed, promising a higher flexibility, agility and scalability combined with less capital expenditure (CAPEX) through a pay-as-you-go billing method. An essential leverage effect is caused by the shared usage of IT infrastructures in contrast to dedicated and private infrastructures, which are sized to maximum capacity in peak times. This approach and the proposition of standardized services allow to lower the 'Total Costs of Ownership' (TCO) and the provision of a better time-to-market with elastic IT services. By passing down the cost savings to the customers in terms of a continuous price-cutting, cloud service providers started the so-called price war game 'race to zero'. Subsequently some services offered by cloud providers are free of charge or are provided with 'unlimited' storage for instance.

However the traditional outsourcing providers do contribute to this battle to gain market share and face the competition as well. Driven by technical innovation, traditional outsourcing provider prices for standard services such as managed storage decreased significantly over the last years. With new formed alliances[3], the traditional outsourcing providers build their own public cloud with currently limited market coverage and/or establish alliances with public cloud providers[4].

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[1] Recent announcement on a strategic alliance between T-Systems and Huawei with offering public cloud services in Germany and Europe (See News 'Teaming up for a secure, simple and affordable cloud' provided by T-Systems in Issue 02/2015).
[2] e.g. Netflix, Airbnb or Soundcloud
[3] e.g. Huawei with T-Systems for Open Telekom Cloud
[4] e.g. IBM Blue Mix

Finally these providers are positioning themselves as full service providers ranging from individual to commodity services with an end-to-end service responsibility.

Traditional outsourcing encompasses the shift of full technical and operational responsibility from an internal IT organization to an external service provider, implemented as private cloud[5] or as a dedicated environment. Due to longtime contractual commitments as well as other rather stringent commercial terms (e.g. minimum volume/revenue commitments), traditional service providers cannot compete with public cloud providers in terms of flexibility. On the other hand, customer legal requirements regarding specific industry standards, governance models, disaster recovery concepts and individual services to be integrated are being considered in traditional outsourcing in contrast to the use of public cloud services. The providers ensure an end-to-end service quality[6] through the implementation of comprehensive service management processes including application operation. Typically, traditional outsourcing offerings include clauses regulating the transfer of HR, assets and 3rd party contracts (e.g. licenses) as well as the transformation to a future mode of operation. Neither this nor an individual end-to-end service quality is part of public cloud offers.

Determining the best cloud offer is quite challenging as the service offerings vary a lot in service design and structure, quality and performance as well as in pricing models and terms and conditions. A sole analysis of single service elements is often provided. However this is misleading as many aspects such as missing service components, service integration as well as legal and compliance requirements from a client's perspective also have to be considered. Therefore it is necessary to conduct a TCO analysis of a comprehensive customer case in order to get an 'apples-to-apples' comparison.

In the following chapters, a description of a customer outsourcing case and its like-for-like migration into the three public cloud environments of Amazon Web Services, Microsoft Azure and Google Cloud are given. Thereby the feasibility, commercial benefits as well as legal, compliance and service integration issues are addressed.

[5] Private Cloud: "The cloud infrastructure is provisioned for exclusive use by a single organization comprising multiple consumers (e.g., business units). It may be owned, managed, and operated by the organization, a third party, or some combination of them, and it may exist on or off premises." (NIST Definition)

[6] End-to-end service quality: Taking complete management responsibility. First address for problem solving when major incidents occur.

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