HFS Top 10 Infrastructure and Enterprise Cloud Services 2018

Excerpt for Cognizant

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“Traditional infrastructure revenues are in freefall as cloud and as-a-service models take over.”

–Jamie Snowdon, Chief Data Officer
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Introduction

• The infrastructure services market continues to converge with other IT service areas, particularly application services—blurring definitions and forcing enterprises and providers to shift the way they build out deals.

• Hyperscale cloud providers continue to impact the market, although enterprises are recovering from the erosion in market share by building out brokerage services and putting forward visions for richer hybrid cloud environments as platforms for wider, process-centric digital transformation.

• Hybrid cloud takes up a significant portion of mindshare, with as much as 75% of some providers’ engagements comprising hybrid cloud elements.

• Greater clarity around the role of infrastructure and enterprise cloud services as a foundation for digital transformation is leading to strong growth for some providers.

• Nevertheless, the industrializing effect of cloud is continuing to erode overall revenues—greater utilization of existing assets through cloud providers means that fewer assets need to be purchased and managed and that some infrastructure spending is embedded within application services.

• Talent is becoming a battleground but not in the traditional sense. The demand for high-quality cloud talent is leading to a war between major IT service providers and the cloud giants—AWS, Google, and Microsoft—in some instances putting a strain on already challenging partnerships.

• Partnerships with the biggest cloud providers are broadening. More firms are forming and deepening partnerships with Google, for example, as enterprise clients become more prescriptive in the type of cloud provider they are willing to work with, especially as opinions are formed about the relative strength of each provider as a platform for value-lever technologies such as IoT, AI, and analytics.
The Digital OneOffice Framework is the end-state vision for transformation

Infrastructure and enterprise cloud services have an important role to play in the future of the modern digital organization. In the HFS Digital OneOffice concept, the digital underbelly is reliant on the cloudification of processes, IT, and software, alongside other important aspects that are reliant on solid infrastructure foundations, such as security and automation. As a result, more enterprises are taking a hard look at their digital underbelly and are sourcing deals that will help them build a foundation necessary for sustainable transformation activities.
Research methodology

This Top 10 research is based on interviews with 300 enterprise clients of IT services from the Global 2000 in which we asked specific questions pertaining to innovation and execution performance of service providers assessed. The research is augmented with information collected in Q1 and Q2 2018 through provider RFIs, structured briefings, client reference interviews, and from publicly available information sources.

IT Services providers were assessed on the following three main dimensions:

- **Voice of the buyer**
  - Candid feedback from client references and the results from the IT Services customer survey.

- **Ability to execute**
  - Scale and breadth
  - Cloud capability
  - Partnering and IP

- **Innovation capability**
  - Vision and methodology
  - Automation and cloud strategy

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Providers covered in this report
Executive summary

• The infrastructure services market has had a turbulent few years. Traditional forms of infrastructure management services underpinned much of the growth in the outsourcing and broader IT services industry. But with the inevitable rise of as-a-service and cloud computing, these safe harbors are safe no more. The major IT service providers assessed in this report have been forced to rethink their approach in the space and figure out how to shift their commercial models to accommodate trends, such as utility-based pricing, and the continuing encroachment of the hyperscale cloud providers.

• Furthermore, the shift away from deals comprising specific IT components and toward outcome-focused engagements is concurrently moving the focus away from infrastructure and toward other areas of the IT value chain, most notably business applications. Enterprises are less enamored with selecting a particular data center but instead want to outsource the whole process: “Here’s the app we want built, hosted, and managed. Off you go!” For infrastructure service lines, this has forced a rethink—and for providers as a whole, engagement channels are being rerouted to better meet the direction enterprises want to go in.

• Simply put, this means crunch time for a lot of providers in the space. Those that are siloed, or too committed to forcing traditional models down the throats of clients, will be swept away on the wave of as-a-service. Those that are nimbler and able to guide clients across their whole organization are the most likely to succeed. Enterprise technology is far more complicated and complex than ever it was before—clients need partners to help guide them through, and, sometimes, to realize that while they’ve approached them for “lift and shift” what they really need is staggered cloud migration to get the outcome they need.
Major trends impacting the market

The infrastructure and enterprise cloud services market is evolving and transitioning from a period of considerable change. Hyperscale cloud providers have challenged the superiority of the leading IT players, with some taking solace by leveraging broader management capability with hybrid brokerage models. Meanwhile, the enterprise drive for cloud services is causing its own challenges, with a fresh war for high-quality cloud talent shaping up in the space. Many of these trends are only starting to take shape, while others are firmly embedded and forcing the market to adapt.

- **Hyperscale cloud challengers**: The three largest hyperscale cloud providers—AWS, Google, and Microsoft—are by no means new entrants to the market. They have been on the radar of the large IT services players for many years. However, increased demand for scalable enterprise cloud capabilities is driving more revenue and market share into the hands of these three giant players. Moreover, each of these firms is now beginning to implement their own differentiation strategy, building out capabilities that businesses need for future growth—a move that will no doubt deliver even greater market share. This poses a problem for the major IT services players—the demand for these capabilities is focused; it’s not something they can challenge directly. So, from an infrastructure perspective, business models and engagement strategies need to shift considerably.

- **Brokerage models take off**: With such focused demand, and often a general inability for the market to provide challenger services, many IT providers are committing to develop their approaches to service brokerage. While not a new approach, there is a marked increase in the number of providers looking to expand and deepen partnerships to enable them to fully embrace the model. In the year since the first infrastructure and enterprise cloud Blueprint was published, the number of firms partnering with Google, as an example, has increased dramatically. This is a significant development because while many firms partnered with AWS and Microsoft, the market is continuing to shift in favor of hyperscale industrialized cloud capabilities—pushing firms to look beyond their traditional partners and connect with firms that their clients are asking for. The saving grace for many firms in this space is the lack of commitment from the big three to move into the professional services space. Neither Google, AWS, nor Microsoft has shown any real commitment to take on the major providers at their own game in professional services, from selection to implementation. Instead, they are leaving their partners to take on this large segment of work and simply providing the commoditized products and services.
Major trends impacting the market (2)

The brokerage paradox: But all is not rosy in the brokerage camp. Enterprise clients seem to have mixed feelings about the need for another link in the chain. The most mature IT departments are increasingly going to the major providers directly, something which the AWS business model lends it to—lower levels of capacity can be procured with a credit card, instead of lengthy procurement processes necessary for larger selection and brokerage deals. Many clients have advised us that they see brokers as a weak link in the chain, something that will inevitably move too slow for their needs. Others view it as a necessary evil—their environment is too complex for them to handle or they lack the skills and knowledge of key trends in the market. By and large, however, brokers seem to be held in high regard. Enterprises no longer want to get bogged down in the intricacies of a deal, they want expert help to pick the capabilities they need. A large volume recognizes they will need an agile and flexible multi-cloud environment and need the help of a large provider to get them a good deal. Usually, this happens because they require the high-quality talent that the leading IT providers can bring. The issue has also been getting access to full range of cloud services via brokerage and hybrid cloud platforms—avoiding the platform becoming the lowest common denominator solely focused on virtual machines, and storage units rather than enabling the use of more advanced services from hyperscale providers.

Talent war shapes up: It’s on this final point that the most potential impact sits. The quest for high-quality talent of any kind in the current market is creating small battlefields as enterprises and providers fight to get the cream of the crop. The same is true with cloud—multiple clients advise that the reason they have pushed for infrastructure services support is that they do not have the talent internally. But, perhaps the most interesting trend is the number of enterprises and providers alike that are advising they are struggling to compete for talent with the main cloud providers. Google, Microsoft, and AWS are attracting key talent from many of the areas the leading providers would have had first pick, causing challenges currently that will no doubt become major sticking points in the future. Should the talent war become more acute, it is highly likely it will put strains on existing partnerships and force providers to rethink their attraction and retention programs.
Traditional infrastructure in freefall as cloud and as-a-service take over

» Traditional revenues are in freefall and are estimated to fall by more than a half over the next four years.

» As-a-service and cloud revenues are expected to grow and bring in enough revenue to fill this gap.

» Overall, the market size is unlikely to increase or decrease in value significantly; depreciation in traditional revenues will be replaced by growth in as-a-service and cloud.
Enterprises are looking to invest heavily in cloud capabilities

How much investment/focus is your organization making in the following in the next year to help you achieve operational cost saving goals?

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<tr>
<th>Top 10</th>
<th>Significant investment/focus</th>
<th>Some investment/focus</th>
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<tr>
<td>RPA</td>
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<td>28%</td>
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<tr>
<td>Cloud</td>
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<td>44%</td>
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<tr>
<td>Internet of Things...</td>
<td>42%</td>
<td>35%</td>
</tr>
<tr>
<td>Analytics</td>
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<td>41%</td>
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<tr>
<td>Virtual and...</td>
<td></td>
<td>33%</td>
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<tr>
<td>Blockchain</td>
<td></td>
<td>33%</td>
</tr>
<tr>
<td>AI/ML/Cognitive</td>
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<td>33%</td>
</tr>
<tr>
<td>Drones</td>
<td>19%</td>
<td>37%</td>
</tr>
<tr>
<td>Driverless Vehicles</td>
<td>16%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Source: HFS Research

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» A large percentage of enterprises are putting significant investment focus on the cloud.

» Forty-four percent of enterprise executives advises they are putting a significant focus on investing in the cloud, with 36% placing some emphasis on the technology.

» Only RPA is seeing greater commitments to investment than the cloud.
Research summary highlights

Highlight #1: Cloud investment is at an all-time high
Enterprise executives are investing heavily in cloud capabilities, accelerating the growth of the major hyperscale players, and the demise of traditional providers.

Highlight #2: The traditional market is in freefall
Traditional infrastructure services are continuing their freefall as enterprises look to the cloud and the as-a-service model for scalable, flexible, and cost-effective services.

Highlight #3: There are major growth opportunities for providers
Providers building cloud strategies that resonate with the modern enterprise are driving considerable market growth, fuelled by an insatiable appetite for cloud as a foundation for digital transformation.

Highlight #4: Partner ecosystems continue to deepen
The number of providers that now hold strategic partnerships with the major hyperscale providers and an ecosystem of smaller players to help drive the services has increased enormously as enterprises push for end-to-end brokers.
<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Execution</th>
<th>Innovation</th>
<th>Voice of Customer</th>
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<td>TCS</td>
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<td>NTT DATA</td>
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**Source:** HFS Research 2018

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# HFS top five products by individual assessment dimensions

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<tr>
<th>HFS Ranking</th>
<th>Ability to execute</th>
<th>Innovation capability</th>
<th>Voice of the customer</th>
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<td></td>
<td>Scale and breadth</td>
<td>Cloud capability</td>
<td>Partnering and IP</td>
</tr>
<tr>
<td>#1</td>
<td>#2 IBM</td>
<td>#3 IBM</td>
<td>#4 aws</td>
</tr>
<tr>
<td>#2</td>
<td>DXC.technology</td>
<td>#2 HCL</td>
<td>#3 Atos</td>
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<td>#4 Cognizant</td>
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<td>#4</td>
<td>#3 TATA Consultancy Services</td>
<td>#4 Microsoft</td>
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<td>#4 Microsoft</td>
<td>#4 Cognizant</td>
</tr>
</tbody>
</table>

Source: HFS Research, 2018
Provider profiles
Cognizant: Strong cloud capabilities supported by automation

### Strengths

- **Global infrastructure footprint**: Cognizant can bring considerable scale and reach to infrastructure and enterprise cloud engagements.
- **Verticalized specialism**: Cognizant aims to bring a unique vertical flavor to engagements and has been building out capabilities specific to key industries.
- **Pricing flexibility**: Cognizant continues to offer infrastructure services clients the opportunity to work through a commercial model that suits them.
- **Building automation savings into deals**: Cognizant advises that it is more regularly in discussions with its customers on the potential of building automation savings and efficiencies in deals.

### Opportunities

- **Growing demand for hyperscale brokerage**: Clients have advised that they are increasingly looking for engagements with service providers that broker deals with major hyperscale cloud providers. While Cognizant has partnerships with key players, there are some firms, such as Google, that the market is showing an increased appetite for that Cognizant is not working with through a strategic partnership.
- **Thought leadership and vision**: The infrastructure and enterprise cloud space is becoming a key battleground for IT services firms, which is driving the level of marketing activity and thought leadership in the space.

### Acquisitions and partnerships

- **Infrastructure and cloud**: Microsoft, Dell EMC, Cisco, NetApp, AWS, VMware, Nutanix, Red Hat, Pivotal, Hitachi, ServiceNow, Hewlett Packard, Docker, PureStorage
- **Technology partners**: Ayehu, CA Technologies, SnapLogic, Rancher, Zenoss, Chef, BMC, Dynatrace, Citrix

**Acquisitions: 2016**: Kbase, Frontica Business Solutions, KIS Information Services; **2014**: Trizetto Corporation

### Operations and key clients

- **Infrastructure services FTE headcount**: 28,000
- **Delivery center locations**: India, US, Philippines, UK, Hungary, Singapore
- **Key clients include**: international hotel and resort chain based in the United States, international industrial service provider, British multinational energy and services company, American global telecommunications conglomerate, British multinational information and analytics company, American multinational technology company
Hyperscale provider profiles
Microsoft: Trusted cornerstone of the modern enterprise

### Strengths

- **Trusted enterprise provider**: Microsoft has been a major name in the enterprise technology space for most of the history of modern business. For many clients, the firm represents a trusted cornerstone of their technical estate. This has enabled the firm to position its cloud capabilities alongside other enterprise products, particularly the firms’ productivity suite.

- **Scale and reach**: Over the years, Microsoft has built enormous scale into its cloud capabilities and spread data centers and delivery centers over major geographies. This has enabled the firm to position Azure as an important building block of any hybrid agenda.

- **Licensing model**: Clients tell us that with the licensing model they currently have, other Microsoft products and services come in as relatively competitive—positioning the firm as a good first port of call for any migration conversation.

### Opportunities

- **Thought leadership**: Compared to AWS’ strong IT narrative and Google’s push towards analytics and machine learning capabilities, Microsoft has lost ground in the battle for thought leadership. For the most part, clients have questioned Microsoft’s commitment to innovating in the space generally. The firm needs to build a coherent marketing and thought leadership program to help differentiate the firm among its stiff competition.

<table>
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<tr>
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<tr>
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### AWS: Unrivalled mindshare and strong techie following

#### Strengths

**• Strong technical capabilities:** Out of the three hyperscale cloud providers, AWS gets the most plaudits from the technical and IT communities for removing friction and pain points. The firm continues to build out capabilities based on feedback from its strong technical communities that get to the core of enterprise challenges.

**• Scale and reach:** AWS has one of largest networks of data centers in the world and has become synonymous with flexibility and scale. Clients including Netflix are a living testament to the firm’s ability to provide scalable compute capability even for client organizations that grow at an unprecedented speed.

**• Thought leadership:** AWS’ thought leadership captures significant mindshare in the space, but the firm also has a knack for bringing proof of concept swiftly by building out innovative capabilities and experimenting on new functions.

#### Opportunities

**• Perception of competition:** The firm’s parent organization, Amazon, is a double-edged sword. While the leadership and resources the mothership provides are important components of AWS’ speedy growth, the association is also a major turn-off for some clients. Amazon continues to expand rapidly, and new and existing AWS clients are questioning the wisdom of writing a check to a firm that will become a major competitor in their industry.

**• Business language:** AWS’ ability to woo the technical community is a lynchpin to the firm’s success. It also poses something of an inhibitor as the firm has done relatively little to translate its offerings into a language that senior executives are willing to digest. If the firm is to move engagement to the next level, it will need to start talking business language alongside its technical vocabulary.

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<td>Voice of the customer</td>
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Google: Strong vision for analytics and becoming the platform of choice for data-intensive initiatives

### Strengths

- **Analytics and machine learning:** Where Google stands out in the hyperscale space is its focus on developing a cloud platform to drive enterprise machine learning, AI, and analytics initiatives. This work is quickly gathering the firm’s mindshare and could see major growth for the firm as appetite for these initiatives increases in the coming years.

- **Relative neutrality:** Compared to some of the other major providers in the space, Google can tout some relative neutrality for the bulk of enterprises. As a result, the firm is swiftly making its way on to the short list of enterprises looking to avoid indirectly funding their competitors.

- **Funding from the mothership:** Google is another firm that isn’t playing in the cloud space alone. The firm’s mothership, Alphabet, presents the opportunity for the business to access funding and resources for quick growth should it need it.

### Opportunities

- **Sleeping giant:** In many ways, Google is a sleeping giant. The firm has grown a little, but not by much in comparison to the other major players. This seems to be part of a strategic decision from the firm, which is more focused on the consumer market.

- **Marketing:** Google is part of one of the biggest marketing capabilities in the world but does relatively little to push itself as a major player in the hyperscale cloud space. Should the firm want to more aggressively compete with the other major players, it will need to invest in marketing to set out how it differentiates itself from major competitors.
Market direction and recommendations
Market summary

• While the market is pivoting away from traditional engagements, there is still plenty of hands-on heavy lifting transformation work to be had. It’s reasonable to expect some of the more traditionally focused providers to continue to hammer away at this market. Meanwhile, the more forward-thinking providers covered in this piece are building out partnerships and brokerage models to drive value-add services over the top of the hyperscale cloud wave.

• Surviving in this turbulent market is no small feat—as traditional revenues continue to freefall, we can expect not only rapid evolutions for the latecomers but also some players to move out of the market entirely—voluntarily and involuntarily.

• One thing is clear: Enterprises are showing huge appetites for getting their digital underbelly in order—no doubt to help support the deployment of other, more glamorous technologies such as AI and analytics further down the line. But, without internal talent and expertise, the demand for high-quality professional services to help select, broker, and deploy is a potential gold mine for providers with the right partnerships and offerings in place.

• Perhaps the most striking part of this increased demand is the impact it is having on overall market capacity—while the market is not expected to grow, the increased workload from the cloud will fill in the hole left by crashing revenues from declining traditional infrastructure work. This is significant because the increased utilization and industrialization of cloud technologies should lead to a drastic drop in overall market capacity. In the same way that if everyone started renting cars instead of buying them, the increased utilization of a single car from one person to five would lead to four fewer cars being purchased. The increased usage of infrastructure assets should mean less is needed. However, the insatiable drive for digital means more and more cloud capacity is needed for processing and storage. The infrastructure market may not be the most glamorous in the digital economy, but it’s where all the action is happening today.
What does the future hold for the industry?

We’re almost certain to see more consolidation as the traditional market continues to be ravaged by the onslaught of as-a-service and hyperscale cloud. However, there is a clear path that the industry will need to tread before it’s out of the woods:

• **Partnerships and brokerage:** Simply put, providers in the space won’t be able to survive without developing a solid partner ecosystem. Undoubtedly, the big hyperscale providers will be the cornerstones, but there is still plenty of room to find innovative consultancies, boutiques, and providers to partner with. More and more, we’re hearing that clients pay close attention to the partners a provider can bring into engagements. Enterprises crave simplicity in a complex world, so if they can go with a single provider with an ecosystem of capable partners to bring into engagements, all the better.

• **Utility and consumption pricing:** The major cloud providers haven’t just eroded the market share of traditional firms, they’ve turned commercial models on their heads. The prospect of paying only for the cloud capacity you use is no longer a utopian business ideal; it is a standard offering—providers that are reluctant to step away from traditional pricing models won’t have much choice as enterprises force utility and consumption pricing to become the industry norm.

• **Shift in focus to outcomes:** Outcome-focused work isn’t a new concept, but it does stand to make a major impact on the infrastructure space. To many, infrastructure is the unglamorous activity that keeps the lights on and outside of this core business objective rarely finds itself as a topic of enthused conversation in the boardroom. But, with businesses focusing on particular outcomes they want to achieve such as a new business application or automation implementation, infrastructure will find itself even further from the boardroom. Enterprises want outcomes. How the infrastructure supports those outcomes is the business of internal IT or an external technology partner. Outside of migration work, we can expect to see a major blurring between what we define as infrastructure work now and broader technology and IT initiatives.
Enterprise recommendations

• **Be flexible:** Depending on the nature of the engagement, bringing some flexibility can be enormously beneficial. Allowing providers the wiggle room they need to scope out and design a roadmap that will get you where you need to be is a worthwhile tactic in the complex and fast-moving infrastructure space. This is particularly the case for large, complex engagements that require a full transformation roadmap.

• **Come with a clear vision of outcomes:** The bane of service providers is when enterprises don’t have a clear vision of what they want to achieve or the outcomes they expect. Without this, it’s like drawing out a journey without knowing the destination. Providing this clarity will become more important for enterprise clients as vendors become more selective over the types of engagements they are willing to engage in.

• **Be realistic:** Too often we hear the same mistake made when enterprises spec out their migration strategy—they believe many, if not all, of their services are cloud worthy. Unfortunately for many organizations, this is far from the case. Enterprises must be realistic from the outset and recognize that, particularly for older companies, migrating to the cloud may be a long drawn out slog rather than a quick flip of a switch. This realism must extend to application modernization. Don’t be surprised if you’re pushing an ambitious migration project if the budget comes under pressure as the amount of application modernization work takes up bigger chunks of the bill.

• **Walk don’t run:** Similarly, almost daily the media reports of a rushed infrastructure project gone wrong—ultimately the plumbing in scope for your initiative is likely to be the only thing holding up vital parts of your business. It’s important to take time, find out what’s important, and prioritize accordingly.
Service provider recommendations

• **Build a clear vision:** The turbulence of the infrastructure market is increasing the levels of confusion in the space—vendors must build clear visions and narratives for how they see the market, how they can differentiate themselves from their rivals, and how they can help clients navigate their way through the chaos.

• **Bring proof to engagements:** Enterprises are now, understandably, more cautious and cynical about vendor promises. So it’s essential that providers bring proof of delivery to engagements to give potential clients a sense of their capabilities, understanding of the industry, and ability to get the job done.

• **Experiment with clients:** To get the needed proof, providers should work with existing clients and push the boundaries of innovation in experimental initiatives. This approach provides clients with innovative and cost-effective solutions while building valuable proof of delivery capability and commitment to innovation.

• **Develop ecosystems:** Increasingly, enterprises are expecting vendors to provide them more than their internal offerings. Clients want a provider that can support them directly through brokering deals with a broad partner network that includes the main providers and the “small and cool” startups and boutiques. It’s important for providers to build out partner ecosystems to satisfy this demand and extend the scope outside of the usual suspects by bringing in new and innovative players in the space.

• **Build flexible models:** Utility pricing has changed the game completely for infrastructure players—now more than ever you will be expected to provide a variety of pricing options, from traditional to consumption focused. To satisfy client demand, providers must evolve their business models to better align with the direction the market is going. Those who fail to do so may quickly lose traction as the hyperscale cloud players continue to set the pace.
Survey respondent demographics
Ollie O’Donoghue is Research Director, IT Services. With over five years experience in the IT services industry—as both a practitioner and a research analyst—Ollie understands the impact IT services have in the modern business environment.

Before joining HFS, Ollie was the Head of Research and was an Industry Analyst for an ITSM Practice. He provided IT service and support organisations with the resources to deliver greater business value. There he developed a comprehensive research portfolio for the industry. He has researched and presented on a multitude of topics including automation, innovative support models, and real-time analytics. In 2017, Ollie was named second on a list of IT and ITSM experts to watch.

Jamie Snowdon has primary responsibility for overseeing the development of HFS’ Quarterly Market Index, in addition to managing and developing the firm’s data-centric products and services. He works across the HFS analyst teams to define evolving services markets and create market size estimates and forecasts.

He also manages HFS’ quantitative survey and benchmark data. Jamie has over twenty years experience in the IT and Business Services industry. In that time he has worked in a variety of roles including sales, marketing, consulting and as an industry analyst. Jamie’s analyst career has largely been spent conducting data analysis including market size/forecast models, quantitative/qualitative survey analysis and competitive analysis.
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