

SOURCE CLOUD

Guide to the impact of cloud computing
on global sourcing of services

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WILL CLOUD DRIVE OUTSOURCING?

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Neutral View



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PROACTIVE PLAYERS WILL BENEFIT FROM CLOUD COMPUTING

By Anupam Govil, Partner, Avasant and President, Avasense

Recent trends show that transition to a Cloud environment will eventually benefit the outsourcing industry. Both, Buyers and Providers of Outsourcing services will discover tremendous benefits.

As Cloud computing and Cloud based services become more mainstream, there is concern that it will erode the business of Outsourcing service providers who may lose out to Cloud service providers offering computing and applications on a tap. However recent trends show that transition to a Cloud environment will eventually benefit the outsourcing industry, though there could be a transition period when those who do not proactively step up to the changing landscape could fall by the wayside. Both, Buyers and Providers of Outsourcing services will discover tremendous benefits from embracing the Cloud, provided they do it for the right way. Following are some of the leading reasons:

- **More value for the buck, especially for smaller organizations:** Traditional outsourcing involved large upfront investments in IT and Staffing resulting in a lengthy cycle to achieve the desired ROI. With Cloud computing, a buyer can realise the cost savings almost immediately as the huge capital expenditure towards server farms, software licensing and resourcing is now converted to operating expenditure with very low upfront investments. The economies of scale that a Cloud service provider is able to achieve is normally passed on as a benefit to the subscribers.
- **Flexibility and Control:** Cloud's utility style payment model allows Buyers to better control and flexibly provision IT and Business services based on real demand. Further, Cloud inherently isolates Business functionality from the underlying technology, allowing Buyers to not be tied down to a single technology for long periods of time.
- **Leveraging the latest technologies and industry best practices:** Due to long term contracting in traditional outsourcing, buyers were locked in with service providers and often had to wait for a transition period to procure new technologies or adapt latest best practices. With the Cloud its become more commonplace to have shorter term contracts and outsource-

NOW MANY OUTSOURCING SERVICE PROVIDERS ARE GRABBING THE OPPORTUNITY AND INVESTING IN PARTNERSHIPS WITH LEADING CLOUD SERVICE PROVIDERS TO OFFER AN END TO END SERVICE

ing service providers have had to standardise their services as well as adapt them to evolve with advances in technology platforms and best practices. This is a huge benefit for companies that often got stuck in the no-man's territory between system upgrade cycles and service contract renewals.

- **End to End Service Level ownership:** A perpetual challenge with outsourcing of services has been the segmentation of IT and Business process layers, with different entities or groups owning different components, resulting in lack of full ownership of outcomes and service levels. Now many Outsourcing service providers are grabbing the opportunity and investing in partnerships with leading Cloud service providers to offer an end to end service. This is beneficial to the Buyers as they can now rely upon one entity for service delivery and performance as well as know transparently where the breakpoints might lie. Service providers also see this as an opportunity to expand their revenue share with existing customers and have opportunities to cross-sell other services.
- Have large server farms and have strong hosting capabilities across the world. This allows

them to fall back seamlessly on any server in case of any untoward incident like a natural disaster or attack by terrorists. Traditional service providers have lesser global hosting capabilities compared to cloud service providers due to their very nature of business.

■ **Rising up the value**

chain: Traditional

Outsourcing service providers have tried to transform their business models to become business partners with their clients. However, their biggest impediment is the limited impact their IT implementation has on the business side. With many packaged solutions and end-to-end managed services being offered on the Cloud, these providers are now using their deep domain experience to design and develop solutions that produce sustaining bottom line impact on their client's business. This is enabling more mature service providers to get closer to their client's business and transform their relationship into a more partnership based model.

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■ **Penetration into the SME market:** Enthusiastic adoption of Cloud computing by small and medium size enterprises is carving a new market segment for traditional service provid-

ers, especially for those who have infrastructure hosting capabilities. Transition



to the cloud is providing these companies the wedge to penetrate a market that was hitherto too fragmented or slow to outsource.

- **Evolution of Hybrid Services:** The demand for system integrators is expected to rise with the advent of the Cloud. Buyers are now seeking advice and innovative solutions from service providers to
 - Understand and better deploy hybrid Cloud solutions
 - Assist them in migrating to the Cloud
 - Integrating Cloud based applications to ERPs
 - Developing custom based applications on the Cloud. [GS](#)