Cloud computing is redefining IT outsourcing requirements, according to new K2 Advisory research

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 IT Departments as Business Service Brokers, demand for outcome-based contracts, and Cloud ecosystems are transforming IT sourcing services

London, UK – 21 September 2011 – Cloud Computing is redefining IT sourcing services, according to a new research study by K2 Advisory (http://www.k2advisory.com), "Sourcing IT services 'for the journey': The impact of Cloud on Outsourcing." CIOs want outcome-based Cloud contracts from vendors, horizontal business process platforms to outsource their non-differentiated systems, and are beefing up the in-house integration skills of their IT Departments to act as Business Service Brokers for Cloud-delivered services.

The flexibility of the Cloud is changing the dynamics of outsourcing arrangements. Because of the speed at which services can be provisioned, CIOs need to consider to what extent their internal IT department is acting as a service broker. Understanding how the Cloud ecosystem for IT suppliers and outsourcing providers develops will be fundamental to IT strategies. Although this is currently a nascent area, and not that well understood, K2 Advisory believes it will become increasingly important over the next few years, and is a crucial component of sourcing IT services.

Dr Katy Ring, Director of K2 Advisory and lead author of the report, commented: "With cost to value ratios enabling organisations to work more nimbly with their suppliers, CIOs want flexible sourcing options, and in particular favour outcome-based contracts from firms supplying Cloud services. Whilst the theory is good, large scale uptake of these types of contracts is unlikely in the short term due to levels of vendor risk and lack of experience from both procurement and sourcing advisors."

In-house IT is expected to play a pivotal role around Cloud integration. A third of organisations are already forging ahead to build their own in-house integration skills for Cloud-delivered services, although 43% of the market do not expect to address integration issues for another one to two years. More than half of CIOs surveyed expect their internal IT capability to provide a service integration platform and skills to provide business agility around the use of Cloud services, as this is not something they wish to outsource.

Research Manager of K2 Advisory, Kate Hanaghan, commented, "While we often hear of the potential demise of the IT department within the context of Cloud services, it is clear from our research that CIOs expect the department to play a crucial role in ensuring that these Cloud services actually work within the organisation. 2012 will be a pivotal year for many organisations as they look to conduct a sizeable shift towards Cloud services, or as they start to tackle the integration challenges."

Over the next two years, the number of CIOs seeking help to integrate SaaS with legacy systems, and/or SaaS, will grow as Cloud strategies develop and usage increases. K2 Advisory research shows that a third of organisations believe that the real challenge for them could kick-in by 2013, while a further 12% expect 2012 to be the year they require assistance. Either way, the data suggests that 2012 will be a pivotal year for many organisations as they look to conduct a sizeable shift towards Cloud services, or

as they start to tackle the integration challenges that are emerging following investments made this year and into 2012.

Nearly two-thirds of CIOs interviewed said they would use a business service platform either because it would deliver the most cost-effective solutions in selected non-differentiating areas – such as HR, Payroll, Finance and Procurement – or because it was used by their fellow industry players. There is a clear preference of broad horizontal business services, rather than sector-specific capabilities. CIOs are keen to embrace the IT cost reduction in these areas without constraining organisational development. Highly differentiated systems designed to deliver high added value, are seen as less of a good fit for standard Cloud delivery.

End user services will also see one of the most rapid moves towards the Cloud in the near term. A small but growing number of organisations in the UK are already using Cloud-delivered desktop services, but an even greater number are looking to make the move. K2 Advisory expects this to happen in the next one-to-two years. Upgrades to Microsoft Office will serve as a trigger-point for considering the transition to Cloud in most organisations.

* K2 Advisory's research findings are based on 102 responses from CIOs and senior decision makers. Approximately two thirds of respondents were from organisations with more than 1,000 employees and from a variety of industry sectors. To access the research, please contact Katy Ring at K2 Advisory katy.ring@k2advisory.com

About K2 Advisory - www.k2advisory.com

K2 Advisory runs the CIO Research Forum, which currently has almost 1200 CIO members. The Forum is a resource for CIOs, their senior colleagues, and their suppliers. It is a source of independent research and advice, analyst interaction and face-to-face networking for buyers and suppliers. The strength of the Forum comes from its research community of UK CIOs that participate in the independent programme run by K2 Advisory.

Our Executive Leadership Briefings enable us to discuss the findings of our research with CIOs, and share discussions about challenges and best practice approaches. We think that this combination of independent research and face-to-face networking is a useful tool for any ambitious CIO looking to improve the way IT enables business goals.

Membership of the Forum is by invitation or recommendation in order to ensure the quality of input, debate and networking opportunities. If you would like to be considered for membership, please contact Research Manager, Kate Hanaghan (katehanaghan@k2advisory.com).

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For further information or to obtain a copy of the full report, please contact:

Dr Katy Ring, Director, K2 Advisory
Tel: +44 (0)1634 847797

katy.ring@k2advisory.com

Vanessa Land
Devonshire Marketing
Tel: +44 (0)870 242 7469
vanessa@devonshiremarketing.com