
Vendor Survey Analysis: Investments in Alternative Delivery Models, Global, 2008 (Summary)

Overview

- This research provides Part 1 of the results of a global 2008 IT vendor survey Gartner conducted to understand the commitment level of IT vendors and service provider organizations to the alternative delivery and acquisition model (ADAM) for the delivery of IT as a service.
- Throughout this research, we will refer to "ADAM" or "ADAM-based offerings" as the category of service based on alternative delivery. For definitions of the 14 ADAM-based offerings Gartner identified, see "Alternative Delivery Models: 14 New Ways to Deliver IT" G00149805.
- Gartner also produced a Special Report in October 2007 on the topic (see "Alternative Delivery Models: A Sea of New Opportunities and Threats" G00152244).
- Based on our findings, Gartner identified a gap in provider offerings and an increase in client interest, which created the impetus for this research.
- To determine the interest and commitment level of IT vendors and providers to invest in the creation of new offerings based on ADAM concepts, Gartner conducted comprehensive interviews with key vendors, with extensive communication on the models and related methodologies.

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This research is focused on ADAM as defined in October 2007 by Gartner. Advancements in key technical areas (that is, networking, computing, application delivery and virtualization) present a scenario that offers new ways to deliver, package and procure IT as a service. These alternative delivery models have the potential to dramatically change how IT is obtained, developed, supported, managed, licensed and accounted. With ADAM, the IT services opportunity is similarly changed and transformed. Gartner executed this Vendor Survey Analysis to better understand providers' level of interest, traction and investment in these alternative models to deliver IT services to clients. Two main factors drove the research: Clients surveyed by Gartner revealed their growing interest in considering/adopting these new "alternative" forms of accessing IT and services, yet they identified a lack of market offerings, and the immaturity of offerings and pricing structure as the foremost inhibitors to adoption (see "Providers Wake Up: Clients Are Waiting for Your, or Someone Else's, IT Utility" G00149262 and "Client Organizations Rank Their Interest in Alternative Delivery Models" G00154440). For ADAM to be viable market options, service providers must make significant upfront investments in design and must implement the new service offerings. Unlike traditional labor/capability-based IT service offerings (application development and maintenance, infrastructure outsourcing) where the client funds the service, most of these new models (software as a service [SaaS], infrastructure utilities [IU] and other asset-based services) require long development cycles before revenue is realized. The risk is higher, even though the economies of scale are promising, from a revenue and profit perspective.

Key Findings

- ADAM investments are under way in all types and sizes of providers (from less than \$10 million to more than \$10 billion in revenue); the competitive landscape for ADAM already is growing in complexity.
- A total of 75% of the vendor respondents report their senior business leaders' attention to ADAM as "high" and "very high."
- All vendor respondents decided to pursue multiple ADAM offerings (the mode is three; the average is six models).
- A total of 97% of vendor respondents reported that they already are delivering one or more ADAM-based offerings (the mode is two models).
- The most common ADAM offerings are software as a service (SaaS), remote management services, Web 2.0 platforms, business process utilities (BPUs) and infrastructure utilities (IUs).
- Most vendors (65%) are advancing their investigations for adding two to three ADAM-based offerings.

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The high level of ADAM activity this survey uncovered points to a sense of business urgency on the part of vendors to evolve to ADAM-based offerings, but there is immaturity in the market. ADAM already have started to change the market: IT industrialization is here. The reported data from this survey clearly demonstrates that providers and vendors are showing high interest in and investigating ADAM options but also that they have moved from exploratory efforts into investment and production activities for specific ADAM-based offerings. The data also shows that providers and vendors are responding enthusiastically to the growth opportunity of ADAM. However, as with all new markets, some vendors may be "jumping on the bandwagon." For some vendors, this is likely a typical immature rush toward new markets, pursuing too many new ADAM-based offerings at a time. Key findings from Gartner's seminal report, "Alternative Delivery Models: A Sea of New Opportunities and Threats" G00152244 include that the IT market has reached a "tipping point" — the start of a period of accelerated change and innovation in how IT is applied and delivered to businesses and consumers. Most of this change will be concentrated during the next five years, with a broad set of alternative delivery models potentially becoming mainstream by 2012 and making traditional models obsolete for all but highly selective customized solutions developed for strategic differentiation with proven return on investment. This period will see huge changes in all facets of the IT market: clients, providers, investors, business and IT professionals and consumers. Increasing innovation in how business and IT services are delivered will begin visibly separating high-growth from failing companies. IT utilities and SaaS will form external benchmarks for investments in internal IT, business process differentiation and sustainable competitive advantage (see "Understand the Challenges and Opportunities of the Market Life Cycle" G00127583).

Recommendations to Vendors and Service Providers Looking Into ADAM

For vendors that have not committed to ADAM or are investigating adding ADAM-based offerings as potential new products:

- Recognize that the movement to ADAM, IT utilities and infrastructure industrialization will happen with or without your participation.
- Act now to protect, evolve and cannibalize legacy business. Re-evaluate the portfolio strategy, determine if/where ADAM are potential new offerings and proactively contact the customer base to understand which ADAM your clients expect.
- Ensure that you have senior executive buy-in should you decide to proceed.
- Leverage partners to build meaningful ADAM approaches: Don't wait for long innovation cycles — start small to scale quickly.
- Proactively seek to involve clients and prospects to develop a collaborative solution environment.
- Recognize two critical challenges that must be addressed for any ADAM solution: 1) pricing model immaturity that forces long negotiations and 2) the absence of vendor road maps to support ADAM-based offerings.

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The market for ADAM-based offerings and "IT as a service" solutions is nascent, undefined and fragmented from the supply side and demand side. Yet Gartner encourages providers/vendors to pay close attention to forces behind the sharp increase in industrialized IT service appeal (shared services, one to many, low cost and consumerized approach) that we predict. Clients told Gartner that a supply gap exists in ADAM-based services to fulfill their needs. The U.S. economic downturn (and global repercussions) could call for higher demands for ADAM offerings to deliver services more cost effectively, predictably and with little upfront investment. Provider and vendor respondents report high attention and levels of investment activity to fill the gaps from the supply side; investments in new capabilities, services and especially data centers by few major providers (Google, Microsoft, Yahoo, eBay and Amazon) were approximately \$5 billion in fiscal-year 2007. Our survey also demonstrated that investments in new models are under way in all types and sizes of providers, from companies with revenue of less than \$10 million to those with more than \$10 billion. Although legacy offerings and systems still constitute the baseline IT market, this promises to become stagnant or low in growth, with high-growth business opportunities to be captured mostly through new approaches and ADAM models.

High-growth, emerging economies may prove to be fertile ground for ADAM solutions, because many businesses entering these "hot" markets will seek to forgo high IT (capital) investments and will instead access ADAM for speed to market.

Recommendations to Vendors and Service Providers With Some ADAM

For vendors that already have a service business and already have begun investments in ADAM:

- Focus on developing new messages/campaigns that establish technical leadership, and invest in brand awareness in (possibly few) selected ADAM areas that resonate with your focus and customers.
- Secure adequate investment; it is costly to create new marketing and sales campaigns that include promotion and education of buyers for new ADAM service models. This is a long-term commitment: You must "stay the course" as the market shifts to new services — it will not happen overnight.
- Continue to work closely with clients and partners in collaborative development.
- For vendors that are startups or are focused on bringing one ADAM-based offering to the market:
 - Develop clear value propositions, marketing messages, targeted client sets and a long-term investment plan for your service solution.
 - Seek partners that support your technology and investment needs to sustain during potentially slow periods as market demand evolves.
 - Notice that a high number of competitors are evaluating multiple ADAM-based offerings to make their offerings richer (for example, SaaS plus BPU).

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We encourage vendors/providers to monitor closely how buyers' expectations and objectives may change, assuming the rise of ADAM-based service offerings that could take the form of an "IT sale," like "everything as a service at X.99 dollars or euro per user per month!" Don't wait. Act now to protect, evolve or cannibalize legacy business instead of leaving it to someone else:

- Evaluate your competitive position based on the data provided on this research.
- Discover your clients' and prospects' unsatisfied needs, then leverage ADAM approaches.
- Look beyond the installed base. New opportunities may come from competitors' installed base where needs for ADAM-based services are unmet.
- Don't wait for long innovation cycles — choose scalable architecture — then start small and involve clients in a collaborative solution environment.

Most providers are pursuing or offering more than one ADAM-based offering; providers may have an SaaS offering as a main ADAM approach, but they will extend this to include other ADAM-based solutions and provide a richer offering (for example, a BPU to deliver business value, collaborative development or an IU to enable the SaaS). The fact that providers have taken this multiple-ADAM approach is not just a sign of market development or immaturity; it is a competitive step to ensure more client value and exploitation of the value proposition of ADAM through leverage.

Survey Objectives

The survey objectives for this report, "Vendor Survey Analysis: Investments in Alternative Delivery Models, Global, 2008" are to evaluate:

- The awareness and commitment level of different types of IT vendors and service providers toward Gartner-defined, ADAM-based offerings
- The traction of 14 ADAM offerings, including grid computing, user-owned devices, software streaming, community source, capacity on demand, software-based appliances (SBAs), communication as a service (CaaS), utility computing, storage as a service, IUs, remote management services, BPU, Web 2.0 approaches and SaaS
- The initiatives of these vendors to create and deliver "IT as a service" in the form of new offerings based on ADAM
- The drivers, decision makers and influencers for these initiatives
- The number and size of investments for the new offerings

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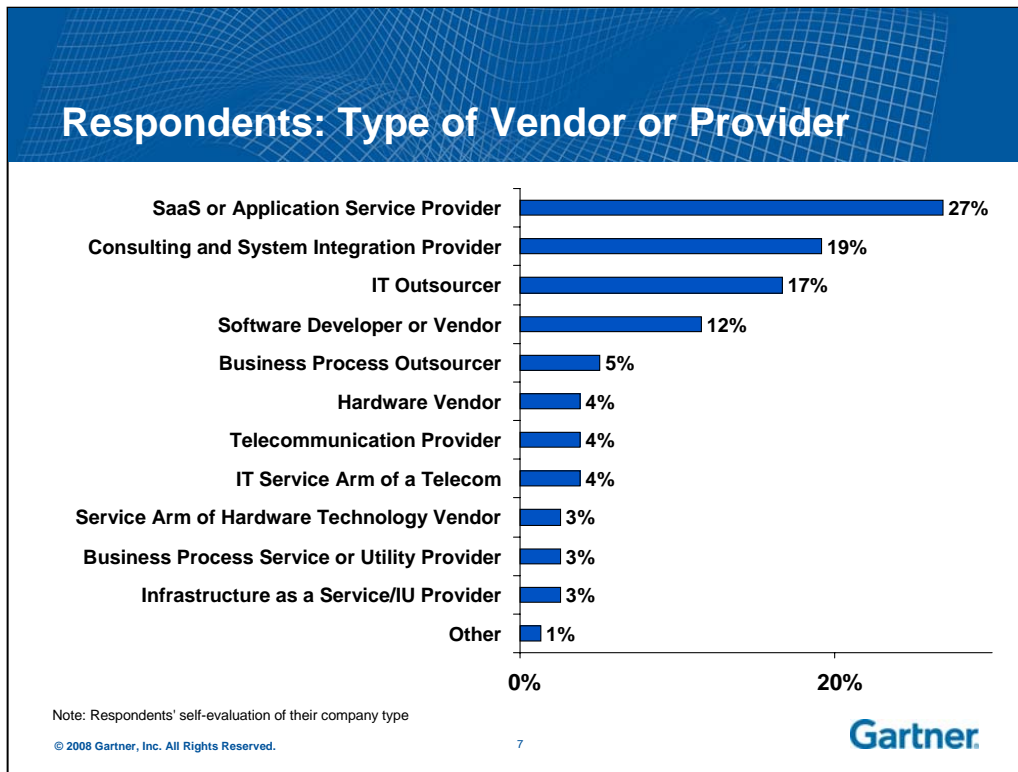
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Vendor surveys provide value by helping service providers/outsourcers and their clients to better understand vendor investments, business models, decision-making processes, strategic priorities, and current and future offerings.

Service providers that understand similarities and differences, competitive approaches and time to market of their competitors will be better-prepared to respond to the dynamics of an increasingly competitive IT outsourcing marketplace.

Methodology Statement: Data was collected by phone interviews on a predefined questionnaire; 78 qualified respondents participated in this study (see the "List of Vendors That Participated and Agreed to Be Named in This Report" slide). Additional details on methodology provided are at the end of this research.

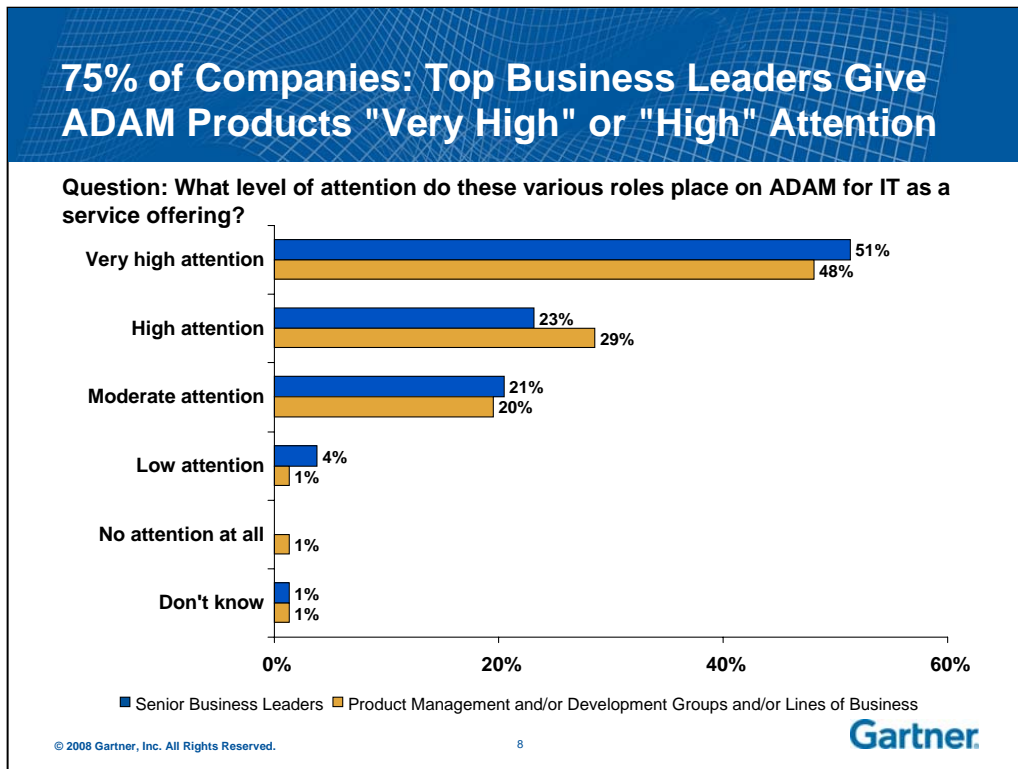
For more information, see "Hints and Tips on Using Gartner Numbers When Reviewing IT Spending Plans" G00136883.



These are the types of vendors and providers represented in our survey sample. Responses were tallied based on answers to the question, "Which of the following most closely describes your organization's primary business focus?"

There is a higher percentage of SaaS providers than any other provider category. At first, it may seem that the high proportion of SaaS vendors in the survey could distort the results.

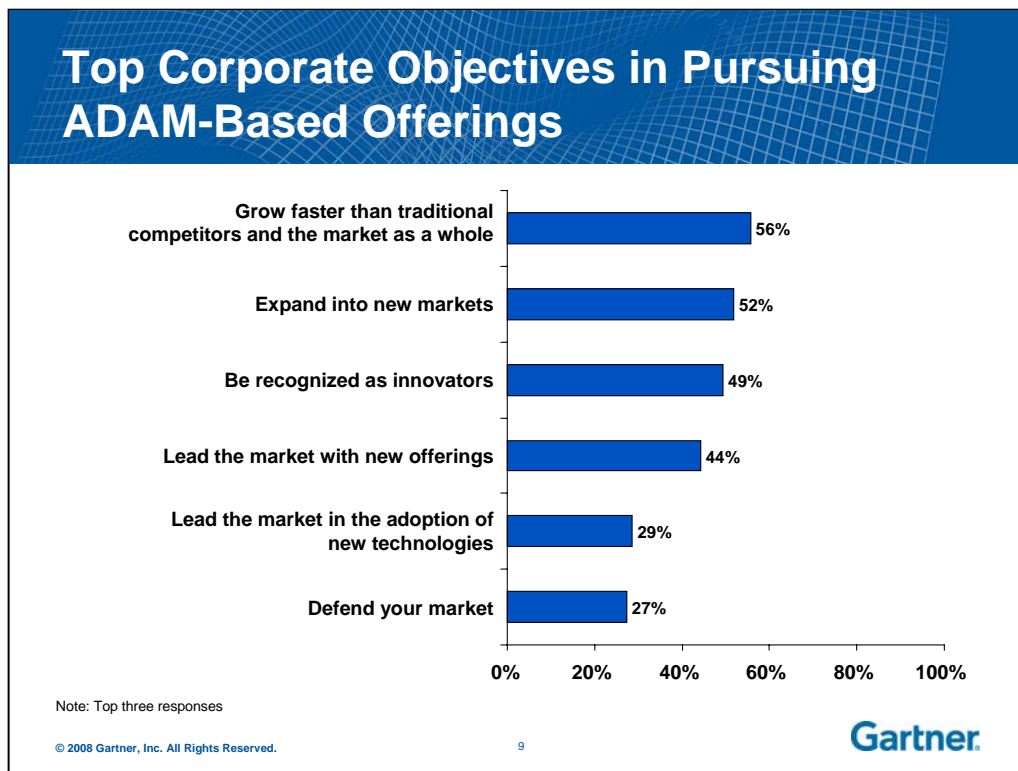
However, when we took them out and undertook the same analyses reflected in slides 10 and 11, the identified trends (as seen in slides 12 and 13) were consistent.



Attention from top management is a leading indicator of the external pressure executives receive — especially from influential clients — and internal organization pressure, typically from R&D, marketing, sales or production. Executive attention is important for ADAM requiring significant investments before the resulting solutions and services can undergo market testing and be sold.

- In an SaaS-based offering, providers must develop the application (or port it into a new multitenant environment) and put in place the right infrastructure and services processes before starting to sell the service.
- For an infrastructure utility setup, providers must develop their own service specifications, implement new architectures (virtualized and automated) and new functions (service catalogues and billing systems), design and run new standardized functions (for example, help desk and change management), put these capabilities in place in multiple locations and sell services to prospects and clients (see "Infrastructure Utility in Practice: Offerings, Data Centers and Clients" G00147168).

As the survey demonstrates, attention is high or very high from most senior business leaders (74%) production managers, development groups and business lines (77%). Considering that for most skepticism has been around from 2002 to 2006, the survey result represents a bold outcome. Gartner will continue to track interest levels to see if a shift occurs as the market matures. This information is based on a high level (thus reliable) source of respondents; for example, 28% of the sample were senior business executives (see the "Respondent Demographics" slides for more detail).

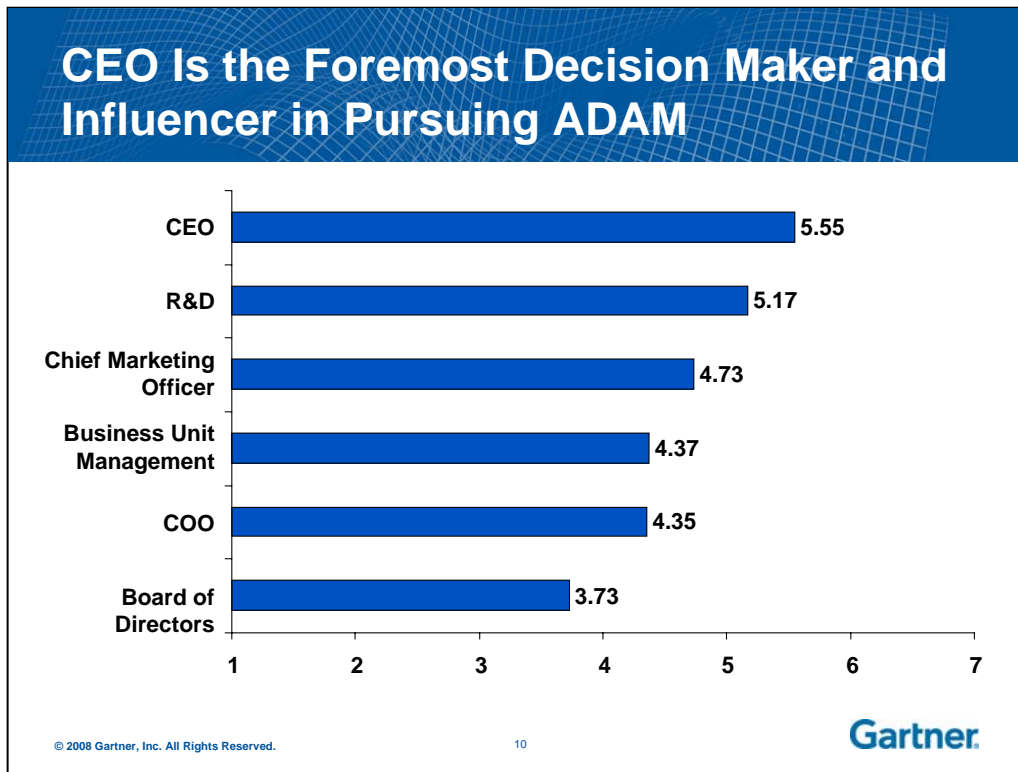


The leading reasons, in order of priority, why vendors and providers are pursuing ADAM-based offerings are clear:

- Faster growth than competitors (gain competitors' market share)
- Expand into new markets (gain someone else's future market share)
- Recognition as an innovator (to avoid being perceived as a "followers" or as only reactive)
- Lead the market with new offerings

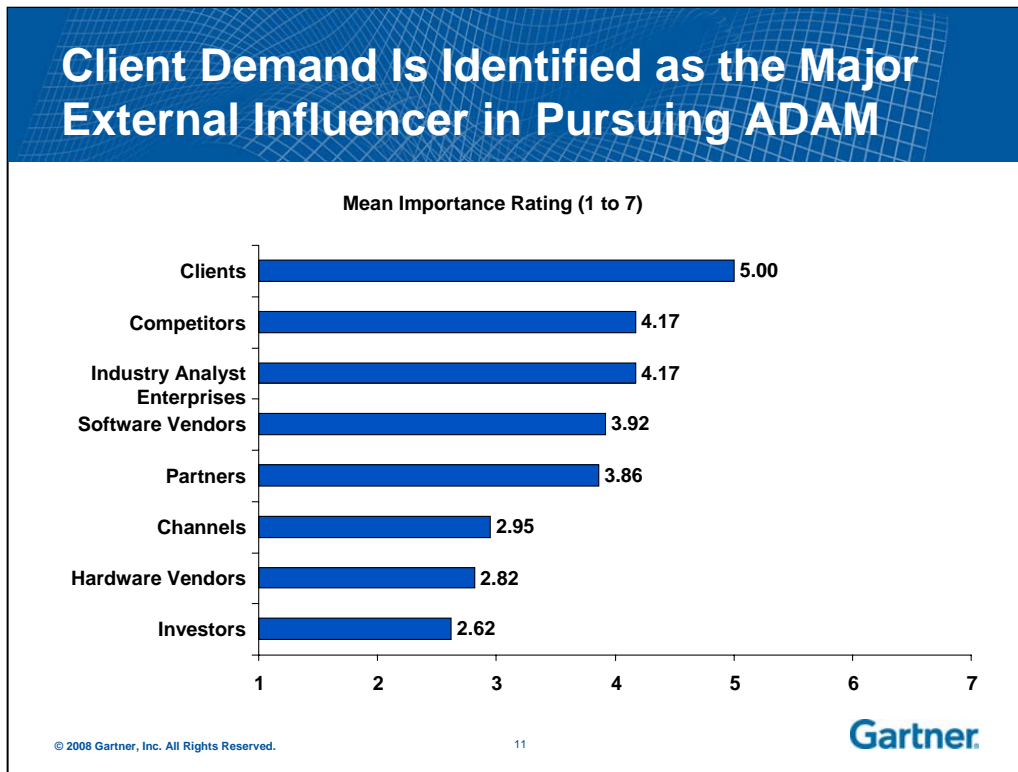
There is much less focus on leading and new technologies — the activity appears to be much more on the business and strategic side, as explained by the strong weight of top executives and other powerful influencers in the decision-making process. The first two drivers can be linked to market disruptions by taking a leadership position in ADAM, because this is about market share growth.

We also can interpret this data to say providers understand that future growth will rely on innovation and entering new markets; simply doing what has been done won't be sufficient. The data further indicates provider endorsement of the market shift to Internet technology and the recognition that clients' expectations of access and flexibility from technology (that is, delivered as a service) will become mandatory.



As introduced in the data regarding the influence of senior business leaders and their attention to ADAM for IT-as-a-service offerings, this data further confirms that the decision-making process occurs at the top levels of vendor organizations. The CEO is identified as the top decision maker and influencer (the particularly high target of executives and managers available for the survey confirms this). A heightened desire not to miss revenue growth opportunities is likely the underlying cause. The high influence of R&D suggests an important truth of ADAM-based development; upfront vendor investments are essential and likely significant. So it is not surprising that R&D will have a high influence. Other internal influencers (percent of mentions) were ranked in an ensuing drill-down question as follows:

| | |
|--------------------------|-----|
| Strategic planning | 15% |
| Sales | 36% |
| Product management | 13% |
| Innovation group | 5% |
| Finance | 10% |
| Chief technology officer | 13% |
| Business development | 5% |
| Architects | 8% |
| Account management | 5% |
| Other | 26% |



The major external influencers in ADAM decisions, as perceived by vendors and providers, are clients, followed by "competitors" and, at the same level "analyst firms." Gartner sees this proof of a provider learning phase and the immaturity of the models coupled with a high speed of development and rising potential. Essentially, providers are not only worried about what clients want and competitors are doing but also about what analysts think will happen in the market, implying that a significant market discontinuity is perceived and that unusual competitors are about to rise. The push from vendors, partners, channels and investors is perceived as lower, but still having an impact. Other external influencers were ranked in a following drill-down question are:

| | |
|--|-----|
| Market/industry factors | 27% |
| Vendors/service providers | 14% |
| Standards bodies | 14% |
| Regulatory/compliance bodies | 14% |
| Industry associates/IT-related communities | 14% |
| Universities | 9% |
| Other | 9% |

Methodology

Methodology

- Gartner conducted the survey from 3 December 2007 to 11 January 2008.
- The region is global, and countries are U.S., U.K., India, Canada, France, Germany, Netherlands, South Africa, Finland, Norway and Spain.
- The Gartner Primary Research Management team developed and executed the survey, using external agencies for the interviews.
- The initial target list of 500-plus vendors was developed by Gartner analysts, Gartner Secondary Research Services and the field agency.
- During the referral and execution process, the agency contacted 755 individuals to organize the interview.
- The method was phone-based data collection, assisted by e-mail (prior to or following up calls), with the agency completing 76 surveys. Respondents filled out two extra questionnaires and returned them via e-mail (following direct e-mails sent by the analyst).
- Interview completion times ranged from 25 to 60 minutes. The estimated average time was 45 minutes. Most respondents were senior executives and managers: 29% senior business executives, 13% senior marketing managers, 14% chief technology officers, 9% delivery managers and 8% strategy management personnel.
- The research defining the alternative delivery model (the basis for this survey) and the definitions for the 14 ADAM options were provided prior to the interview.

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This is a short version of the ADAM definition for the application, and the process layer is outlined. SaaS is software that is owned, delivered and managed remotely by one or more providers. The provider delivers software based on one set of common code and data definitions consumed in a one-to-many model by all contracted customers anytime on a pay-for-use basis, or as a subscription based on use metrics. BPUs are externally provisioned business process services based on highly standardized processes and a unified, one-to-many technology platform. Web 2.0 approaches are Web platforms often referred to as Web 2.0 and Web's implementation of service-oriented architecture and composite applications delivered as "mashups." The Web is a set of technologies on which systems can be built; multitudes of Web platforms use the Web infrastructure to provide access to the underlying capabilities and to enable the resultant ecosystems. Community source is an emerging sourcing option to coordinate the work of user IT organizations that have the same purpose and set of requirements. This can constitute a valid alternative to commercial applications and custom development. Software streaming is to distribute application on one of two forms, by the use of persistent storage as cache or the use of system memory only. The primary difference between these two forms is whether the applications and data reside on the PC after the system is rebooted. SBAs decouple application and operating-system logic from the underlying hardware, offering innovative ways to package and deliver IT functionality to any endpoint — desktops, servers or, in the future, mobile devices (see "Alternative Delivery Models: 14 New Ways to Deliver IT" G00149805).

Definitions

In Gartner's taxonomy, the 14 ADAM for IT as a service are:

- BPU
- SaaS
- Web 2.0 platforms
- Community source
- Software streaming
- SBAs
- IU
- Storage as a service
- Grid computing
- Utility computing
- Capacity on demand
- CaaS
- Remote management services
- User-owned devices

"Alternative Delivery Models: 14 New Ways to Deliver IT" G00149805 reports all model definitions and was provided prior to the interview. The short version of the definition used during the interview is reported in the notes.

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This is a short version of the definition of the ADAM for the infrastructure layer. IUs are shared IT infrastructures provided through on-demand services, with pricing based on service use. Storage as a service is the provisioning or allocation of storage capacity on a usage basis. Grid computing is a collection of computing resources with multiple owners coordinated to address a common problem. Utility computing spans many segments. In this research, we focus on the server infrastructures that enable internal IT organizations to deliver granular transparent services to users and to charge for these services in a regulated, consistent manner, like server virtualization, dynamic provisioning and dynamic workload management. Capacity on demand is the availability of inactive components — processors, memory and input/output adapters — in systems that can be activated rapidly. Remote management services are externally provided operations and management capabilities offered over a networked infrastructure. Gartner defines "global remote IT infrastructure services" as "the remote support and management of various IT services that are related to infrastructure support from global delivery sites." CaaS products are offerings that bundle communication applications with connectivity and IT services. These offerings include IP telephony, collaboration, contact center and unified communication services. User-owned devices, including necessary applications, appliances or computers, are available in nearly all organizations so that employees can best perform their job functions. Employees are responsible for providing the technology needed to complete the tasks associated with their jobs. This approach is often popular with contractors, in work-at-home scenarios (see "Alternative Delivery Models: 14 New Ways to Deliver IT" G00149805).

List of Vendors That Participated and Agreed to Be Named in This Report

- 24SevenOffice
- 3n National Notification Network
- Active Media
- Adaptive Planning
- Alterian
- Aplicor
- Atos Origin
- Avaya
- BrainKeeper
- BT
- Bull
- Capgemini
- Centive
- CGI
- CI³
- Clickability
- Cognizant Technology Solutions
- CompuCom
- Computacenter
- Concur
- Convenos
- Convergys
- Coremetrics
- Cyracle Technologies (Parature)
- Dimension Data
- EDS
- EMC
- Enviance
- First Data
- Firstsource
- ForceLogix
- France Telecom
- Fujitsu Services
- Getronics
- GFT Technologies
- GijimaAst
- GlobalServe
- HCL Technologies
- HP
- IBM
- IDS Scheer
- Infor (acquired SSA Global)
- Infosys Technologies
- Internet Office
- Janeeva
- Kyliptix Solutions
- Lawson
- LogicaCMG
- Morse Group
- Netgain
- OAO Technology Solutions
- OneNeck IT Services
- Ordina
- Patni Computer Systems
- Paychex
- Perot Systems
- Pomeroy IT Solutions
- Progress Software
- Remedy Interactive
- Sage Software
- Sapient
- ServiceFirst (listed as KRS Enterprises)
- Siemens IT Solutions and Services
- SGI
- Sopra Group
- SunGard
- Symantec
- Telus
- The Revere Group
- TietoEnator
- T-Systems
- Vanco
- Verio
- Verizon Business
- Vignette
- Wipro Technologies

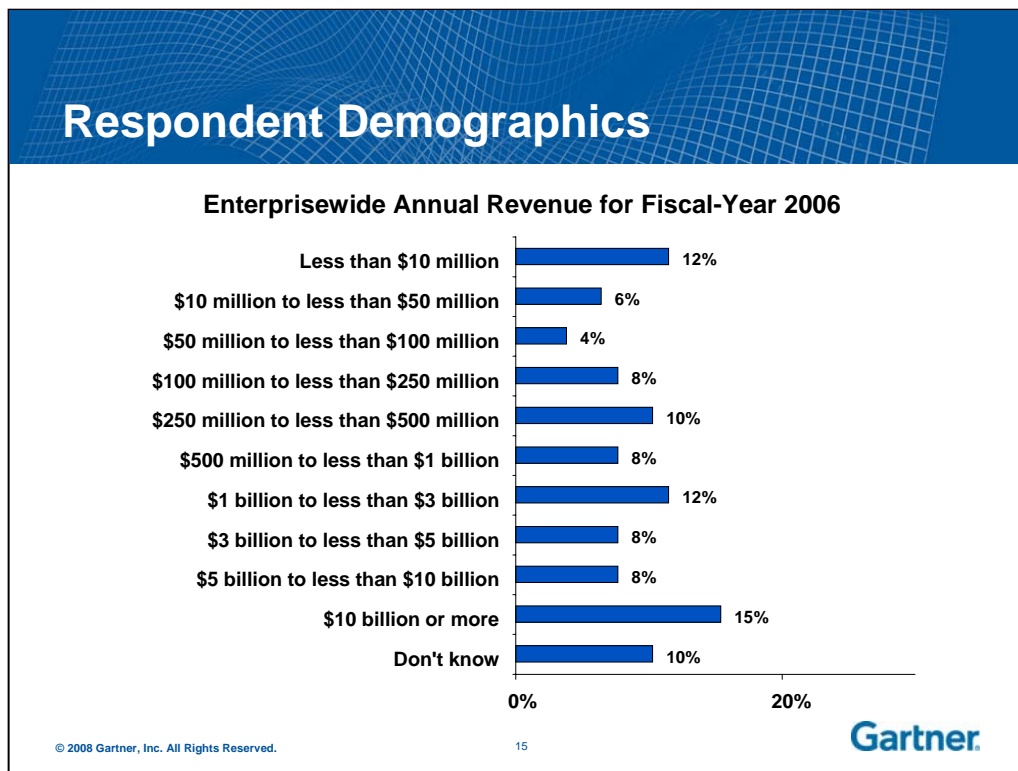
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This is a list of providers who explicitly answered "yes" to the following question:

"Your organization also has the option of being reported in the list of companies investing in alternative delivery models and, therefore, recognized by Gartner clients. Do you want your organization to be reported on this list?"

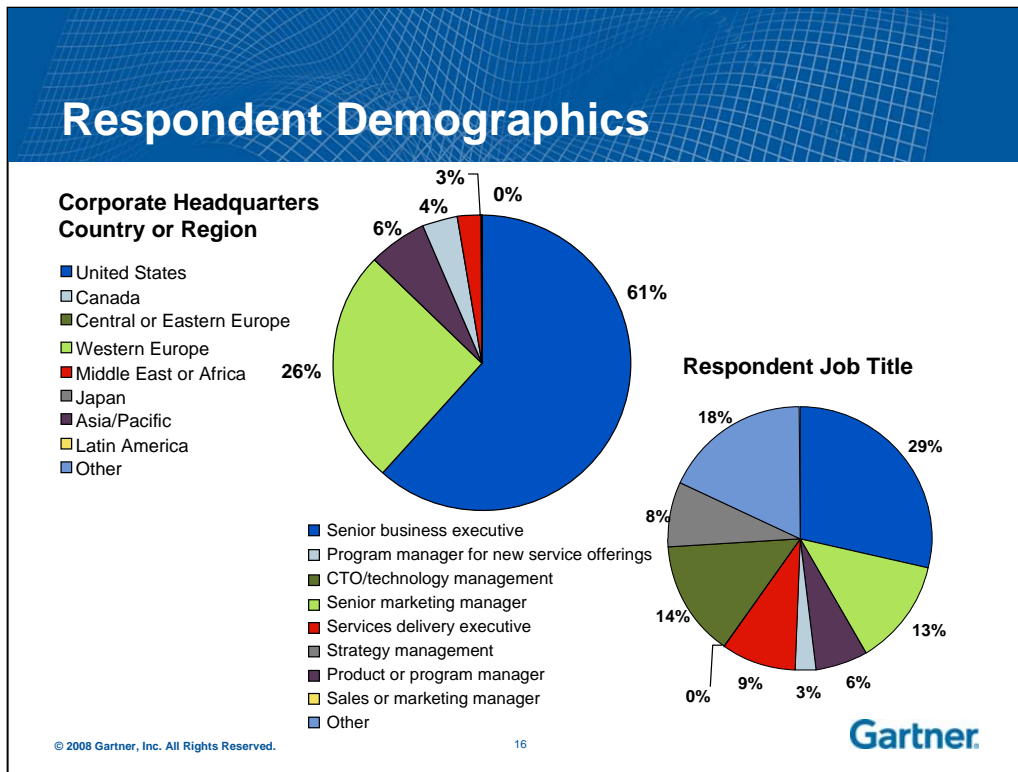


These are the demographics of the resulting sample:

- Companies interviewed ranked from less than \$10 million in revenue (12%) and up to greater than \$10 billion (15%)
- A total of 82% are global or multinational (only 9% are regional and 9% national) — for 91% of these the interview covered their global investments and activities
- A total of 65% of sample vendors are headquartered in North America, 26% in Western Europe and 6% in Asia/Pacific
- The distribution in terms of single country is: U.S. 60%, U.K. 12%, India 6%, Canada 5%, France 4%, Germany 4%, Netherlands 3% and other 6%

Respondents' roles and jobs were identified as senior business executive 29%, CTO/technology management 14%, senior marketing manager 13%, services delivery executive 9%, strategy management 8%, product or program manager 6% and program manager for new service offerings 3%

The high level of professional interviewed is another indirect proof of interest in the market for the uptake of ADAM for "IT as a service."



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