



# The VMI Top Trends in IT Services

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# Top Trends in IT Services

*What Thought Leaders are saying about leading trends in the services industry and how customer expectations are changing.*

## About the Research

Over the last few months, we interviewed over twenty-five key opinion leaders and influencers in the IT services industry within both the Defense and Commercial Sectors, ranging from CEOs, CIOs, and other professionals at strategic levels within stakeholder companies and universities. These thought leaders became part of VMI's "Topical Community" and provided us with cross industry-level insights and perspectives. We thank them for their contributions to the body of knowledge and to this Top Trends briefing.

## Introduction

There are three macro trends that have created major shifts in services: the global economy, commoditization of technology, and Moore's Law. The downturn in the global economy has made companies rethink how they purchase capabilities with a continued push towards outsourcing. With commoditization, technology is hitting the margin-wall causing traditional product-centric companies to shift a large focus to selling capabilities and moving up the value chain in services. In addition, Moore's Law and the rapid rate of technology innovation is creating an environment in which purchasing services rather than sinking costs into soon-to-be-outdated technology makes sense. These factors are all feeding into the "servicization" of the economy.

## Top Trends

The insights gained from discussions with VMI's topical community were many. Below are a few notable stand-out trends :

### **#1 Cloud Computing, Pay-Per-Use, and Micro-Transactions**

Cloud is the hype of the moment and although it does not involve new technology, it's a major shift in the service acquisition business model. Although there has been some early debate about the cloud regarding its performance, true cost savings, and security, large and medium-sized companies are realizing that the benefits outweigh the risks. Cloud offers elasticity, a low upfront investment, and flexible acquisition models. As customer expectations shift toward a utility model, pressure now mounts on traditional software providers' selling cycle. Traditionally, software ven-



dors have worked under a model in which they make a large sale up front with heavy licensing fees and then continue to earn profits through maintenance and support contracts. However, the cloud has created an environment in which the customer expects low initial investment and to pay only per use. In this setting, sales have shifted to micro-transactions, placing the risk and incentive to find new discriminators upon the service providers' shoulders.

## **#2 Movement Towards Outcome-Based Contracts**

This is a trend we are seeing in both the private and public sectors. The servicization of the economy is resulting in an increased push towards companies selling the capabilities and value add from their products *as a service*. Customers are pushing away from the "razor blade" model in services. Currently, a time and material contract can generate up to 7 times the cost of the original product because customers end up paying when the product is broken. Here, incentives are misaligned. Outcome-based models re-align incentives between the two parties which ensure use and availability, creating a win-win, truer partnership. In the defense sector, since 2004 there has been a push towards Performance Based Contracting (PBC) when the DOD mandated this type of contract for all major weapons systems. Recent studies have found that PBC results in 25-40% higher product reliability.

## **#3 Shift in the Risk Model**

The move to the cloud, pay-per-use models, and outcome-based contracts continues to increase the service providers' risk. In terms of the cloud delivery models—the risk is shifted back to the service provider due to the customer moving away from heavy up front investments and towards pay-per-use and micro-transactions. Lower switching costs and increased flexibility for the customer places the burden on the provider to actively sell and to continuously show their value. This is a big change from the old model in which the customer was locked in and assumed the risk of poor performance, outages, and so forth.

## **#4 Service Level Management: Emphasis on Desired Outcomes**

As companies outsource more of their functions and move towards outcome-based contracts, more pressure is being placed on service level management. Service level management is a cyclical process in which the terms of the service level agreement are agreed upon, monitored and renegotiated throughout the service lifecycle. Service level agreements today are moving away from the technical aspects such as performance hours and response time, and instead are focusing on the desired outcomes such as increased sales or patient outcomes. There should be flexibility built



into the agreement to allow the service provider to meet the outcomes without following strict guidelines on how those outcomes should be reached. They should focus on *the what*, not *the how*.

Dashboards are important element of service level management. They provide visibility to the customer in the service offering, making sure that the service level agreement is being met. Dashboards also create a feedback loop for the service provider to see when service levels might not be met or how to improve performance. The dashboard views should be different for the customer and the service provider. For example, it should be easily customizable in order to highlight what is important for the specific stakeholder. Effective service level management will align expectations at the beginning of the agreement and lead to a trusted long-term partnership.

## Conclusions

Technology and the servicization of the economy is changing the way services are being offered. The cloud, and the shift in customer expectations and risk is changing the way service level agreements and business models are created. Customers no longer want a large up-front, locked-in investment because emerging technology and services may give them a new competitive discriminator. This creates a change in SLA's business model and increases risk for the supplier. Suppliers will need to invest more heavily in innovations that align with their customers' success in order to achieve sustainable revenue. What contracts look like a year from now will surely be very different than they look today.



Again, we would like to thank our thought leaders (VMI's Topical Community), without who's help this paper would not be possible. Their insights continue to deliver great value to our research and allowed us to provide you with a cross industry perspective.

We would like to give a special thanks to Technology Services Industry Association (TSIA), Computer Aid, and the University of Tennessee.

While this paper has covered stand out trends, if you are interested in gaining further insights into our findings, we would be happy to arrange a telecom to discuss them in further detail.

The VMI Team



## About VMI

Founded in 1992, in Phoenix, Arizona, Vanguard Marketing International's longstanding mission is, "to be widely recognized for clear, cutting-edge thinking and delivery of actionable insights that make a difference for our clients." Our cross industry expertise gives us the ability to analyze markets and design processes that produce disruptive, innovative, low-risk strategies, and actionable plans. Vanguard Marketing International works on an ongoing basis with many of its clients to ensure that they address changing market needs, capitalize on important industry trends, and maintain brands, which clearly differentiate their company and innovations throughout the investment community and prospective markets.

## About Beyond Line of Sight

The objective of Beyond Line of Sight is to identify emerging trends or validate previously identified trends in selected industries and markets. Trends are posted and maintained on the VMI trend database. There are many applications for the data but the primary purpose is to enable VMI to map trends across industries and markets over time.

Most people believe that when they observe a trend it is the first time it has ever appeared. This is not the case. In fact trends evolve and migrate across industries and markets over decades. As a result, one industry may have ten years of experience with a trend while another is just beginning to feel its effects. By connecting trends across industries and time we gain understanding of what the future holds for the later, with a high degree of probability.

As a follow-up, the reader is encouraged to review Vanguard Marketing's website and published white papers on selected topics related to VMI's core competencies at:

<http://www.e-vmi.com/html/papers.html>

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