

Services 2.0 – A New World for System Integrators

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Specialty Solution Providers & Social Networks Will Dramatically Alter the SI Landscape, Gearing Up the Enterprise for Web 2.0 and SaaS 2.0

Executive Summary

The internet is the computing platform of the present and future. As a “cloud” of services, its performance, reliability and rate of innovation far exceeds every “platform” deployed in any large enterprise. Vendors offering software-as-a-service (SaaS), as an alternative to on-premise software licenses, use the internet and a more customer-centric process to profoundly disrupt the enterprise software landscape.

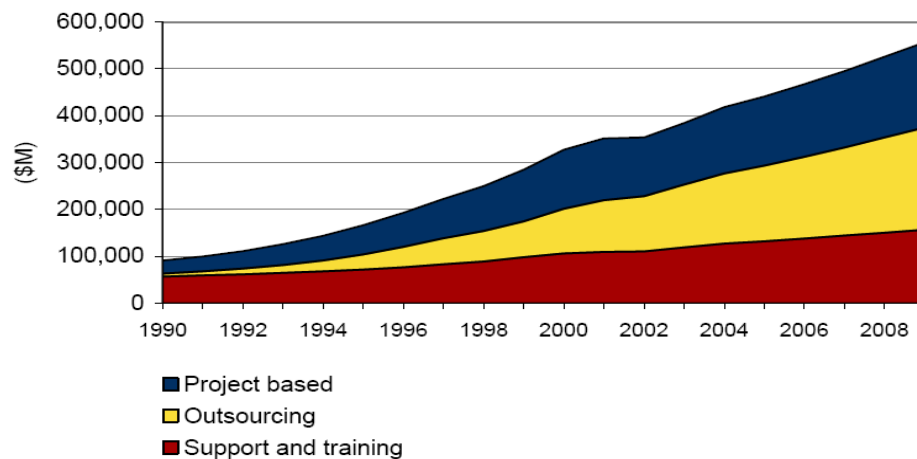
Similarly, a new breed of specialized “Services 2.0” firms that fully embrace SaaS with complementary business and technology consulting, productized intellectual property, and support services via flexible social networks will be disruptive to traditional Global Systems Integrators (GSI). GSIs such as Accenture, IBM, Cap Gemini, and Infosys rely on revenue streams based on the on-premise install base. Just as on-premise software vendors cannot shift completely to on-demand because of its disruption to their business models, GSIs will not be able to help customers embrace on-demand because of their own reliance on on-premise software services revenue.

The Evolution from Services 1.0 to Services 2.0

Large-scale technology services firms – “Services 1.0” - grew to dominate enterprise IT in the late 1980s. Big enterprise resource planning (ERP) project implementation fees fueled the growth of firms like Andersen Consulting, KPMG, Price Waterhouse, Coopers & Lybrand, IBM and Deloitte. These firms enjoyed huge growth and profits throughout the 1990s as on-premise solutions from independent software vendors (ISVs) such as SAP, Oracle, Baan, J. D. Edwards, Siebel and Peoplesoft grew ever more complex. GSIs created large data centers and server farms, and deployed small armies of consultants to customize, integrate, implement, and maintain the hardware and software. Over time, these efforts yielded diminishing returns for customers and little differentiation from competitors.

Services 1.0 received a reprieve from customer frustration with large cumbersome engagements when the benefits of outsourcing became clear in the early 2000s. As the world flattened, enterprises realized labor cost savings up to 50%, by sending significant IT services offshore, fueling the growth of India-based global players like TCS, Infosys, Wipro and Satyam. In order for these firms to grow and compete with existing GSIs, they extended their portfolios to capitalize on the \$200 billion market for project development, application support, and education services. The traditional GSIs countered by accelerating their outsourcing divisions. By 2006, the offerings of traditional GSIs and India-based GSIs were essentially similar – based on large revenue streams from long term engagements involving outsourced IT services and project development work for on-premise enterprise software and its associated hardware.

Worldwide IT Services Historic Forecast, 1990–2009



Source: IDC, 2005

Meanwhile, in the early 2000s, early SaaS players such as salesforce.com, Omniture, and SuccessFactors began to gain market share, particularly in the small and medium business (SMB) markets. These customers’ relatively short departmental projects were too small financially to warrant attention or investment from the GSIs. Furthermore, they were viewed as competitive

to lucrative relationships with more service-intensive on-premise ISVs such as SAP, Oracle and Peoplesoft. Today, SaaS 2.0 has demonstrated that even large enterprises realize cost and competitive advantage in adopting SaaS applications across departments, divisions and business units. Despite strong market trends, few GSIs have made significant investment in creating practices, resources and strategies to accelerate the adoption of on-demand software in the enterprise. They, like on-premise applications vendors, are not committed to the vision of SaaS and have made only limited investments in order attempt to hedge their future bets.

As a result, enterprises seeking to accelerate on-demand will require Services 2.0 firms. Services 2.0 will see a shift of project development, support, and training spend to emerging firms such as Astadia, Appirio, Okere and Theikos that are fully dedicated to SaaS as their core business. Growth of these firms will follow the growth curve of SaaS ISVs as they continue to bleed market share from on-premise ISVs. The trend towards dedicated SaaS services firms can be illustrated as follows:

Services 1.0	Services 2.0
Dominated by Accenture, IBM, Deloitte, Bearing Point and Cap Gemini	Led by newly emerging specialty solution providers such as Astadia, Appirio, Bluewolf, Model Metrics, Okere and Theikos
Overly broad focus, with partnerships with hundreds of competing on-premise vendors	Sharp focus on accelerating on-demand in the enterprise – taking a strong position that advocates for market-changing solutions
Multi-year waterfall-style mega projects	3-9 month iterative micro projects
\$1 in software licenses = \$10- \$15 in services	\$1 of subscription fees = \$2-\$4 in services
“Tell me” approach. Project teams that fill binders with screen shots, process diagrams, etc. which are read once, then collect dust	“Show me solutions”. Productized SaaS prototypes and working applications launched in weeks (“no software” = reduced need for reams of screen shots and convoluted documentation, “)
Overall opportunity shrinking as companies rely less on SAP, Oracle, and other on-premise vendors	Opportunities growing rapidly, derived from specialty business, technology and process services to extend and integrate SaaS solutions
Complex and costly hardware, infrastructure and integration software	No hardware or infrastructure required, integration via open APIs and real-time mashups

For early adopters of SaaS ISVs like salesforce.com, initial services requirements were limited to basic configuration, end user training and minor customizations. In the last few years services requirements have become more substantial because the increased flexibility of platforms like Salesforce have allowed enterprises to move from single-department SaaS “experiments” to global rollouts of thousands of users. These companies must also assure SaaS stovepipes established directly by business owners do not harden. In enterprises, integrating these stovepipes can introduce complexity; but the “mashing up” of business processes across SaaS applications can also create new business value.

Accelerated adoption of SaaS in the enterprise requires the enterprise CIO to rationalize a vast number on-premise packaged and custom applications, while potentially integrating dozens of departmental SaaS silos. Many of these SaaS initiatives were previously under the radar of IT and the CIO. Here, Services 2.0 will play a primary role – setting the enterprise SaaS agenda, embracing the internet, rationalizing applications and migrating to a SaaS-based virtual platform. At the enterprise level, this will require true support services with SLAs in place to minimize risk and maximize business value. ***The pendulum has swung from the early ERP days (\$10-\$15 for every dollar in licenses), to the SMB days of SaaS (10 cents for every dollar in subscription) - and will settle for enterprise customers at \$2-4 for every dollar of subscription license revenue.***

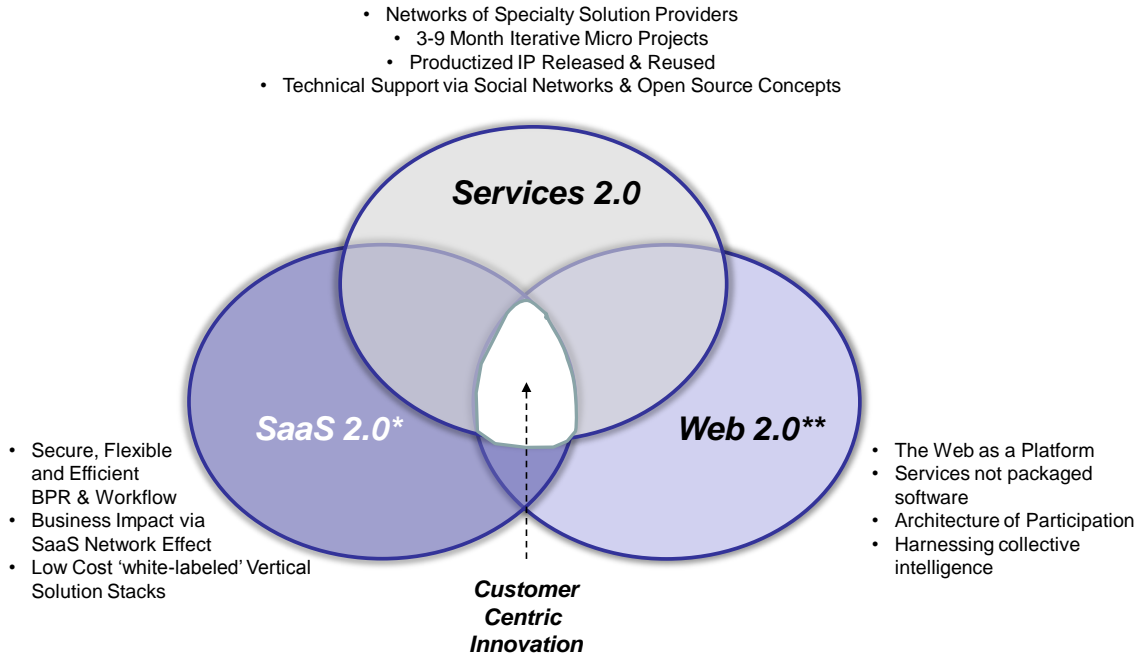
Why Services 2.0 will NOT be Led by IBM, Accenture, or Infosys?

Nearly 40% of today's project development, support and training services revenues come from the Top 20 GSIs. IBM Global Services bookings for 2006 were approximately \$40 billion – half of IBM's revenue - with a backlog of \$116 billion. Accenture bookings in 2006 were approximately \$20 billion, and Infosys and Wipro are quickly closing the gap. The reliance on mega-transactions, considerable corporate overhead, and inability to move quickly will hamper these firms' ability to lead in the Services 2.0 world. However, the reasons for the GSIs' loss of influence in Services 2.0 run deeper, and include:

1. **Hooked on the On-Premise Drug:** Billions of dollars in annual fees directly tied to on-premise software. IBM generates \$4 billion annually from SAP- and Oracle-related services alone; Accenture generates \$2 billion. These firms are fully dependent upon the services revenue generated their customers' lock-in on on-premise software.
2. **Project Economics Not Aligned:** SaaS 2.0 project scope and scale are still too small to make sense with the staffing and economic models of the GSIs. A single legacy ERP or custom application development engagement can cost between \$10-\$100 million+. In Services 2.0, micro-projects and use of extensive social networks such as open source communities, LinkedIn, Ryze, Xing, and Orkut, dramatically shortens cycle times and increases the reach for talent outside a single GSI.
3. **No SaaS or Web 2.0 Religion:** Some beliefs are fundamentally incompatible. GSIs are trying to align with hundreds of technology vendors, many of which compete with each other and claim to offer both on-premise and on-demand solutions. Far from being a neutral approach, this "embrace everyone" philosophy refuses to acknowledge a true change. GSIs will suffer from the same "[Innovator's Dilemma](#)" as the on-premise application vendors who create the need for GSI services. In Services 2.0, specialization on SaaS is critical, and having a definitive opinion is essential. Services 2.0 firms have a core belief that SaaS 2.0 and Web 2.0 will enable the server-less enterprise.

Customer Centric Innovation

Services 2.0 enables greater emphasis on the customer at the core of innovation. With the combined power of today's SaaS offerings and Web 2.0 technologies, application development, deployment and innovation are accelerated.



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SaaS vendors are known to innovate faster than their on-premise counterparts. Their internet orientation also leads to faster adoption of web 2.0 concepts like the “wisdom of crowds”. For example, Salesforce.com’s IdeaExchange website drives product roadmaps by allowing users and developers to stack-rank new features and capabilities. The fact that all customers are running the same version of Salesforce.com’s software at the same time is a significant enabler – discussions about current and future features are all coordinated, avoiding the splintering of the user community by version, platform, or patch level. The community can clearly voice the capabilities it believes to be most important.

Services 2.0 also adopt web 2.0 and SaaS 2.0 concepts such as collaboration and transparency. During development, administration and configuration activities, end users are active participants. Customers can “peek” at development progress via their browser at any time. By contrast, it’s virtually impossible for GSIs to allow users to casually eavesdrop on on-premise software development. Services 2.0 ensures the customer is intimately involved in all aspects of the process design, development and delivery lifecycles. They are at the center of innovation. Services 2.0 firms help facilitate this innovation by providing access to domain and process

expertise, and by delivering point products and customizations that fill SaaS ISV gaps. Technical support services that are directly linked to the iterative development and add-ons to the SaaS platforms will be a natural extension for Services 2.0 firms.

Summary

The acceleration of Web 2.0, combined with enterprise adoption of SaaS, has created a new breed of services that will forever change the way customers engage with consultants, systems integrators and outsourcing partners. In the \$600 billion worldwide IT services market, revenues for project development, support, and training services will shift from major players such as Accenture, IBM, and Infosys, to a new breed on-demand evangelists who are disrupting the market alongside the SaaS ISVs.

Enterprise customers, Web 2.0, SaaS 2.0 and Services 2.0 vendors who leverage these intersecting trends will benefit from rapid innovation, lower cost structures and an early competitive advantage as the business web unfolds. The GSI community will eventually adopt Services 2.0 principles. Yet like their on-premise software twins, they will be slow to adapt and many will suffer significant business model disruption. These collective variables have created room for a new breed of Services 2.0 GSIs who will accelerate on-demand in the enterprise.

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About Appirio

Appirio, Inc. delivers services and products to help medium to large enterprises accelerate on-demand adoption. With a differentiated business model that blends strategy, services, custom application development, integration and products, Appirio is a thought leader in on-demand solutions delivery. To learn more about how Appirio accelerates on-demand, visit www.appirio.com.