



EXPERT OPINION:

Cloud services – A justified silo?

For years, the telecoms industry has subscribed to the mantra of ‘convergence’. The accepted wisdom has been that service ‘silos’ are anathema, and that single, convergent platforms for all services and technologies are the only way forward. But, will this rule hold for cloud services, or are they sufficiently different to justify being addressed, supported and managed as a ‘greenfield’ business within the telco?



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The Cloud - A whole new line of business

Cloud services – broadly, the provision of computing on demand – have the potential to form a whole new line of business for communications service providers (CSPs) – one that will bring them significant new revenues on the back of existing network and business assets.

The market for cloud services is quickly expanding. Technology advances, particularly in virtualisation and remote access communications, are making cloud-based services ever more credible, and customers are increasingly drawn by the potential not only to save costs, but also to reduce risk and increase business flexibility. Businesses and enterprises are now looking beyond software as a service (SaaS) and evaluating the benefits of outsourcing very substantial parts of their IT environments to the cloud.

Telcos, particularly incumbent PTTs, are undoubtedly serious contenders in this new market. They are a trusted brand, already have a strong relationship with a large, addressable customer base and, vitally, command the lines of communication to customer premises, which will make the difference between guaranteed levels of service and ‘best efforts’.

On the face of it, this would seem to be a market which it is the telcos’ to lose. However, some large carriers have already put their toes in the water with initial cloud service offerings, and the early signs are promising.

But, this cloud is not all bright new dawn and silver lining. There are serious challenges to be overcome before services can be delivered efficiently and profitably, and these are much more substantial than the efforts commonly required to introduce new services.

A wholly different kind of business for CSPs

Moving into cloud services is not just an incremental change to the portfolio; they bring real challenges for CSPs. Fundamentally, although connections between provider and customer will be important, these are not primarily communications offerings. They have much more in common with IT services and outsourcing, the business model for which is likely to be quite different. In consumer and SME markets, for example, cloud service providers are likely to consider the average revenue per server as a more significant Key Performance Indicator (KPI) than the traditional ARPU.

Customers will view these services, and their providers, rather differently, too. While enterprises find the benefits of cloud economics highly attractive, they are also wary of losing control over IT governance. Issues, such as performance, security, cost control and regulatory compliance, will remain significant barriers to adoption for enterprise customers for some time – unless CSPs can provide demonstrable reassurance of service quality.

For nearly all customers, cost reduction is a substantial driver, so price sensitivity will be acute. This is a promising market in terms of size, but it will be competitive, and margins, even during the early adoption period, are likely to be slim.

Finally, trust, transparency and security will be critical issues, as will close adherence to agreed levels of support. Provider credibility will be vital and, as we have already seen from one or two highly publicised incidents, the consequences of any technical, security or performance failure will be highly damaging. This is all the more reason to create separation and undivided focus within the ►

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telco business. Cutting an enterprise off from its systems or losing its customer data will be regarded as a far more serious matter than dropped calls or network faults.

The impact on OSS

Selling cloud services will have a real impact on CSPs' OSS and BSS. The business fundamentals of fulfilment, assurance, charging and customer management are similar, but the cloud brings specific challenges right across operational and business control.

Assets and resources needed to provide cloud services are oriented around IT platforms, not networks. Physical servers and capabilities, including capacity, performance, location and access bandwidth, will need to be closely managed. Third-party resources are also likely to play a significant part in many CSPs' business models – from the simple resale of applications to potentially outsourcing the whole business to a partner organisation. But, responsibility will remain with the CSP, so close governance of any partners will be vital.

Cloud product concepts are also likely to be quite different from the existing telecoms portfolio. Bundled offerings will predominate but with multiple options and variables, and the contribution of third parties is likely to be even more important than in the existing communications portfolio. The business-critical nature of the services means that Quality of Service (QoS) commitments will be a vital part of the offerings. Resource priority, resilience, support and recovery guarantees will need to be clearly defined and visible.

Just as in a traditional IT environment, and to a much greater degree than would apply to a communications service, customers will be concerned with performance, security and access to critical business data. It will become the CSPs' responsibility to provide this assurance in as close to real time as possible; they will need to present information on status, technical performance and account position through readily-accessible interfaces.

Charging models will require a similar degree of flexibility to that demanded by communications, but applied to very different service attributes. We will see licence charges applied to packages, features and add-on applications. But a large part of many charging models will be linked to a variety of usage metrics, including allocated storage,

numbers of desktops (users), time spent online and even CPU cycles. Charging is also likely to vary depending on the extent of support and other customer services.

Variants on 'pay as you go', combined with 'pay as you grow' models, are likely even in business and enterprise propositions. A major attraction of cloud services is their ability to 'flex' in response to changing business conditions, and flat-rate charging does not sit well with these expectations. Customers will certainly expect charges to flex at least as much, and this will demand close real-time monitoring of customer requests, thresholds and other charge-bearing events. Robust policy control will be vital to support flexible charging and transparent presentation of charges to customers.

Catching the cloud

Comptel argues that cloud service providers require a comprehensive 'concept-to-cash' platform dedicated to a very different kind of business. That platform should allow CSPs to:

- handle the resources and assets needed to provide and run a commercially viable cloud services operation (very different from their communications network assets);
- get to market fast with clearly defined and easily managed products;
- rapidly and consistently create customer environments with minimal intervention;
- offer transparent charging and settlement to customers and partners;
- monitor and intervene in real time for complete control of the cloud services business; and
- provide real-time access for customers to their own virtual service environment.

A justified silo?

For communications services, and services closely tied to the provision of communications, siloed systems clearly make no sense. Cloud services are an IT business; however, with a different set of buyers and users, they can operate from quite a different set of business and technical principles.

Running an OSS platform, which is focused on cloud services and optimised to provide maximum automation of cloud service management functions, will be vital to keep volumes high and margins viable. For many CSPs, it may well make a lot of sense to have a separate organisation and platform in order to nurture and sustain a new kind of business.

VanillaPlus Jargon Buster

ARPU: Average Revenue Per User

B/OSS: Business / Operations Support Systems

PTT: Post, Telephone and Telegraph (service providers)