
Taking cloud to the mainstream

The importance of the traditional channel

By Dale Vile, October 2008

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In a nutshell:

Software as a Service, utility computing and other emerging offerings that fit under the 'cloud computing' umbrella potentially have a lot to offer both larger and smaller organisations, but age old practicalities such as establishing effective routes to market cannot be forgotten.

Key points:

- Contrary to the hype, the cloud computing opportunity is incremental, not revolutionary
- Cloud based services that complement on premise solutions will open up the market
- The traditional IT channel, however, is also key for mainstream accessibility
- Recent offerings in the consumer space signpost the way for the SMB sector

The hype around cloud computing is pretty intensive. The IT industry and its pundits have gone crazy predicting massive disruption, shake-outs, and traditional software incumbents being undermined by enlightened players like Google and Salesforce.com.

Against this background, propaganda about the buyer/user appetite for all things cloud created by those trying to drive the disruption is lapped up by the media, bloggers and even a lot of industry analysts. Claims, such as the one put about recently by Salesforce.com that more than half of CIOs believe *all* applications used by their organisation will be hosted on the internet within five years, are examples of, let's just say, some wishful thinking. When looking at stuff like this, you only have to take a minute to think about the practicalities involved in outsourcing everything currently running in corporate data centres, or even the computer rooms of smaller businesses, to realise how out of touch the vested interests' rhetoric is with the real world.

Our own research paints quite a different story. While businesses out there are interested in ideas such as Software as a Service (SaaS), utility computing and other stuff that generally falls under the cloud computing heading, the opportunity in this area is very much seen as incremental rather than revolutionary. Most larger organisations are already taking advantage of hosted, subscription based services in some part of the business, but adoption is typically very selective and quite tactical, mostly based around discrete applications such as sales force automation, project management,

elements of collaboration, etc, that don't require much in the way of integration with the broader IT landscape or other cloud based services.

The jury is out at the moment on how much it makes sense to move more business critical core systems or applications with heavy integration requirements into the cloud. As time goes on, experience is gained, and service providers mature in the way they work both with customers and with each other (e.g. to manage integration dependencies between services effectively), larger businesses will become more adventurous in terms of how they take advantage of third party services from the cloud. But the notion of all corporate IT moving into the cloud in the foreseeable future is a bit of a stretch given where we are today and the practicalities involved.

Turning to smaller businesses, arguably the ones that have the most to gain from hosted, subscription based services because of IT resource and skills limitations, a more fundamental challenge exists before we even start to consider the value and practicalities of cloud based propositions.

While IT professionals in the corporate space being constantly hit on by vendors directly cannot escape all of the chatter and noise around cloud, the number of suppliers pushing alternatives to the traditional on-premise approach to SMBs is extremely limited. Sure, players like Salesforce.com and Cobweb Solutions are driving business successfully in the smaller business segment with outbound telesales, but this kind of activity is a drop in the ocean compared to all of the conversations and transactions that take place daily between small businesses and the retailers, independent software vendors, local dealers and local IT services firms that they turn to for advice and guidance on understanding what's available and what to buy.

The closest we have to broad promotion of cloud based services into the mainstream SMB market at the moment is telecoms companies and ISPs. The trouble with both, however, is that neither is particularly good at putting hosted service propositions to small business decision makers in a way they can relate to easily – their sales forces are simply not geared up to have the right kind of conversations. This is partly due to culture and history, but also because their volume approach means they cannot afford to get into too many educational conversations in the buying cycle that would drive up the cost of sales. The bottom line is that if you know what you are doing and the questions to ask, then there are some great services on offer for hosted email, collaboration, backup and so on, but this doesn't really help the majority who just cannot work it out for themselves.

Which brings us right back to those who are geared up to have the necessary conversations, and, indeed, are already engaged with smaller businesses on IT related decisions – the aforementioned retailers, dealers and so on, in what we affectionately call the IT channel. Yet why would these guys push subscription services that are so alien to their traditional box sales, installation and service approach? The chances of a local dealer recommending Google Docs over selling you that boxed copy of Microsoft Office sitting on their shelf is pretty remote, for example. And if the punter mentions Google Docs, it is a relatively trivial exercise for the dealer to talk them out of it, using arguments such as familiarity, compatibility, fear of losing control of your data, and so on. Wrong though this seems, business is business, and you cannot blame those in the channel for continuing to capitalise on the years they have invested in building relationships and trust within the local business communities they serve.

Of course the evangelists talk about 'disintermediation' – cutting out the middle man and going straight to the customer – but the direct sales model is not scalable, and marketing led promotion via the internet is never going to carry as much weight as that quick call to 'Dave the dealer' to ask his advice. There is, perhaps, a stronger argument that familiarity gained through the use of internet services in the home and personal context (content sharing, social media, etc) will ease the path to business use, but whichever way you look at it, working cloud based propositions into the channel to create a proactive push through that route is going to be a big part of driving serious mainstream adoption in the SMB sector.

With this in mind, it is ironically the player that the cloud evangelists see as an icon of the 'establishment' that is going to be instrumental in unblocking the market. We are talking here about Microsoft, and its promotion of the so called 'Software plus Services' (S+S) approach. While not at all unique in practical terms, there is power in promoting the idea that the way forward for businesses is to get the traditional on-premise solutions that they are comfortable with at the

moment working together with new services made available over the internet. This kind of message is a lot more empathetic, not to mention more realistic and practical, than the radical and disruptive “on premise is bad, so everything should go into the cloud” line we here from Google, Salesforce.com, etc. And from a channel perspective, retailers and dealers are much more likely to embrace a model based on continuing to sell and support on premise solutions in the usual way, but with an incremental cross-sell or up-sell opportunity around complementary online services.

We can also look forward to an interesting twist on this formula that we got a glimpse of a few days ago through Microsoft’s announcement of the “Equipt” deal with the DSG Group in the UK. This involves the delivery of a software and online services bundle that will be made available to consumers on a subscription basis with new PCs. Sold through the PC World and Currys retail outlets on a national basis, customers will be offered the opportunity to pay an annual fee of £59 per year to enable up to three machines in their household with a pretty comprehensive set of capability. To quote the release, this includes:

“Microsoft Office Home and Student 2007; Windows Live OneCare, the all-in-one security and PC management service; Windows Live tools, such as Windows Live Mail, Windows Live Messenger and Windows Live Photo Gallery; and Office Live Workspace, an online service from Microsoft that makes it easy to save documents to a dedicated Workspace on the internet, then share them with friends and classmates. Any time a new version of Office or Windows Live OneCare is released, customers will get the version upgrades as part of their subscriptions”.

When you consider that the subscription for all of this is significantly less than the annual amount most are paying for reasonable speed broadband access, and offers the familiarity and richness of locally installed software alongside the cloud based content-sharing services, there is a good chance that this will kill the conversation about pure cloud alternatives stone dead in many people’s minds. A clever move on the part of Microsoft, simultaneously impeding the progress of the cloud pure-plays offering desktop office alternatives, and providing a more ‘comfortable’ way to introduce its own cloud services to customers on a mass market basis.

Circling back to the question of SMBs and the importance of the channel, while the Equipt announcement is clearly consumer oriented, the potential attraction of this kind of approach to smaller businesses is pretty obvious. Relevant to this is the increasingly important role big retail chains such as PC World are playing in servicing the IT needs of the SMB sector through their business centres and similar. We’ll have to wait and see if/how Microsoft and the DSG Group actually moves on this opportunity, or, indeed, whether other players in the market respond with more software and service bundles cross-sold from hardware. It is a natural way for things to go, however, and could be the key to accelerating the penetration of cloud computing into the mainstream proper.

But what about the rest of the channel – could they choose to resist and continue to hold up progress? Well there are two points here that are worth considering. Firstly, the DSG Group that sits behind PC World is a hard-nosed commercial organisation that will not be pushing the Microsoft bundle purely out of the goodness of its own heart, which suggests that old chestnut of the “what’s in for me?” objection from resellers when presented with subscription based models can be cracked successfully. Secondly, we need to remember that there is typically a PC World or similar major retail outlet within a few miles of most smaller dealers and solution providers nowadays, and unfair as it might seem, if the big guys start gaining traction with a new model, the rest of the channel will need to take notice. So, whether it is the carrot or the stick that does the trick, there is a good chance the channel will start to open up and embrace cloud based services in the not too distant future, even if it is with mixed levels of enthusiasm.

Meanwhile, it is interesting to consider that regardless of all the noise, Google remains simply a search engine to most small business decision makers. For the time being at least, there is therefore a pretty big gap between the pundit, analyst and investor view of Google’s potential to steal the show, and the real-world go-to-market realities of the SMB mainstream.

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