An end-to-end view is critical when managing multiple, complex services. Vendors that facilitate innovation will help customers and service providers differentiate and address new opportunities.

**Why Taking a Holistic Approach Is Key for Business Process and IT as a Service**

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**Questions posed by:** ServiceNow  
**Answers by:** Rory Duncan, Research Vice President, Cloud Service Providers

**Q. How is the service provider opportunity for managed services changing?**

**A.** Over the past few years, it has become apparent that service providers are gradually shifting their business models to take advantage of the increasing demand for cloud services as part of a wider strategy to address the IT-as-a-service market. While managed services have been a staple of business process outsourcing for a long time, operational aspects tended to focus on the "keeping the lights on" needs of clients. Today, those needs are much more sophisticated (e.g., managing complex production application environments for service desk, customer relationship management (CRM), and retail environments as well as other operations). As more companies have digitally transformed their business, this complexity has increased. For service providers, shifting business models is not just a change in the kinds of services offered but also a commercial decision in response to the changing economic backdrop and the need to look at growth markets and those services where profitability can absorb the current reductions in many areas.

For many service providers, infrastructure services (e.g., dedicated servers, storage, and infrastructure as a service [IaaS]) have become increasingly commoditized. Market oversupply, service "bundling," and competition from the hyperscale providers — Amazon, Google, and others — have led to downward price pressure and margin reduction. IDC’s _Service Provider Pulse Survey_ has shown that while margins for infrastructure services have declined at a rate of 1% per year since 2018, average margins from managed services have increased by the same amount.

It is a phenomenon not just among the largest clients. Midmarket as well as smaller enterprise firms are increasingly looking for service providers to take the complexity out of running their business by managing entire operations and processes.
Q. What kind of approach works best when running multiple — often complex — managed services?

A. In the same way that there is no "one size fits all" for cloud, there is no standardized approach to providing IT as a service. There is, however, a range within which the provider needs to carefully consider how much or how little to offer. For example, a piecemeal approach, where simple, standardized services are placed together, is unlikely to be attractive to potential clients. Where is the differentiation?

At the same time, highly customized service offerings that are tailored for each client are a costly proposition unless an organization has a well-funded technical consultancy. There is also the challenge of scope (i.e., How many types of services should be offered and in which sectors or industries?).

Unless an organization is very large, the best approach appears to be to do a few things very well rather than cover multiple service segments or industries. In terms of product/service design, a combination of off-the-shelf components and a level of customization that the business can sustain over time is prudent. On its own, this approach can help create more cost-effective, end-to-end offerings, but there are other considerations. Even a basic level of service automation will help reduce repeatable costs and increase predictable outcomes. Ideally, if this manifests in a control plane that is mirrored in the clients' delivery experience, then complexity is further reduced.

Q. Are business models emerging that service providers should consider when looking to manage multiple, complex services?

A. The advent of cloud has seen a blurring of the lines between IT buyers and suppliers. Companies have become their own internal provider of services — with or without the aid of a third-party service provider. However, the goal is the same: take an innovative approach to providing a seamless experience without the user needing to take responsibility for, or have knowledge of, the operations behind it. Services firms — and their enterprise counterparts — are often seen as mere implementers of infrastructure components, but that is inaccurate. Managing multiple, complex services requires a level of innovation that takes account of end-to-end business requirements. It means creating or codeveloping unique intellectual property (IP) — whether through process design, industry-specific application development, or service architecture — that offers differentiation from the increasing number of companies that tout innovation as a business cornerstone yet seem unable to show evidence of the value it creates for their clients.

Innovation is not something that can or should be done in isolation. Technology vendors need to facilitate this via their software platforms and tools for service providers and enterprise users alike. IP creation benefits the entire technology ecosystem, providing more choice, better service quality, and greater volume. When done well, IP creation creates the environment for buyers and suppliers to become efficient "factories" for managed services.
Q. Which industries are leading the demand for a holistic approach to managed service provision?

A. IDC’s definition of IT outsourcing covers the following categories: application management (hosted or unhosted), hosted infrastructure services, IT outsourcing, and network and endpoint outsourcing services. These categories represented a global spend of almost $97 billion in 2019. Because only some managed services are delivered via the cloud, spend on managed cloud services represented around 47% of that figure (extraction view based on 2018 data from IDC’s *Worldwide Managed Cloud Services Forecast, 2019–2023*). Several key industries — driven by their own digital transformation strategies — have led demand for managed cloud services delivered by the managed service provider sector. IDC’s *Service Provider Pulse Survey* has shown that the information and IT services, banking/insurance, professional and technical services, and telecommunications sectors account for around 40% of revenue from managed cloud services for respondents specializing in one or more industry verticals. At regional and country levels, sectors such as retail, manufacturing, and agriculture and the more traditional staples such as mining, forestry, and fishing can represent between 10% and 15% of cloud services spending via service providers.

In contrast to technology-focused purchasing, these leading industry sectors are following an investment approach that encompasses companywide, holistic operations and processes such as:

» Cloud transformation, which creates an integrated, digital approach to service functions and line-of-business operations

» Customer experience management, which provides an end-to-end approach to all customer touch points, encompassing sales, fulfillment, customer service, and more as part of digital transformation

» Performance monitoring and management, which takes a proactive approach to reporting on and solving performance issues rather than just mitigating problems

» Agile development, which enables innovation in application design and deployment to reduce process complexity and speed response time to opportunities and requirements

» Data analytics and integration, which uses analytics to determine responsiveness to changes in service demand at a more advanced level

» Artificial intelligence, which utilizes automation and advanced analytics to implement deep learning and enhance responsiveness to complex processes

Q. What role can the technology vendor play in all of this as part of a wider services ecosystem?

A. Vendors often tend to see themselves as the apex of a triangle of distribution, with service providers playing a passive implementation role. This attitude still exists, but it is changing. Vendors that take a more progressive stance as facilitators of a wider ecosystem of solution selling are experiencing longer-term, "stickier" engagement with service providers that are
driving the bulk of new business. For a few, helping create new opportunities can also be enhanced via orchestration — looking across multiple service offerings and providing the ability to better manage and/or monetize them.

From the perspective of enterprise customers and their providers, assessing the cost of investment in a vendor's ecosystem is critical. The investment cost — people, time, money — is measured against the value gained, whether due to cost savings, efficiencies, time to market, new opportunities, customer satisfaction, or some other metric.

This value assessment is now considered table stakes. Where enterprise firms and service providers stand to see the biggest benefit is where generic value can be articulated as a value chain for their business, supported by use cases relevant to their industry or sector that are built from the ground up.

About the Analyst

Rory Duncan, Research Vice President, Cloud Service Providers

Rory Duncan is IDC's Research Vice President for Cloud Service Providers and is responsible for building of insights for, and relationships with, IDC's strategic service provider clients and vendors in the associated ecosystem. He has 20+ years of background in the IT industry, working for various leading vendors including IBM, SAP, and Adobe Systems.
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