

# Monetizing the Service Provider Cloud

Deliver the value-added cloud services that customers need while maximizing revenue



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## EXECUTIVE SUMMARY

The cloud service provider market has grown and evolved quickly, driven both from the demand side and supply side. Cloud service providers face enormous opportunities, as cloud adoption among business becomes mainstream and IT departments look to service providers to help leverage the benefits that cloud computing promises.

The challenge for cloud service providers is to leverage this opportunity profitably and ensure they are delivering revenue back to the business as well as flexible, secure, customized cloud solutions to their customer base.

To protect margins, successfully compete, and avoid price wars, service providers must focus on offering choice and value-add to their customers as well as addressing security, performance, and compliance to deliver the trusted cloud. This requires underlying cloud management capabilities that enable them to offer flexibility and cloud optimization to their customers so that they become a trusted cloud partner and can build a sustainable and profitable cloud business.

## EVOLUTION OF THE CLOUD SERVICE PROVIDER MARKET

The cloud service provider market has evolved immensely, resulting in both opportunities and challenges. Let's take a look at this evolution from both the demand side and the supply side of the market.

### Demand-Side Evolution

A large part of the demand-side evolution comes simply from the explosion in the growth of cloud computing. With the benefits of cloud computing now well understood and the fears around security issues and loss of control being addressed in more and more sophisticated ways, enterprises are moving to the cloud in droves. The market for virtual private cloud solutions will grow from \$20.1 billion in 2013 to \$66.4 billion in 2020. This growth is partly manifesting itself in an increased demand from enterprises for service providers to help them leverage the cloud in all its forms; public, private, and hybrid. This demand is being driven by changing trends in how enterprises are consuming cloud services. Let's take a look at two of those trends.

**Private to Hybrid:** Many enterprises got their feet wet with a private cloud in their own data centers and, having realized the benefits, are now looking to make a transition to a hybrid cloud model. Hybrid may mean leveraging the public cloud—particularly when Shadow IT, the trend of business users circumventing IT to source IT services from the public cloud, needs to be managed and controlled. But, increasingly it means leveraging a virtual private cloud from a service provider.

A hybrid cloud strategy leads to a more complex cloud environment where decisions about which workloads to place where and cost factors as well as security, monitoring, and compliance come into play, along with cost, security, monitoring, and compliance factors. This is the opportunity for service providers to manage and add value to the diverse cloud environments their customers want to utilize, whether private clouds on-premise or a virtual private cloud hosted by the service provider. The cloud models that enterprises want to use are not as straightforward as, 'private,' or 'public,' and the rise of the hybrid cloud is a great opportunity for service providers to play an important role.

**Merging of cloud and IT Services Management:** There has been a growing realization in the market that cloud cannot be bolt-on IT and must be fully integrated with enterprise IT processes. Many first-generation clouds were stand-alone and not integrated into these processes, such as change management, capacity optimization, availability management, compliance, audit capabilities, reporting capabilities, and chargeback. Next-generation cloud requirements will center on integrating cloud services with IT service management processes across the enterprise. This is another opportunity for cloud service providers, to deliver the value-added services that will take their customers' cloud usage to the next level of full-service lifecycle management.

There is also an increased understanding that the role of enterprise IT and the CIO is changing. It's becoming less about managing IT service provisioning (cloud automates that) and more about ensuring IT is a strategic enabler for their business. There is also a strong emphasis on vendor management, managing relationships with (sometimes multiple) service providers that can deliver the cloud services their business needs in the right way.

Sources

<sup>1</sup> Forrester: "Sizing the Cloud" by Stefan Ried, Ph.D. and Holger Kisker, Ph.D., April 21, 2011.

## Supply-Side Evolution

There has been an evolution on the supply side as well, with cloud service providers emerging from various traditional vendor segments. Many managed hosting and managed service providers are branching out to offer cloud services and see it as a natural extension of their existing businesses. Telecommunications companies, faced with an erosion in core voice and data revenue sources, are targeting the enterprise cloud services market in a big way. Global systems integrators are also offering a cloud service provider model to augment their offerings as more and more of their customers move to cloud. And then there is the emergence of the cloud services broker: providers being the front end to the public cloud and brokering third-party cloud services to customers.

All of these diverse cloud service providers are challenged by differentiating themselves in a crowded cloud market. They need to find ways to profitably offer the cloud services their customers desire, whether those needs are simple infrastructure-type offerings or fully managed, multi-tier applications for a specific vertical market.

## THE TYPES OF CLOUD SERVICES THAT HAVE EMERGED

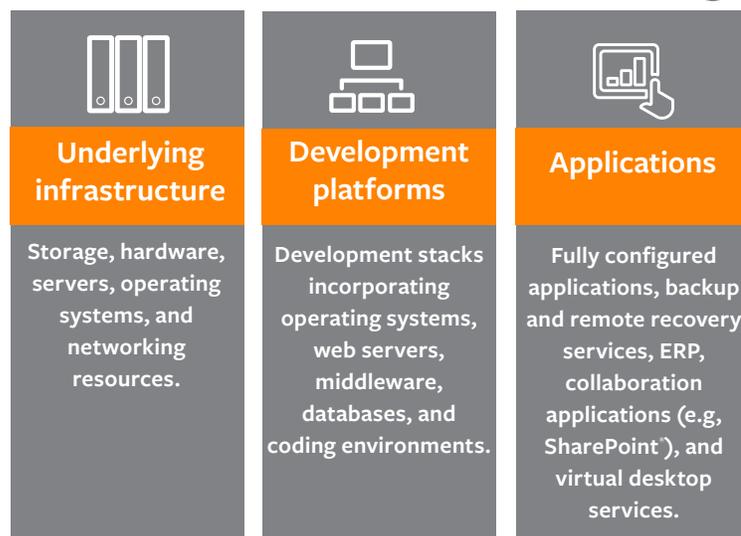
A range of cloud services has emerged against the background of this demand and supply-side evolution. The ways that companies want to use the cloud and the workloads that they deploy have evolved, as companies become more comfortable with cloud technology.

### The Low-Hanging Fruit

Many companies begin by deploying development and test environments in the cloud: workloads that are intermittent and require high elasticity in compute resources with minimal service level requirements. Rather than invest in more data center capacity, they turn to the cloud to serve these workloads. Service providers have the opportunity to profitably deliver a broad range of compute, network, and storage as well as development platform offerings to satisfy these customer requirements for development and testing.

As companies gain an increased comfort level with cloud security and compliance issues, they start to move more critical, production type workloads to the cloud. They move up the stack from infrastructure and platform offerings (OS, servers, storage, networks) to leveraging the cloud for fully configured, multi-tier applications and services (backup and recovery, ERP, and collaboration applications). These more critical, full stack services often require the expertise that a service provider can deliver such as monitoring, vertical expertise, and ongoing SLA management.

## Basic service provider offerings



## MONETIZING THE SERVICE PROVIDER CLOUD

As the market matures, infrastructure and platform offerings are becoming more of a commodity. To be successful and profitable, service providers need to focus on two key areas:

1. Offering choice and value-add
2. Delivering the trusted cloud

### Offering Choice and Value-Add to Customers

By differentiating their services and adding value, service providers can monetize their cloud platforms in a way that is meaningful to customers.

Providing different options, such as sizing, service levels, patching and compliance for infrastructure, and platform offerings, quickly expands the range of choices available and enables the service provider to satisfy a broad range of customer needs. Of course, being able to support a broad range of infrastructure platforms is a key component of choice as well. Real customer delight takes hold when an end user can go to the cloud self-service portal, and quickly and easily choose an infrastructure configuration that exactly fits their needs.

Another way cloud service providers can differentiate is to help customers in specific verticals comply with industry regulations. For example, offer compliance and monitoring of cloud services for industry regulations such as the Health Insurance Portability and Accountability Act (HIPAA) for the healthcare industry, Sarbanes Oxley for financial services, PCI for the retail industry, and other compliance regulations that are specific to different regions. There are many opportunities for cloud service providers to develop competencies in delivering cloud services to a particular vertical. The end result is value-added services for the customer and more revenue opportunity for the cloud service provider.

#### Potential value-added services include:

- Hardware options like extra memory and storage
- Application installs
- Compliance to meet operational service levels and regulatory requirements
- Performance monitoring of the deployed cloud workloads and end-user experience
- Maintenance options, including backup and patching
- Security options like firewalls, VLANs, and load balancing
- Infrastructure options such as extra memory and storage and different sizing options
- Change management

### Deliver the Trusted Cloud

Service providers can add particular value by delivering the trusted cloud to customers. With businesses wanting to move more and more critical workloads to the cloud, service providers can offer the security and management that these workloads require. Service providers have the opportunity to turn backup, monitoring, compliance patching and security options, and more into chargeable offerings.

Opportunities for differentiation also arise from a business service management approach to cloud services. This requires looking at customers' cloud needs from the top down: What are the business services that they need to enable in the cloud, and what are the applications and cloud infrastructure needed to support these business services? It also requires managing the cloud services from a full-service lifecycle approach, from provisioning to ongoing administration and monitoring to retiring of the resources when no longer needed. By offering full business service management in the cloud, the service provider can ensure that cloud workloads are managed by the same IT processes that their customers apply to their on-premise IT. This is particularly important as customers move to a hybrid cloud model. The IT workloads they

deploy in the service provider's virtual private cloud or hosted cloud must conform to the same IT management processes of the customer's own private cloud.

**To deliver the trusted cloud and meet the stringent SLAs that are increasingly required, service providers need to consider offering the following value-added services:**

- Policy-driven placement according to security, service levels, and compliance requirements
- Deployment of security options such as firewalls, VLANs, and load balancers during provisioning
- Secure multi-tenancy with deep network integrations
- Proactive performance monitoring and automated remediation
- Ongoing capacity management to ensure SLAs are met
- Automated configuration management and patching
- Usage-based metering to provide insight into cloud economics

All of these value-added features help to establish trust in the relationship between the service provider and the customer, a factor that will be increasingly important as basic cloud becomes more of a commodity.

## HOW BMC CAN HELP

At BMC, we built our cloud management solution from the ground up to meet the needs of cloud service providers to differentiate and offer value-added services. BMC cloud management solutions are already helping cloud service providers around the globe achieve success with their cloud offerings. Recognizing that each provider has its own unique customer base, set of cloud service offerings, operational best practices, and cultural context, BMC solutions deliver value quickly, while providing the flexibility to adapt to customers' organizational requirements as they evolve.

### “Anything-as-a-Service”

BMC cloud management enables service providers to offer “Anything-as-a-Service”—the underlying infrastructure, development platforms, and fully configured applications—and differentiate by offering value-added services based on compliance, configuration, performance monitoring, capacity management, security and availability, full stack provisioning, and change management. These are the types of management capabilities that enterprises require to leverage virtual or hosted private clouds.

BMC brings together the benefits of traditional IT management — operational excellence, automation, and service delivery models — and merges them with the dynamic potential of cloud architectures. BMC cloud solutions provide the foundation for a strong, flexible, and valuable cloud infrastructure that supports IT operations and delivers exceptional service quality to the business.

BMC's service-centric, full-lifecycle approach delivers support for configurable multi-tier cloud services, as well as intelligent policy-based management for operational efficiency and control. The flexibility built into the solution — from open, heterogeneous platform support to secure multi-tenancy to integration with IT operations — supports tight alignment with business needs and IT requirements, as well as cost control.

This approach dovetails with service providers' requirements for their own cloud platforms, enabling them to support their customers and become an ever more strategic component of those customers' businesses.

More than simply automating the provisioning of virtual machines, BMC Cloud Lifecycle Management delivers a cloud that works for service providers and their customers.

## BMC CLOUD SERVICE PROVIDERS

BMC service provider customers are deploying diverse cloud business models using BMC cloud management solutions. Some are deploying simple compute, network, and storage infrastructure offerings, delivering high rates of availability and low cost on these basic services to their customers. Others are choosing to specialize in particular verticals, such as healthcare, and are providing clouds with infrastructure, compliance, security, and performance management targeted to those verticals.

Many are offering virtual private clouds or managed private clouds to customers and are differentiating their offerings based on security, performance management, and compliance value-adds. A key benefit realized with BMC cloud management is in taking costs out of service delivery with automation and orchestration provided across the cloud infrastructure to reduce provisioning time and easily offer customized services with less administration.

BMC cloud service providers are taking advantage of the flexibility of the solution, with both a heterogeneous platform and the ability to customize their cloud offerings as the market evolves.

For information on BMC solutions for cloud service providers, visit [www.bmc.com/cloud/serviceproviders](http://www.bmc.com/cloud/serviceproviders)

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- **IT drives business to the digital age**

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