# Is the forecast clear on your wholesale cloud strategy?

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Introduction

Over the last few years the global cloud services market has achieved the kind of double-digit growth that for most telecom companies is increasingly becoming a thing of the past. Faced with declining revenue growth from traditional businesses, many telecom companies are looking to cloud services as a fresh source of revenue growth. They already own most of the physical assets (such as data centers and network) to deliver cloud services and they have a ready customer base to tap into.
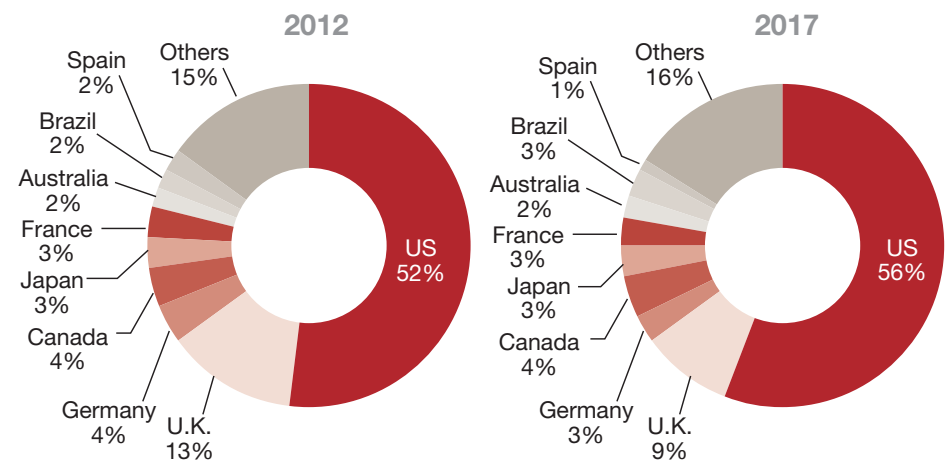
Figure 1. Public Cloud Services Total Spending and Annual Growth Rates, 2013 and 2017[1]

Figure 2: Public cloud services by country, 2012 and 2017[2]
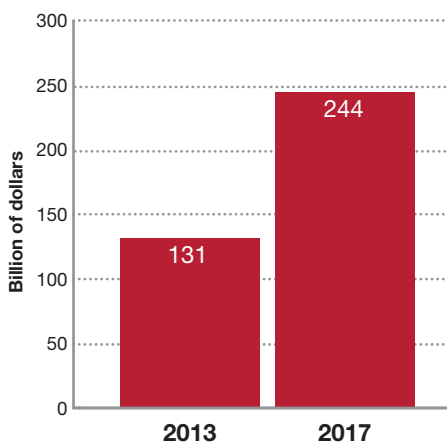
The global market for cloud services is expected to grow 18% in 2013 to $131 billion and to $244 billion by 2017, representing a compound annual growth rate (CAGR) of 17.1%[3] (see Figure 1, Figure 2). For telcos desiring to transform themselves into a cloud services provider, traditional approaches to entering the cloud services market have been largely reduced to a choice between two growth strategies: *inorganic* (i.e., making an acquisition) or *organic* (developing in-house capabilities from the ground up).

Each approach carries its own risks and difficulties. The acquisition route is time-consuming and fraught with challenges—from identifying potential targets, performing the necessary due diligence, negotiating and closing the deal, to eventually integrating the acquired company into the parent company. On the other hand, developing cloud service capabilities from the ground up requires significant investment in time and resources, and are predicated on a culture of innovation which may not always exist naturally and is often not a core competency in telcos. In a market in which many players are setting up and launching services, a protracted development period for a cloud offering could prove a significant competitive disadvantage.

The good news

A third, alternate approach for entering the cloud services market is now starting to emerge. Sometimes known in the industry as the *franchise* approach, this allows a telco to—in essence—'buy into' a cloud business from an established cloud service provider, allowing the telco to offer their end-customers a complete suite of cloud services that is essentially delivered by an established cloud service provider. However, the term

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1, 2, 3   Gartner 'Forecast Overview: Public Cloud Services, Worldwide, 2Q13 Update', August 28, 2013. Figure 1 was created by PwC based on Gartner research.

'franchise' is somewhat of a misnomer because it suggests that the telco would simply purchase the underlying technology platform, packaged with a set of instructions on how to operate the business. The cloud service would also seemingly adopt the branding of the cloud service provider; similar to how a fast-food franchisee would adopt the complete identity of the fast-food franchise.

We believe a telco interested in pursuing this approach should demand much more. The telco should have the flexibility of choosing whether or not to own the physical infrastructure, depending on the specific economics of the business case for the telco. The telco should also have more than just a set of instructions on how to set up a business. It should demand full implementation support to get the business up and running. Last but not least, the telco would want to launch its newly acquired cloud service offering under its own branding, not that of the provider from which the cloud service was acquired. As such, we believe a more appropriate term to describe this model would be a *wholesale* approach.

So what does a wholesale approach look like in practice?

It is tempting to dismiss this as simply white-labelling an existing cloud service or a resell arrangement. It is more than that. The wholesale solution offers a service provider a complete, end-to-end cloud offering 'out-of-the-box', allowing the service provider an unprecedented speed-to-market compared with traditional approaches.

In this wholesale model, the established cloud service provider, or the wholesaler, provides everything that a telco would need to deliver a complete suite of cloud services to its own end-customers. This should include the relevant technology platform from which the cloud services are run, a marketplace where customers go to purchase the cloud services, as well as the business processes and capabilities that are critical to ensuring the success of the cloud services business, such as customer service support, technical helpdesk, service maintenance operations and billing.

With this wholesale approach, telcos are essentially buying into the following value propositions:

- **A turnkey business model, incorporating operational processes as well as supporting systems and tools.** The telco would acquire all of the business know-how that the cloud service wholesaler has accumulated while providing services to their own customers, including valuable lessons learned and pitfalls to avoid.

- **Immediate access to the latest technology in the services it provides.** The wholesaler would be responsible for updating the technology that drives the cloud services being sold. This may in turn help the telco reduce any in-house R&D costs.

- **Global marketing support.** The wholesaler could provide sample marketing collateral templates, share promotional strategy and market positioning advice which the telco could then adapt for their own local market conditions and specific competitive environment.

- **Rigorously enforced service level standards.** The telco should enforce quality of service standards with the wholesaler, which in turn ensures the quality of services delivered to its end customers.

In addition, depending on the scale and global reach of the wholesale cloud provider chosen by the telco, there is an opportunity for the telco to expand its geographic footprint overnight. This is the promise of a federated cloud model, where the wholesale cloud provider acts as a 'broker' to allow cross-selling of its wholesale customers' respective cloud services.

To illustrate: Say a Singapore-based company has IT operations in Brazil and would like to purchase cloud services for use by its Brazilian IT operations. If the wholesale cloud provider has a reach into service providers in both countries, in theory it would be able to facilitate this transaction in which the Singapore based customer will be able to buy the cloud services provided by the Brazilian service provider. Of course, in reality, there will be numerous country-specific data security and privacy rules, export controls, taxation and other inter-border commerce regulations to consider. But the wholesale approach—or specifically in this case, the federated cloud model—is ready to take advantage of this increasingly borderless world in which we live (see Figure 3).

Over time, through its interactions with its end customers, the telco will learn more about its customers' needs and provide the necessary feedback to the wholesale cloud service provider. And by taking action on the feedback, the wholesale cloud service provider
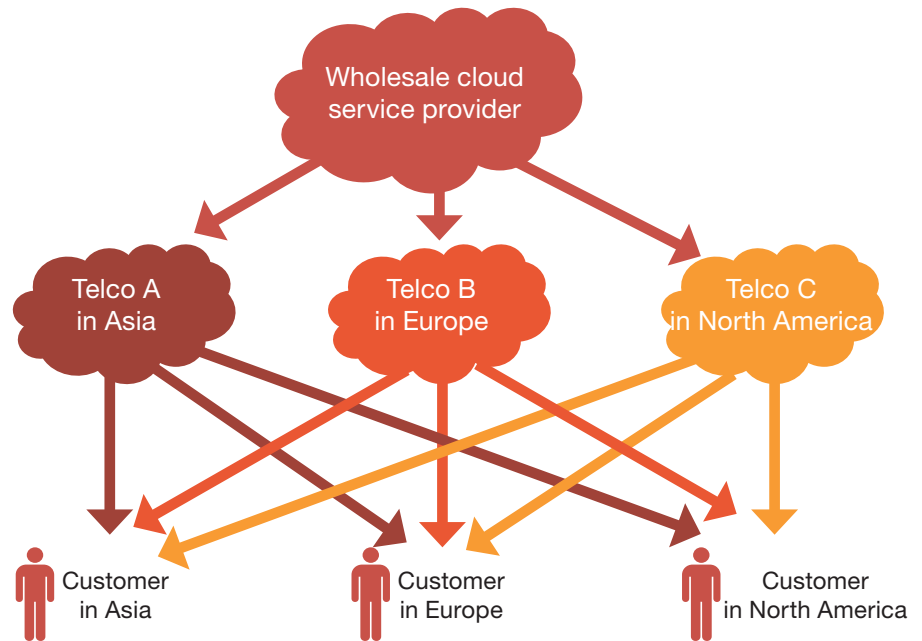
The wholesale cloud service provider's business model and platform architecture help to facilitate the customers' ability to buy into cloud services provided by service providers outside of their territory.

will continuously improve upon its cloud solution thereby ensuring that the wholesale cloud product maintains a competitive edge in the market place.

Deciding when and how to adopt a wholesale approach

Just because a wholesale cloud provider is able to provide an entire cloud business 'out-of-the-box' does not necessarily mean a telco needs to buy the entire end-to-end solution without exception. Depending on how far along the telcos are in the cloud business transformation journey, some telcos (especially the global tier 1 providers) may have already begun offering their own cloud services—or are well on the way to doing so. In such cases, these telcos may want to look at their entire portfolio of cloud

services—as well as their end-to-end service delivery capabilities—and consider elements of the wholesaler's offering that could plug the gaps in the services that they currently offer or plan to offer.

Here are some examples of how a modularised wholesale cloud offering could help make the service provider's existing cloud offering more complete:

- **The service provider may only offer Infrastructure-as-a-Service (IaaS) but no Software-as-a-Service (SaaS) or Platform-as-a-Service (PaaS) offerings.** The service provider could look to a wholesale cloud provider that offers SaaS and/or PaaS to plug the gaps in its service catalogue.

- **The service provider may only offer a single-tenant, private cloud solution.** The service provider could look to a wholesale cloud provider to purchase a multi-tenant public cloud solution or a hybrid cloud solution.

- **The service provider does not offer self-provisioning, self-management capabilities for their cloud offerings.** Wholesale cloud providers with offerings that include self-service features could be considered. This may help reduce service provisioning lead times, provide the end-users with greater control over their own services and ultimately improve overall customer satisfaction.

- **The service provider does not offer easy, pay-by-credit card option.** Wholesale cloud providers that have offerings linking service provisioning and credit card billing capabilities could enhance the purchasing and user experience.

- **The service provider has a cumbersome and manually-driven customer billing process.** Operators could integrate their native billing system with the 'out-of-the-box' billing solution offered by the wholesale cloud provider.

On the other hand, there may be other telcos (usually the smaller tier 2 and tier 3 providers as well as other niche players) who may not have initiated the cloud business transformation journey, and thus would be more likely to find the entire end-to-end solution appealing. They could look upon this as a quick approach to even the playing field and be more competitive with their fellow service providers who are already offering cloud services in their local market.

Finding the right wholesale cloud partner

Offering cloud services is in many respects a very different proposition to telcos' core business. Assessing a wholesaler's capabilities and its compatibility with the telcos' own competencies and business model becomes all the more critical. In order to launch a successful cloud business, telcos face a number of inherent challenges. They consequently need to make sure that the wholesale cloud provider they choose is able to complement them, help them overcome potential barriers, and achieve the desired operational and business outcomes.

Need a new business model supported by new business processes

Many telcos are adopting an incremental rather than transformational approach to delivering their cloud propositions. They are launching new cloud services while still using their legacy sales, implementation, and customer service approaches.

However, the nature of cloud services demands that legacy business approaches be reevaluated. For instance, the purchase experience needs to be quick and easy. The traditional method of purchase via an account representative for business customers is not a sustainable and scalable model for cloud services. More importantly, it dilutes the value of cloud services, which lies in its immediacy. In addition, telcos often lack the consulting capabilities needed to help customers generate the greatest benefits from the move to cloud.

Therefore, telcos should look for a wholesale partner who has not just the technology that powers the service offerings, but also a coherent business model—with a complete set of supporting business processes—which the telcos can implement in order for them to deliver the cloud services in the most effective and compelling manner.

Need to provide end-users with a well-defined Service Level Agreement (SLA) and have processes and reporting capabilities to prove compliance to these SLAs

Even the most disciplined telcos often have an operational model that is a patchwork of (often manual) processes and system workarounds in order to accommodate non-standard, bespoke features required by large enterprise customers. Problems often emerge because the operational model lacks the right processes and tools in place to execute non-standard features. Taken to the extreme, the operational function becomes a best endeavours effort where it cannot confidently predict what SLA it will deliver against, leading to a growing volume of service credits and contract target failures.

For cloud services, reliability is paramount. Availability and time must be at or near 100% in order to attract and retain customers. SLAs must be committed to and strictly complied with. Best endeavours effort will no longer be acceptable. Not only will these service levels need to be maintained, service providers also will be required to verify and demonstrate they are consistently met.

Therefore, in seeking a wholesale partner, an important requirement for a telco is that the wholesaler should already have a set of well-defined SLAs for its cloud offerings—and at the same time has the ability to demonstrate the highest levels of service along with a transparent set of processes for their validation and reporting.

Need to provide end-users with a simple, frictionless purchase experience

Telcos are generally not known for being able to provision and activate new services quickly and on-demand. The process is often fraught with long wait times and unpredictable customer service. Competitive pressures have forced certain telcos—especially the wireless service providers—to achieve higher standards of service. But major questions continue to persist about telcos' ability to modify their existing operating processes, develop the appropriate automation, and streamline their processes and systems to accommodate cloud services.

To provide commercially successful cloud services, telcos need to demonstrate capabilities of being able to offer all the benefits of cloud in an easy and repeatable manner. Service ordering, activation, and on-boarding should be simple and frictionless for the customer. The customer should be able to use the cloud services as soon as they are ordered. Similarly, customers that need to change or upgrade their services should be able to do so just as easily. Therefore, telcos should look for a cloud wholesaler that has a service delivery platform that is centred on customer-empowerment, incorporating self-provisioning and self-managing capabilities.

Need to continue to innovate

There may be a risk that a telco buying everything from a wholesale supplier will cause the telco to be overly dependent on the supplier, leaving them unable to innovate and improve upon the very services they are providing to their customers. The telco should be cognizant of this risk and choose a wholesale partner that encourages innovation rather than stifles it. The telco should choose a partner that has a robust feedback mechanism that serves to improve the overall cloud solution, such as one that has established a community or forum where various wholesale telco customers could get together to exchange ideas, experiences of their end-users, and provide direct feedback to the wholesale cloud provider on how to improve the product. Since the telco is ultimately accountable to their own customers, continuous product development should not be the sole responsibility of the wholesaler. To truly be successful, the telco will need to play its part in innovating around this platform.

Conclusion

Working with a cloud service wholesaler offers telcos a number of strategic benefits, paramount of which is the ability to substantially reduce time-to-market with a proven set of capabilities and services that have already been thoroughly road-tested by the wholesaler.

However, there are a number of key considerations that telcos will need to work through in order to collaborate successfully with the wholesaler and drive maximum benefits from the collaboration in launching cloud services. Before entering into a deal with any cloud services wholesaler, a telco needs to clearly articulate and understand its own cloud business strategy, which should involve rigorous market analysis and comprehensive business case development.

Setting up cloud services will often require detailed business process redesign and implementation—along with technical architecture design and implementation—as well as rigorous testing of supporting tools and platform prior to launch. Once services are up and running there will be a continual need to maintain the infrastructure, manage capacity, and optimize performance. A telco's cloud business transformation journey can be made smoother if it partners with the right wholesale cloud provider that is able to help guide the telco at both a strategic as well as tactical level.

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