Predicts 2016: IT Services Innovations for Digital Services

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Analyst(s): Alex Soejarto, Allie Young, Rob Addy, Twiggy Lo, Denise Rueb, Julie Short, Elise Olding

Our 2016 predictions focus on the changing digital service capabilities and competencies that service providers will require to be leaders in a digital business marketplace. Service providers must transform rapidly to be competitive and find differentiation as the market becomes bimodal.

Key Findings

- The impacts of the Internet of Things (IoT) are in their early stages. As intelligence is added to devices and sensors and scale is achieved in networks, the types of service providers participating in the marketplace will expand and cut across a broader set of technologies, requiring new approaches to partnering.

- Digital business is about business model transformation. This round of transformation will require service providers to embrace new approaches to how organizational change is achieved — including a more scientific approach than previously used.

- Digital business transformation requires more agility and innovation, and a growing trend to adopt bimodal practices is evident from buyers. Service providers see the mandate to respond to bimodal and are investing in capability and capacity, but they must be patient to achieve the long-term payoff.

- Algorithms tied to data make for a critical differentiator. Contextual predictive data streams that combine proprietary sets of information with contextual algorithms will allow service providers to offer tighter predictive capabilities.

Recommendations

Business unit leaders of IT services providers who prioritize the following will gain competitive advantage:

- Create a robust digital services strategy.

- Evaluate how bimodal approaches can apply across practice areas to build client trust and relevance.
Prepare for digital business by establishing competitive competency in new service areas like IoT, analytics and algorithmic business.

Develop leading-edge digital services offerings as the cornerstone for your competitive differentiation.

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Strategic Planning Assumptions

By 2017, OT service providers will capture over 45% of IoT spending, and be necessary partners for IT services providers’ vertical strategies.

By 2018, 15 out of 20 consulting firms will leverage behavioral and cognitive neuroscience to reduce the failure of digital transformation efforts by 50%.

By 2018, the majority of Mode 2 innovation engagements will underperform profitability and growth expectations.

By 2020, contextual predictive data streams — and the proprietary algorithms behind them — will be a top three service provider differentiator.

Analysis

Digital transformation is the keystone of demand for the future IT services market. We are witnessing the inflection point from digitization and modernization of organizations and the transformation toward digital business.
What You Need to Know

This report highlights our predictions for the near-term IT services market. We highlight the key changes in how IT services are transforming from digital services toward digital business services. Gartner’s predictions describe major forces that leaders and strategic planners must consider. These forces will impact competitive choices and allow for marketplace differentiation:

- The Internet of Things (IoT) ushers in a new era of computing where providers need to consider how operational technologies (OT) must integrate with information technologies (IT).
- The trajectory from digital technology enablement (cloud, mobile and social) to digital business enablement requires a transformation that embodies entirely new organizational considerations and capabilities which changes a provider’s strategies and competitiveness.
- Differentiation in a digital market means leveraging intangible assets and intellectual property, embracing change at a faster pace than in the past, and positioning for digital business value.

Buyers increasingly need confidence that what they buy is a best-in-class service. For service providers, this means finding capability that provides differentiation.

Strategic Planning Assumptions

**Strategic Planning Assumption:** By 2017, OT service providers will capture over 45% of IoT spending, and be necessary partners for IT services providers' vertical strategies.

**Analysis by:** Denise Rueb

**Key Findings:**

Gartner’s IoT Forecast indicates significant growth over the next five years in IoT deployment across industrial verticals, thus presenting a significant opportunity for IT services providers pursuing IoT opportunities. Gartner predicts 25 billion IoT units to be installed by 2020 and growth for IoT services to reach $230 billion. The industrial verticals such as oil and gas, utilities, mining, and transportation will play a large part in IoT growth. For example, sensor use in oil and gas industry will triple between now and 2020, and the use of Ethernet technology and modern architectures in manufacturing will enable further convergence of OT and IT systems; each vertical will require a different level of IoT services.

In a recent 2015 IoT survey driven by Gartner, 60% of the respondents shared expectations to leverage a range of IoT service providers, including providers they currently use for other purposes and new providers that are IoT specialists. Industries likely to use current service providers for IoT included manufacturing and utilities. Both industries have significant OT systems, so their current providers are likely already experienced in some aspects of IoT.

Industrial verticals (such as manufacturing, energy, oil and gas, and transportation) are prime verticals for use of IoT applications. OT service providers have been supporting these "asset intensive" industries for many years and have solid industry domain expertise at the operational process level and strong relationships with the C-level business executives. They know the business
and have executive attention. However, on the traditional-side technology services, service providers are often sponsored by IT with limited connection in support of new business innovation/process change.

Most industrial-focused organizations are still defining their IoT business strategy in alignment with business growth and opportunities. They continue to deploy select IoT proofs of concept/prototypes and are now placing focus on IoT pilots with providers. Through all of this, organizations most often leverage either their internal OT specialists or current OT service providers to lead the effort. IT services providers focused on IoT offerings either complement the engagement or work with the IT organization in support of the IoT opportunity.

**Market Implications:**

There is significant IoT service opportunity within the industrial verticals for both IT services providers and OT service providers. As IoT business strategies are deployed, industrial businesses will seek the right level of IoT capabilities and skills relevant to their industry from an IoT end-to-end focus — some of which they will build internally and others they will externally source. These capabilities and skills will include industry domain expertise, OT knowledge at the process and machine levels, IT application services, communications and connection technology knowledge, system integration and information management.

Buyer expectations for IT services to support their OT will most often come from the business versus IT. Therefore, IT services providers must demonstrate their ability to apply specific industry knowledge for business innovation and strategy development, an understanding of the "things" including how they work and the information they capture, the relationship between the operational process environment and the legacy IT application environment and what level of integration is required between the two.

Specific industry-focused standards and regulations will become more dominant for IoT. Thus, IT service providers will need to be sharply aware of such standards and regulations, not only within the industry but also from a geographic perspective.

Industry knowledge of the data captured from an IoT solution — that is, the "what, why and how" — and being able to leverage such information is a critical element for IoT. Ultimately, IT services providers will be expected to demonstrate how a business might monetize such information. IoT service providers must be prepared to support this key requirement.

From Gartner's interviews with IT services providers, many are not prepared to support "industry" focused capabilities with in-house staff and skills. Therefore, key "industry domain" partnerships within the provider's IoT ecosystem will be required. Such industry capabilities will take significant investments in new IoT skills or require access to these skills from partnerships; the skills and resources needed include OT expertise, data scientists skilled in the particular industry and technology providers with tools and assets specific to the industry.
**Recommendations:**

IoT practice leaders in IT services providers should build out their industry domain capabilities and skills in support of capturing and leading industrial-focused IoT service opportunities:

- Create a focused IoT go-to-market strategy that aligns with a select industrial vertical, such as manufacturing, oil and gas, or transportation. Ensure the strategy includes industry knowledge senior staff that can manage the engagement at the senior level. Either hire or partner with such domain expertise.

- OT capability and skills are a must. Develop a formal IoT partner ecosystem strategy that aligns these OT skills throughout the IoT service offering stack. If not available in-house, formalize a key partnership that can be promoted in the IoT service offering value proposition.

- Based on your IoT target market strategy, identify the OT service providers currently integrated in the target businesses. Prepare a target plan per industry to reach out to these providers. Contact the OT service providers with a solid value proposition for developing a potential partnership.

- Capture, create and highly promote the IoT industrial use cases your firm has led or supported as a key partner. Highly promote the firm’s industrial expertise within IoT.

- Join and participate in current and future IoT related standards bodies (for example, the Industrial Internet Consortium) with emphasis on industrial use cases to gain insight and influence direction of these standards/technologies to best align with your own IoT strategies.

**Related Research:**


"Forecast Analysis: Internet of Things, Endpoints and Associated Services, Worldwide, 2014 Update"

"The Internet of Things Revolution: Impact on Operational Technology Ecosystems"

"Survey Analysis: The Internet of Things Is a Revolution Waiting to Happen"

**Strategic Planning Assumption:** By 2018, 15 out of 20 consulting firms will leverage behavioral and cognitive neuroscience to reduce the failure of digital transformation efforts by 50%.

**Analysis by:** Julie Short, Elise Olding

**Key Findings:**

Gartner’s 2015 Digital Business Survey of IT, Business and Marketing Executives has indicated significant investment in organizations becoming digital businesses will occur in the next two years. Digital business will introduce significant changes in the form of human-centric design, an
empowered workforce, and new approaches for process design that will impact existing organizational culture. Decades-old approaches toward organizational change service offerings must be completely rethought and restructured. The business environment and the combined workforce (Generations X, Y, and aging baby boomers) will need new ways of learning how to confront a consumer culture where immediate response is vital. These service offerings will be vital for organizations embarking on a variety of digital services but will need to address outdated ways of designing processes and motivating change in the workforce.

Behavioral and cognitive neuroscience offers a growing ability to monitor, understand and affect the physical mechanisms of the brain, which in turn provides better techniques in influencing attitudes, actions and behavior. Beliefs about how we work, and when we work, are being shattered by cognitive neuroscience research. Enterprises that understand the limits and needs of the most valuable and underutilized asset in their organizations — the brain power of employees — will capture a competitive advantage. Additionally, organizational culture is often ingrained and as a result has an "immune response" that can kill new ideas and ways of working. New employees coming into an organization are often quickly assimilated into enterprise thinking. Service providers must be keenly aware of this trend and ensure their organizational change management service offerings take full advantage of this research. This trend represents significant change to existing organizational change service offerings and will require significant investment from service providers.

**Market Implications:**

Gartner predicts that leading consultants and IT services providers that embrace new opportunities in digital transformation will accelerate their competitiveness and reduce the high rate of failure by 50% by leveraging behavioral and cognitive neuroscience in their organizational change management service offerings. Depending on the type of digital services offered, organizational change services will vary as well. For example, business model reinvention will require organizational change management offerings and intellectual property assets that support a diagnostic approach to ensure an organization is ready to embark on such a pervasive change. One example is McKinsey & Co.’s Digital Quotient offering, a diagnostic to help client organizations understand if they are, in fact, ready and capable to undergo integrative change such as business model reinvention. One possibility is to use practical methods and tools such as augmented reality to increase the ability to learn more effectively and for ensuring successful change that addresses a multitude of stakeholders including business and IT at all levels within the organization.

Using neuroscience techniques will not only help with organizational change issues but also may influence organizational culture as well. Becoming a "brain-aware enterprise" (see "Maverick Research: Living and Leading in the Brain-Aware Enterprise") takes place over time, with employees becoming more conscious of their own brain states, emotional responses, and subconscious intuitions to improve their performance and relationships and build trust. Once this happens, the organizational culture will morph over time into a healthier state.

Transformation to become a digital business is one of the biggest changes to impact the business environment in more than 20 years and will require an added focus on organizational change. The change is tremendous because it is not about automation per se but shifts in operational models,
with the speed to change being very rapid. Customers now expect responses from companies in a short span of time, and they even expect organizations to anticipate their needs and wishes. These expectations are becoming a basis for digital transformation. Organizational change cannot continue to be "nice to have" in transformation programs. It will become integrated either directly through more scientific methods or indirectly as scientific methods inform areas such as process design and user experience.

**Recommendations:**

Strategy and practice leaders must consider including some of the following approaches in innovating their approach to organizational change and reshaping organizational culture:

- Consider using techniques such as augmented reality to ensure the workforce is prepared to deal with business moments in the new business environment.
- Include simulation games and other types of learning approaches to motivate the workforce where appropriate. Be mindful of individual motivations of different worker groups.
- Introduce techniques that move toward the brain-aware enterprise to influence organizational culture (see "Designing Processes for the Brain-Aware Enterprise").
- Review organizational change management service offerings in relation to human capital management offerings to support ongoing and continual change as an enterprise competency.
- Ensure there is CEO and board-level leadership included in organizational change management service offerings.
- Include the concept of cascading sponsorship to carry the CEO's direction through all levels of management. Develop tactics to address a lack of leadership alignment.

**Related Research:**

"Maverick* Research: Living and Leading in the Brain-Aware Enterprise"

**Strategic Planning Assumption:** By 2018, the majority of Mode 2 innovation engagements will underperform profitability and growth expectations.

**Analysis by:** Twiggy Lo, Allie Young

**Key Findings:**

We are at the early stages of bimodal as a transformative approach to support technology-enabled, digital business-driven goals. Yet all signs indicate that clients are adopting bimodal strategies, and that consultants and service providers ("providers") must respond accordingly to remain relevant.

- Gartner’s 2016 CIO research found that almost 40% of CIOs are already on a "bimodal journey"; the majority of the remaining 60% plan to be on the journey in three years. This research also found that those CIOs who have delayed moving to bimodal rated among the

- Other Gartner research confirmed a similar trend for users to embrace bimodal. Thirty-three percent of organizations say they are operating in a bimodal fashion today, and 39% will be in two years. Indicative of their expectations, nearly 75% believe that service providers must adapt to their bimodal requirements.

Leading consultants and niche/focused digital business players, in particular, are strategizing to be well-positioned to address the innovation initiatives of digital business, which are characterized as Mode 2 engagements in Gartner’s bimodal discussions. Anecdotal research with service providers finds that these engagements are short-term, skill/project-based, and often have a focus on exploration and iterative development approach (“try fast, succeed fast or fail fast”). This means that the large-scale, predictable, carefully scoped projects of the past — which were significant contributors to providers’ revenue growth — are no longer the norm in Mode 2 innovation.

- These engagements are proportionately smaller and less defined. Gartner analysts also hear that the size of these projects is typically less than $500,000, though the combined projects add up to a larger spend.

- However, these engagements will include teams of people with highly specialized skill sets or consultants who are tasked often as “tiger teams” or business developers versus fully billable resources on a time and materials basis.

Given that the clients are in “explore” mode, their expectations are less solidified — which is characteristic of Mode 2 innovation undertakings. They would hesitate to sign up for the high costs of a consulting team made of digital experts, so the pricing becomes less “rigid” in order for the client to move ahead with the consultant/provider to see how they work together and if progress is made.

In some cases, consultants have even engaged in Mode 2 innovation projects on the basis of "pay us based on the results" — or even on an unpaid consultative trial basis to demonstrate their expertise — and hopefully drive follow-on business, either as project work or ongoing support. This suggests the unprecedented orientation of Mode 2 innovation projects to be more like presales proof of concept and also the highly competitive nature of these engagements. For example, some of the agile development engagements, which are relatively "small," are highly contested as niche providers can successfully compete on scale of resources and expertise and win against large providers. This results in more unlikely competitors for agile-like projects that can win clients’ trust.

The net result is our prediction that by 2018, providers will engage in many Mode 2 innovation engagements that will not generate what would be deemed "profitable revenues" in the traditional project-based contracting approach. Nevertheless, the implication of this prediction is that in many cases, providers will accept this Mode 2 work as a cost of, or investment in, "doing business" to gain their credibility. Providers will look at such engagements as loss leaders to gain a foothold with a key client and a means to get consideration for follow-on work. This could be additional innovation work, or it could be the Mode 1 operations, which also may require some new relationships with providers that have a full grasp of the innovation and the core systems needed to support the new processes.
Market Implications:

Providers that pursue Mode 2 innovation must be prepared for new levels of competition and requirements for speed and agility. Their contracting practices and deal pursuit will need to adapt to more speed, new business buyers (versus IT), new competition, and the much greater onus on them to prove outcomes of the innovative engagements. A focus on onshore/on-site resources is also required to address the agile, iterative project requirements in Mode 2. They should consider Mode 2 as investment required to pull through the downstream implementation work, and they must be able to balance and align the innovative nonlinear Mode 2 initiatives with Mode 1 capabilities (which prioritize safe, standardized scaling up the business and industrialized processes) to drive business outcomes.

Mode 2 is also providing more opportunities for the smaller providers to win against the larger, traditional providers. Gartner is seeing a trend of end-user organizations using smaller providers with a more niche focus on specific industries, technologies or geographic markets. These smaller providers are also more agile and flexible on their pricing and delivery options, which helps them gain ground in Mode 2 in the short term as the traditional providers navigate their way through the transition.

In addition, culture change is the most important mechanism to determine if an organization will succeed or fail in bimodal. Therefore, in order for providers to help their clients succeed in bimodal, they must carefully study the subcultures of their clients' bimodal organizational structure, develop skills and target their services messaging accordingly. There are three subcultures in a bimodal organizational structure:

- **Operator subculture** — This is traditional (Mode 1) IT that focuses on delighting the internal and external customers of IT.

- **Innovative subculture** — This is nonlinear (Mode 2) IT that focuses on exploring the new, and continually pivoting and adapting, and meeting the business-driven initiatives for transformation.

- **Guardian subculture** — This is the office of the CIO that keeps everything safe and scalable and ready for the future.

Bimodal applies to the whole enterprise, not just IT. The market landscape is not a pure technology play anymore, but involves a much bigger ecosystem that no provider can do by itself. Providers must understand how to use technologies to connect people, business and things to help their clients innovate, reinvent business models, and optimize business processes. Bimodal leads to a much bigger scope, and advisory services becomes a must-have capability, especially when approaching the business buyers and executive leaders to help them envision how their organizations are being impacted and require transformation to survive and compete. Transformation also includes challenges in industry fluidity, legal compliance, risks and security, and governance. Service providers that cannot react quickly or proactively to clients' bimodal operations and complex expectations for rapid innovation in Mode 2 will lose competitiveness, while providers whose Mode 1 operations cannot respond to disruptive innovation will similarly stagnate due to price pressures.
Recommendations:

For strategic planners and practice managers of providers:

- Make structural changes in how you sell, market, deliver, and manage traditional versus bimodal engagements for digital technology solutions. Reorient your organization based on the roles of the buyers and the business outcomes that your clients are aiming to achieve.

- Prioritize the creation of tiger teams for innovation opportunities. Form teams able to demonstrate the agility, relevance, digital expertise, and practical skills and insights that you can bring to Mode 2 innovation engagements, and perfect strategies to use these to convert client projects to long-term relationships (thus addressing upfront costs) for both Mode 1 and Mode 2 work.

- Develop a consultative approach to reach the business buyers. Incorporate skills in multiple domains, vertical and business process expertise. Invest in an extended partner ecosystem that supports the technologies to augment your skills to compete for the digital business opportunities.

- Align your clients' bimodal subcultures and evaluate the risks and opportunities of different strategies that can respond, orchestrate and manage the coexistence of your clients' bimodal initiatives. These options can range from spinoffs and acquisitions to new engagements and contracting models.

Related Research:

"Why Bimodal Matters to IT Services Providers' Strategies"

"A Bimodal Enterprise Needs Three Subcultures"

"Market Trends: Framework to Enable Service Providers to Differentiate in Supporting Client Digital Business Initiatives"

"Business Outcomes, Differentiation and Performance Drive Bimodal Adaptive Sourcing Decisions"

Strategic Planning Assumption: By 2020, contextual predictive data streams — and the proprietary algorithms behind them — will be a top three service provider differentiator.

Analysis by: Rob Addy

Key Findings:

Many service providers are building information assets and have yet to fully exploit them. Through operational outsourcing and support services already in place, they have unparalleled visibility into the operations and performance of their customer's internal processes, environments and systems. This includes the configuration metadata used, the transactional flow of cases, events and tickets, and the consumption, usage or interaction profiles of their customer's employees and end customers. This represents an incredibly valuable data asset that is often not fully exploited.
In addition, service providers are building proprietary contextual information sources by taking external datasets (from open-data sources or as metadata from other transactional platforms, for example) and organizing them within processes or domains.

By applying analytical algorithms against these aggregated data assets, it enables a service provider to create contextual content streams that can be targeted toward a specific buyer constituency with a specific scenario or use case in mind.

Content may be published in a variety of forms including scheduled drops of structured data, graphical representations/visualizations of projected events, ad hoc alert streams or descriptive narratives upon which to base operational decisions. Content streams (also known as "continuous datasets," "information streams," "data services," or "value-added data flows") provide subscribers with insight and recommendations upon which to initiate contingent, remedial or preventive actions. Content streams may also be used as a refined set of inputs into downstream analytical algorithms created by the customer themselves. Use-case examples can include:

- Factors affecting team performance and cohesiveness or on highlighting account executives that are holding deals back (also known as "sandbagging").
- Potential contract cancellations, new project opportunities or customers that have the potential to expand their service usage or consumption.

Benchmarking content streams will allow customers to determine how they and their employees, processes, systems and environments are performing in comparison to similar organizations, allowing them to focus on the areas with the biggest potential for improvement first. Content streams may also be focused on the performance, efficiency and reliability of virtual and physical corporate assets to ensure customers are able to make the appropriate repair, refurbish, replace or repurpose decisions quickly while mitigating the effects of failures, obsolescence and performance degradations.

**Market Implications:**

As the cycle of service commoditization proceeds, the perceived value associated with performing the mechanics of system administration and ongoing routine operations activity diminishes. The introduction of analytics-backed automation into service delivery models will further accelerate the commoditization trend, and the observed differences related to the speed and quality of service delivery between competing providers will reduce dramatically. In a world where all services are seen to be "equal," providers will require something more tangible than mere brand and market presence to gain brand awareness and be able to grow and thrive. Data assets and the content streams created upon them will be one of the major battlegrounds for differentiation to make solutions "smart" by combining machine learning and data streams. Any provider that can combine both will be able to distinguish and raise itself above the pack. The intellectual property embedded within the algorithms they use and the data sources to which they have access are the tools they will use to create the value-added content streams they need to be successful.

Many providers will claim to offer highly valuable content streams, and the market will initially be rightly skeptical of the validity of these offerings. As customer awareness and familiarity increases,
providers will not be evaluated on whether or not they provide such content but instead on the
timeliness, accuracy and actionability of their content streams. Pushing the "predictive window" out
while constraining the duration of the prediction as well as narrowing the scope of a predictive
content will be critical success factors. Providers that are able to demonstrate and reinforce this
analytical and algorithmic competence with sufficiently compelling and relevant customer reference
stories will be more credible and consequently more successful.

Figure 1 shows increasing predictive accuracy to create a "predictive window."

Figure 1. Increasing Predictive Accuracy to Create a "Predictive Window"

Providers are likely to establish multiple discrete analytics "factories" focused on providing different
"flavors" of the same content stream to validate analyses and systems. Providers will publish the
performance metrics relating to each of their content "factories" to enable subscribers to select that
they consider to be most appropriate for their needs. Some content streams (or the analytical
factories that create them) will be conservative, cautious and risk-averse; others will be more
radical, optimistic and positive. Some will be better at predicting the nature and/or scope of what
will happen, whereas others will be more focused on the absolute accuracy of their predictive
timeline. Customers will then be able to subscribe to the outputs of a single or multiple analytical
"factories," as depicted in Figure 2, for a higher fee and take advantage of an aggregated content
stream where the likelihood of false positives and corner-case omissions is lessened.
Why this prediction matters to service providers:

- Providers without value-added content streams will be significantly disadvantaged when bidding for new contracts.
- Customers that leverage valuable content streams within their day-to-day operations are less likely to even consider switching providers (in other words, content is very sticky).
- The creation of content streams is a nontrivial exercise. Consequently, providers must begin investing in their development as a matter of urgency.

Recommendations:

Product managers and strategic planners within service providers should:

- Review and create an inventory of the data assets that you have access to and have visibility of.
- Ensure that the necessary customer agreements, contract terms and safeguards (for example, data provenance obfuscation) are in place to enable you to leverage these data sources for commercial gain.
- Identify potential scenarios and use cases where the provision of predictive content streams would deliver significant customer value. Enlist customer focus groups to help prioritize development activities.
Establish multiple analytics competency centers and enable them to autonomously create the analytical models and algorithms needed to deliver the content streams required.

Measure the accuracy of content streams in terms of timeliness, scope of event and event impact. Publish these content performance metrics to enable customers to select which content streams they wish to subscribe to.

Periodically "prove" the predictive models by letting "minor" impact events through unannounced to validate the accuracy of your predictive algorithms.

Related Research:

"Gartner's IT Services Scenario for Emerging Managed Service Providers, 2015"

"Gartner's IT Services Scenario for Emerging System Integrators, 2015"

"How Organizations Can Best Monetize Customer Data"

"Hype Cycle for Digital Workplace, 2015"

"Innovation Insight: Neurobusiness Validates Behavioral Sciences as a Transformational Business Discipline"

"Maverick* Research: Living and Leading in the Brain-Aware Enterprise"

"Maverick* Research: Myths and Realities in the Brain-Aware Enterprise"

"Maverick* Research: Socially Centered Leadership"

Replay Prediction

The replay prediction is a prediction from a previously published report that is so significant that it is being republished here.

Strategic Planning Assumption: By 2018, SaaS cannibalization will create a 40% reduction in maintenance and support as a percentage of total independent software vendor revenue.

Analysis by: Ed Anderson, Tina T. Tang

Key Findings:

- Demand for hybrid IT solutions will increase over the next five years as organizations establish operating environments that are optimized for meeting business requirements regardless of where services are hosted, including both internal and external services.

- Hybrid IT includes cloud service brokerage (CSB) as a means to manage the delivery of diverse cloud service offerings to business groups.

- Operating in a hybrid IT model requires changing the working relationship between the IT organization and the business groups. A market of CSB and multisourcing service integrators
(MSI) is already emerging, as are the technologies to help enterprises achieve their hybrid IT goals.

- Hybrid IT will require enterprises to refocus the core competency of IT to fulfill a role of brokering and managing the use of internal and external services.

**Market Implications:**

A hybrid IT organization is a trusted broker for a range of IT services that use cloud and traditional styles of computing. As the use of cloud services continues to grow, the value of a trusted broker for the enterprise will increase. The broker role ensures maximum efficiency and effectiveness in provider selection, governance, payment, integration, management, security and compliance. A market of CSB and MSI providers is already emerging, as are the technologies to help enterprises achieve their hybrid IT goals. Hybrid IT requires new organizational roles and responsibilities and, in most cases, the existing IT organization is best suited to implement these roles, especially in large enterprises that have large and well-equipped IT organizations. Previously, enterprises were likely to use an internal procurement group or an external MSI to manage their multisourcing needs. The hybrid IT model requires the centralization of an authoritative brokerage role, otherwise there is the potential for multiple groups to assume the role of the broker of services. The establishment of this centralized role is critical to avoid the potential of chaos in the organization because of the loss of governance over technology procurement and consumption. Most global enterprises are leveraging cloud services in some form, and their users are increasingly accepting the new modes of interacting with their technology services. Gartner surveys have shown a consistent increase in this experience across public and private cloud environments. In a recent survey at Gartner’s Data Center Conference, 74% of respondents indicated they would be pursuing a hybrid IT strategy by 2015 (70 respondents).

Many enterprises operating in North America and Western Europe are experimenting with hybrid IT models, but in emerging markets organizations have yet to embrace this new model. This is generally because they lack the mature processes and well-defined IT roles needed to operate in this centralized mode and to secure, manage and govern elements across service provider boundaries and between internal and external systems. Nevertheless, we expect demand for hybrid IT solutions will increase over the next five years, as organizations aspire to establish operating environments that are optimized for meeting business requirements wherever services are hosted, including both internal and external services. Smaller enterprises will require multiple providers of services, possibly with varying levels of isolation or privacy, and integration across those providers. However, many midmarket enterprises will turn to third parties that take on the MSI, value-added reseller (VAR) and/or CSB roles. In those cases, the trusted broker of multiple services will likely be a third party, but the strategy and requirements will be the responsibility of the enterprise, typically supported by business and IT leaders. These third-party entities can provide hybrid IT capabilities generally and CSB specifically, particularly as the consumption of public cloud services increases. Although the market for CSBs is still young and emerging, Gartner believes it will grow substantially during the next few years. In Gartner’s latest survey on cloud adoption, 85% of organizations indicated they planned to use CSB by 2017 (332 respondents). Gartner forecasts that the total market for business services will grow to approximately $982 billion through 2018. The market for CSB will exceed $95 billion during the same time frame. Other hybrid IT technologies will add to
CSB spending, resulting in 15% of spending on business services derived from these new models. The shift to a hybrid IT and the IT service broker model will make IT more central and tied to business performance. The leadership role of the CIO is crucial to the transformational development of the hybrid IT model.

**Justification:**

The reductions in software vendor revenue are starting to be felt across the industry. Major software vendors like Oracle and SAP are being forced to change their financial reporting, and are beginning to relate the effects of maintenance and support revenue to new operating models that result in multiyear payback for client acquisition.

**Recommendations:**

- CIOs should adopt and deploy public and private cloud services with a hybrid future in mind, and quickly build capabilities to secure, manage and govern services across internal and external providers' boundaries.
- CIO and business managers must build operating models that exploit the capabilities of hybrid IT to support business outcomes. Business operating processes should recognize and leverage the dynamic and elastic nature of hybrid IT environments.
- CIO and procurement managers should determine when to use internal roles and when to engage with external providers to support the hybrid IT operating scenarios. Many organizations will use both internal resources and external providers.

**Related Research:**

"Hybrid IT: Delivering IT as a Provider and a Trusted Broker"

"Defining Cloud Services Brokerage: Taking Intermediation to the Next Level"

**A Look Back**

"In response to your requests, we are taking a look back at some key predictions from previous years. We have intentionally selected predictions from opposite ends of the scale — one where we were wholly or largely on target, as well as one we missed."

**On Target: 2012 Prediction** — By 2016, 25% of external application implementation spending will be on mobility, cloud, analytics and social computing services.

"Previously Published: "Predicts 2013: Business Impact of Technology Drives the Future Application Services Market"

The shift to digitization and modernization of existing IT systems, and the digital from day one of new systems makes digital services the fastest growing area for service providers today. Digital services practices have become significant in many service providers and are 20% or more of revenue.
**Missed: 2012 Prediction** — By 2016, the disruptive impact of SaaS deployment on application services providers' traditional revenue streams will be less than 4%.

*Previously Published:* "Predicts 2013: Business Impact of Technology Drives the Future Application Services Market"

The impact of SaaS deployments has been more significant than expected just a few years ago. The move by service providers to acquire product specific firms for Salesforce or Workday demonstrate that the effects of SaaS are being felt across the market.

**Gartner Recommended Reading**

Some documents may not be available as part of your current Gartner subscription.

"Why and How to Measure the Value of Your Information Assets"

"Market Guide for Digital Business Consulting Services"

"Digital Business Requires IT Leaders to Make Big Changes"

"What Business Transformation Leaders Should Know About Digital Business Consulting Services"

**Evidence**

1. Gartner fielded 304 surveys in a research study (2015 Digital Business Survey of IT, Business and Marketing Executives) from May 2015 through June 2015, in order to understand how businesses and institutions understand, identify and exploit the new opportunities that digital business represents. Surveys were conducted online among organizations that use digital marketing techniques or have implemented/currently plan implementation of some digital business activities.

A total of 304 surveys were distributed in the U.S. (n = 150), the U.K. (n = 53), Germany (n = 51) and Australia (n = 50). Respondents were screened for involvement in their organization’s digital business activities.

Companies were required to have $250 million or more in 2014 annual revenue, and operate in one of the following industries: manufacturing, retail, government, healthcare providers, banking, insurance or communications, media and services.

The survey was developed collaboratively by a team of Gartner analysts who follow the executive leadership market and was reviewed, tested and administered by Gartner’s Research Data Analytics (RDA) team. The results of this study are representative of the respondent base and not necessarily the market as a whole.

2. "McKinsey Digital: Digital Quotient"

"Digital Businesses Will Compete and Seek Opportunity in the Span of a Moment"

More on This Topic
This is part of an in-depth collection of research. See the collection:

- Predicts 2016: Algorithms Take Digital Business to the Next Level
GARTNER HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
USA
+1 203 964 0096

Regional Headquarters
AUSTRALIA
BRAZIL
JAPAN
UNITED KINGDOM

For a complete list of worldwide locations,
visit http://www.gartner.com/technology/about.jsp