

# I D C T O P L I N E

## The Role of Telcos in Virtualization: Facilitator, Innovator or Both?

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With market recovery in 2010, companies, while cautiously optimistic, will be looking at how they can capture the first wave of emerging opportunities. Although investing to save remains one of the key priorities for CIOs, the mantra this year is also to invest to grow. After aggressively slashing their costs in 2009, businesses have made liquidity management, IT simplification and consolidation their main organizational priorities over the next 12 months – a trend reflected in a recent IDC survey shown in Figure 1. With the mandate to support the broader organization and create business value with limited incremental spending, CIOs recognize that reducing IT complexities is one of the key cornerstones of meeting business priorities. New approaches such as virtualization, which help improve IT utilization efficiency and automation, will lead in their priorities. Today's CIOs walk the fine line of balancing cost management (and cash preservation) and waging the right technology bets.

**Figure 1**

### Business Priorities in 2010

Q What are the main business or organizational issues that will take priority over the next 12 months?



N = 199 (multiple responses allowed)

Source: IDC's Asia/Pacific 2010 ICT Priorities, November 2009

## Virtualization Key to Business Transformation and Ability to Seize Opportunity

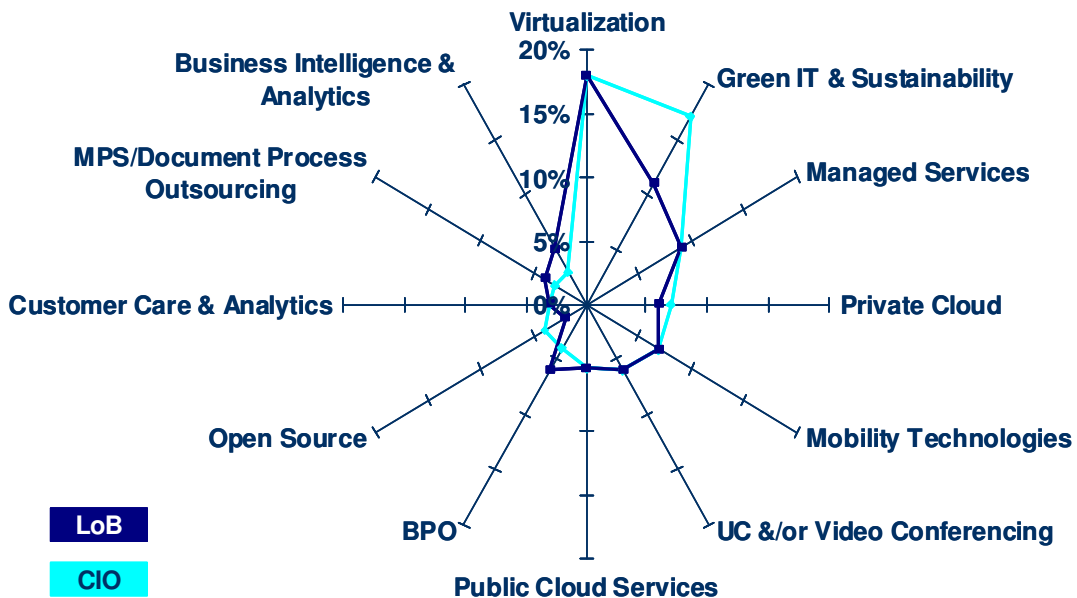
CIOs are gravitating toward technologies that yield better IT optimization, which simply means bringing the organization closer to achieving its business objectives. Among the most sought-after technologies is virtualization. Server virtualization, which for the longest time has been the standard flag bearer for virtualization initiatives, has given rise to new aspirers including storage, applications, client and network virtualization. Organizations have also started to explore private clouds and to consolidate datacenters with virtualization as one of their key technology platforms. As organizations gear up to adopt Web2.0/Web 3.0, cloud services, next-generation enterprise applications and build out private clouds, the need for virtualization will grow. CIOs recognize the role of virtualization in helping to simplify their ICT infrastructure, maximize the resiliency of their networks, and reduce waste.

More importantly, it represents the broader trend in the market where organizations are attempting to de-capitalize IT. The de-capitalization of IT removes the inability of "on-premises" architecture to respond dynamically to market change. Virtualization also provides business technology with a rapid and flexible means to revise, scale, upgrade, as well as add new customer services and change business process management and workflow in minutes. The cost savings can be redistributed toward areas that need IT and business innovation – key ingredients to future-proofing success – rather than to sustain and maintain infrastructure capitalization which incur support costs. A virtual environment creates a more agile business capable of bringing new products and services faster to the market. According to IDC's *Recovery Watch Program CxO Poll*, virtualization was cited by both CxOs and line of businesses (LoBs) as the number 1 technology that would benefit their organization in 2010 (see Figure 2).

**Figure 2**

### Key Technologies to be Deployed

Q. What do you think is the top technology that would benefit your organization over the next six to 12 months?



N = 510 (CIOs) and 630 (LoBs) (multiple responses allowed)

Source: IDC's *Recovery Watch Program CxO Poll*, Q409

## Telcos – Powerhouse Players in Virtualization?

Virtualization has completely changed the IT services paradigm. All of the key concepts that are intrinsic to cloud services for instance, like economies of scale, ability to extract underlying hardware from the application, and business agility, can be attributed to virtualization. This technology has also been game-changing for telcos. Virtualization has enabled telcos to offer a whole suite of cloud services and organizations to build private clouds in a very cost-effective manner – endeavors that seemed impossible or out of reach (or out of budget) before.

There are several key questions: What is the role of telcos in this era of virtualization and pervasive cloud services? To what extent would they be able to seize these opportunities and drive innovative use of their "natural" resources – their infrastructure? Many would argue that virtualization and cloud services are a "once in a generation technology" for which telecom carriers have a distinct, natural built-in advantage that *could* allow them to dominate. Indeed, telcos have been regarded by many as a natural cloud services provider for many reasons. For one, many have state-of-the-art datacenters and vast next-generation multiprotocol label switching (MPLS) and fixed line networks. Furthermore, telcos also have the brand equity, technical resources, deep pockets, and access to capital – the crucial ingredients for success.

However, telcos and innovation are rarely mentioned in the same breath. Even with these advantages, they often risk being relegated to the role of connectivity partner in cloud and virtualization projects, with legacy and siloed organizational structures counting against them. The challenge for many telecom carriers is to overcome legacy internal and cultural barriers to become leaders in this industry. This will require clarity on how they position themselves in the cloud and virtualization market. Will they, for instance, deliver a full stack of infrastructure, business and support services to their enterprise customers?

Whilst telecom carriers have datacenter expertise, most do not natively possess the integration or application management expertise required. IDC believes that the development of non-traditional capabilities will be best achieved by partnering. This includes partnering with enterprise software players like Oracle and SAP, best-of-breed SaaS players like Salesforce.com or Netsuite, and tier-one system integrators like IBM or CSC. The type of partnership created would largely depend on which part of the cloud market they choose to play in. Whichever route telcos decide to take, it is really a game that is for them to lose given their inherent strengths. Behind every successful cloud story lies a resilient and intelligent network. Telcos have a unique position in the value chain and, ultimately, they can shape the user experience. This unique role will become increasingly important as cloud services develop into business-critical applications with very stringent SLAs, and the network becomes the focus point for the entire collaborative experience. Cloud represents a big gamble for many telcos but doing nothing would definitely be a riskier bet.

## Essential Guidance

While this paper spells out the inherent advantages that telcos have in the cloud industry, organizations should choose their partner carefully. Selecting a cloud partner is one of the most important ICT decisions for any organization and should not be taken lightly. IDC believes that organizations should select telecom carriers which have real cloud infrastructure and cloud services as one of their key focus areas. Organizations should ask their telco partners all the tough questions on security, performance and availability – the top three concerns amongst enterprises. Transparency is also paramount; organizations should be deeply suspicious of any service provider that is unwilling to fully divulge their security practices. Organizations should also be concerned about the level of service availability that their telco is able to provide, and ask the carrier to show a proof of concept demonstrating the overriding benefits of cloud. More importantly, the cloud industry is evolving very rapidly, and organizations should be kept abreast on industry developments and only then will they be able to make an informed decision.