



Survive the market storm

Guidance for service providers



Evolve for success in the new “as-a-service” ecosystem

By the end of 2015, market consolidation will displace up to 25 percent of the top 100 IT services providers.¹ According to Charles Darwin, it is not the strongest or the most intelligent who will survive but those who can best manage change.

Despite the grim reality of current market dynamics, some service providers are not merely surviving but positively prospering. Today, 11 out of the top 25 fastest growing technology companies are service providers.² What are they doing differently; how are they managing change; how are they evolving to capitalize on opportunities? Here are three key ways to improve your chances.

Create strong differentiation

An important survival strategy is to clearly define your value proposition to the market. SAP®-certified global service provider Freudenberg IT (FIT) attributes much of its success to focused solution expertise. Richard Downham, VP Business Development at FIT, calls this “doing one thing and doing it well!”. With over 40 years of experience running and hosting SAP software, the organization now supports thousands of SAP systems and hundreds of SAP customers. Downham explains FIT found a niche and now runs itself like a small company. In addition, FIT has specifically architected and owns the entire technology stack—avoiding the risks of deferred responsibilities that typically arise when leasing or co-locating.

Also important is the geographic scope of service delivery—successful service providers are located precisely where customers need them to be. For example, across Europe many customers are expressing concern about data sovereignty issues and compliance. They want to keep their data inside their own country or trading region, and so they seek service providers offering data centers within those geographic boundaries. Effective service provider delivery requires not just the ability to provide services rapidly with low latency, but also consideration of the human element: language, sales and support resources, and business culture.

Strong differentiation also requires market focus. Are you serving SMBs, enterprises, or governments? Are you working within a specific industry vertical? Cloud service providers are increasingly dedicating and developing best-in-class services for individual industries. Delivering a high level of expertise with a singular industry focus serves to elevate these organizations above generalist competitors, establishing and reinforcing positive perceptions in their target customer audience.

Differentiation can also be achieved with the right business model to deliver innovation leadership. For Axcient, survival in the data and application protection market necessitated nothing less than starting with a clean-sheet approach. According to Justin Moore, Axcient CEO, the company adopted a strategic, long-term strategy to design and put in place a completely new architecture for its services with a comprehensive managed cloud platform that no one else in the market could offer.

This decision effectively disrupted a \$20 billion USD market that previously had been dominated by legacy players with outdated technology, and that had grown through acquisitions. Also, this decision took time to achieve, as the company had to build a cloud platform from the ground up. But the advantages of this innovation are now being realized—Axcient is one of the fastest growing companies in the Bay Area, providing new ways of protecting companies and eliminating application downtime.

In today’s aggressively competitive market, those that stand out in delivering compelling and innovative services and solutions greatly increase their chances of survival.

¹ Gartner Webinar, Future of Data Center: Buy, Build, Co-Locate, Outsource and Cloud, Bill Maurer, October 2, 2014. Gartner does not endorse any vendor, product, or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings. Gartner research publications consist of the opinions of Gartner’s research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

² forbes.com/sites/tomiogeron/2013/06/05/americas-fastest-growing-tech-companies-2013/

Optimize company culture

To capitalize on opportunities and enable your success requires a highly functional company culture. Michiel Steltman of Disway Solutions—an organization that trains, coaches, guides, and supports service providers seeking to evolve successfully in the market—has worked with various organizations to help develop their cloud offerings. He identifies intense customer focus as an essential component of company culture. In a business environment where your customers have many options, it is essential to provide an exceptional experience and increased value.

Satisfying customers and exceeding expectations goes hand in hand with hiring the right people. If you have a particular vertical focus, you'll need to hire experts with the necessary experience to be credible and deliver on commitments and service level agreements. People talk about hiring “rock stars” but, according to Axcient CEO Justin Moore, service providers need to take this a step further. He claims that instead of the rock star, Axcient hires the whole rock band, explaining that it's not just about a single person but rather aligning the entire company with core values and vision. Additionally, potential employees are now viewing company culture as important as salary. “When companies communicate strong corporate values, it allows candidates to self-select,” says Jeff Weiner, chief executive of LinkedIn. “Companies that communicate a great culture develop competitive advantages,” he says.³

Cloud service providers must have the right organizational structure to breed a collaborative and highly functioning team that delivers results to customers and the company. And everyone needs to understand the impact of company mergers and acquisitions—a major trend in the service provider segment. While it can be challenging to successfully integrate two company cultures, a resolute and fast integration is essential to ensure stable service delivery and a uniform customer experience.

Management style is sure to impact achievement of operational excellence and customer satisfaction. To produce a winning culture, companies need clear accountability and effective decision making. Steltman recommends having strong management processes in place, to minimize the need for ad hoc and directive management interventions, and says managers must empower and allow skilled staff to think on their feet, empathize with the customer, and deliver services not “by the book” but rather “by the heart”.

With intense customer focus, by ensuring trust and greater transparency, by hiring the right people, and by adopting the best organizational structure and management style, you can build strength within the company, contributing to your chances of survival in this new era.

Position for growth

It is essential to look at the elements of your service delivery and ask what it would take to scale the business by a factor of ten or even a hundred. Would you be able to support this rapid growth? In most instances, traditional IT structures cannot support this level of scaling. Axcient wanted to capitalize on the potential of the SMB market, despite the fact that it is hard-to-track, price-sensitive, highly fragmented, and a market in which other service providers had already failed to succeed. A traditional IT structure would not scale to support the anticipated market growth. This calculated risk to build a new cloud platform has rewarded Axcient with exceptional growth.

To position for growth, it is also extremely helpful to consider how to leverage your existing platform. Consider which adjacent markets you could service with your platform. And, what additional services, functionality or features could easily be deployed to grow into new markets. Can you identify any market segments that are under-served or have service gaps? Ask what you can do differently. Take a look at what's out there, and be prepared to disrupt traditional models.

³ HPE Matter, “For Job Seekers, Corporate Culture Is Now King,” June 2014.

Moreover, service providers must look at how to acquire new customers. What would it take to scale sales and marketing reach and drive aggressive customer acquisition by a factor of ten or a hundred? Developing mutually beneficial relationships can result in extended capabilities for both parties, with neither having to incur high costs. Axcient's Justin Moore describes Hewlett Packard Enterprise as a "big brother", instrumental from an early stage in the organization's success. From this mutually beneficial relationship, they have gained leverage to grow through higher visibility, HPE brand awareness, and HPE financial and technical support. Today, Axcient is adding more feet on the street by driving sales of its Business Recovery Cloud through incentives to its own service provider channel network and with help from HPE.

Turning survival into success

As competition and change in the cloud and managed service market threaten the very existence of many organizations, only the fittest are likely to survive. Fortunately, there are some powerful strategies you can leverage to manage change and ensure your success.

By employing a combination of strong differentiation, company culture optimization, and growth positioning, service providers can turn survival into success. And by working with Hewlett Packard Enterprise, you'll be able to move quickly, create differentiation, and grow profitably in the new "as-a-service" ecosystem.

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