Analyst Views

**Brief**

June 29, 2005

# Is it an "on-demand" world yet?

The last time we wrote about On-Demand computing was back in September 2004. At the time, we concluded ". . . .it's safe to say the hype was way too early, and most analysts seem to underestimate the scope of the solutions and the amount of foundation and integration work that needs to be done. Even with IBM's VE solution and infrastructure products from other leading vendors, Summit Strategies and other analyst firms are all talking about 'years' before there are truly robust solutions available."

In this Brief we'll review some recent analyst views of on-demand computing to see if anything has changed substantially.

## What is On-Demand Computing?

Analysts and vendors have a number of terms for On-Demand Computing. Among the terms that we came across in our review of recent reports were:

- On-Demand
- Utility Computing
- Dynamic IT
- Adaptive Enterprise

Several firms interchangeably use Grid Computing and Software-as-a-Service to describe On-Demand. To keep things simple, we'll just use the term On-Demand Computing. As far as a definition of On-Demand Computing, we like the introduction to the definition provided by Whatis.com. The IT encyclopedia at Whatis.com states that On-Demand Computing is "an increasingly popular enterprise model in which computing resources are made available to the user as needed. The resources may be maintained within the user's enterprise or made available by a service provider."

## Recent Analyst Views of the On-Demand Market

- IDC recently stated "The Western European market for utility computing services is advancing slowly, yet resolutely. Despite the favorable dollar exchange rate, the 2004 market was lower than anticipated, reaching only $450 million. However, growth prospects remain very attractive to the vendor community -- with 33.5% CAGR between 2004 and 2009." Lionel Lamy, research manager, European IT Outsourcing and Infrastructure Services at IDC says, "The market is playing wait-and-see at the



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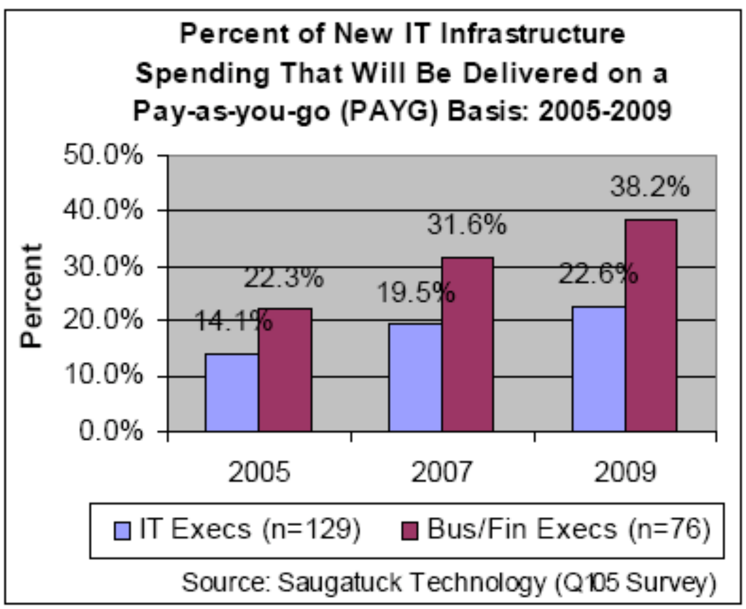
moment. The utility computing concept is understood, but despite the background noise, vendors are achieving few contract wins in today's market. However, the tide is set to turn within the next couple of years, which should see the emergence of this market, complete with high profile case studies."

- IDC also recently surveyed IT professionals and found the following:
    - "IT organizations are not expecting a dramatic shift in their dynamic IT spending over the next two years"
    - "IBM has taken the dynamic IT lead in the minds of IT professionals"
    - "IT vendors that address both business and IT requirements will reap the largest rewards"
    - "The shift toward dynamic IT will be a multi-year/multi-decade transition"
- A soon to be published Saugatuck research report shows "Continuing strong demand for utility infrastructure on behalf of (US-based) IT, business and finance execs. Though both groups believe that Utility Computing is the future, there is a significant gap in expectations -- with IT executives anticipating substantially lower spending levels."
- Saugatuck Technology also provided the following chart showing the growth of "Pay As You Go"



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- At the end of last year, Gartner made headlines by claiming that "Utility Computing Will Create Significant Job Loss." Gartner predicted that "the automation of IT infrastructure services and business processes, through concepts such as IT as a utility and on-demand computing, will put even more pressure on traditional IT jobs during the next two to ten years. The impact will be felt predominantly by internal IT organizations, but external service providers (ESPs) will also see a drop in headcount as automation begins to replace customization."
- TechnologyEvaluation.com recently published a three-part report called "Trends in Delivery and Pricing Models for Enterprise Applications." In the report, Technology Evaluation.com states that "The licensing and delivery of enterprise software products are making a fundamental shift from traditional up-front fees to incremental, per-transaction, and even success-based pricing. These are popular alternatives especially for small businesses and startups that lack the IT budgets of larger, more established companies. With these models, smaller companies can acquire software for a lower entry cost, paying more as business expands. At the same time, despite the many hiccups experienced by first generation application service providers (ASPs), vendors are also developing evermore creative hosted or managed "software as a service," and other delivery approaches in terms of on-demand availability, appropriate pricing models, etc."

## Recent Events Pointing to Continued Vendor Interest in On-Demand Computing

Many of the largest IT vendors are continuing to make acquisitions to strengthen their on-demand position. The following is a list of recent events with links to additional information:

- Sun Microsystems to acquire SeeBeyond, a leading provider of enterprise integration software.
- IBM acquired Meiosys. Meiosys' software allows users to transfer a running application from one server to another (or to a virtual machine), without interruption. The technology is called stateful application transfer.
- Sun Microsystems acquired Tarantella Inc., a provider of enterprise remote connectivity software used by client devices to access and manage data over the Web.
- Cisco acquired Topspin Communications, a provider of server fabric switches. The switches are designed to enhance the functionality of server grids.



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- IBM acquired Ascential Software, a maker of enterprise data integration software that facilitates on-demand computing.

## Conclusions

On-Demand Computing is definitely starting to make some serious inroads in enterprise IT. However, our September 2004 conclusion is still very accurate. We believe that within 7 to 10 years, on-demand computing will be the normal mode of operation in most large enterprises, and it will be increasingly popular with medium-sized businesses.

As far as Gartner's claims that on-demand will create significant job losses in IT, we believe that these losses will not be nearly as dramatic as predicted. We do expect a shift of IT jobs away from in-house enterprise IT departments to the companies providing on-demand services. We believe that this will be similar to the movement of jobs from enterprise IT departments to large IT services organizations from outsourcing contracts.

We also expect that on-demand computing will force application vendors to radically change their business models away from software licensing to pay-as-you-go or a software-as-services model. Several vendors, notably Salesforce.com, are well positioned to be major players in the future on-demand computing world.

## For More Information

If you are an Analyst Views customer, you can learn more about the analysts' views of On-Demand Computing by trying out some of the searches we've created for you. If you're not a customer, please consider signing up -- a subscription will pay for itself the first time you use it to uncover information vital to your company's success. To find out more, email us at sales@analystviews.com , call us at 781-657-1607, or click here to download an order form.

Best Regards,
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