



I D C V E N D O R S P O T L I G H T

The Changing Public and Private IaaS Landscape in Canada

April 2014

Mark Schrutt, Director, Services and Enterprise Applications

Sponsored by IBM Canada

IDC believes the IBM acquisition of SoftLayer is significant not only for technology decision makers but also business leaders who have more say and more at stake regarding technology than ever before. On day one, the fit between IBM and SoftLayer's offerings introduced to the market not only one of the strongest sets of infrastructure-based cloud services, but also a road map for businesses to develop, deploy and maximize the advantages of cloud computing. For example, SoftLayer's Public IaaS offerings are recognized as one of the pacesetters in the market. IBM has greatly expanded the offering with private IaaS and managed service support, which other large providers do not offer.

Today, many Canadian buyers prefer managed, virtual private and private IaaS environments making the market for private IaaS currently six times the size of public. There are a number of reasons for this, including security and regulatory concerns as well as the large proportion of legacy and dedicated server footprint in Canada. While public IaaS is an option, Canadians are quickly adopting VPC and private IaaS for development, disaster recovery and web hosting, as well as legacy and production-type workloads. With IBM and SoftLayer, buyers can leverage many of the public IaaS aspects such as on-demand and elastic computing on a virtual private platform. Furthermore, clients can extend their cloud environments to include public, VPC and private IaaS.

With SoftLayer, IBM is pushing the envelope and driving IaaS ahead. The combination gives buyers more choices and in turn, IDC believes will accelerate the adoption of cloud in Canada. As a result, IDC placed IBM in the leader category for both our Canadian Public and Private IaaS MarketScapes (see IDC MarketScape: Canadian Public IaaS 2013 Vendor Analysis, IDC #CA3SSC13, June 2013 and IDC MarketScape: Canadian Dedicated Private Infrastructure as a Service 2014 Vendor Assessment, IDC #CA1SSC14, March 2014).



I. Introduction

The Canadian infrastructure as a service (IaaS) market is forecast to grow by more than 40% CAGR over the next four years. It is a fast-moving, competitive, and emerging market that by 2017 will be valued at close to C\$1 billion. IDC believes that the timing was right to assess the primary vendors of both public and private IaaS and provide our perspective on which providers will set the path as the market matures.

Using the IDC MarketScape methodology, our premiere research tool, we evaluated over a dozen vendors on close to 100 criteria. The IDC MarketScape assesses a vendor's current capabilities, a vendor's strategy to drive IaaS sales, and the Canadian buyer's view on market leadership. The IDC MarketScape vendor analysis model is designed to provide an overview of the competitive fitness of ICT suppliers in a given market. The research methodology utilizes rigorous scoring based on qualitative and quantitative criteria that results in a single graphical illustration of each vendor's position within a given market. The Capabilities score measures vendor product, go-to-market and business execution in the short-term. The Strategy score measures alignment of vendor strategies with customer requirements in a three to five year timeframe. Vendor market share is represented by the size of the circles. Vendor year-over-year growth rate relative to the given market is indicated by a plus, neutral, or minus next to the vendor name. IBM ranked as a Leader in both the Canadian Public IaaS 2013 Vendor Analysis and Canadian Dedicated Private IaaS 2014 Vendor Assessments.

Canada is just at the start of the shift toward cloud computing. IDC has seen a dramatic change over the past 18 months as buyers shift their managed hosting spend to virtualized systems and replatforming to public and private cloud environments. Infrastructure-based cloud offerings available in the market are also experiencing a dramatic evolution. IDC sees that the shift to cloud and then the wide-scale adoption of public and private IaaS will take time. IDC therefore concluded that this was the right moment to conduct respective IDC MarketScapes of the Canadian dedicated private and public IaaS markets. Key findings from the recent IDC MarketScape assessments are:

- The ability to fund massive datacentre facilities and scale compute and storage resources is key to success in the IaaS market.
- While 60% of buyers preferred to have public IaaS delivered from within Canadian borders, buying in-Canada solutions ranked unusually low on the list of factors that are weighed when making decisions around cloud. IDC believes that while the stated preference for in-Canada solutions is important in terms of relationship management, it is also a convenient excuse for other factors that revolve around knowledge and comfort with nontraditional vendors as well as inexperience in managing the reputational risk of outsourcing.
- The past year has seen dramatic change in dedicated private IaaS products. Vendors are quickly introducing features normally associated with public cloud to their private IaaS offerings — to the point where it will be become increasingly difficult to distinguish the two.

II. Vendor Profile

IBM, Canada's Top Infrastructure Provider

IBM is the largest global outsourcing provider, with an IDC-estimated US\$20+ billion in managed services in 2013. IBM commands over 20% of the Canadian infrastructure services market and is the market-leading infrastructure outsourcer and a top 5 hosting provider, according to IDC's data. IBM delivers its cloud services out of six primary datacentres in Canada, with well over 200,000 sq ft of raised floor.

IBM has had infrastructure as a service offerings in Canada since January 2011 with the introduction of its initial service, IBM Development and Test on the IBM Cloud. IBM's Cloud Centres are focused on delivery, and Canada was IBM's fifth Cloud Centre. It also has 10 Cloud Labs that act as delivery sites and regional cloud centres of expertise.

IBM's cloud offerings are marketed under the IBM Cloud banner. IBM Cloud represents the expanse of IBM cloud offerings that in IBM's words enable clients to Think it, Build it and Tap into It. This integrated framework includes hardware, software, management tools, professional services, and as-a-service offerings. Through to mid-2013, IBM marketed three main IaaS offerings:

- SmartCloud Enterprise: Targeted at born-on-the-Web applications, test/dev, and storage/backup cases (Enterprise has 99.9% SLAs and is priced in an hourly or reserve model).
- IBM Cloud Managed Services (formerly SmartCloud Enterprise+ [plus]): A managed VPC offering with up to 99.9% SLA commitments for individual virtual machine availability (Enterprise+ is priced on a monthly basis and is available in 1 to 60-month terms).
- Managed private cloud: A customized private IaaS service delivered either on-premises or through an IBM datacentre.

IBM offers additional infrastructure-based cloud services such as IBM Cloud Managed Services for SAP Applications, and IBM Cloud Managed Services for Oracle Applications. IBM also provides a suite of professional services to help clients identify where cloud holds potential value to the business and implement cloud-based infrastructure and applications — and integrate these components with enterprise computing.

More at Stake

IBM's professional services have been integral to the movement of substantial pieces of IBM's outsourced infrastructure to cloud-like platforms in 2011 and 2012. Beginning with this base of business, which now predominantly runs on IBM-owned hardware and is managed at one of IBM's datacentres, IBM has established itself as one of the predominant providers of IaaS in Canada.

Cloud is critical to the future of IBM and stands out as one of Big Blue's key initiatives in its strategy road map. With the largest infrastructure outsourcing client base, IBM has more at stake than most other industry providers in the Canadian transition to the cloud. IBM, though, plans to be a leader and not a follower. Yet there were gaps in its offering, particularly around its mass scale public IaaS offering, self-serve/managed and rapid provisioning capabilities, and sales model, which was heavily weighted toward the largest organizations in Canada.

SoftLayer, a Game Changer for IBM

In June 2013, IBM announced the acquisition of United States–based SoftLayer. Started months before Amazon Web Services, SoftLayer was built from the ground up for cloud computing. SoftLayer's focus was on delivering infrastructure services on an as-needed, pay-as-you-go model. Its offerings of both public and virtual private IaaS (VPC) can be stood up in a matter of hours (IBM is promoting one day to stand up environments), are charged for by the hour or month, and are provided with no term commitment. SoftLayer introduces significant capabilities that were undeveloped in the previous IBM IaaS offerings, including:

- An extremely open architecture and support for all major hypervisors
- Self-service functionality coupled with IBM management, rigour, and governance
- Rapidly scalable and quick-to-deploy delivery capabilities
- An offering credible to small and midsize businesses, ISVs, and channel partners

SoftLayer is a game changer for IBM and has helped transform IBM's thinking about infrastructure-based cloud services. Within weeks of formalizing the acquisition, IBM announced its plans to migrate SmartCloud Enterprise clients to SoftLayer. A road map was also developed to migrate the vast majority of IBM's SaaS and PaaS offerings to the SoftLayer platform. Last and most critical for the Canadian market was IBM's January 2014 announcement of a billion-dollar investment in cloud facilities, including the standing up of a SoftLayer footprint in Canada in 2014. Starting in Toronto in the summer and with a second instance projected by the end of the year, IBM will have an in-Canada combination of public and VPC IaaS offerings that stands up to any in the Canadian market.

Challenges

IBM has an exceptional brand and very strong financial backing needed to fund and support the required investments for IaaS. IBM also has a broad range of infrastructure offerings. Its acquisition of SoftLayer fills in critical gaps around public IaaS and VPC and enables its clients to leverage a full range of IaaS offerings. The challenge as always with companies the scale of IBM will be in the execution. With SoftLayer, IBM has an innovative and somewhat counter-industry asset. Many see cloud as a threat to IBM. Unless SoftLayer is fully integrated into Big Blue (or better yet, the other way around when it comes to IaaS), it will not just be a write-down of the US\$2 billion purchase price, but will cost IBM tremendous market share to the likes of AWS and Microsoft's Azure.

III. Conclusion

For more than 25 years, outsourcing vendors have delivered IT services to their clients with more often than not the same IT staff and facilities that they had before. This asset-based onshore model has withstood two recessions, the emergence of the global players, and the tier 1's own embrace of offshoring. IDC Canada projects that this traditional model of outsourcing will hit its peak by 2015 and will thereafter gradually decline. Growth instead will come from alternative outsourcing models such as virtual desktop, utility, and cloud computing.

The good news for traditional outsourcers is that while these alternative models will cannibalize some traditional business, they will more dramatically expand the way in which services are delivered and the market for those services. And in many cases, it will be the larger Canadian IT service vendors that will be providing services such as cloud. As the incumbents in the Canadian outsourcing market, firms like IBM have some risk but also an enormous amount to gain from cloud computing.

While IDC believes that cloud will have its winners and losers, the big winner will be the customer, or the IT buyer. Cloud provides sourcing decision makers with more options as well as holding the promise of helping companies become more productive and enabling new streams of revenue and new ways of doing business.

A B O U T T H I S P U B L I C A T I O N

This publication was produced by IDC Custom Solutions. The opinion, analysis, and research results presented herein are drawn from more detailed research and analysis independently conducted and published by IDC, unless specific vendor sponsorship is noted. IDC Custom Solutions makes IDC content available in a wide range of formats for distribution by various companies. A license to distribute IDC content does not imply endorsement of or opinion about the licensee.

C O P Y R I G H T A N D R E S T R I C T I O N S

Any IDC information or reference to IDC that is to be used in advertising, press releases, or promotional materials requires prior written approval from IDC. For permission requests contact the Custom Solutions information line at 508-988-7610 or gms@idc.com. Translation and/or localization of this document require an additional license from IDC.

For more information on IDC visit www.idc.com. For more information on IDC GMS visit http://www.idc.com/prodserv/custom_solutions/index.jsp.

Global Headquarters: 5 Speen Street Framingham, MA 01701 USA P.508.872.8200 F.508.935.4015 www.idc.com