CLOUD BUSINESS QUARTERLY℠
Semiannual Report

Cloud Professional Services Customer Research

1H16

IBM in TBR's Cloud Professional Services Customer Research

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TBR
TECHNOLOGY BUSINESS RESEARCH, INC.

Enterprises most often look to IBM for their cloud professional services needs with an emphasis on IBM's ability to tailor to their industry needs

Key Findings

- Cloud Professional Services Vendor Adoption

  IBM leads in customer adoption rates and ranks third in cloud professional services revenue.

- Segment Vendor Adoption

  IBM leads adoption across cloud professional services segments: consulting, SI, ADM and managed services.

- IBM Customer Feedback

  IBM's cloud professional services customers place an emphasis on IBM's knowledge of their specific industries as an important factor when choosing to work with the company.

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The cloud professional services market continues to evolve, bracing for brokerage and integration adoption as enterprises embrace hybrid IT

Cloud Professional Services Findings

Opportunity

Over the past 12 months, the largest emerging opportunity in the cloud professional services market has centered on cloud brokerage and integration as a result of enterprises evolving their IT environments toward hybrid IT and multicloud, driving demand for automated tools and third-party services to optimize current assets. We expect the systems integration (SI) and managed services segments to see the most long-term growth due to cloud brokerage and integration while cloud consulting is most impacted currently.

Customer Landscape

Large and small enterprises are grappling with the same integration and data ownership challenges in cloud adoption, albeit at different scales. Enterprises' biggest concerns about overall cloud adoption are around security, integration and monitoring, positioning cloud professional services vendors well to capitalize on this opportunity for advisory, integration and cloud management services. The hurdle, however, will be making the price to value attractive for customers, particularly as cloud "as a Service" solutions are seen as being so cost-effective with the subscription pricing model.

Competitive Landscape

IBM retains its hold on the cloud professional services market with broad and deep capabilities spanning cloud and traditional IT as well as value-added and close-to-the-box services. Microsoft, however, is gaining ground in cloud professional services, a market adjacent to its core expertise, as Microsoft is often the incumbent vendor in the enterprise and has orchestration and management tools to optimize usage of its own solutions and integrations with others. Furthermore, its expertise in both legacy and cloud-native applications has spurred adoption of Microsoft for ADM services.

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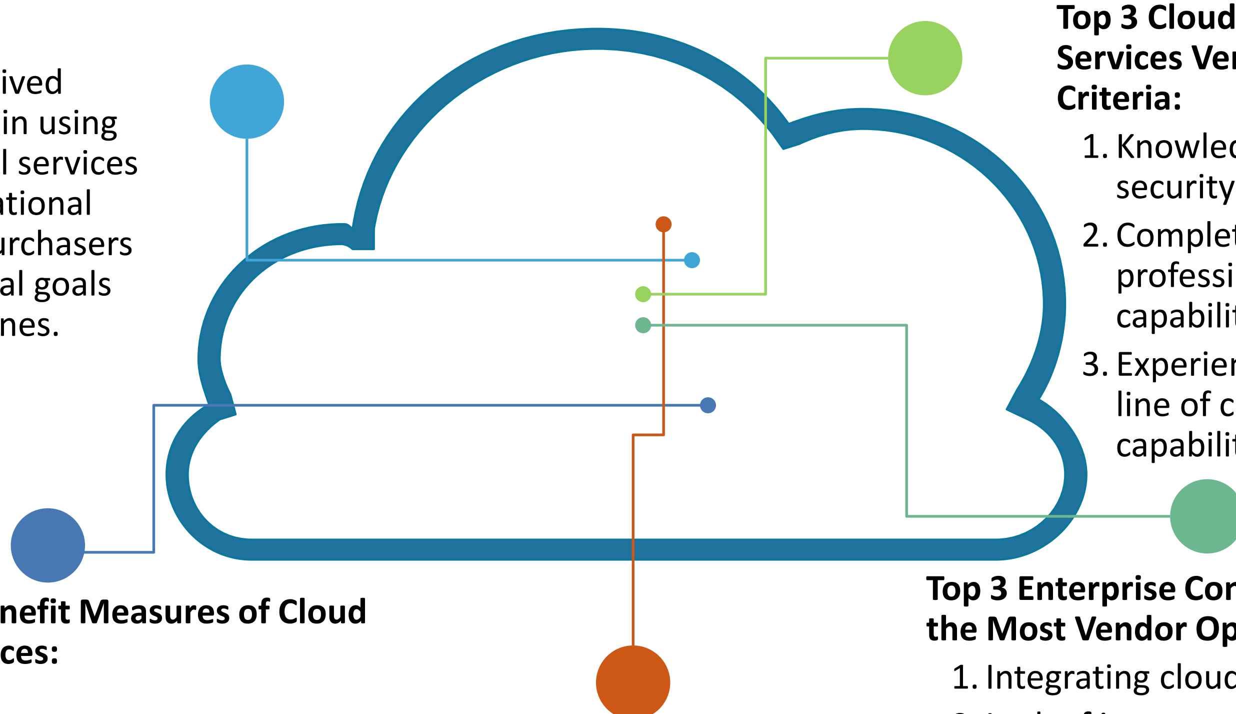
Customers increasingly look for assistance integrating cloud services, and making sure all legacy and cloud assets operate seamlessly together

Desired Attributes for Cloud Professional Services Vendors

The biggest perceived customer benefit in using cloud professional services is improved operational efficiency, with purchasers considering tactical goals before strategic ones.



Top 3 Cloud Professional Services Vendor Selection Criteria:

1. Knowledge of cloud security issues
2. Complete line of cloud professional services capabilities
3. Experience with complete line of cloud computing capabilities

Top 3 Payback/Benefit Measures of Cloud Professional Services:

1. Productivity
2. Reduced TCO
3. Greater customer focus

Survey respondents' most desired improvement from cloud professional services vendors was interoperability with other vendor solutions, a key consideration as enterprise cloud environments become more heterogeneous.

Top 3 Enterprise Concerns Generating the Most Vendor Opportunity:

1. Integrating cloud services
2. Lack of interoperability
3. Complexity of offers

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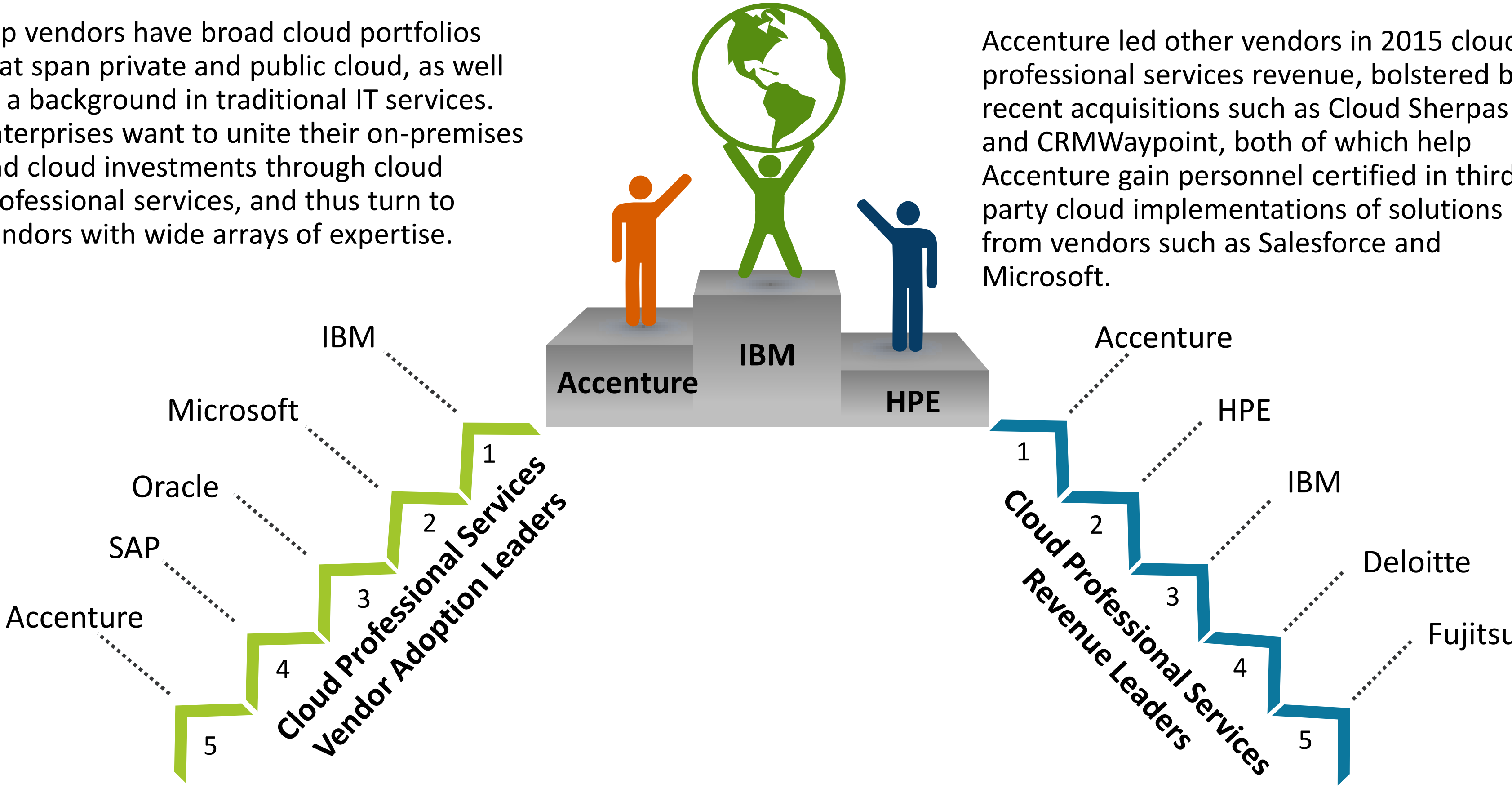
The most-adopted cloud professional services vendors, including IBM and Accenture, have existing tenure and recognition in IT services

Cloud Professional Services Vendor Traction

LEADING VENDORS AMONG CLOUD PROFESSIONAL SERVICES ADOPTERS

Top vendors have broad cloud portfolios that span private and public cloud, as well as a background in traditional IT services. Enterprises want to unite their on-premises and cloud investments through cloud professional services, and thus turn to vendors with wide arrays of expertise.

Accenture led other vendors in 2015 cloud professional services revenue, bolstered by recent acquisitions such as Cloud Sherpas and CRMWaypoint, both of which help Accenture gain personnel certified in third-party cloud implementations of solutions from vendors such as Salesforce and Microsoft.



SOURCE: TBR *CLOUD PROFESSIONAL SERVICES MARKET FORECAST 2015-2020* DATA

Note: Quarterly figures for FY1Q14-FY4Q15 reflect corporate and segment restatements per Hewlett Packard Enterprise's (HPE) Securities and Exchange Commission filings following the split of the former Hewlett-Packard Co. into HPE and HP Inc. Quarters prior reflect the former Hewlett-Packard Co. corporate revenue.

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Vendors are consulting around orchestration now, which will lead to more cloud management engagements in the future

Cloud Professional Services Findings

Current Landscape

More than two-thirds of respondents have adopted one or more cloud professional services, with incidence rates of over 66% across all service lines. A slightly higher portion of customer budgets are devoted to advisory and consulting services, as cloud brokerage and integration drives a new wave of cloud adoption and customers want to lay out longer-term road maps. Cloud professional services trends differ by geography, with the more mature hybrid IT landscape in North America requiring more SI services.

Opportunity

Though the desire for advisory and consulting services marks a new phase of cloud purchasing, TBR anticipates one-time ADM engagements will continue to decline; according to TBR's *Cloud Topical Research 2H15: New vs. Legacy Applications*, nearly one-third of the market is currently replatforming. Moving forward, customers will instead increasingly adopt cloud managed services to monitor and integrate their multicloud environments and develop cloud-native SaaS applications.

Payback and Benefits

Customer focus is growing in importance as a perceived payback measure of cloud professional services adoption. Vendors can capitalize on customers' desire for tailored cloud road maps by messaging the business-specific outcomes of cloud professional services adoption, and by providing a full suite of cloud professional services, including consulting, that helps customers understand the long-term benefits realized from cloud professional services adoption.

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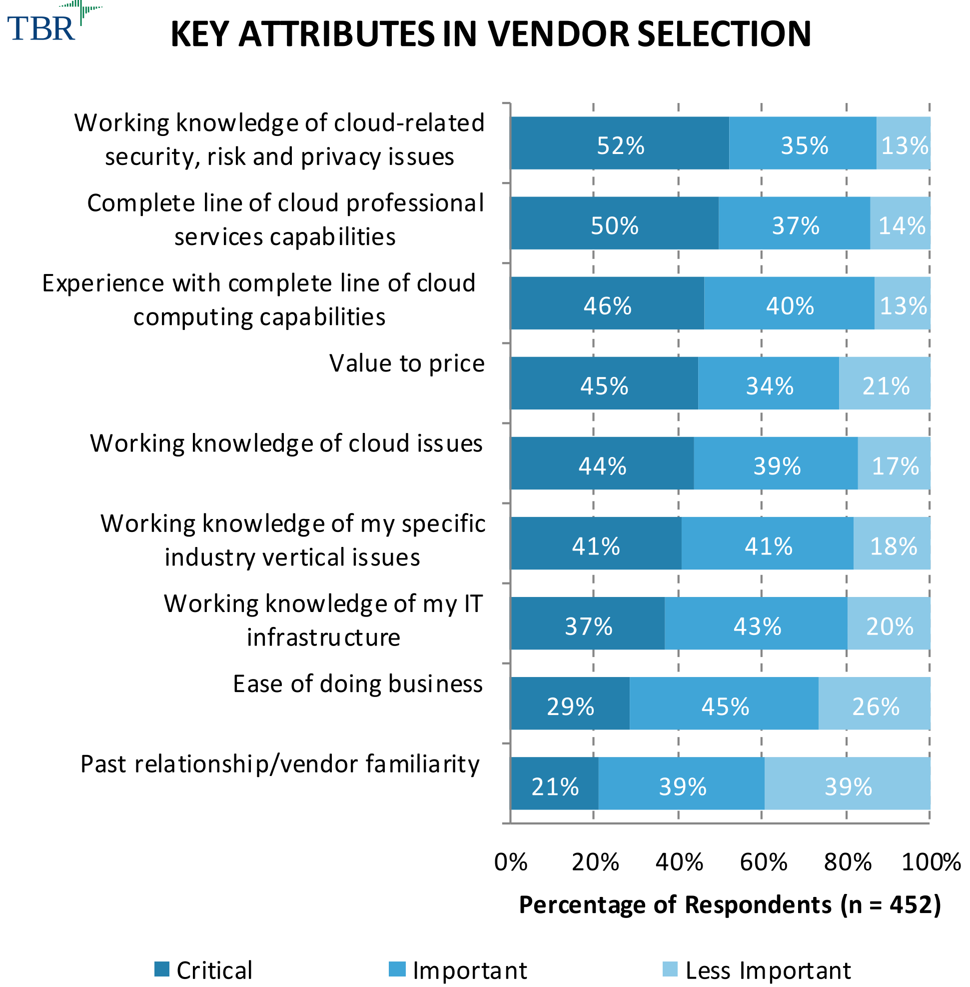
Vendors with broad cloud professional services portfolios and deep expertise around cloud security are poised to meet enterprise needs

Attributes Driving Vendor Selection

According to TBR's *1H16 Cloud Developer & Platforms Research*, the top two key attributes in selecting a cloud professional services vendor — knowledge of security issues and a complete portfolio — put vendors such as IBM, which offers Bluemix Local and Bluemix private and public cloud deployment options, at an advantage because customers trust IBM understands their hesitations about public cloud, and knows which cloud services they require to remain secure and compliant.

Incumbent vendors do not necessarily benefit from having a past relationship with customers when it comes to cloud professional services. That said, however, we believe the leading cloud professional services vendors overall continue to win customer engagements despite past relationship/familiarity being low on the attribute list as organizations already have some idea of most vendors' offerings and as such, can make informed decisions without focusing only on the incumbent vendor. For instance, Deloitte and Accenture might be chosen for large IT transformations, but a vendor such as Dell is able to offer closer-to-the-box services for enterprises.



SOURCE: TBR 1H16
Note: Percentages may not total 100% due to rounding.

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The most-adopted cloud professional services vendors show the ability to assist hybrid IT users hoping to integrate cloud and on-premises resources

Cloud Professional Services Findings

Leader

IBM continues to lead in overall cloud professional services adoption, driven by a broad portfolio that indicates to customers an understanding of both legacy IT and cloud. IBM is able to perform a variety of professional services functions with in-house services capabilities from its Global Technology Services (GTS) and Global Business Services (GBS) units, making IBM a one-stop shop for customers seeking complete IT transformations.

Brokerage

While TBR expects the cloud brokerage market to consolidate over the next two years, with professional services companies acquiring brokerage pure plays as Accenture did with the purchase of Cloud Sherpas and IBM with the purchase of Gravitant last year, there is still significant short-term opportunity for vendors in the space. TBR found that nearly two-thirds of survey respondents have already adopted or will adopt some form of brokerage offering within the year, posing significant opportunity for vendors to capitalize upon not only with their brokerage portfolios but also with cross-sell and upsell potential.

Hybrid IT

TBR believes this consolidation of leading vendors is related to IBM's, Microsoft's and Oracle's abilities to cater to customers that do not want to lose investments in legacy IT assets but need help linking on-premises IT with more recently adopted cloud solutions. IBM and Microsoft are the top two most-adopted cloud professional services vendors across all geographies, while IBM, Microsoft and Oracle are the top three most-adopted vendors across all four professional services segments.

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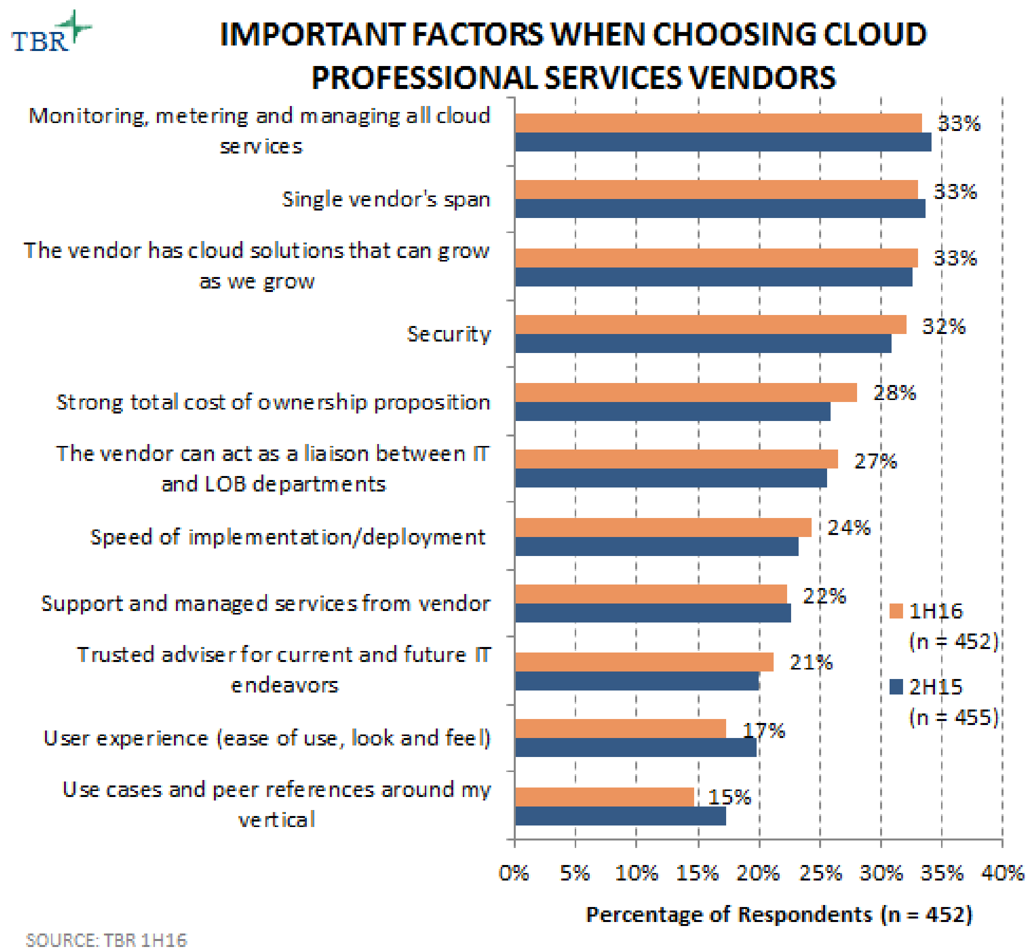
With more individualized needs than other cloud adopters, professional service buyers look to brokerage functions and vendor span first

Important Vendor Attributes



Monitoring, metering and managing all cloud services; single vendor span; and solutions that grow as the company grows tie as the most important factor in selecting a cloud professional services vendor. This is due in part to the growing adoption of multicloud environments and the related cloud sprawl. Enterprises increasingly require their cloud professional services vendor to have brokerage and orchestration capabilities, a broad cloud services portfolio and even a variety of cloud deployment options, allowing for the transition of certain workloads to different clouds as needed while maintaining centralized system management.

Although uses cases are of the utmost importance to cloud buyers in general, use cases and peer references are not as important to customers choosing a professional services vendors because such customers' needs are very individualized. While case studies are important to select an out-of-the box SaaS solution, for instance, services engagements require a more customized road map.

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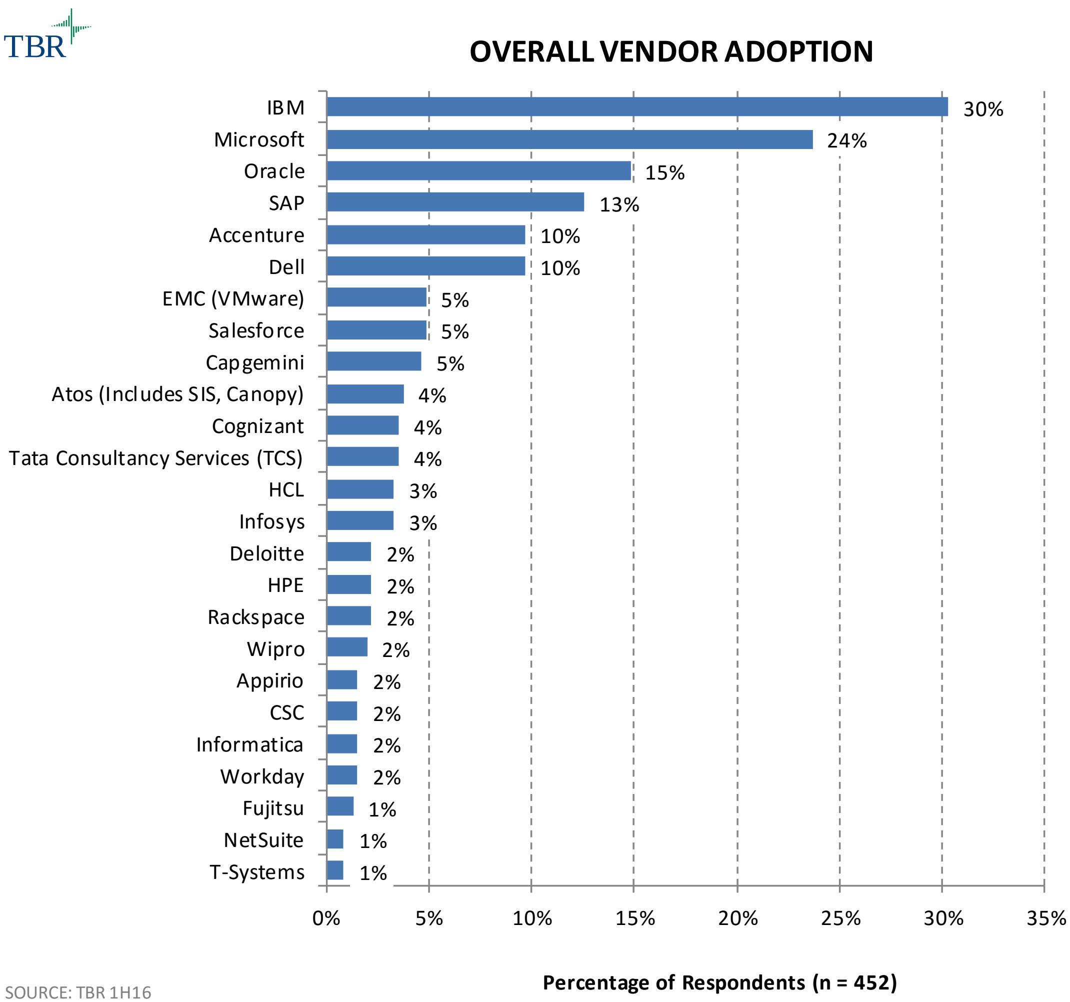
IBM leads in overall cloud professional services vendor adoption due to its services strengths and broad legacy IT and cloud portfolios

Cloud Professional Services Vendor Adoption



SOURCE: TBR 1H16

Note: Percentages may not total 100% due to rounding.

The leading vendors adopted for cloud professional services have extensive cloud portfolios and legacy IT strengths, giving them expertise in hybrid IT as well as internal cloud services capabilities.

IBM, the leader in cloud professional services adoption, has all these assets, with strengths in SI and managed services as well as an existing services customer base from GTS and GBS.

Other top vendors may not have the broad IT portfolio of leaders such as IBM, Microsoft and Oracle, but may specialize in certain areas of cloud professional services such as application modernization and transformations, particularly around their own applications portfolios. Accenture, for instance, drives the majority of its business through consulting, while EMC (VMware) and Dell focus on closer-to-the box managed services and SI.

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Industry knowledge ranks as the most important vendor attribute as buyers need specific, customized cloud road maps for their businesses

Weighted Importance by Metric and Vendor

AVERAGE IMPORTANCE OF ATTRIBUTES BY PRIMARY VENDOR

Attribute	Average (Overall)	Accenture (n = 44)	Dell (n = 44)	HPE (n = 10)	IBM (n = 137)	Microsoft (n = 107)	Oracle (n = 67)	Salesforce (n = 22)	SAP (n = 57)
Working knowledge of cloud-related security, risk and privacy issues	4.65	5.02	5.08	4.53	4.89	4.43	4.42	4.54	5.16
Experience with complete line of cloud computing capabilities	5.00	4.29	5.33	4.75	4.99	5.19	5.50	5.54	5.16
Complete line of cloud professional services	4.85	4.88	5.42	4.87	4.83	4.86	5.67	4.77	4.63
Working knowledge of cloud issues	5.02	4.95	5.42	5.16	4.93	5.15	5.17	4.38	4.79
Working knowledge of my IT infrastructure	5.01	5.02	4.58	5.31	4.93	5.22	4.67	4.46	4.79
Value/Price	4.38	4.29	4.17	4.16	4.62	4.16	4.08	4.38	5.00
Working knowledge of my specific industry	5.33	4.88	4.75	5.37	5.35	5.42	4.75	5.38	5.16
Ease of doing business	4.78	4.73	4.33	4.31	4.46	4.66	5.08	5.00	4.32
Past relationship/ vendor familiarity	3.79	4.07	3.92	4.25	4.02	3.74	3.08	3.46	3.84

Legend: Most Important | Average Importance | Least Important

SOURCE: TBR 1H16

Scale from 1 to 7, with 7 being the highest

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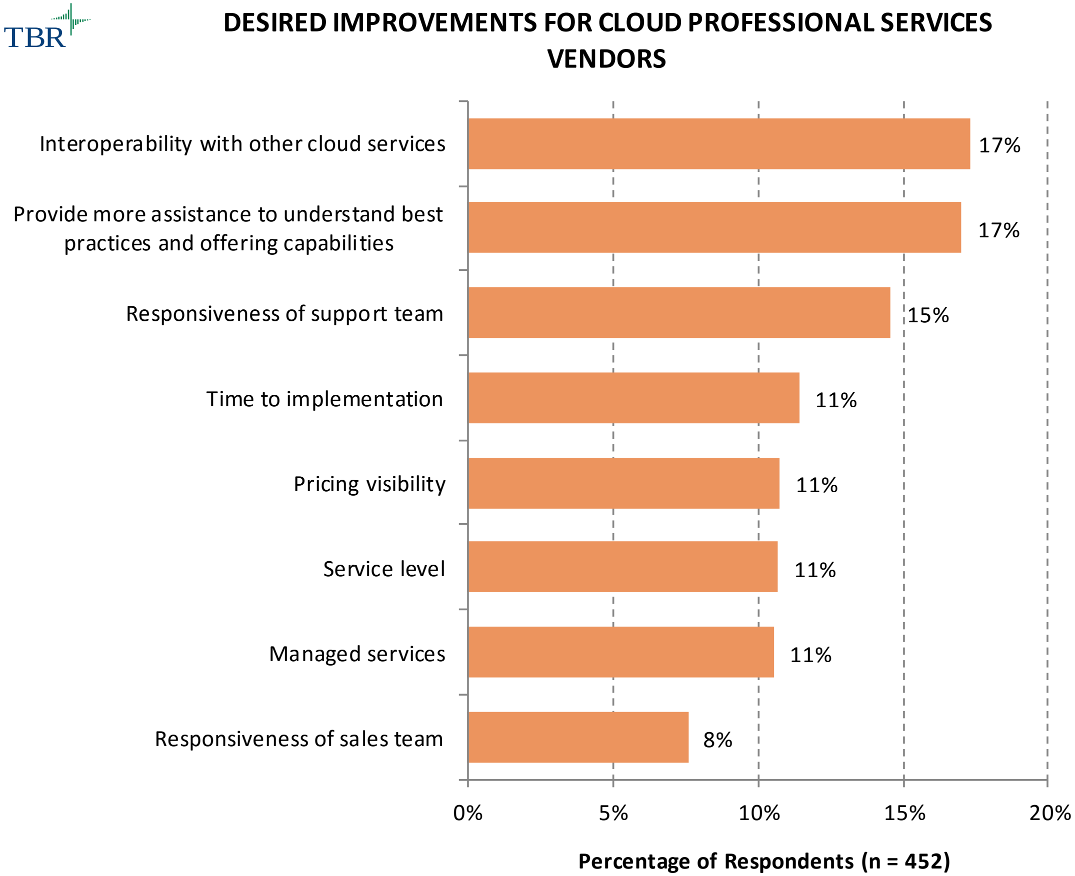
With the proliferation of complex multicloud environments, customers demand interoperability to connect and utilize all IT assets

Customer Recommendations for Vendors



SOURCE: TBR

Organizations are looking to mold their cloud environments to their businesses and existing assets, not the other way around, posing challenges but also opportunities for cloud professional services vendors.

Cloud professional services vendors can best succeed with customers by offering improved interoperability with other cloud services, and by helping to understand best practices and capabilities. With the proliferation of multicloud and hybrid IT environments, these cloud management and integration skills are sought after because they are often not available within smaller organizations or organizations without internal IT talent.

A responsive sales team is much less important than a responsive support team. Though customers may purchase additional services over time to fill gaps in their cloud services portfolio, their initial goal will be to have close contact with their cloud services vendor as they sort out their cloud road maps through early services purchases.

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Appendix

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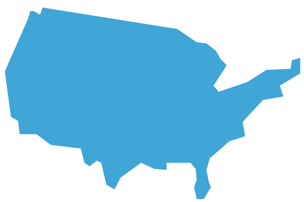
TBR's customer research provides vendors insights into cloud adoption metrics and trends, enabling portfolio evolution and targeted messaging

TBR Annual Cloud Customer Sampling Plan

2,850 surveys annually



North America: 1,300

- United States
- Organizations >500 employees

Western Europe: 900

- United Kingdom
- Germany
- France
- Organizations >250 employees

Emerging Asia Pacific: 650

- India
- China
- Organizations >250 employees

Each research track reports twice per year:

- *Private Cloud Customer Research:* 650 per year
- *Cloud Professional Services Customer Research:* 900 per year
- *Hybrid Cloud Customer Research:* 650 per year
- *Public Cloud Customer Research*: 650 per year

Additionally, TBR publishes two topical reports each year between the main study publications. Reports covering 2015 include:

- *Open-source Adoption* (1H16)
- *Cloud Buying Behaviors by Vertical* (2H16)

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Survey population by segment breakouts

Segment	n sizes
Total Survey Population	1,878
Cloud Professional Services Purchasers	1,183
Cloud Professional Services Respondents	452
By Service Line*:	
Advisory and Consulting	387
Systems Integration (SI)	361
Application Development and Maintenance (ADM)	319
Cloud Managed Services	332
By Region:	
North America	200
Europe	150
APAC	102

Note: Service line n sizes do not equal total cloud professional services respondents due to their purchases of multiple cloud professional services.

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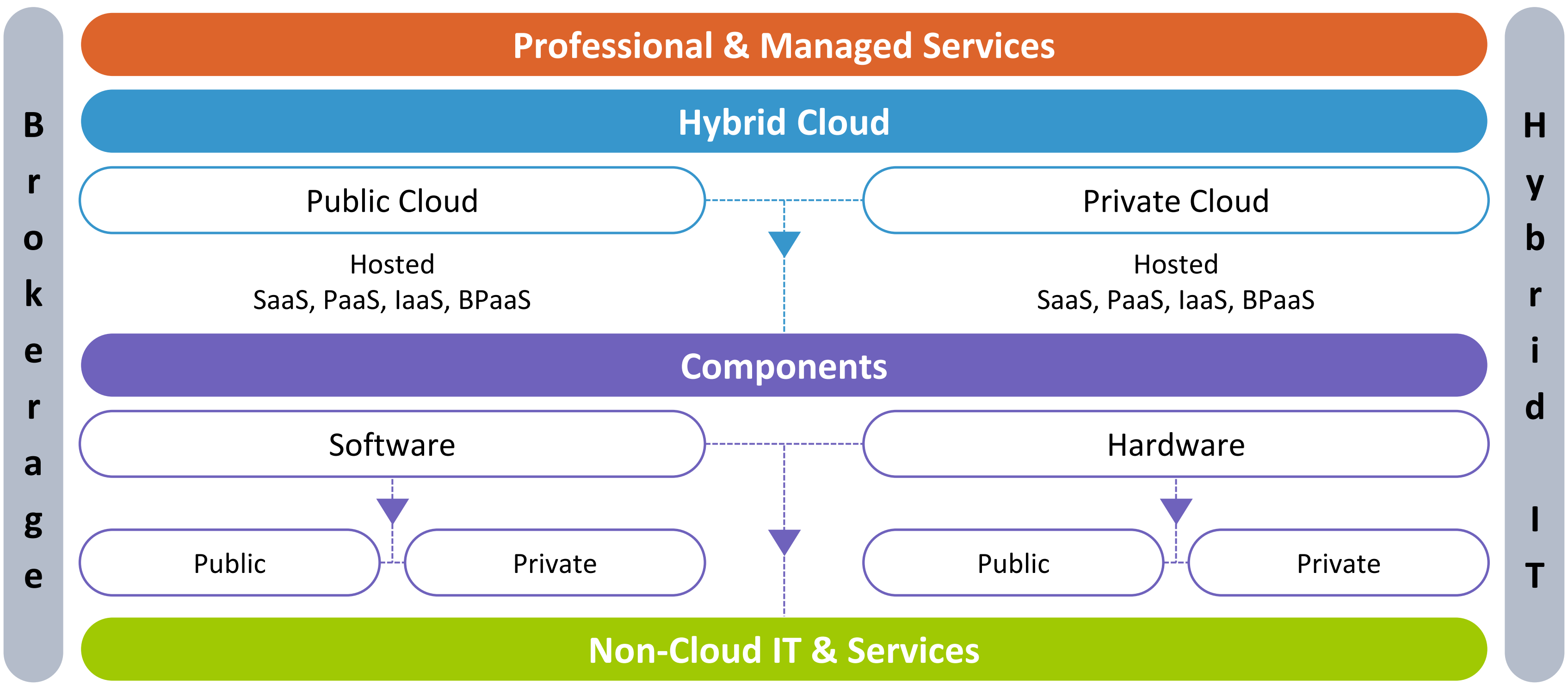
TBR Cloud Taxonomy Overview

TBR defines cloud computing as the business application of multiple technologies. These technologies include grid computing, utility computing, virtualization, automation, services-oriented architectures, multitenancy architectures and web 2.0. The goal is to deliver computing power flexibly and dynamically for running applications, storing data and developing software to improve business operations.

TBR Cloud Taxonomy



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Cloud Professional and Managed Services Definitions

Cloud professional and managed services assist customers with the evaluation, implementation and use of cloud services. The professional services include consulting, systems integration, implementation, application development and maintenance, and cloud operations, management and maintenance. These services can be delivered via public, private or hybrid cloud environments.

Consulting	Provide strategic and tactical advice in a particular area of expertise for the use of cloud computing services. Consulting includes selection of a cloud environment, planning and design of private clouds as well as cloud brokerage services.
Systems Integration	Offer assistance in making diverse components, such as infrastructure (hardware and software) or cloud services, work together in the cloud environment.
Application Development and Maintenance	Software development that encompasses requirements of engineering, design, implementation, testing and maintenance to construct software for cloud computing. Software maintenance concerns all activities needed to keep the system operational after it has been delivered to the user for cloud computing.
Managed Services	The delivery and/or management of public, private and/or hybrid cloud “as a Service” offerings by a third party; managed cloud services include the integration, maintenance, monitoring and management of cloud environments spanning the hardware and software components layers through the individual “as a Service” solutions and can be delivered on-site or remotely. Managed cloud services may include cloud orchestration, security services, and/or service and application cataloguing. Managed private cloud includes offerings that provide physical dedication of cloud resources for end customers, but not virtually dedicated services, which are included in TBR’s public cloud definition. Pricing schemas such as reserved instance pricing do not impact the categorization of cloud services as either public or managed private.

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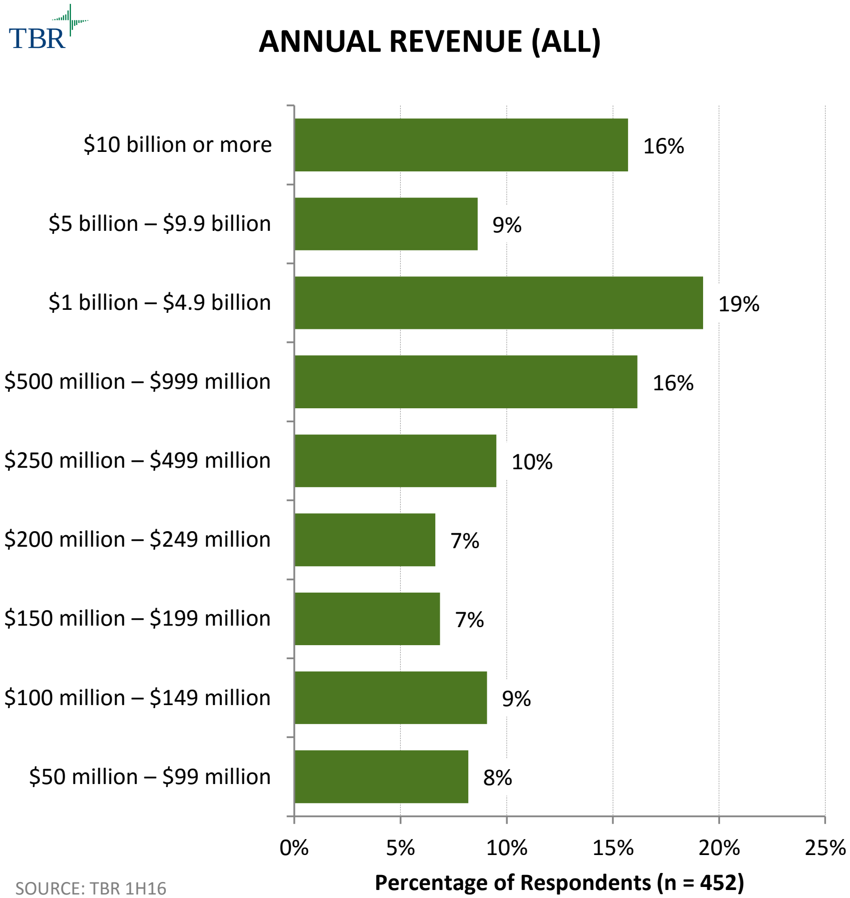
Respondent Company Size by Revenue and Number of Employees



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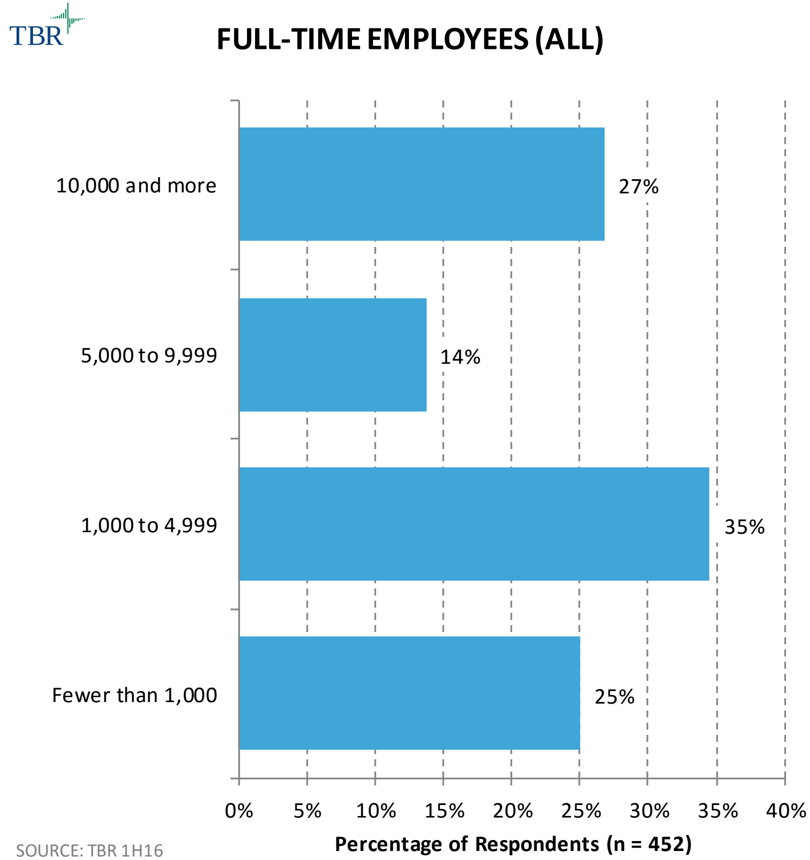

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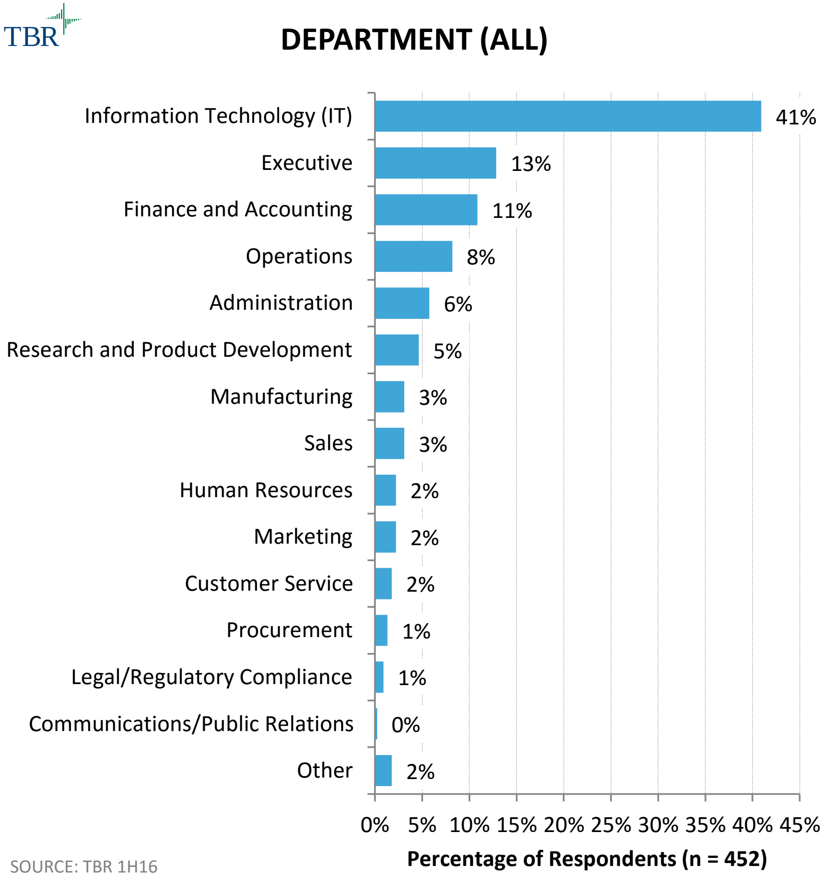
Breakout of Respondents' Departments and Industries



SOURCE: TBR 1H16

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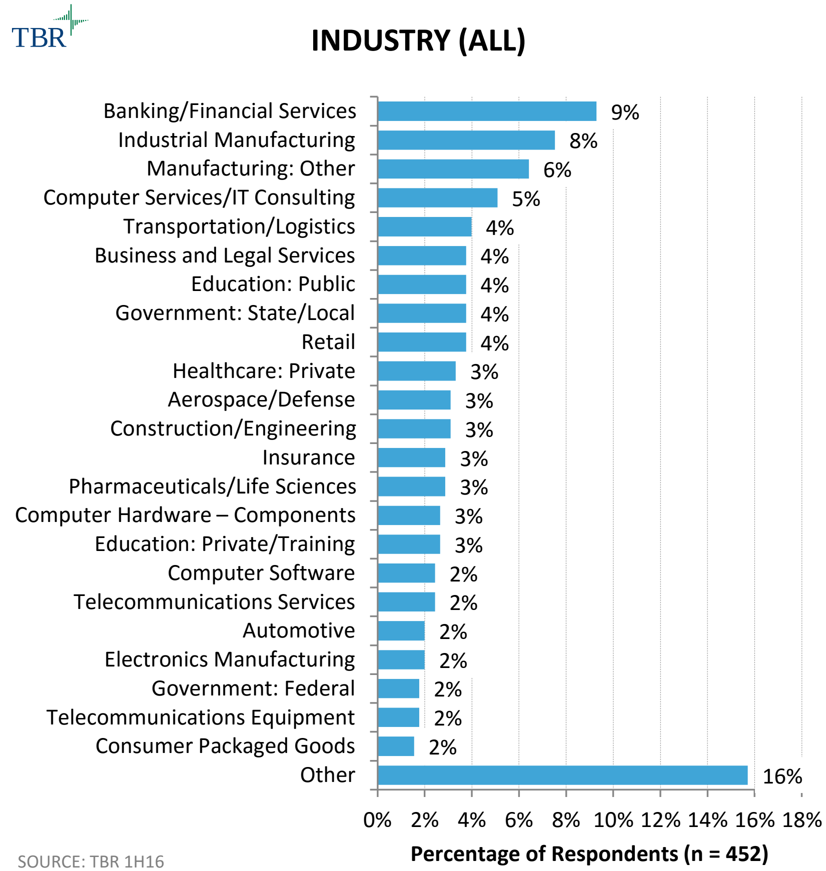

SOURCE: TBR 1H16

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