

longview

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WELCOME

Hello and welcome to the June 2010 edition of *Longview*.

It seems that two things are dominating the headlines lately: cloud computing and major ICT project failures. This month we jump in with discussions on both those topics by outlining some DIY warnings regarding private clouds, and also some reasons to support greater adoption of offshore labour within Australia.

The months ahead are also busy with the launch of a Baseline TV channel including an episode of the annual Queensland Premier's address in July. August will see the return of The Naked Chief's very popular 30 Blogs in 30 Days which will outline a further 15 ICT policies in the lead up to various state and federal elections.

The first 15 policies last year generated almost 20,000 hits proving to be some of the most sought after content on our site.



And then in September Longhaus have secured the exclusive rights to provide daily research and analysis on the World Computer Congress from an on-site studio. So we hope you can stick with us over these next few exciting months and we'll see you in the market, on LTV or next month in *Longview*.

Why Government's must adopt offshore labour models and why vendors must treat contractors like channel partners

In the past 12-months we have been commissioned to conduct three separate independent reviews or assessments into Australia's ICT contracting and labour hire markets with a specific focus on how they apply to public sector procurement. The common finding in all reviews, and one of the few facts that is undisputed between the government and the suppliers be they recruitment or services firms, is that the labour pool is finite and common (see Figure 1).

The former fact alone should be enough to drive more public sector business towards incorporation of off-shore labour models offering access to additional capacity in India, China, the Philippines, or from wherever in our region additional labour pools reside. But it is still not the case in Australia. Prior to discussing the need for systemic change within both public sector procurement policies and ICT service vendor contracting approaches let's first recap the national ecosystem.

As reported in December 2008 for the Queensland Government's ICT Industry Working Group, the Australian ICT contingent labour supply ecosystem is constituted of five (5) interdependent factors including: A) a common labour pool, B) the labour-hire or contract management company channel, C) the consulting or professional services company channel, D) the government-direct channel, and F) the government itself. The channel between labour hire contracting companies (such as recruitment companies) and consulting firms is depicted at E).

The other key factor to consider in the Australian market is that resources tend to be geographically based. That is, a pool of resources exists specifically within the Federal Government market to satisfy that latent geographic demand. So too Victoria, New South Wales, Queensland, Western and South Australia also have their own community resource pool. Unlike markets such as the

UK and Europe, Australia's contractors for the most part simply don't travel between cities Monday to Friday. They work where they live.

What most ICT buyers fail to recognise through their procurement policies is that it is common practice for large global systems integrators, services firms and consulting companies to access sub-contractors from the labour pool following successful assignment of a major project. As previously outlined, these sub-contractors come from a common but finite and geographically based labour pool. In reality this translates into a situation where a joint SAP and IBM project alongside a joint SAP and

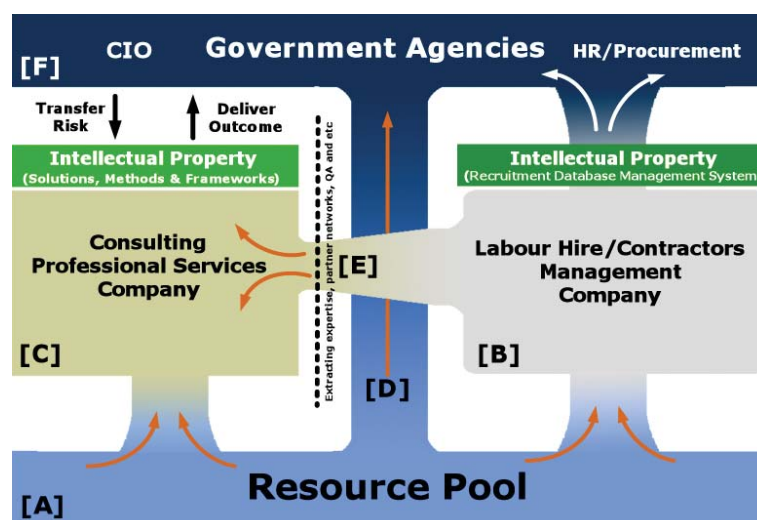


Figure 1: The contingent labour ecosystem



by **Peter Carr**
Managing Director

HP project obtain their sub-contracting resources from the very same pool on a first-in-first-served basis.

Should a number of major end-user organisations undertake significant project implementations, renewals or replacements at the one time as we are currently experiencing in Australia, this has an effect of placing tremendous resource pressure on the local markets. The results are a common outcry from the end-users that the B-Team has been sent in to their project.

“The B-Team” is a term generally only heard in relation to a big brand (such as an IBM, Accenture, HP etc) and not in regards to the channel market. But where independent sub-contractors and channel partners differ in the large Australian ICT services market is that vendor channel partners and resellers of hardware and software are almost always certified and trained in approved methodologies. The widely adopted mantels of Platinum Partner and Gold Partners is widely adopted and recognised. Independent contractors; the very same sub-contractors utilised by the big system integrators on headline projects, are not.

As an example back in July 2008 EDS (now HP) announced that it was accrediting its employee consultants in the Run SAP® Methodology. Yet in almost all cases vendor services companies do not develop the portion of the 100,000 Australian ICT contractor market that routinely delivers project work for them through methodology accreditation. IBM does not accredit independent contractors with specific SAP skills into their Ascendancy or Fastlane consulting methodologies; similarly for CSC with their Catalyst methodology, nor Oracle and its Application Implementation Method.

Even if only half of Australia’s contractors were accredited in the consulting methodologies of the vendors for which they sub-contract, the gross impact on the ICT labour hire market (NB. NOT the channel partner market) is a very large number of workers actively involved in on the job up-skilling while ironically driving wage inflation pressure through skills shortage demand in those same roles.

In the Queensland Health payroll project as an example, there was by necessity a very high level of contractors called in by both CorpTech (the contracting entity) and IBM (the prime contractor) to support the blue-blooded IBM employees placed in key delivery positions. The fact is that while many of those contractors would not have been trained in IBM methodologies, if Queensland Health had asked SAP to take over the implementation work then there is every possibility that the sub-contracted resources would have been the same people.

Yet both SAP, IBM, HP and other vendors have developed highly leveraged and successful onshore-offshore business resource models that ensure key architect positions are placed inside the on-shore client with targeted application


development packages of work shipped to follow-the-sun off-shore locations. It is in these locations where trained resources can turn around the type of programming work that cannot be easily or more cost effectively fulfilled here.

At some point someone in a high-level public policy role in Australia must ask whether the stated desire by governments to avoid off-shore labour in preference for a shared pool of uncertified contractors is a better solution than trained in-house, albeit off-shore warm bodies.

By shunning the mixed team model Governments and heavily unionised private enterprise are saying yes to a model whose end results, and project failures are screaming no. Ultimately it is the clients that need to weigh-up the benefits of off-shore trained resources versus on-shore contractors who are untrained in the methodology of their integrator of choice. In the Queensland Health example, this would have materialised as an agreed delivery model between themselves as client and IBM as prime contractor, and backwards pressure from Health to CorpTech as the contractual procurement entity for the adoption of an onshore-offshore model.

As a final example, if coinciding with the back-end of the Queensland Health SAP project that Queensland’s Community Safety, and Queensland Education also proceeded with their planned SAP projects, and at the same time the Brisbane City Council also wished to move forward as did the Gold Coast City Council and Suncorp, then it becomes exceedingly clear that the region’s limited resource pool could not possibly cope regardless of whether SAP or IBM were the prime contractors. Ultimately their subcontractors would be drawn from the same pool.

As more and more large companies in Australia replace core systems over the coming years the fact is that there will not be enough contractors to deliver the work. In fact this will become a generational problem for the Australian ICT labour market. It is time for everybody to come to the party. And the start of that process is for governments to embrace offshore labour models, and for ICT services vendors to start accrediting card-carrying independent contractors into their delivery methodologies just like they do with channel partners today.

Without these measures the market will continue to experience the negative affect of price inflation in specific skills sets driven by labour competition in small or closed markets. The clear irony is that the high prices paid by Australian organisations in these cases may be paid for resources largely unversed in the delivery methods of the integrator. Unless the end-user client or contracting enterprise agree that off-shoring is in fact an effective, efficient, and lesser risk option to the unworkable alternative then the problems associated with contingent ICT labour in Australia and large project failures will continue to occur. 

As more and more large companies in Australia replace core systems over the coming years the fact is that there will not be enough contractors to deliver the work. In fact this will become a generational problem for the Australian ICT labour market. It is time for everybody to come to the party.



by **Sam Higgins**
Research Director

■ Why private cloud computing is not a DIY activity

In Australia the notion of DIY is alive and well. You only have to look at the performance of the Bunnings hardware chain that in the second half of 2009 posted earnings before interest and tax (EBIT) of \$711 million on sales of just \$2.28 billion; an enviable EBIT-to-sales profit margin of over 30%. Clearly DIY is a big business.

When it comes to ICT the Australian market, despite being a highly mature services market where outsourcing is common place, we continue to hold on to the DIY mentality for key elements of ICT service delivery. In Longhaus' ICT Spending and Delivery Study for 2010-11 the findings highlighted that across a sample of Australia's large enterprises 40% of these organisations rely solely on their internal ICT personnel for delivery of services ranging from data centres to service desks. Even more concerning was that one of the most highly commodities ICT services, the provision of email and calendaring, was still done entirely in-house by 45% of the respondents.

It is the combination of this propensity for a DIY approach and the increasing acceptance of "private clouds" as a deployment model for cloud computing that presents a real risk for CIOs over the next 12 months. In particular a rising assumption is that private clouds are easily achieved because all of the technology elements are available today "off-the-shelf". Or worse, that because an organisation has managed to implement virtualisation and consolidated its infrastructure that it has somehow created a private cloud.

While it is true that the modern organisation can procure the necessary hardware, the virtualisation technology and management software that is required to build a private cloud is a journey that most Australian organisations are simply unprepared for and incapable of delivering.

But first let's be clear about what we mean by private cloud. Longhaus define private clouds as:

Cloud computing delivered using a pool of internal hardware and software, except for the method of service access. That is, a private cloud's request and access to services continue to be conducted via the browser, but over a private network (the "intranet") rather than the public internet.

The US Government's National Institute of Standards and Technology (NIST) in Version 15 of their cloud computing definitions define private cloud as:

The cloud infrastructure is operated solely for an organization. It may be managed by the organization or a third party and may exist on premise or off premise.

In both these definitions the focus of private clouds is the delivery of cloud computing services. That is, private clouds represent a deployment model for cloud computing. So claiming to have a private cloud requires that the key characteristics of cloud computing be present. The six core characteristics of cloud computing include (i) on-demand self-service supported by automation, (ii) broad network access typically over the internet, (iii) resource pooling and economies of scale, (iv) rapid and extreme elasticity of capacity, (v) guaranteed availability, and (vi) measured service provisioning, consumption and charging.

Given these characteristics it means that any organisation planning on deploying their own private cloud must not only have the technology prerequisites, but also the skills, capability and risk tolerance to implement highly redundant

and shared infrastructure across storage, server and networks, comprehensive ICT asset management, virtualisation, automated provisioning, cost recovery and chargeback, service usage monitoring and reporting, end-user self service or click-to-provision, a single service desk all supported by a complete service catalogue. Sound hard?

It should, because the harsh reality is that according to Longhaus' 2009 Q3 CIO Confidence Poll only 10% of organisations in Australia can claim to have all these capabilities today (see Defining cloud computing highlights provider gaps in the Australian ICT market, Study, August 2009). Just like a DIY renovation on your own home, implementing cloud computing is not as simple as the act of consuming the same services from a third party.

Indeed, just like before starting a DIY project CIOs in Australia should objectively ask themselves the following classic preparedness questions:


1. Do you have the skills to do the work?
2. Do you have the time to do the work?
3. If you are unavailable due to shifting priorities, will you have backup?
4. If there's a learning curve, are you willing to risk quality, delays, and additional cost as a result?
5. Will your learning curve, or your work schedule, cause delays that impact other parts of the implementation?
6. Do you have the tools necessary for the work?
7. Do you have a high propensity for risk?
8. Do you have access to the technologies you need, the means to acquire them, and the knowledge to execute according to the vendors' recommendations?

(Source: <http://www.trustyguides.com/home-renovation8.html>)

If the answer is not an emphatic yes to the above checklist then it is definitely better to re-think rushing into a DIY private cloud effort.

So what is the path forward for organisations to a private cloud if the DIY approach is fraught with danger? The answer is increasingly in the form of cloud appliances, plus supporting services. These "cloud kits", like their home handyman equivalents, help to mitigate some of the challenges of DIY cloud computing.

And while in the past these ready made cloud kits had been hard to come by, Longhaus' position is that the current offerings from the likes of IBM in the form of the Cloudburst Appliances i, Intalio Cloud Appliance ii, The VCE Alliance's Vblock iii, the recently announced Microsoft and HP Azure Appliance iv and upcoming Hitachi Unified Compute Platform have matured to the stage that implementing a private cloud is best handled by a Do It For Me (DIFM), not a DIY approach v.

- i. see <http://www-01.ibm.com/software/websevers/cloudburst/>
- ii. see <http://www.intalio.com/cloud-appliance>
- iii. see <http://www.cisco.com/en/US/netsol/ns1027/index.html>
- iv. see <http://www.microsoft.com/Presspass/press/2010/jul10/07-12CloudComputingPR.mspx>
- v. see <http://www.hds.com/solutions/infrastructure/hitachi-unified-compute-platform.html> 

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