Research Brief

Accelerators and Inhibitors in Services Value Chain Adoption

**Abstract:** The timeline for measurable adoption of IT services value chains will depend on a host of critical factors.

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**Recommendations**

- Enterprises must improve their understanding of emerging services value chain solutions and the aggregators that will manage the delivery of those solutions.

- Enterprises should consider mass-customized services value chain solutions that can improve key business processes or achievement of corporate objectives.

- IT solutions providers must understand the expanded market opportunities provided by services value chain engagements.

- IT solutions providers should investigate opportunities to play the role of aggregator and provider in services value chains.
Introduction

The timeline for significant adoption of IT services value chain will be either accelerated or inhibited by a number of important factors.

Factors That Will Accelerate Services Value Chain Adoption

The following factors will serve to accelerate the adoption of services value chains:

- In a market still constrained by weak macro economic conditions, buyers want — more than at anytime in history — to reduce the cost of IT use in both capital expenditure and ongoing operational costs.

- Buyers also want greater transparency of costs and potential benefits. The debate in the industry about return on investment (ROI) and the lack of precision vendors can bring to the table with regard to ROI, speaks to the fact that IT’s value proposition is confused.

- As buyers’ demands on technology providers have increased, a number of industry practices have become less acceptable. Among these are the high cost of IT services (relative to products and in absolute terms), technology for technology’s sake, suppliers seeming to be on their own learning curve at their customers’ expense, and suppliers fighting turf wars with other suppliers within a customer account.

- As well as seeking to reduce costs, buyers want to improve quality, in all of the aspects of IT outlined above. To do this, buyers increasingly prefer to source proven solutions rather than to acquire bleeding edge, one-off, first-time solutions.

These factors are leading some external product and services vendors to realize that an appetite exists for a new approach to delivering IT that brings proven, rather than one-off, solutions based on industry best practice.

This is leading some suppliers to develop standardized, specialized, proven solutions, pre-built (but based on extensive market requirement analysis) using best-of-breed product and service components delivered by cooperating suppliers.

Early-adopting suppliers of this new approach have appreciated that to protect their own margins in a marketplace that — because, among other things, overcapacity is experiencing fast-shrinking margins — they must reduce their own costs of product development and sales.

By industrializing in this way, suppliers are able to reduce their own costs, improve the quality of their offerings and protect their own profitability.
Factors That Will Inhibit Services Value Chain Adoption

Though many factors may accelerate the adoption of services value chains, many other factors inhibit its adoption. Inhibiting factors include:

- Customer organizations still "want what they want." In other words, they seek customized, rather than mass-customized, solutions.
- Many enterprises still foster a culture that prefers to design, implement and control (manage) most aspects of their IT environment.
- A limited number of vertical business processes have matured (relative to IT) to a degree that will foster broad acceptance of services value chains.
- Standardization is a key requirement of services value chain adoption. However, many of the raw materials of the services value chain have not been standardized. These include some technologies and many service delivery methodologies.
- Service providers are reluctant to go to market repeatedly with the same partner and often prefer ad-hoc vs. structured partner models. Trust between service providers that form a services value chain solution, but that also compete, is also absent in many cases.
- In addition, players lower in the services value chain don't like the top players owning the customer relationship. Thus, they are less likely to entertain participation. At the same time, the requirement for strong contractual relationships and willingness to share intellectual property is lacking in many of the companies required to participate.
- Consolidation has created familiarity that may not require formal relationships that are inherent in a services value chain. There are simply fewer players, and many of the remaining providers have built partner relationships for complex solutions that supplant the need for a services value chain-type solution.
- A successful services value chain requires an aggregator with the management methodologies and skills needed to manage relationships with both customers and partners, as well as the delivery of a multiparty solution. The availability and maturity of players that can serve as an aggregator is lacking for broad adoption of the services value chain model.
- For many potential players in the services value chain, the sales behavior of their direct sales force often competes with the objectives of a services value chain. This is usually caused by compensation programs that do not pay (or pay as much) for sales won through these types of engagements.
- Another inhibiting factor has to do with the historical dynamics of the industry itself. The speed of technology change simply limits the market maturity options required for mass-customized services value chain solutions.
The barriers to entry for software and services must be high for the services value chain to exist, and that hasn’t happened yet in the market.

The Timeline of Services Value Chain Adoption

A likely timeline of services value chain adoption can be seen in Figure 1. Services value chain adoption will not see an overnight switch into a new mode of IT delivery and management but will be seen in embryonic forms in many different niches during the next three to five years. The mass-adoption of the services value chain will happen when the IT utility becomes a reality. The availability of defined and stable standard infrastructure utility services from two or three major providers and evidence of successful programs to allow third parties to develop end-to-end solutions based on these service platforms will allow more and more enterprises to source IT in the ways envisioned in this spotlight and see the role of services value chain’s much more prevalent.

Figure 1
The IT Services Value Chain Timeline of Adoption

Source: Gartner Dataquest (October 2003)
Gartner Dataquest Perspective

For the timeline of widespread adoption of IT services value chains to be accelerated, both customers and IT solution providers must be open to certain changes.

For customers:

■ Consider mass-customized services value chain solutions that can accelerate positive impact to key business processes or achievement of corporate objectives.

■ Develop policies that will ensure effective management of services value chains.

■ Improve awareness of emerging services value chain solutions and the aggregators that will manage the delivery of those solutions.

For IT solution providers:

■ Understand the expanded market opportunities provided by services value chain engagements.

■ Improve partnering competencies.

■ Investigate opportunities to play the role of both aggregator and provider in services value chains.

Absent change on the part of both constituents, the status quo will continue and the benefits of services value chain offerings will not soon be realized.

Key Issue

What are the key elements of the services value chain and how will they alter the paradigm of IT and business services and sourcing?