

INSIGHT

2e2: A Strong Story in Datacenter Transformation and Cloud

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IDC OPINION

2e2 is a predominantly U.K.-focused midsize ICT services provider with revenue exceeding £400 million per annum with an extraordinary breadth of offerings; of this, portfolio datacenter services are a core capability. The company has quietly built a practice around datacenter transformation, flexible infrastructure, and cloud; has won valuable experience from customers that are willing to tell their stories publicly; and is now ready to launch an integrated portfolio of services that it calls "Could IT be Cloud?"

- ☒ It is often thought that datacenter transformation and cloud infrastructure services are for big services companies, not for companies the size of 2e2. However, 2e2 has a set of differentiators that will enable it to compete for complex sourcing deals of medium size.
- ☒ "Could IT be Cloud?" includes both the transformational and operational aspects of a datacenter solution. It shows a holistic approach to datacenter that enables the customer to choose the best sourcing model for their specific needs, with 2e2 managing the full integrated environment. The integrated management of the full environment may well be the most attractive and differentiating part of the offering, but it relies on customers being willing to let 2e2 manage a substantial part, if not all, of their environment.
- ☒ Key differentiators for 2e2 are the breadth of its offering, its strong customer relationships, and its ability to combine IT and business knowledge, which is fairly unique for IT services companies in the midmarket. Key contributors to the success are 2e2's focus on educating the customers about IT cost and transformation of business processes related to IT transformation.

IN THIS INSIGHT

This IDC Insight looks at 2e2 — a midsize mainly U.K.-focused service provider — and its strategies and offerings for datacenter transformation and cloud. It provides insight into the opportunities for players below the top tiers and points to the particular strengths this type of provider has needs to compete effectively in the market.

SITUATION OVERVIEW

2e2 has grown rapidly, through organic growth and complementary acquisitions that in 2009 led to approximately £200 million. 2e2 acquired Morse in 2010, and IDC estimates that the combined revenue will be approximately £420 million. The result of these acquisitions is a player with substantial strength in the infrastructure area (and other areas), ranging from datacenter consulting and integration through managed services and hosting to cloud and unified communications (UC). Recently, the company has supplemented with applications practices in Microsoft, Oracle, and SAP business solutions as well as in some vertical-specific solutions for law firms and local government.

Eighty-five percent of 2e2's activity is in the U.K., and the main goal is to develop the U.K. infrastructure business through a focus on datacenter transformation and infrastructure cloud services. 2e2 has approximately 300 datacenter services clients. These customers form the core target for 2e2's transformation and cloud services.

Another strength in 2e2 is its ability to productize and reuse innovative solutions developed with one customer into the broader base of like-minded companies. An example of this is the case solutions delivered to 25 of the 33 London borough councils.

FUTURE OUTLOOK

Business Dialogue

In 2e2's view, the need for IT transformation arises from a challenge in the business that can only be met by changes in the underlying IT systems. The challenge may be urgent — for example, it may be a rapidly emerging external demand or competitive threat, or it may be a longer-term strategic initiative. These require different dialogues with the customer — the first is more tactical, often with a specific point solution required; the second often will typically involve the need to develop an IT strategy that complements future business strategy. To 2e2, IT and business processes are intrinsically linked, and to achieve the business goal, the company needs to understand the correlation to change IT.

The dialogue can have two starting points

- Starting from an organizations' business people, it can be a dialogue around the business transformation needs that lead to a need for IT change, or
- Starting directly with the IT organization, it can be a more technically oriented dialogue about IT transformation, which is then seen in the broader perspective of business impact

While this is a situation all vendors experience, the strength of 2e2 is, in our view, its ability to integrate the two dialogues no matter what the starting point is, and focus on both business and IT, and people and IT.

2e2's Vision for the Cloud

For 2e2, cloud-based IT is one of the components in a successful transformation process towards a flexible IT delivery. 2e2 has delivered what it would call hybrid or blended cloud solutions for several years, and has built its own cloud infrastructure in its datacenter. However, it has only recently formalized a specific cloud offering to take to market.

2e2 sees cloud as transformational to companies around three overarching themes:

- ☒ Enabling IT to become a strategic asset for business and service innovation
- ☒ Breaking down organizational boundaries within the organization and between an organization, its suppliers, customers, and partners
- ☒ Accelerating application delivery (i.e., increasing the speed of change)

Cloud represents a higher level of maturity of the IT environment than traditional models, and 2e2 believes that a blended model of public cloud, off-premises private cloud, and on-premises private cloud will be chosen by most customers, followed over time by gradual migration to offsite clouds — in the beginning, largely private; later, dominantly public clouds.

2e2's Cloud-Related Offering

2e2 offers a combination of professional and operational services to transform the IT infrastructure to what it calls "Flexible Infrastructure and Cloud":

- ☒ **A set of assessment services.** Assessing varying levels of details, TCO of existing solutions, investment cases, future mix of service delivery and road map
- ☒ **Implementation services.** These include transformation of the onsite IT or migration to hosted solutions, be it public cloud or hosted solutions — cloud or noncloud
- ☒ **Management services for on-premises and hosted solutions**
- ☒ **Integrated management of the full environment.** Integrating the public and private solution, managing across the onsite and the hosted environment.
- ☒ **Education in analysis of the cost base and investment business case as well as in changing the business process to benefit from the new flexibility**

We believe the integrated management may potentially be the "killer service" for midsize businesses that have mounting levels of complexity but don't have the in-house capabilities to manage the complexity properly, and cloud just makes this aspect more difficult. If 2e2 can get customers the full benefits of the cloud with reasonable and affordable costs, this would be very attractive to many. However, that depends on organizations being willing to trust 2e2 with a large portion (if not all) of their IT assets.

2e2's assessment services are offered prepackaged with defined outcomes under the shared brand of Flexible Infrastructure Readiness Evaluation (FIRE).

- ☒ **RapidFIRE.** 3-day engagement focusing on high-level and quick wins
- ☒ **QuickFIRE.** 10-day engagement going into details with a few medium-term improvement opportunities
- ☒ **IntensiveFIRE.** 20–30-day engagements developing the business case for the overall transition

The model for "Could IT be Cloud?" is seen as a journey toward increased maturity and also a model for blended delivery; the focus is more on integration between the parts of the environment at the different levels than on the end goal of taking everything to the top of the maturity ladder. We find that the integration focus is one of the differentiators for 2e2.

The steps on the maturity ladder are:

1. **On-premises optimized datacenter.** This transformation from traditional siloed IT includes consolidation, resource sharing and virtualization, standardization, automation, and flexibility. With flexibility meaning automated provisioning and self service, this is private cloud, except for charge back, that many so-called private clouds miss today. A customer for automation is First Data, another consolidation case is a large Scottish bank.
2. **Outsourcing the management of the on-site servers to a service provider/2e2.** Remote management can relate to any level of maturity of the onsite solution. This is 2e2's traditional core business. A customer for transformation and remote management is Camden and Islington NHS Trust.
3. **Hosting the datacenter environment as a private cloud in 2e2's datacenter.** This includes migration to 2e2's standardized IT environment as a hosted private cloud: standardized, automated with self-service and pay-per-use. Times Supplement is an example of a customer where 2e2 has migrated the infrastructure to its own datacenter and manages the service.
4. **Use of 2e2's cloud for infrastructure as a service (IaaS) or selected apps as a service (Apps-aaS).** The infrastructure is shared among the users, provided with specific service-level agreements (SLAs) and security levels provided through 2e2's own security practice and data encryption, and with data located in 2e2's datacenters. Examples are Remploy, which 2e2 has migrated to shared infrastructure; Agresso provided as SaaS to London borough councils, and, as a general offering cloud-based remote backup service.
5. **Use of a variety of clouds for specific purposes.** Examples could be BPOS from Microsoft or BT, Microsoft's Azure platform for application development, Mimecast, Safeboot, and developing and testing environments, to name just a few.

Differentiation

The questions whether there is room for a player like 2e2 in a market that will increasingly be dominated by cloud-based service delivery is important, not only for 2e2, but for its larger competitors and for companies like 2e2 or smaller.

For an established service provider to provide cloud infrastructure services volume is a prerequisite to compensate for the lower prices and lower margins. At an immediate glance, this would indicate that smaller players would find it difficult to compete. 2e2's answer to the challenge is to add value to the infrastructure offering in the form of higher level SLAs and integration across the range of sourcing models.

2e2's key differentiators are:

- ☒ **The ability to tie IT solutions to business issues.** 2e2 takes a business approach to IT and is good at bridging the business and IT, and deal with all stakeholders independent of where in the organization a project is started.
- ☒ **Breadth of offering, covering both the full life cycles of services from consulting to operation and support as well as both infrastructure and applications from key software providers.** The ability to provide the full range of sourcing options from onsite private via hosted private to hosted public and integrate across the spectrum facilitates cross- and upselling as well as integration.
- ☒ **Innovation.** 2e2 is good at spotting how innovative solutions can create increased flexibility and agility, and cut costs.
- ☒ **Size.** As a midsize company with a lighter cost structure than larger competitors, 2e2 is able to bid for relatively smaller deals than the large service providers. Furthermore, the high-end midmarket prefers to deal with providers of a similar size than suppliers to the large enterprises; they fear not getting sufficient attention
- ☒ **Customer intimacy/Trusted partner.** 2e2 is known in its customer base to be responsive and highly skilled, delivering good quality on time and to budget.
- ☒ **Longstanding history in managed services and hosting, creating the credible background for the entry into cloud services.**
- ☒ **Holistic approach to infrastructure transformation and cloud.** Even though customers may chose to buy point solutions, the presentation of a vision and holistic view of the company's IT provides strong credibility.
- ☒ **2e2's focus on blended models and optimization of the whole of the infrastructure.** This is a strong approach to the midmarket, which is more used to being addressed with standardized point solutions.
- ☒ **Customer success stories.** 2e2 is able to present successful cases in all of its areas of operation, including the new flexible infrastructure and cloud offering. We see 2e2 way ahead of many of its competitors, even some of the very large global players.

However, there are of course challenges and risks for 2e2. These are the other side of the virtues above:

- ☒ With its limited scale, 2e2 runs the risk of spreading itself too thinly, creating an operation that is too costly. Having to invest too strongly in building an infrastructure that will only create low-margin returns is another key risk.
- ☒ Cloud is a fast-changing world, and the company needs to make choices from a technology perspective, risking to be locked in with specific partners. We believe it is wise to choose a set of partners, but it needs to keep eyes and ears open to the technology development and to how customer requirements match the technology offering.
- ☒ 2e2 sees providing of its own public cloud a key piece in the puzzle. The risk is, however, that 2e2 will not be able to provide the necessary scalability to compete. The company will have to evaluate carefully and continuously how to add value on top of the basic infrastructure service in order not to see its IaaS offering squeezed out of the market again.
- ☒ 2e2's brand recognition beyond the customer base (in total, approximately 2,000 companies) is limited. Cross- and upselling to the acquired customer bases provide good grounds for growth; however, we believe 2e2 needs to strengthen its brand recognition to ensure winning new logos.

Growth Opportunities for 2e2 and Small IT Services Companies in the Cloud

Will there be room for a player like 2e2 in the cloud services market? We believe that the answer is yes. With its position as an early mover in the high-end midmarket, a credible datacenter/cloud story, and strong customer relationships, we see good opportunities for 2e2 to grow its business even though it is competing against much larger players.

2e2's target market is the high-end midmarket and medium-sized enterprise: companies with 500–3,500 employees. IDC's *European Enterprise Services Survey* from spring 2010 shows that this market segment has the highest interest in hybrid cloud solutions, mixing private and public cloud (see IDC's *Pros and Cons of the Cloud — Should It be Public or Private?: European Enterprise Views, 2010* [IDC #QL53S, October 2010]), thus providing ample opportunities for 2e2. The challenge is reaching them.

Will there be many 2e2s? Probably not. 2e2 is, in our view, rather unique and difficult to copy, particularly as it crosses the often rather sharp boundary between being a systems integrator (SI) and a hosting company. There will be also opportunities for smaller SIs in the cloud market, particularly those that approach IT from the side of the customer's business, but smaller hosting companies will face a tough time as cloud services deliver low margin, and they will need to think carefully about how they position themselves. Differentiation of the value add is key.

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