



I D C M A R K E T S P O T L I G H T

Using Cloud Backup and Recovery Services to Achieve Desired Business Outcomes

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Adapted from *Recovery as a Service: Leveraging the Cloud for Continued Operations*, by Laura DuBois, IDC #236426

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Cloud services are changing how IT is delivered and consumed. As a result, service providers have become the essential link in how IT is not only procured but used over time. Cloud backup and recovery services can serve as a core business model or be complementary to a broader range of cloud services. The cloud backup and recovery services market exceeded \$2 billion in spending in 2013 with double-digit revenue growth. However, service providers must consider their core competencies and their broader range of service offerings (if applicable) when they establish price, cost, and profitability metrics for cloud backup services. Selecting one of the prescriptive approaches outlined in this IDC Market Spotlight will allow service providers to enjoy more successful business outcomes including stronger customer satisfaction, financial results, differentiation, and/or greater market expansion.

An Asigra cloud service provider, Long View Systems, was able to increase its cloud services revenue by nearly 50% by adding a cloud backup service powered by Asigra. Other benefits were the addition of a recurring revenue stream with strong profitability and differentiation among competitors. The underlying technology is also used to protect customer data for clients using Long View's infrastructure-as-a-service offering and is extensible, enabling recovery-as-a-service in the future.

Firms are embracing a range of cloud offerings for backup and disaster recovery. Four primary reasons organizations are embracing cloud backup and recovery services are:

- It is far more efficient to outsource backup and recovery from a time and budget perspective.
- Shorter recovery time objectives are better met through outsourcing.
- Increased compliance obligations require more stringent backup, recovery, and archive policies which can be served through outsourcing.
- Tighter SLAs, which can be measured and improved upon through outsourcing backup and recovery.

Cloud Service Provider Strategies

Successful cloud service providers must refine their business strategies to keep pace with growing demands for IT-as-a-service. Many types of companies (telcos, hosters, outsourcers, VARs, managed service providers, and traditional IT OEM suppliers) have become cloud service providers, though the role these companies play in enabling a cloud service may vary:

- **Cloud service provider end-to-end.** An end-to-end provider of the cloud service not only provides the service under its own brand but will own/manage the cloud infrastructure and provide customer billing, service management, and ongoing customer support.
- **Cloud service provider white-label.** Another type of cloud service provider may elect to offer a cloud service under its own brand, effectively white-labelling/rebranding a service under its own name. This level of service will also typically include customer-facing activities such as billing and client relationship management, though customer service and/or back-end cloud infrastructure (IaaS) may be provided by third parties.
- **Cloud service broker or reseller.** A cloud service broker or reseller may elect to resell a third party's cloud service, taking a referral fee, though billing, service management, and ongoing customer relationships may or may not be maintained by the reseller or broker.

Service providers may choose different strategies for different types of services. For example, the service provider might elect to resell a cloud email service while offering an end-to-end service for cloud backup, or vice versa.

These strategies offer different levels of risk and reward (see Table 1).

Table 1

Comparison of Cloud Service Provider Models

Criteria	Reseller/Broker of Cloud Services	Hybrid Service Provider	End-to-End Service Provider
Control of customer satisfaction	Low	Moderate	High
Profitability	Moderate	Moderate	High
Cost — initial	Low	Moderate	High
Cost — recurring	Low	Moderate	Moderate
Price flexibility	Low	Moderate	Moderate
Ability to differentiate	Low	Moderate	High

Source: IDC, 2014

According to IDC, the amount of data in the digital universe is expected to grow by a factor of 50 over the next decade. As data continues to grow and be created and consumed on different devices, backup is becoming more vital and critical to companies as they try to find ways to protect all of this data. The demand for cloud services continues to increase to cope with this growth, and many service providers are expanding their portfolio of cloud service offerings — across private and public cloud offerings and from SaaS to IaaS capabilities. Successful service providers may use one type of cloud service to drive greater growth or higher margins for another cloud service. For example, compute cloud services may deliver higher margins that help to underwrite storage cloud services. In addition to expanding a cloud service portfolio, service providers are also growing their business along geographic and customer segment boundaries. With these expansion strategies comes the potential for greater economies of scale and amortization of costs while meeting changing customer demands.

Cloud Backup and Recovery Services: A Smart Vehicle for Achieving Different Business Outcomes

Service providers considering cloud backup services may be looking at the opportunity from different perspectives. Service providers may already be offering one or more of the following services and seek to expand their portfolio to include cloud backup services. Benefits of offering cloud backup and recovery services include:

- Existing service expansion: increase share of customer wallet by extending recurring revenues
- Adjacent service offerings: increase market potential (increase customers)
- Improved customer experience: drive greater satisfaction and reduce attrition
- Meet existing/new customer requirements: drive greater satisfaction and reduce attrition
- Expand customer reach: grow by customer geography or move up/down market
- Vertical expansion: launch specialized offerings for a particular industry customer type
- Launch new service: develop a recurring revenue stream

It is important to note that a cloud backup and recovery service provides a platform for a number of different types of services, depending on the service provider and the customer requirements. For customers that have already made an on-premises backup investment, a service provider may elect to offer remote or disaster recovery services. Another customer might need a solution for endpoint backup which a service provider can offer a solution for. Yet another customer may require not just cloud backup but also recovery in the cloud services. Lastly, for customers that have already deployed a SaaS application or a hosted service, a service provider can offer cloud backup and recovery services for specific applications and/or hosted infrastructures.

Offering cloud backup and recovery services is a venture that has plenty of short-term and long-term opportunities.

Benefits of Business Models for Cloud Backup Providers

With any cloud service, including a cloud backup and recovery service, there are three overarching business models to be considered. These three models — leading complementary, trailing

complementary, and backup/storage centric — are driven predominantly by the desired business outcomes and the diversification of the service provider's cloud services portfolio. The business model will drive the go-to-market strategy, including factors such as pricing, service margins, messaging, and compensation structure, that the service provider chooses. For example, two service providers may appear to have similar service offerings, but each leverages cloud backup and recovery as a vehicle to achieve different corporate business objectives. As a result, their pricing and product/service messaging will vary. Consider the following models and a comparison in Table 2:

- **Leading complementary.** With this service provider model, cloud backup and recovery services are used as a means to gain a foothold in the account. The service provider uses cloud backup as a tactical means to demonstrate value with the customer but with the anticipation of securing a broader range of cloud services. In this model, the service provider will use an aggressive pricing structure to secure initial traction and will seek higher margins with complementary or adjacent services.
- **Trailing complementary.** With this business model, the service provider is leading with other types of cloud services (application hosting, SaaS, etc.) and backup is one of many services in its portfolio. Because the business is well diversified, the service provider does not need to be aggressive on price — effectively, enjoying margins across a breadth of service offerings.
- **Backup/storage centric.** This business model enables the service provider to focus on its depth of expertise in backup, storage, and data protection. Because of the pure-play focus on backup, there is an expectation of superior abilities, support competence, and service quality. In effect, this best-of-breed strategy should enable differentiation and a higher price. Depending on the corporate objectives, a service provider with this model may elect to price more aggressively or can select a best-of-breed pricing structure commensurate with its value proposition.

Table 2

Comparison of Different Cloud Backup Business Models

Criteria	Leading Complementary	Trailing Complementary	Backup/Storage Centric
Service portfolio	Various	Comprehensive	Limited
Cloud backup (as % of business)	No more than 50%	10%–20%	75%–100%
Sales approach	Lead with cloud backup: account entry	Supplemental offering: extend value with account	Niche, focused
Backup service profitability	Loss leader	Moderate	High
Cost sharing (across services)	Moderate to high	Moderate to high	Low
Pricing strategy	Aggressive	Aggressive	At/above market
Importance of differentiation	Somewhat	Somewhat	Essential

Source: IDC, 2014

So, when a service provider selects a business model it should do so with an overarching business objective or outcome in mind. These outcomes, as discussed, can span the development and/or growth in services or market revenue, improved customer experience, and/or service profitability (see Table 3).

Table 3

Business Outcomes Mapped to Cloud Backup Business Models

Business Outcome/ Benefits	Leading Complementary	Trailing Complementary	Backup/Storage Centric
Existing service expansion; increase share of customer wallet by extending recurring revenues	Yes	Yes	Yes: extending types of backup/recovery services
Adjacent service offerings; increase market potential (increase customers)	Yes	Yes	Not applicable
Enhanced customer experience; drive greater satisfaction and reduce attrition	Yes	Yes	Yes: extending types of/options for backup/recovery services
Improved customer retention; meet existing/new customer requirements; drive greater satisfaction; reduce attrition	Yes	Yes	Yes: extending types of/options for backup/recovery services
Increase total addressable market; expand customer reach; grow by customer geography or move up/down market	Yes	Yes	Yes
Vertical market expansion; launch specialized offering for a particular industry customer type	Yes	Yes	Yes
Launch new service; develop a recurring revenue stream	Yes	Yes	Yes

Source: IDC, 2014

Cloud backup and recovery is here, and research shows that firms are embracing cloud storage services. In an IDC fall 2013 study, more than 40% of U.S. firms with over 1,000 employees said they were already using public cloud storage, with the leading use case backup and archive.

Considerations

Clearly, cloud services are changing the landscape of how firms procure and manage IT. The reality is that firms are still analyzing how best to leverage cloud services in a private, public, or hybrid fashion, and considering what workloads are best suited to each of these deployment models. Service providers with broader service portfolios can help firms considering different options, both in the short term and longer term. Starting with cloud services for collaboration, messaging, and information-sharing use cases can often lead to hosted application services or IaaS for specific workloads. In these environments, cloud backup services may be a trailing complementary opportunity.

For service providers that focus on these cloud services, developing a strategy for cloud backup and recovery services is essential. Such services provide a vehicle to achieve more material corporate business objectives. The likelihood of success dramatically increases when there is a specific and measurable business outcome in mind. Planning the route to achieve this objective is the difference between success and failure.

Conclusion

Service providers that take one of the prescriptive approaches outlined in this paper will be well positioned to drive incremental service revenues and deliver stronger business results. These successes — greater customer satisfaction, improved profitability, and/or top-line revenue growth — will sustain and propel the service provider well into the future as IT-as-a-service continues to transform the industry.

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