

Where IT is at...

By Chris Gledhill Managing Director, PDMS

There is a lot of soul searching going on in the IT sector at the moment - the industry seems to be going through something of an identity crisis. One manifestation of this is a rather silly debate to try and determine which other, more established, industry it (IT) most resembles. There are various analogies: for example Larry Ellison the CEO of Oracle favours comparison with the automobile industry whilst Intel the computer chip manufacturer apparently prefers to think of it as roads and railways. Other commentators favour a comparison with electricity and point out that in the early part of last century many major companies in the US employed a vice president of electricity.

In fact industry analysts such as Gartner are predicting a significant drop in the number of people working in IT by the end of the decade. They have however stopped short of suggesting that the Chief Technology Officer will go the same way as the VP of electricity quite so soon.

This last thought flows from another emerging theme: IT is a victim of its own success. In the developed world at least, it is easy to see that access to high speed data networks at home, at work and on the move will be pretty much taken for granted within the foreseeable future. In consequence the data network will become like the electricity grid or the phone network - an infrastructure service we all take for granted and only really notice when it doesn't work. Meanwhile day to day familiarity with computers and software-based processes is increasingly taken for granted in the workforce.

The basis for the analysts' predictions of declining numbers in IT departments is in my opinion pretty sound. It reflects the fact that as IT infrastructure (the network) becomes more ubiquitous it is both simpler to use and more complex to manage. This apparent paradox is easily explained using the analogy with electricity. I would compare setting up a small local network with buying a generator to power your own home. Whilst coordinating the provision of global network access over multiple channels is more like running the national grid. If everybody powered their own homes far more people would require lower level electrical engineering knowledge. As it is we leave the complicated stuff to a small number of professionals and all we need to know is which way round the plug goes.

There is however far more to the IT industry than the provision of network services. The software sector remains one of the most dynamic and innovative aspects of the industry. Here too there are competing pressures affecting the way businesses develop. Whilst some parts of the industry are consolidating as their products become commodities other new application areas keep appearing mostly driven by smaller more innovative businesses. More fundamental however are the potential implications of the 'software as service' concept.

Like many big ideas in IT this has been around for some time. Towards the end of the Dot Com boom there was considerable hype around Application Service Providers (ASPs) - the idea was that we would all rent our copy of Word or our accounts package from an ASP who would

supply it over a leased line or internet connection. At the time this proved to be a very disappointing market, the network infrastructure wasn't there at the right price yet and the software available hadn't been designed to be implemented and maintained remotely. But just as e-commerce has found its place in the mainstream, the ASP model is undergoing a renaissance. Primarily this is because broadband internet access is now both available and affordable. The fact that we (software developers) also have far more experience of writing internet-oriented software also helps.

Provided the system is reliable enough, the business case for procuring software 'as a service' can be very compelling. No capital expenditure on servers and related hardware, no requirement for expensive in-house technical support skills (one more reason for the shrinking IT department), built-in disaster recovery and business continuity services, rapid deployment and low project risk. Of course there are risks particularly if the application is business critical but these can mainly be addressed at a business or contractual level. Otherwise most of the potential issues around the business fit of the solution and any integration required to existing systems would be much the same as for a conventional 'off the shelf' solution.

For smaller organisations in particular the case for managed software services is so strong that it will significantly change the shape of the market over the next few years. The main impediment is likely to be the reluctance of existing software sales channels to embrace a new and potentially less rewarding business model. To draw another analogy, the existing distribution model for business software is like the commission based model for selling pensions in which the primary motivation is large upfront commissions. The new approach will provide far smaller rewards up-front for the salesman but greater long term opportunities for the service provider.