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Westpac Anoints Fujitsu as an Enterprise-Grade Cloud Service Provider: Do New Delivery Models Spell the Imminent Demise of On-Premises Email Systems?

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With the financial services sector typically being the most risk averse of all industries, Fujitsu's announcement of its success in securing a very large contract to deliver cloud-based collaboration services to Westpac marks a turning point in the rapidly maturing Australian cloud services market. With large enterprise deals such as this now legitimising the use of cloud services for security-sensitive business functions, the era of enterprise-owned on-premises is fundamentally changing and the collaboration market will be the first and most affected. Providers of traditional managed services should also take note: this is the future, and it's an adapt-or-die scenario which they face.

Why This Deal Is Important

This is an important win for Fujitsu and an important milestone for "as-a-service" delivery models. By its scale and by the nature of the industry in which Westpac operates, the event is very notable. Prior to this deal, email and collaboration services from the cloud were mostly not considered by large enterprises and were almost always seen as SMB offerings and addressed as such by most vendors. Coupled with Fujitsu's recent NBN wins and its none-too-secret but officially unconfirmed hosting of a very large Westpac datacentre in western Sydney, it provides significant support to its claims of being a tier 1 service provider in Australia. It's also a vindication for its consistent investment in Australia datacentre facilities and cloud services and support processes.

Westpac's entire Australian operations will migrate from an on-premises legacy mix of Lotus Notes, Novell GroupWise, and Microsoft Exchange to a hosted Microsoft collaboration suite, delivered as a service from a local Fujitsu datacentre. This is not delivered by way of a public cloud service. Fujitsu's standard offering allows for multitenant network access into its datacentres, but this Westpac deal is delivered by a dedicated compute environment — or virtual private cloud (vPC), secure separate data storage, and a level of dedicated network access to meet Westpac's security requirements.

The service would be delivered to staff across Westpac's retail office, St. George, BT Financial Services, BankSA, Bank of Melbourne, RAMS Home Loans, Westpac Business Banking, and Westpac Institutional Banking. It has been reported that this contract represented some 50,000 inboxes. The bank's staff would use Microsoft Exchange, Sharepoint, Lync Unified Communications (Instant Messaging and Live Meeting), and Mobile Device Manager.

The migration, negotiated as part of Westpac's renewal of an IT outsourcing agreement with incumbent supplier IBM, represents one of the largest software-as-a-service (SaaS) deals to be struck in Australia. Westpac claimed to be the first financial services organisation in the world to have such a large SaaS implementation around collaboration.

Westpac disclosed that a "number of service providers" had proposed a SaaS offering from offshore datacentres — including a direct offer from Microsoft, which delivers the Business Productivity Online Suite (BPOS) and Office365 services from their datacentre in Singapore. Westpac declined these offers due to governance requirements relating to data sovereignty. Westpac also mentioned that other providers had proposed hosted exchange services from onshore facilities, but none was doing it to scale.

Fujitsu has gathered considerable market momentum as of late, and a market shift to services rather than products has helped its services-led strategy. With this announcement closely following the availability of business analytics as a service through the provision of SAP's HANA solution, its appointment to the Australia Government's Telecommunications Management Panel, the Datacentre Migration Services Panel, and the beginning of the rollout of the Fujitsu global cloud network, it is consistently threatening the traditional market leaders of IBM, HP, CSC, and recent cloud entrant Telstra (see IDC Link *Telstra Seeds the Clouds with A$800 million* [IDC #lcAU22904011, June 2011]). Large-scale contract wins of prestigious accounts like Westpac and Qantas — against fierce competition — will be giving all four of these competitors serious grounds for thought.

So far, Fujitsu's successes have not included government deals of comparable scale, but now Fujitsu is included on the important datacentre and telecommunications panels and penetration of this market will likely not be far behind. As Fujitsu did for Westpac in this deal, future government business will require security levels that are best delivered by way of a vPC rather than fully shared infrastructure.

Future Outlook

While this deal expands the cloud market and provides another validation point for enterprise cloud services use, it also highlights some adjustments to the rapidly developing cloud ecosystem and the existing managed services markets. With enterprise-scale deals like this now occurring, the large IT technology vendors and IT service providers have locked their cloud services focus on the enterprise. High-volume deals (such as this collaboration services contract) or specialised business-centric services (such as business analytics as a service) will be the domain of these vendors and SPs.

Importantly, these sort of deals require domain knowledge and also provide an opportunity for more profitable consulting, SI, and management services to be attached to cloud deals. Increasingly, IDC expects that these deals will mandate local hosting of the services in order to satisfy governance and performance requirements. Those IT and telco SPs, which have invested in local datacentres, will be relatively advantaged in the enterprise market over those that favour offshore locations. Existing managed services providers are already being forced to adapt to competition from cloud-delivered services, and unless they can afford to invest in a migration of their services to a cloud-enabled platform they face a future of reduced margins and market share. Alternatively, they can become resellers of services from larger cloud service providers, but that would provide a challenging business model transformation for many.

And then there is the fast-growing group of telco service providers entering the cloud market. Though these telco service providers are forming alliances to help them deliver IT services at this level and are leveraging their local datacentre facilities for cloud delivery, their lack of IT services maturity will likely limit their wins to cloud-delivered horizontal services to SMB and hosting of vPCs for the hosting of enterprise applications in medium-sized and large enterprises. This in turn will impact traditional IT vendor channel partners in the SMB range and traditional IT outsourcing vendors in the medium to large range. More competition from telco service providers will not be good news for those VARs that are struggling to migrate to a mixed services and product business model or for distributors as fewer software licenses are bought for resale to the SMB market.

As the go-to-market strategies of VARs and telco service providers evolve in the medium term, we should also expect an increase in the number of locally hosted delivery models for major ISVs. As a result, IDC expects that ISVs without a locally hosted solution will be both seeking and be sought by IT and telco service providers so as to mutually target the large enterprise cloud market.

This locally hosted Fujitsu deal will likely herald the announcement of more locally hosted services from the likes of CSC, HP, and IBM, such as the joint announcement last year by Microsoft, Dell, Fujitsu, and HP for the availability of Microsoft Azure services. Though offshore hosting of certain services for certain customers is good enough, where the large enterprise and government are concerned, a preference for what is perceived as higher-quality services will be apparent.

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