

The Race to the bottom

Commoditization and the Cloud

What is commoditization?

By: Rick Cassidy, Sales Executive

According to Merriam-Webster, to commodify is “to render (a good or service) widely available and interchangeable with one provided by another company.”

Think of the PC market, where price largely trumped brand and differentiation. There’s very little that is unique about any of the latest smartphones and if an innovation by one brand appears to have had an impact with consumers it becomes a standard within months. It’s a problem that’s especially clear at the bottom end of the market.

If manufacturers can’t compete on things like features and build quality, then they compete on price.

Specific to IT Services Commoditization:

Last month, Amazon Web Services cut prices for the 19th time since it launched its flagship service, reflecting the ongoing race to the price floor that so many IaaS providers are pursuing.

At what point do these reductions cut into service quality and features, or has that already happened.

Cause and effect sometimes leads to unintended consequences.

In recent weeks, everyone from Amazon Web Services and Microsoft to Rackspace has either slashed pricing for cloud offers or promised to beat the rival’s prices.

This competitive marketplace has an upside which is to draw in more of the potential consumers of the “as a service economy” and as the prices for services continue to be reduced they are left with little choice to evaluate the IT services in the Cloud.

As with any cause and effect situation and the unintended consequences that can sometimes follow the expansion of the number of potential customers to evaluate cloud solutions leads to a potential devaluation of the service overall.

If indeed the message is the Cloud is all about price then this leads many businesses to wonder if there is any differentiation at all between mass market public cloud solutions.

There is much confusion around the selection process. The speed and frequency of the price cuts raises significant concerns as to the ability of the providers to continue this price cut cycle and be able to maintain stable service delivery, high performance levels, and adequate levels of support. Over the longer term, the price emphasis also prompts questions about how providers will be able to continue to invest in their infrastructures and increase innovation across their portfolios.

How to avoid the race to the bottom:

Focus on service elasticity/scalability, integrated security capabilities, manageability, and portal features.

Companies that are seeking IT Cloud services should push for very specific SLA's to ensure there is a long term agreement in place for service.

Can the Cloud provider deliver on migration consulting and post deployment services are additional items to consider?

In summary:

All IT services should be evaluated on a mix of price, solution, and the value of the engagement.

Focusing solely on price can lead one to partner with a provider that may indeed be unable to provide the service over the longer term or simply be out of business based on the lack of value offered beyond the base price.