TOP 10 PREDICTIONS

New Zealand ICT Predictions 2014: Unlocking the Potential of the 3rd Platform

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PREDICTIONS

This study introduces the top predictions that IDC believes will shape the direction of New Zealand's ICT market in 2014. IDC's predictions for New Zealand's ICT market in 2014 are:

- **Prediction #1:** Intelligent Industries and New Sources of Competitive Advantage Will Arise from the Intersections of the Four Pillars in the 3rd Platform — Big Data, Mobility, Social, and Cloud
- **Prediction #2:** 3rd Platform Innovation Will Push the CIO Community — Some Up, Some Down, and Some Out
- **Prediction #3:** There Will Be a Shift to the Development of a New Wave of Customer Centricity Budgets Focusing on Context Driven, Convenient, and Collaborative Engagement
- **Prediction #4:** Scalability Will Arise as an Area of Differentiation for IT Vendors as the Market Becomes Saturated
- **Prediction #5:** The "Internet of Things" Will Drive the Development of Scalable Commercial Models
- **Prediction #6:** Collaboration Will Drive the era of Social Business
- **Prediction #7:** SDN Investment Will Gain Pace in 2014, But Deployments Will Be Cautious as Carriers Prioritise Other Areas and Only a Number of Enterprises Have the Scale Required
- **Prediction #8:** Cloud Brokerage Will Provide a Level of Order to the Wild West
- **Prediction #9:** Uncertainty Shrouding Copper and Fibre Wholesale Pricing Will Be Removed through a New Partnership between Chorus and the Government; Telcos Will Move to Quality of Service Rather than Price Competition
- **Prediction #10:** Large Projects Will Go on a Diet: Lean and Mean Is In

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This study presents IDC's predictions regarding the most prominent trends for the entire New Zealand ICT market in 2014. Throughout 2013, IDC has observed and evaluated a broad number of user trends and preferences, key technologies and technological changes, vendor strategies, and the wider economic and regulatory environment.

IDC has selected the 10 areas it believes will have a significant impact on the structure and development of the New Zealand ICT market throughout 2014. These top 10 predictions have been selected based on their potential impact on industry dynamics, competition, user demand, and growth.

SITUATION OVERVIEW

2013: At the End of the Storm There Is a Golden Sky — Business Confidence Calls for Action

Ubiquitous expectations for the global economy to improve have been further strengthened by a series of favourable events in 2013 that have removed much of the uncertainty, which has beset the global economy over the past few years. The seemingly inevitable funding crisis in the U.S. government during October 2013 has been prevented for now, China is regaining its rapid pace of economic development and, whilst recovery in Europe remains lukewarm, the threat of economic default in Greece did not eventuate.

Despite the indiscernible growth in Eurozone, businesses are of the general opinion that 2014 is going to be a year of economic growth. Confidence in the global economy is at a record two-year high, as reported in the International Monetary Fund's (IMF) World Economic Outlook (April 2013).

The recovery of New Zealand economy is still relatively uneven across different regions and industries. After a frugal 1.9% growth of gross domestic product (GDP) in the year ended March 31, 2012, the economy expanded by 2.7% for the year ended June 2013 (source: Statistics NZ "Gross Domestic Product" [June 2013 quarter]). IDC identifies the following factors that affected economic growth in 2013 and will continue into 2014:

- **The great drought of 2013.** The New Zealand Institute of Economic Research (NZIER) has calculated that a drought, such as the one experienced in the summer of 2013, usually shaves about 0.5% off annual GDP.
- **Canterbury rebuild gaining momentum.** In the quarter ended June 2013, GDP attributed to the construction sector was 15.4% year over year (YoY) as the Canterbury rebuild finally gathered speed.
- **Strong currency depressed export sector.** New Zealand's exchange rate, in comparison to the U.S. dollar, remained elevated in 2013 and is expected to continue into 2014.
- **The big shakes continue.** There was further stress to the already strained insurance sector when Wellington experienced two large earthquakes in 1H13. The overall impact on the economy is likely to be felt in the construction and engineering sectors with seismic strengthening activities to accelerate not only in Wellington but also in other earthquake-prone regions.

Government Spending Remains Flat — But Business Confidence Is Up

IDC expects the government sector to remain flat over the 2014 year. Whilst a number of projects and initiatives came online in 2013, particularly those aligned with the *New Zealand Government ICT Strategy and Action Plan, 2017*, the horizon for upcoming opportunities is sparse. The early months of 2014 are expected to be busy in the central government sector, followed by a general slowdown in the lead up to the general election, scheduled for the end of 2014. As experience shows, major ICT investments will be put on hold until the new Cabinet settles down and agrees on priorities.

Reduction of government spending and tightening of money supply are inalienable levers of contractionary policy that comes to action during later stages of economic recovery, aiming to limit inflationary pressures on the economy. On the other hand, technological advances and low interest rates will continue to encourage consumption and investments and form the basis of the expected economic recovery and general business growth for the next 3-4 years.

In spite of all the signs indicating that the New Zealand economy will perform at its best since 2007, economic commentators are forecasting rather modest growth. In comparison to the previous years, economic growth in 2014 is expected to outperform growth over the past seven years, as the economy recovers from one of the most protracted economic downturns New Zealand has experienced. The IMF estimates New Zealand's real GDP in 2014 will be 2.6%, in contrast to 3.3% in Australia, 3.0% in the United States, 8.2% in China, and 1.1% in Europe. The world's real GDP at the same time is expected to be 4.0%, driven heavily by emerging economies.

Overall, business confidence is at the highest record since the pre-recession years, confirmed by both the Bank of New Zealand's (BNZ) December 2013 confidence survey and NZIER October 2013 Quarterly Survey of Business Opinion (QSBO). This is also validated in IDC's 2013 Australia/New Zealand CIO survey that asked CIOs about their business prospects through to the end of 2014: over two-thirds (67%) had positive expectation about 2013 versus 73% about the upcoming 2014 year, the highest it has been since before the GFC.

Executives are increasingly confident of local economic growth, which also matches up with the rebound of trading activity on the domestic front, which is up 11% from 5%, reversing a small drop in June 2013 quarter (NZIER "QSBO," October 2013). As a result, organisations are now paving the way for increased activity in the coming deal-making environment. More New Zealand organisations are focused on growth in 2014, and this is reflected in their ICT investment intentions. In contrast to modest growth expectations, New Zealand ICT buyers are very optimistic in their business outlook, as demonstrated in IDC's *CIO Survey 2013*: 43% of CIOs are planning to increase their budgets in 2014, and only 10% to decrease.

According to Ernst & Young (November 2013), some of this growth will come from merger and acquisition (M&A) activity with almost a third of large New Zealand companies indicating that they expect to make an acquisition in the next year. These positive sentiments also affect capital agendas: IDC's *IT Services Ecosystem 2013* revealed that New Zealand corporate focus on cost control and risk management is in some sectors now shifting back towards a revenue growth and profitability agenda with more than half of all businesses surveyed looking for investment options in the next 12 months.

Review of the ICT Market in 2013

Over the past two years, IDC has seen a significant decline in the number of New Zealand organisations cutting ICT budgets. In the 2013 *Australia/New Zealand CXO Survey*, only a tenth of the organisations interviewed stated that ICT budgets were still being pruned. However, this has not translated to increased ICT revenues for vendors and service providers (SPs), as New Zealand's total business and consumer ICT market is forecast to reach NZ$6.9 billion in 2013, a modest overall growth rate of 2.3% YoY.

If telecommunications is included, the growth rate will be a virtually negligible 0.8% as telco spending drops -1.2%. As this segment accounts for 39.2% of the ICT market, this is having a huge dampening effect on overall spending growth. As shown in Table 1, the strongest spending growth occurred in software spending, but even this growth rate (5.3%) is significantly lower than that in previous years. Whilst a number of factors have contributed to this decline, a significant factor has been the IT skills shortage, which has come back onto the CIO's agenda as economic conditions improve. As a result, a number of software implementation and upgrade projects have been postponed or cancelled in 2013, and this is likely to continue to be a barrier to higher growth rates in 2014.

TABLE 1

New Zealand ICT Market Size, 2013 (Estimated)

Market	Revenue (NZ$M)	YoY Growth 2012/2013 (%)
IT services	3,148.6	2.7
Telecommunications	4,459.9	-1.2
Software	1,197.0	5.3
Hardware	2,575.8	0.5
Total	11,381.3	2.3

Note: Includes business and consumer markets

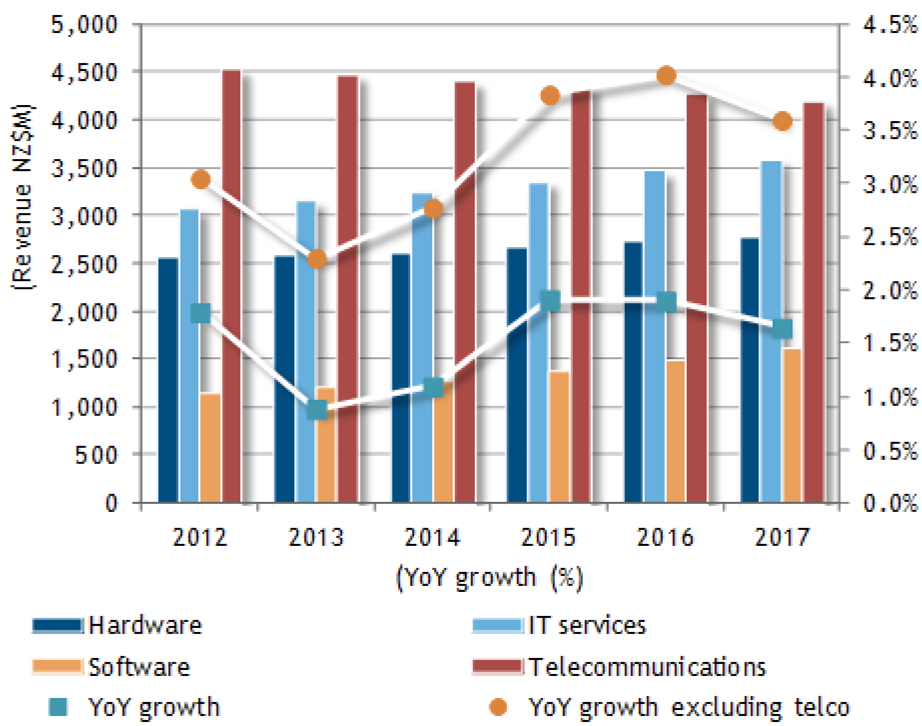
Source: IDC, 2013

Outlook for 2014

As shown in Figure 1, IDC is forecasting 1.2% growth in ICT spending in 2014, across business and consumer markets to NZ$11.5 billion, as telecommunications revenue continues to decline.
If telecommunications is excluded from the calculations, the growth rate is lifted to 2.8% YoY.
The software sector will be the strongest performer again in 2013, with revenue forecast to rise 6.9% to NZ$1.3 billion, followed by IT services (up 3.0% to NZ$3.2 billion).

FIGURE 1

New Zealand's ICT Market Forecast, 2012-2017



Source: IDC, 2012

Reflecting on IDC's 2013 Predictions

Before looking at IDC New Zealand's 2014 predictions, it is worthwhile to evaluate the accuracy of the 2013 predictions. In 2013, IDC New Zealand's predictions were characterised by themes of industry/technology disruption and market consolidation.

Whilst it is subjective, IDC's self-assessment shows that the accuracy of the 2013 predictions was very high for five of the predictions, and moderately high for the remainder as in Table 2. As New Zealand finally acknowledged that economic recovery was now a reality, the disruption that IDC has been predicting when this occurred has materialised.

TABLE 2

IDC New Zealand's 2013 Top 10 ICT Predictions

2013 Predictions	Score Out of 10	Notes
Prediction #1: Further Consolidation and Disruption Will Occur Across the ICT Value Chain	9	There could not have been more disruption — across ICT providers impacting some of NZ's largest customers.
Prediction #2: Businesses Will Accelerate the Reduction of Ownership of IT Infrastructure Ownership	7	NZ organisations continue to adopt cloud technology but recognise the barriers of software licensing.
Prediction #3: End Users Will Further Explore Video Collaboration But Be Challenged by the Cost Benefits of the Investment	7	Cost and integration problems are still challenging NZ organisations, especially in the small and medium-sized business (SMB) segment.
Prediction #4: The NZ Government Will Intervene to Protect Its UFB Initiative objectives	9	The government signalled that this was to be the case but had underestimated the risks of looking to overrule the Commerce Commission and has had to concede to a focus on contract variation as the most likely course of action.
Prediction #5: Machine to Machine Will Present Itself as a Real Growth Opportunity for Mobile Operators	7	The business models for such initiatives have advanced significantly in 2013 though few high profile projects at the retail level have yet emerged.
Prediction #6: Software Defined Networks Will Start to Become a Focus Area for Network Equipment and Software Vendors	6	This prediction took longer than the 2013 period to take hold. 2014 will be the year of evolving the IP for this proposition.
Prediction #7: Windows Phone 8 Will Vie for a Share of the OS Pie, Securing Third Spot in New Zealand's OS Landscape	8	In the smartphone market, they accounted for 6% of shipments, but they have failed to set the tablet market alight.

TABLE 2

IDC New Zealand's 2013 Top 10 ICT Predictions

2013 Predictions	Score Out of 10	Notes
Prediction #8: Medium-Sized Businesses Will Remain the Most Challenging Businesses to Service as LOB Influence on Purchasing Decisions Rises	9	Service providers continue to shy away from this market as an opportunity, due to such things as the government transformation program and the broad engagement requirements and associated costs of engagement.
Prediction #9: The Next-Generation Workspace (NGWS) Road Map Will Become a Top Priority for CIOs	7	Mobility has taken some time for organisations to capitalise on and as such the NGWS has been pushed into the 2014 priorities.
Prediction #10: Mobility Management Services Will Become a Must Have, Rather Than a Nice to Have Requirement	9	Mobility services become the top area of area of investment intent in 2013.

Source: IDC, 2013

FUTURE OUTLOOK

In this section, IDC presents its top 10 New Zealand predictions, covering the issues and developments expected to have the most significant impact in shaping the ICT market in 2014.

Growth in the ICT market in 2014 will be driven to by two different industry dynamics:

- A sluggish 2nd Platform traditional market
- An emerging high-growth 3rd Platform sector

IDC has seen further signs of the shift to the 3rd platform over 2013 amongst a broader set of industries and market sectors. These changes evolve the thinking of CIOs and key IT decision makers as they look to opportunities to gain more from their ICT investment and drive efficiencies and growth within their organisations.

The 3rd Platform space is set to grow at 15% per annum and is expected to witness some aggressive encounters amongst organisations in the mobile, cloud, Big Data, social solutions, datacentres, rising customer groups, and the "Internet of Things" parts of the market as demand patterns emerge.

Vendors within the market will be monitoring this evolution closely to match ICT product and service provision with these emerging needs and to address any key issues within the markets they operate in.

Prediction #1: Intelligent Industries and New Sources of Competitive Advantage Will Arise from the Intersections of the Four Pillars in the 3rd Platform — Big Data, Mobility, Social, and Cloud

In IDC's 2008 top 10 predictions, we noted that the ICT industry was just at the very beginning of what we termed a "hyper-disruption," a "once every 20–25 years" shift to a new technology platform for growth and innovation. In IDC's 2011 top 10 predictions, we gave this post-disruption IT world — built on mobile devices and apps, cloud services, mobile broadband networks, Big Data analytics, and social technologies — a name: the "3rd Platform."

This shift to the 3rd Platform is predicted to be a shot in the arm for the IT industry with the investments in 3rd Platform technologies and ancillary solutions expected to grow by 15%, driving 89% of the global IT spending growth in 2014. Several organisations in New Zealand are also following suit by adopting 3rd Platform technologies: cloud, mobility, social, and Big Data; leading to a gradual cannibalisation of traditional 2nd Platform markets and transformation of the ICT landscape.

However, IDC expects the most dramatic value migration driven by the 3rd Platform not to be within the IT industry itself but in virtually every other industry operating throughout the economy; enabling the delivery of innovative new offerings, redefining competitive advantage, and driving major disruptions of leadership ranks. IDC predicts that by 2018, one-third of the top 20 market share leaders in most industries will be significantly disrupted by new competitors (and "reinvented" incumbents) that leverage the 3rd Platform to create new offerings, new business models, and new cost structures to drive revenue growth and expand value.

In order to truly unlock innovation and the disruptive power of the 3rd Platform, organisations will need to have a strategic and holistic approach to the 3rd Platform technologies rather than having a siloed approach at each component of the 3rd Platform. Thus, the individual components of the 3rd Platform are not the story but the combination of these technologies is where organisations will be able to create competitive advantage and help transform industries.

The financial sector, for example, is a vertical that has joined the mobility bandwagon early on, with most major banks in New Zealand already having deployed a mobile/tablet app for their customers. ASB bank went one step further, in its last mobile app deployment, by allowing customers to make payments directly to their Facebook friends, which proved to be an innovative solution that challenged the reliance on traditional payment methods. This approach of marrying the two pillars of social and mobility proved to be the perfect ingredient for innovation and resulted in ASB differentiating their mobile app from the rest of the competition.

Moving forward, IDC expects a greater number of organisations in New Zealand across various industries to take a strategic approach at mashing the different 3rd Platform technologies. This approach is widely expected to prove to be a harbinger of industry-wide disruption and innovation. Think of this as the long-anticipated period in which virtually each industry gets "Amazoned" in its own way. These disruptions will manifest themselves as cannibalisation of traditional cash cows, slowed growth, squeezed margins, and declining market share. This threat — and opportunity — makes it imperative that senior management become well versed about the 3rd Platform and its possibilities in their own business and industry.

Prediction #2: 3rd Platform Innovation Will Push the CIO Community — Some Up, Some Down, and Some Out

The 3rd Platform has surely arrived and it has become the new reality for vendors, SPs, and CIOs alike. The initial adoption has been around discrete solutions in one of the four pillars (mobility, Big Data, social, and cloud), and 2014 will see accelerated innovation on the intersections of these pillars through mash-ups that transform existing business models and deliver an unseen level of business value.

Business executives are becoming more aware of the opportunities of 3rd Platform innovation to drive competitive differentiation in both process efficiency and value. This is underlined by 76.7% of business and technology respondents to IDC's *2013 Getting IT Right* study, indicating that their organisation views IT as an enabler for business innovation.

The acceleration of competition on the 3rd Platform will result in increased demands and pressures for CIOs and their departments to become the innovation engine within their organisation. However, IDC's *2013 Getting IT Right* study also revealed that currently only 32% of CIOs believe to have significant or good input in the corporate strategy plan. This leaves over two-thirds of CIOs yet to prove their relevance and contribution as a true chief innovation office. The depth of the challenge facing the CIO was reflected in the *2013 New Zealand IT Services Ecosystem*, where the CIO's level of involvement in business transformation projects has dropped below 50% for virtually every stage from problem definition, identifying and recommending solutions, through to funding authority. The only stage where just over half involve the CIO is than is the final sign off.

IDC sees 2014 as a crucial year for CIOs to make the transition from the "old school" chief infrastructure officer to the future role of chief innovation officer, or how one leading CIO recently quoted "change and innovation officer." IDC expects to see three camps of CIOs emerging: (1) the ones who do not have the skill and capability to transition successfully, (2) the ones that are reluctant to even try a transition, and (3) the ones that will succeed in the transition.

The first two camps are well advised to prepare themselves for a career change as their lack of relevance will leave little opportunity than to transition down or out. The third camp of CIOs, however, will claim or strengthen their seat amongst the executive teams. In response, vendors and SPs will be prudent to broaden their client relationships with a focus on the increasingly influential business stakeholders' community.

IDC further predicts that by 2018, the 3rd Platform will redefine 90% of current IT roles, requiring new organisational structures and skill sets within incumbent teams. Roles that will be most significantly impacted include application development, service management, and IT management. The labour shortage will worsen with skills in areas of enterprise architecture, business analytics, and security heavily contested. Nascent skills in areas of mobile development and social developments will further motivate vendors and organisations to scout and secure talent through partnerships and closer engagements with the academic sector.

Prediction #3: There Will Be a Shift to the Development of a New Wave of Customer Centricity Budgets Focusing on Context Driven, Convenient, and Collaborative Engagement

No vendor in their right mind would claim to be non-customer centric. They would not last long in business if they did.

Customer centricity is a term that is often pitched about, but what does it truly mean? Most ICT organisations still have a piecemeal and reactive approach to the customer, whether it is an internal line-of-business (LOB) manager or their organisation's customer. IDC believes that there are three components that need to be fulfilled for an organisation to be truly customer centric and to provide real customer value:

- **Context and consistency.** Does your organisation engage with your customer in a context aware and relevant manner? With the rich array of analytical and engagement tools now accessible to companies, there can no longer be an excuse to persist with mass customer strategies.
- **Convenience and customer value.** Whilst this relates mainly to the channel options, it is essential that these provide identifiable value to the customer. Is on-boarding channel agnostic and how much effort does the customer have to invest in to engage with your organisation?
- **Collaboration and communication.** IDC has found that the top 4 business drivers that social collaboration tools enable are enhanced employee collaboration and information sharing, but equally important in customer collaboration for not only engagement but also as a invaluable tool for innovation and co-creation. However, this resource is massively underexploited. A 2013 poll taken at the New Zealand Social Business event found that only a fifth of the companies were using social tools for internal collaboration and half as many use the tools for external collaboration.

In the *2013 IT Services Ecosystem* study, almost two-thirds of New Zealand organisations are making customer centricity their number 1 priority in the next year, and this will have a profound impact on ICT budgets in 2014, particularly with respect to investment in collaboration tools and services, mobility, business analytics, and social business tools where customer centricity is the top-ranked driver for investment. For example, IDC is forecasting that New Zealand spending on unified communications as a service (UCaaS) will double between 2013 and 2014, to US$17.1 million, advanced analytics software will grow by almost 8%, and a quarter to a third of organisations have plans to deploy social or unified communications collaboration tools in the next year.

As a result, IDC predicts that 2014 will be the year that New Zealand ICT organisations begin to implement truly customer-centric solutions and processes that are context driven, customer convenient, and collaborative.

Prediction #4: Scalability Will Arise as an Area of Differentiation for IT Vendors as the Market Becomes Saturated

Market differentiation in the IT services market is becoming a challenge. In the recent IDC Ecosystem study, the average score rating organisation's primary ITSP, across all the major providers, had a spread of just 0.1 over 10 or just 1% for those vendors surveyed. However, 60% of New Zealand organisations continue to fulfil their IT needs themselves and so the market potential remains high for ITSPs, despite this level playing field and lack of discernible differentiation across performance factors.

In the new world of the 3rd Platform, the challenge is for the CIO to become more strategic and even more engaged with the wider organisation. It is not an easy task as the scope of possible responsibility for the CIO expands with the new services and technologies enabled by the 3rd Platform.

Managing infrastructure, being strategic, incorporating the increased role of LOB in the decision-making process, and continuing to drive efficiency savings from the business, whilst still managing to deliver a return on investment (ROI) within 12–24 months, is too much of a challenge for any one CIO. This is especially true if the CIO decides to go it alone and tries to be something for everyone and ends up being no help to anyone.

To be more strategic, agile, and engaged, the CIO of the 3rd Platform will seek a greater engagement with 3rd-party SPs.

The challenge will be to create a compelling enough reason for more CIOs to relinquish control and embrace the new model. At a basic commercial level, in-sourcing will always win as internal capability does not often account for the overhead involved with outsourced staff (around 70% on top of base salary) or the utilisation levels of the resource and additionally does not have to account for the margin requirements of the SP. Instead, what should be factored into the decision are the benefits of external accountability, scalability, and the opportunity cost of having the external resources focused on business efficiency (infrastructure management/jack-of-all-trades management) freeing up internal resources for the opportunity to focus on driving business effectiveness with the business' own customers (internal or support for external-facing customer functions).

The benefits of cloud services have leveraged this opportunity to great success. As such, IDC predicts that in 2014, IT SPs with scaleable platforms (with similar benefits to cloud) will be able to derive economic benefits for their customers, as well as deliver the ability to deploy solutions rapidly. As a result, the platforms that IDC views are going to drive the most success for the 2014 period will be the propositions orientated around hosting (e.g., infrastructure as a service [IaaS]) and collaboration (e.g., video, UC, and mobility).The hosting propositions provide an opportunity for customers to explore a more flexible consumption of workloads (storage, network, and process). Collaboration is all about better connecting people and businesses.

Prediction #5: The "Internet of Things" Will Drive the Development of Scalable Commercial Models

The radical expansion of the 3rd Platform's edge beyond smartphones, tablets, and PCs to incorporate the so-called Internet of Things (IoT) will become a crucial growth accelerator for the New Zealand IT industry when considering growth of the 3rd Platform. Globally, IDC is predicting that there will be 30 billion autonomously connected endpoints and US$8.9 trillion in revenue associated with this growing market, by 2020.

The Internet of Things already impacts on many elements of our everyday life, down to the smallest processes. For years, IoT was a future engineers could only dream about, but the various technologies are fast becoming a reality, with huge ramifications for the economy and society. The impact and market opportunities that exist for New Zealand IT vendors and ITSPs are substantial.

IDC predicts the technology and services revenue, as well as the installed base of the "Internet of Things," to accelerate in New Zealand in 2014. This trend is largely driven by intelligent systems that will be installed and collecting data — across both consumer and enterprise applications. ITSPs (including mobile network operators) have an invaluable and almost unlimited opportunity in providing connection services for IoT. However, these ITSPs will be looking for other opportunities as well to build up the intrinsic value of their offering.

The Internet of Things also opens up many IT vendors to the consumer market, providing opportunities for business-to-business (B2B) or business-to-consumer (B2C) services to connect and run new applications for our homes, workplaces, and vehicles — and all the places that electronic devices may have a networking capability.

A new generation of 3rd Platform solutions will drive the next decade of IT industry growth and create momentum for new industry partnerships to emerge, as traditional IT vendors begin to accelerate their partnerships with a broader range of global SPs and semiconductor vendors to create integrated offerings in the consumer electronics space. These new partnerships will accelerate the number of connected devices, expand the intelligent systems that manage the sensors (a goal for the microprocessor vendors), and create integrated solutions offerings for the business services organisations of the IT players. Not to be left out in the cold, IT vendors that cannot form these types of partnerships will instead turn to accelerating open industry standards to ease the complexity of seamless connectivity within IoT. Examples of opportunities that IDC expects to see emerge in New Zealand in 2014 include:

- **Agriculture/rural: Herd trials — livestock.** Sensor-based wireless monitoring systems used to track health and fertility in cows already exist in New Zealand and will become "mandatory" for success. For example, Kahne Limited is a New Zealand agritech company that develops, manufactures, and distributes wireless biotelemetry-based solutions. The solutions enable farmers and their advisors to continuously monitor the individual health status of their livestock with a sensor-based monitoring system. The unique monitoring system measures important data from inside each animal and automatically generates alerts and useful reports for farmers and their advisors, enabling management by exception and optimisation of nutrition programmes. New applications will enhance production efficiency and animal health to drive value to the bottom line.

- **Health opportunities around smart medical monitoring, smart sensors for patients and doctors, and real-time data.** New sensing and digital technologies already provide a range of intelligent biometric medical monitoring and care services that can significantly increase personal well-being and safety, provide peace-of-mind to the elderly and their loved ones and, ultimately, improve health outcomes. Smart medical monitoring will have a huge impact for the New Zealand Health sector, as well as for IT vendors and SPs. Opportunities are endless, ranging from baby to elderly monitoring, and the demand for smarter remote health monitoring systems is constantly growing as New Zealand's population is rapidly aging. Smart technologies will be the key to unlocking new models of care. Intelligent medical alarms in new devices, such as bracelets, watches, or phones, will be able to monitor heart rates and further changes and instantly raise an alarm. Driven by real-time data analysis, the potential in the health sector is huge.

Globally, IDC is predicting the emergence of a number of new partnerships based around the opportunities of IoT. Locally, this will manifest into a greater level of interest in early commercial deployments of services and applications based on the underlying technology advances being married up with opportunities.

Prediction #6: Collaboration will drive the era of Social Business

IDC predicts that external collaboration programmes will be amongst the top priorities for New Zealand organisations for the 2014 period. The programmes will span a wide group of initiatives from video and UC platforms and the development of social network tools either on premises or cloud based.

The emergence of mobility, social business, and cloud-based opportunities are driving organisational questions regarding:

- How do I become more customer centric?
- How do I better connect with both my customers and my suppliers?
- How do I get my staff to better engage with each other?
- How to I empower my staff more?

The barriers to adoption historically have been based around articulating the ROI to the organisation, as the benefits are regarding the way in which information and communications flow throughout a business. With the distance between now and the GFC creating a more optimistic outlook and the need to grow top line (revenue) through better engagement, there appears a greater level of faith in the opportunity.

The initial drivers for success will be internally focused in the outset and then evolve to include the supplier community. The questions that will quickly evolve will be based around adding reference ability to the engagement such that others can view it or it can be referred to. Service providers that provide solutions that are secure, cost effective, platform based, and can provide assurances around delivery time frames will capture the market opportunity to be had.

Prediction #7: SDN Investment Will Gain Pace in 2014, But Deployments Will Be Cautious as Carriers Prioritise Other Areas and Only a Number of Enterprises Have the Scale Required

Software-defined networking (SDN) is a network paradigm that separates the control layer from the underlying hardware by creating a virtual overlay that allows the network to become software programmable. The concept of SDN has been hailed as the catalyst to flexible, scalable, and intelligent networks and as the answer to the current and future issues of both the carrier and the enterprise. There are several factors in play that will accelerate SDN deployment in 2014:

Carrier Push

There has been considerable hype from the vendor community about the potential of SDN; however, in 2014, carriers will take a greater interest. SDN offers the potential to reduce costs as it makes the network more flexible, speeds up time to reconfigure, and update software, overall making the network easier to manage and reducing operational costs in the network. Whilst efficiency and cost reduction are the main drivers, another key factor that will be a crucial push factor is that SDN can speed up deployment of new services, making investment in new products more favourable.

Enterprise Pull

There are clear benefits to enterprises in pursuing SDN, as it allows the network to be configured to match immediate requirements and to improve business continuity through deterministic traffic routing; however, to date, investment has been reserved. This is because there is a disconnect between what SDN can do as a technology and its intrinsic value to the core business. In 2014, IDC expects a change in perspective to SDN, as it becomes seen as a tool that makes the business more agile to the LOB needs. This will be critically important, given the increased involvement of the CFOs and CMOs in ICT decision making.

Despite the obvious benefits arising from SDN, there are some drawbacks that may hinder progress in its adoption. Making small changes to communication networks can be difficult, SDN forces substantial changes, as it requires inserting a new control plane so that every piece of existing operational network equipment understands the role of this new layer and follows its commands. SDNs embryonic nature means that vendors are still working on standards and interoperability and concerns are being raised in a number of areas, including security. Despite this, IDC expects 2014 to be an important year for SDN and predicts that:

- In 2014, a number of carriers will invest in SDN, initially concentrating on the datacentre before extending into the WAN. Carriers face difficult investment decisions as other initiatives (4G, fibre, IPTV) may take priority in the short term. Only those operators that strive to be innovation leaders will invest in SDN, and IDC believes even those will do so on an incremental basis. Already we have seen some investment in New Zealand with CityLink upgrading their internet exchanges with SDN equipment, and IDC predicts 2014 will produce increased investments from a number of SPs, which include both carriers and systems integrators.

In 2013, an IDC survey of NZ enterprises found that 16.8% of firms had either implemented or were planning to implement SDN, whilst 48.1% had not even considered the technology. In 2014, whilst there will be a marginal increase in those pursuing SDN due to the nature of the technology, there will be a considerable increase in those who have considered it. For SDN to be worth pursuing enterprises require scale, this is an opportunity that can be taken advantage of by a number of verticals, particularly financial, healthcare, education, and government and will be where investment is focused in 2014.

Prediction #8: Cloud Brokerage Will Provide a Level of Order to the Wild West

Organisations continue to adopt cloud services at a prolific rate. The *2013 IDC Asia/Pacific Cloud Services Survey* detailed clearly that all New Zealand organisations interviewed have adopted or intend to adopt cloud services in the next 12 months.

The areas of adoption are varied across the size and vertical orientation of a customer.
The opportunity for cloud technology to enable a business to abstract functional value quickly, as well as derive strong reference able insight is highly compelling.

ITSPs are recognising that this cloud adoption is both an opportunity and a threat. It is an opportunity to provide the service as a distribution vehicle, as well as an opportunity to enable the service to be interoperable with the other technology being leveraged within the organisation. It is a threat in the customers can source cloud via a more direct route and as such disinter-mediate the SP locally.

This challenge gives rise to the global emergence of a new form of platform loosely called cloud brokerage. Cloud brokerage is a platform that enables the distribution, integration, and delivery of cloud to customers either at a horizontal (all segments and verticals [e.g., Office 365]), vertical (a specific set of solutions relative to a business type [e.g., government]), or niche (a specific solution of cloud and or non-cloud proposition [e.g., trading an organisations compute requirements]). Cloud brokerage offers the opportunity to drive cloud rather than be driven by cloud by enabling the rapid adoption, delivery, and integration of cloud solutions with security.

The recent IDC *Asia/Pacific Cloud Services* study has identified the cloud brokerage opportunity to be worth an estimated US$18.5 billion. Whilst the market may not achieve this lofty height, the value of the market is compelling enough to command market attention.

2014 will see New Zealand come of age and follow the market down this exciting path. Given the lack of scale in New Zealand, the opportunity favours the first movers and the brave from an SP opportunity perspective. New Zealand has, within its ranks, a number of cloud brokerage platforms that will emerge with the global providers in the market. These parties include Westcon (IT distribution) and 9 Spokes and, if they are able to enable the channel to sell well, then they have as much right to the market as any of the globally established providers.

As with cloud, the challenge to develop the IP regarding the go-to-market model is high and takes time. Those that move early will create a natural advantage that will be difficult to challenge.

IDC also expects parties, such as the Department of Internal Affairs (DIA), and large global companies to look into adopting the CIO-orientated brokerage platform. These platforms make possible the evolution of the CIO (the new business broker) by establishing a technology-based solution for providing a level of governance and policies regarding the on-boarding of cloud solutions. Thus, allowing the CIO to evolve its capability to be more focused on optimising the opportunity of technology and be more strategic and engaged within the business. Examples of such platform are Compatible One and Jam Cracker.

IDC recommends CIOs evolve an understanding of CSBs to see if they are right for your business. Service providers should look to this new model as an opportunity to reframe their organisation and capture annuity-based revenue and greater customer insight.

Prediction #9: Uncertainty Shrouding Copper and Fibre Wholesale Pricing Will Be Removed through a New Partnership between Chorus and the Government; Telcos Will Move to Quality of Service Rather than Price Competition

Chorus' share price has dropped by nearly 65% from NZ$3.69 in March 2012 to less than NZ$1.31 as of December 9, 2013. The dramatic fall has played out not because of a deterioration of the company's fundamental business (there is still strong growth in broadband connections) but because of the threat to its future revenue and ability to potentially fund dividends going forward. This has resulted from a regulatory re-price of wholesale broadband charges that has surprised the market and exposed gaps in the industry's regulatory and policy framework. From December 2014, the Commerce Commission has determined that the price for wholesale broadband service known as UBA will drop from NZ$44.98/month to NZ$34.44/month, cutting Chorus revenue and EBITDA by an estimated NZ$142 million/annum.

Chorus has asserted (later confirmed by an independent review by Ernst and Young Australia) that this will weaken its financial position to such an extent that it will not be able to borrow the money the company requires to finance its involvement in the New Zealand Government's UFB fibre rollout initiative. As a result, the UFB initiative to roll out fibre broadband to 75% of New Zealanders by 2020 has been potentially placed in jeopardy.

When the draft UBA pricing was originally announced in December 2012, the New Zealand government was quick to announce that it would consider intervening and over-ruling the Commerce Commission to ensure the stability of the UFB initiative continued both from a build and uptake perspective (relative cost of copper versus fibre). The government released a discussion paper on proposed changes to legislation that included options to effectively overrule the Commission's decision. However, over the course of 2013, opposition parties, interested Internet SPs (ISPs), and consumer organisations have successfully campaigned against such intervention, arguing that it would amount to a "copper tax" were the government to raise the wholesale broadband above that benchmarked by the independent regulator.

The government has been forced to consider a less direct approach. The government is exploring options and working with Chorus to see what potential variations could be made to the UFB contract that may address some of the UFB build financial challenges. However, the issue of building financing and migration has now been clearly separated by the changes that have occurred during 2013.

The UFB deal is a great one for NZ — the government invests NZ$1.3 billion, which it will eventually get back, and its partners (Chorus and local fibre partners, Enable Network, UltraFast, and Northpower) invest around three times that amount. New Zealand gets a widespread next-generation fibre network and all the economic benefits associated with it (greater productivity, improved education and health options, and business innovation).

IDC predicts that a common sense will prevail:

- A commercial compromise will be reached, whereby Chorus provides a commercial copper broadband range between NZ$37 and NZ$40/month — higher than the regulated price for UBA (NZ$34.44) but lower than the current price (NZ$44.98) and of a higher specification than the regulated service.
- Such a compromise still means price savings for retail service providers (RSPs), and if they pass them on, consumers and businesses but Chorus is not financially crippled in the meantime. The industry achieves certainty of prices and the wholesale fibre and copper broadband services are priced at parity — this is important for providing incentives for ISPs and end users to move to fibre.

IDC further predicts that price competition will continue to be intensive at a retail level, but that the nature of this competition will change and evolve from a primary focus on pricing to include network and value-added components as quality of service becomes more important. Fibre provides a natural reconsideration point for New Zealand end users, and there is a growing push for naked connections. IDC predicts that large RSPs will continue to compete aggressively on price and value to gain share.

Prediction #10: Large Projects will go on a Diet: Lean and Mean Is In

2013 has seen a number of high-profile projects fail to deliver on expectations across the market. The Novopay project within the Education payment sector had, by far, the highest profile issue with its failure to deliver on time, costs, and scope of services. As a result of the failure, the government has had to invest further in the program.

IDC predicts that for the 2014 period, large projects, such as this, will fall out of favour in the market and become scarce.

With the emergence of agile and lean methodology, coupled with the shortened expectation around positive ROI, we will see a more rigorous approach to the thresholds against which the project authorisation will be measured. The *2013 IDC Australia/New Zealand CXO* survey showed that both countries are driving an ROI expectation across 50% of businesses within 1 year with just less than 20% expecting a positive ROI within six months.

IDC believes that projects aligned with the elements of the 3rd Platform will take priority over legacy 2nd Platform projects. Only those projects that can demonstrate a high level of standardisation and simplification will manage to survive the governance requirements.

Spending habits and value creation in the 3rd Platform market will occur on the background of two main scenarios:

1. The continuous shift from traditional product and service categories into 3rd Platform technologies, services, and solutions will accelerate organisations to innovate in the intersections of the 3rd Platform pillars: mobility, Big Data, social, and cloud. This would, in turn, lead to money — that could have been spent on the 2nd Platform offerings — to be directly invested under 3rd Platform to drive business innovation and competitive differentiation.
2. Spending will increase not only through the cannibalisation of 2nd Platform offerings but also through the user migration to 3rd Platform mash-ups. Users are expected to migrate from IaaS to platform as a service (PaaS), from generic PaaS to Big Data-optimised Paas, and from cross-industry PaaS and SaaS to industry-specialised PaaS and software as a service (SaaS) both in the short and long terms there by bringing the 3rd Platform technology closer to their customers and gain competitive advantage in the market.

Historically, the ICT budget has been a business overhead and, as such, it is a shared cost, this does not suit a model based on activity-based costing and an organisation that is trying to become more dynamic and agile in nature with high accountability with the owners of customer, product, and delivery.

The market has already signalled that the LOBs within an organisation are taking a greater responsibility in the application and decisions regarding the use of technology. The *2013 IDC New Zealand IT Services Ecosystem* study showed a 100% increase in the involvement of the LOB in almost all phases of the technology process. The CIO is now an enabler rather than a driver of technology. Because of this, IDC expects that smaller cloud-based programs will take precedence as the LOBs are driven by profitability rather than shared cost.

ESSENTIAL GUIDANCE

Implications and Guidance for Business Executives

The rise of the 3rd Platform is raising as many questions as it presents opportunities. None more important than the executive level's understanding of the new technology paradigm. The CEO now must be able to have a technology-based conversation at the same level of ease that they have with the CFO regarding financial reports.

Historically, technology has had to align with the business, but this statement no longer holds true. Given the nature of technology being a threat and an opportunity, organisations need to align to innovate and reinvent themselves by leveraging the 3rd Platform. At an executive level, technology must be a consideration if not centre point in the establishment of strategy with the context of network engagement and information management. Structure is still important, but the consideration regarding how an organisation engages internally and externally is far more dynamic than that.

The CIO must be tested. If they signal that they want to own and control everything and partner for nothing, this should send warning signals to the business. If the CIO seeks to govern well, be highly engaged and strategic, and partner for commodity elements, then you are onto a winner. There are no guarantees that they will get it right first time, but it is in the willingness to try and to change that some great business outcomes will emerge. Organisations further should establish a metrics and culture where failure is encouraged and promoted as positive. The 3rd Platform presents the opportunity, if not the requirement, to radically innovate and this requires for CIOs and executives to think outside the box and to take risks. Agile development approaches, combined with sound project management and governance, make project failures manageable and affordable; it enables organisations to push the boundaries in a controlled way. Organisations need to create a culture of innovation as the status quo will present a greater risk than controlled failure. Like Edison said: "I have not failed. I've just found 10,000 ways that won't work."

There is a barrier that will need to be unlocked (or locked up depending on your point of view), which is the value of partnering. ICT, over the past three years, has been an area of great savings to the efficiency-focused areas of the business (i.e., procurement). For commodity-based products, this model works; however, for innovative technology solutions that aid organisations to be more effective, this model is less workable. The challenge to be more effective to customers comes in being agile and innovative; this is not a place where procurement is able to play with speed.

Finding the balance between organisation governance and organisational empowerment is no easy task, but those that are willing to test the model will create an organisation that is more sensitive to the customer and more engaged as a network.

Implications for Vendors and Service Providers

Local vendors face another year of being the shock absorbers in the world's longest race, the race from the 2nd Platform to the 3rd Platform. Balancing the challenges of incumbent partner programs, license restrictions, the global needs versus the local expectations, from an SP perspective, continues with the targets of one-off or annuity deals still a little vague. The role of the value chain (vendor, distribution, procurement, and the value-added reseller) remains in flux, as all parties seek to capture more value from the customer and each other.

As a result, IDC believes that the most significant implications for New Zealand vendors and ITSPs are:

- With the market average of technology services being 60% in-sourced and 40% outsourced, there is a lot of upside in a greater use of external SPs. Vendors and SPs alike face the challenge of growing the addressable market by educating customers about the value of partnering more. As the market standardises around similar product sets, this will become somewhat easier; however, the key will be to drive a consistent message across the market and deliver greater service.
- ITSPs must aim squarely at customer maturity and standardisation and ensure that they provide scalable and repeatable solutions that will support the mechanics for driving an efficiency strategy. There is still ample opportunity for differentiation in the applications of cloud, social, mobile, and Big Data against verticals markets and business functions.
- ITSPs should also begin developing IP around cloud brokerage as both a service for the enterprise market and for the volume market. Cloud adoption is growing, and customers are sourcing it directly (driving revenue leakage from the country) and via SPs. There is value in the distribution, integration, and customisation of cloud across all segments and verticals.
- There is a clear signal that the LOB and marketing departments are taking a greater piece of the technology budget. Service providers will do well to take note of this and broaden their engagement with the customer. The twofold benefit of this is uncovering new opportunities, as well as the opportunity to be the eyes and ears for the CIO as they seek to become more engaged.
- 2014 is likely to be a challenging year of uncertainty within the telecommunications market and may create some challenges for the market looking to make greater use of industry services to drive opportunities built on the 3rd Platform. Growth in the broader market, however, and developing business models provide opportunities for collaboration across a number of market segments and with a wider variety of partners, as organisations seek innovation in their business models.

LEARN MORE

Related Research

- *Asia/Pacific (Excluding Japan) 2014 Top 10 ICT Predictions* (IDC #AP243802 December 2013)
- *New Zealand IT Services Ecosystem Study 2013* (IDC #NZ243804, December 2013)
- *New Zealand Vertical Markets 2013-2017 Analysis and Forecast: Competing on the 3rd Platform* (IDC #NZ2578603V, December 2013)
- *New Zealand Telecommunications Competitive Ecosystem 2013* (IDC #NZ3053308X, August 2013)
- *New Zealand IT Services 2013-2017 Forecast and Analysis* (IDC #NZ2578506V, July 2013)

Synopsis

This IDC study presents IDC's predictions regarding the most prominent trends for the entire New Zealand ICT market in 2014. Throughout 2013, IDC has observed and evaluated a broad number of user trends and preferences, key technologies and technological changes, vendor strategies, and the wider economic and regulatory environment. IDC has selected the 10 areas it believes will have a significant impact on the structure and development of the New Zealand ICT market throughout 2014. These top 10 predictions have been selected based on their potential impact on industry dynamics, competition, user demand, and growth.

The rise of the 3rd Platform is raising as many questions as it presents opportunities. Historically, technology has had to align with the business, but this statement no longer holds true. Given the nature of technology being a threat and an opportunity, organisations need to align to innovate and reinvent themselves by leveraging the 3rd Platform. "The CEO now must be comfortable to have a technology-based conversation at the same level of ease that they have with the CFO regarding financial reports. At an executive level, technology must be a consideration, if not centre point in the establishment of strategy with the context of network engagement and information management. Structure is still important, but the consideration regarding how an organisation engages internally and externally is far more dynamic than that," says Louise Francis, research manager, IDC New Zealand.

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1000 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For more than 48 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

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