

THE G-CLOUD: Revolutionising the UK Public Sector ICT Supply Chain

30th June 2015

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Key Headlines

The G-Cloud is disrupting the traditional Public Sector ICT supply chain

Incumbent suppliers are failing to maintain traditional market share

New suppliers are rapidly gaining market share, traction and future supply opportunities

What are the long term implications for companies such as Atos, Capita and HP in the Public Sector ICT Supply chain?

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Introduction

There is a massive change taking place in UK that is seldom referred to when talking about disruptive technologies or new commercial models.

We are talking about the G-Cloud and it has irrevocably changed the way that the UK Enterprise Technology market functions.

For those not familiar with it, the G-Cloud is the Government's "Amazon" for Public Service ICT. It's a ~£600m pa framework that enables Public Sector organisations in the UK to buy ICT 'on demand' services via an Amazon style portal called the Digital Marketplace.

Launched only 3 years ago, G-Cloud had a shaky start but is now growing at an exponential rate and today hosts a vibrant community of 1,850 suppliers providing almost 20,000 different services (or permutations thereof).. and a number of industry insiders believe that the value of the services brought through it may well exceed £3billion per annum by 2018.

Cumulative spend by customer type

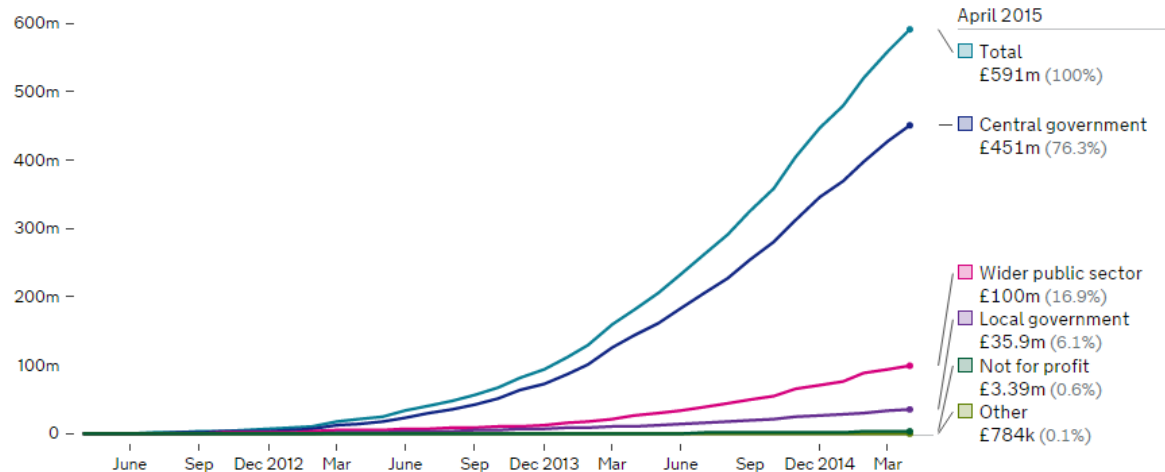
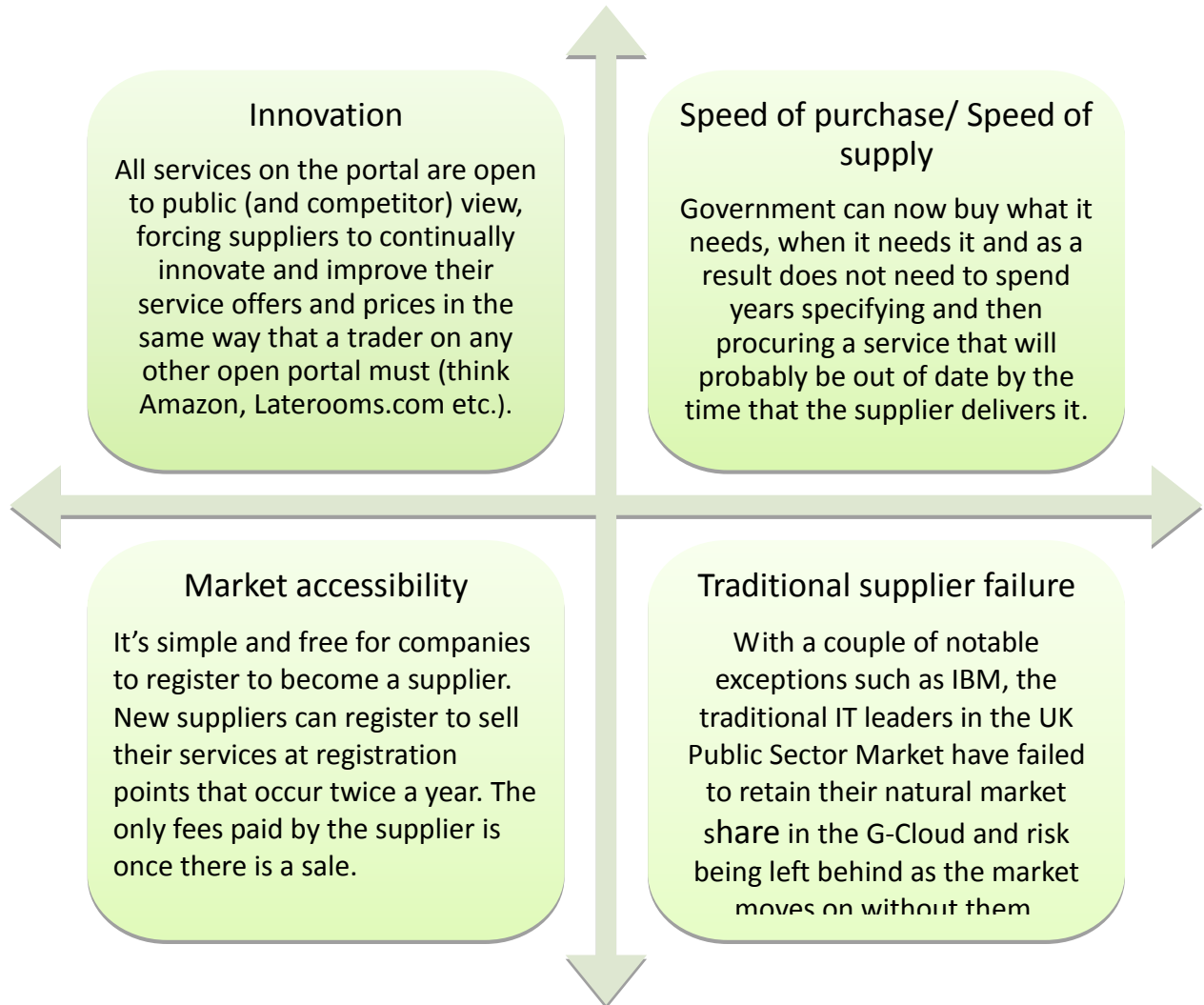


Figure 1: The Growth of G-cloud

Source Cabinet Office, <https://www.gov.uk/performance/g-cloud>

So, what is disruptive about the G-Cloud?



The failure of the incumbents

The G-Cloud framework provides a number of novel elements such as a total transparency regarding who buys what from whom and the sales data is published monthly. The latest sales data available to us at the time of writing this report was for May 2015. The full data is [here](#), and can be interrogated via an excellent online tool from [GovSpend.org](#). It gives an excellent insight into how suppliers are adapting to the new buying environment. (Pop your own organisation into the tool to discover what you've sold/bought)!

The most simple but telling table is to simply compare the UK's top Public Sector ICT suppliers market shares in the traditional market in 2013 vs their position on the G-Cloud sales leader board.

Company	Current/ traditional position based (2013 data)	Position on the G-Cloud 2015
HP	1	0 ↓
Cap Gemini	2	6 ↓
Capita	3	0 ↓
BT	4	33 ↓
Fujitsu	5	45 ↓
Atos	6	35 ↓
IBM	7	4 ↑
Serco	8	0 ↓

When reviewing these figures it is wise to consider that the largest Systems integrators and BPO companies are focused on larger outsourcings and complex platform delivery; indeed, companies such as Capita and Serco derive the majority of their revenues from other type of services within the Public Sector. Furthermore, some have invested heavily into other Public Sector Frameworks that they may prefer to sell through.

We are not therefore suggesting that their market share will vanish 'overnight', however the G-Cloud sales leader boards demonstrate how clearly they have a problem adapting to the G-Cloud.

This problem adapting to this new sales channel is doubly serious when one considers that the 'Cloud First' policy mandates central government departments to consider and evaluate cloud solutions before purchasing any other solutions.

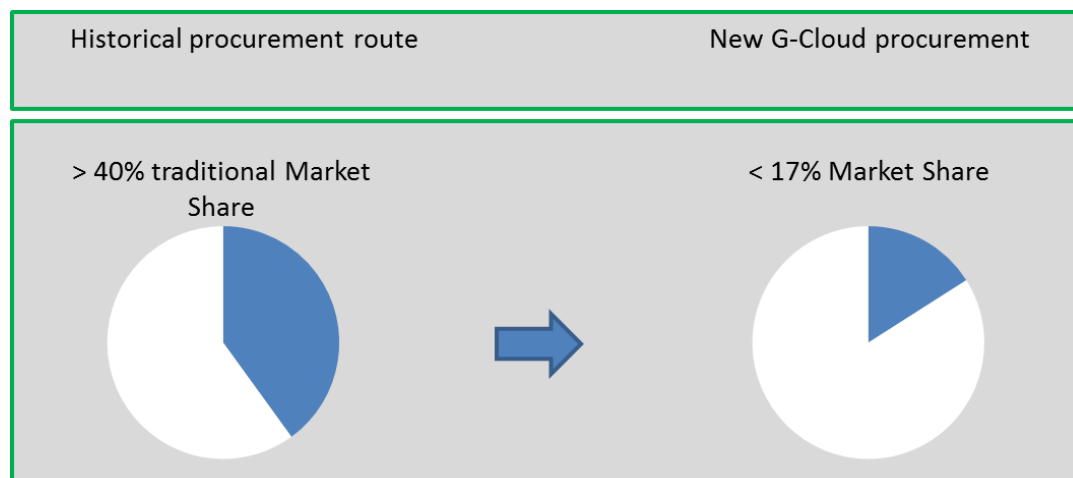
This lack of success on the G-Cloud is not for lack of trying as can be seen by the number of G-Cloud service lines that they have listed on the Digital Marketplace. Each of the services listing includes a specific brochure, product description, T&C, prices etc. These need to be maintained and so the total number can be taken as an indicator of the serious attention being paid to this market.

Company	Number of G-Cloud services on the portal	Total G-Cloud revenues 2012-2015
IBM	167	£17.5m
Capgemini	216	£11.2m
Atos	183	£5.3m
BT	65	£2.1m

Fujitsu	70	£1m
HP	245	£517K
Capita	55	-
Serco	8	-

In a nutshell, the UK's top ICT suppliers who traditionally have a >40% market share of Public Sector ICT only have:

- a 19% share of the total number of service lines represented on the G-Cloud
- a 16% market share of the TCV being purchased via the Digital Marketplace.



Capita, Serco and HP seem to have an especially acute problem or perhaps failing to sell via the Government's preferred ICT procurement channel implies that they know something that the rest of the industry does not.

They cannot be counting on a late mover advantage since the solutions and services offered on the G-Cloud are far too diverse for a single technological advance to overtake all of them. It could be speculated that perhaps they are counting on the growth of public sector commissioning to side-line the importance of the G-Cloud. Or it could be that they haven't yet figured out how to succeed in this new route to market.

Moreover, it's not just the Traditional Tier 1 suppliers that are suffering, the second tier niche suppliers are faltering as well. For example, neither Civica nor Agilisys, both exceptionally strong suppliers of IT solutions to the Local Authority market, made any sales in Q1 2015 even though 76 other companies sold services to 83 different Councils, booking revenue of over £8m.

The rise of the new Public Sector Suppliers

Contrast the revenues achieved via the traditional leaders with the revenues booked by the new wave of SME's and new market entrants; only IBM managed to make it into the top 10

Company	Total G-Cloud revenues 2012-2015
BJSS LTD	£25.8m
Valtech Ltd	£24.6m
Methods Advisory Ltd	£21.9m
IBM United Kingdom Ltd	£17.5m
Equal Experts	£17.4m
Mastek UK Ltd	£16.8m
PA Consulting Services Ltd	£15.3m
Skyscape Cloud Services Ltd * ¹	£14m
Kainos Software Ltd	£13.9m
Thoughtworks Ltd	£10.7m

Whilst the overall revenues are low, most (~70%) has been earned in the last 12 months. Far more importantly for these leading G-Cloud players is they have gained multiple touchpoints inside of new clients – clients that they can now nurture and win more business from.

New suppliers enjoy greater market reach

An example of how widely these companies have won business can be seen just by looking at the top three supplier's G-Cloud customer bases:

Supplier	G-Cloud customers
BSSS	Birmingham Community Healthcare NHS Trust, City and Hackney Pct Com, DEFRA, DVLA, FCO Services, FCO, Health and Social Care Information Centre, Health Education England, Health Research Authority, NHS Connecting for Health, NHS SBS.
Valtech	Cabinet Office, Chief Executive of Skills Funding, DWP, Department of Health, DVLA, Driver and Vehicle Standards Agency, Intellectual Property Office, Midlands and Lancashire Commissioning Support Unit.

¹ Direct contracts only, overall revenues are much higher if their G-Cloud reseller's revenues are included.

Methods ²	Argyll & Bute Council, Bristol CC, Cabinet Office, Chief Executive of Skills Funding, DCLG, DoE, East Sussex CC, Focus Futures, Government Legal Department, Highways England, HM Inspectorate of Constabulary, Home Office, Leeds CC, Leicester CC, LB Hounslow, LB Waltham Forest, Maritime and Coastguard Agency, MoJ, NAO, Nottinghamshire, ONS.
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What is striking about this is the inroads that these companies have made into all parts of the Public Sector from Central and Local Government, through to Health, Blue light and the 3rd sector.

In many cases the work commissioned through the G-Cloud thus far has been for Technical Strategy and pilot projects related to migrating further platforms onto the G-Cloud.

- 1) This means that these new suppliers are working at the highest levels within the new accounts that they are serving, often producing business plans and reports commissioned directly by the CIO.
- 2) If these progress they will produce substantial gains in each of these accounts.

Some of these new suppliers are achieving spectacular growth. For example Kainos, (until very recently an SME) based in Belfast has announced plans to employ 400 more staff due to expansion that has, in a large part, been achieved via the G-Cloud and Digital Marketplace.

What next for the G-Cloud?

This is a threat on the horizon from the growing trend towards commissioning. However, generally we continue to feel very bullish regarding the G-Cloud. As a colleague remarked recently “the Stone Age didn’t end because they ran out of stones, they just figured out a better way to do things”.

The G-Cloud looks to be the next stage in the evolution of Public Sector purchasing and we believe in its growth for the following reasons:

Prices are cheaper	We discussed this with Matt Hancock a couple of months ago ³ . His view is that the value proposition of the G-Cloud is so compelling that the rest of the public sector will be compelled to migrate to the
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² Methods has so many G-Cloud customers that for brevity we have only shown the better known customer names here

³ See our [blog](#) of May 4th

	Cloud.
It has a strong supply base that it growing all the time	We advise companies on how manage their G-Cloud service portfolios and to maximise their revenues. As a result we have an excellent insight into the supply community and in the last month have met over 40 potential new G-Cloud suppliers, all eager to learn how they can list their services for the first time.
Its not just the public sector	Anecdotal data suggests that whilst they cannot directly buy from the Digital Marketplace, Private Sector customers and Public Sector customers from overseas are using it as a shop window. Clients have recently reported enquiries from Local Governments in Switzerland and Ireland quoting the G-Cloud as their source of reference.
Strong support within Government	G-Cloud evangelists including Tony Singleton, Director of Digital Commercial Programme and Stephen Allot, the Crown Rep for SMEs, are continually pushing the G-Cloud to the top of the Cabinet Office efficiency agenda.
NAO enforcement	The Government's intention is that it will buy 50% of all Central Government IT services via the G-Cloud and the NAO won't let them off this hook lightly.
It has traction	Almost 800 Public Sector organisations have now bought some G-Cloud services – most of them like it and they will be back for more.

Conclusion

There are a few important lessons to be learned:

Local Government and other Public Sector procurement departments:

- Need to make more use of the G-Cloud, because it's the cheapest way to competitively buy services in an EU Procurement compliant manner. Failure to do so could raise questions to why the costs of a full blown procurement were incurred when procurement could have been done via a morning's research on the Digital Marketplace.

Suppliers on the G-Cloud have to commit to:

- Faster innovation cycles,
- Better pricing
- Improved and adapted sales and marketing techniques that do not just replicate the old way of doing things but reflect the fact that this is an entirely new channel that demands its own tools and skills.

Note for new suppliers

The G-Cloud is expected to open for new suppliers to register their services in August. You can keep up-to-date with the latest news from the [Digital Marketplace](#) team, follow their twitter account @gdsteam or just [drop us a line](#) and we will let you know what you have to do and when.

About the G-Cloud and DeNové

The G-Cloud is a totally new route to market, with different buying groups, buying behaviours and competition. It contains a number of novel contractual clauses and commercial obligations and even the style of registration is different to what suppliers may be used to.

New and existing suppliers often find it difficult to get to grips with the challenges involved and often neglect to fully think through the opportunities and challenges that the G-Cloud can present to their business. As a result, only slightly more than 30% of these suppliers have made any G-Cloud sales and many have never even received an invitation to quote for any work.

DeNové is a specialist B2G business development agency. Four of our SME clients were in the top 30 suppliers (by turnover) on the G-Cloud in 2014-2015, exceeding the revenues achieved by global heavyweight ICT companies such as Accenture, Tata, Unisys and E&Y.

Our team are experts in how the G-Cloud functions and how best to position our client's services for success. Our G-Cloud services include:

- G-Cloud briefings for management teams of companies considering taking a G-Cloud listing for the first time.
- Seminars for sales teams to teach them about the G-Cloud and how to win more sales in the new G-Cloud regime.
- Optimising existing or new service portfolios to rapidly increase sales and market share.

If you would like to know more about our services then please drop us a line: learnmore@denove.com or call us on 08000DENOVE