ECONOMIES OF SERVICE

Small can still be beautiful in the world of SOA, says Graham Oakes.

Graham Oakes: trends are positive

Economies of scale seem to drive the IT industry. The growth of networking has given power to the dominant operating system, the dominant search engine, the dominant chip maker, and so on. The shift to cloud computing favours vendors who can operate large, efficient data centres.

Equally, large companies have the resources to undertake research, drive standards, run expensive marketing campaigns, etc.

So is IT doomed to become the realm of two or three battling behemoths? I think not.

Some interesting trends challenge these economies of scale. The business model for open source software, for example, scales in a very different way to that for proprietary software. Most open source companies make their money from services rather than licences. This gives them a very different cost structure to the proprietary vendors – people are much harder to reproduce than bits and bytes.

This cost structure in turn limits the ability of open source companies to grow rapidly, hence favouring the emergence of small, specialist firms. In a world where open source plays any significant part, economies of reputation will dominate economies of scale.

Likewise, SOA is another leveller. Complex integration favours the growth of monolithic packages and 'integrated suites' from a single vendor – it's just too expensive and risky for most customers to consider integrating things themselves.

SOA reduces the costs and risks, again allowing smaller, more specialist vendors to compete on more equal terms. Another case where economies of reputation can challenge economies of scale?

Agile and lean development models may also favour networks of small firms. In this case it's the dynamics of collaboration and communication which work against economies of scale – small teams simply work together better than large teams.

Or, as someone said at the recent UK Lean and Kanban conference, software development may be moving to a place where economies of flow matter more than economies of scale.

Of course, a network of small, specialist vendors may not be as profitable as a single, dominant supplier. The network will probably carry proportionately higher development costs and overheads, for example, and it is unlikely to be able to command the same level of margins.

Are these trends therefore going to erode our industry's overall profitability? Perhaps. But I think the trends are positive nonetheless.

A marketplace where many vendors compete on reputation and agility has to be better for the customer than one where few vendors compete and fear of integration risk dominates decision making. And what's good for the customer is ultimately good for the industry – happier customers will use more of our services in the long term.

● *SOA, Web Services & Enterprise Integration Evaluation Centre Expert Dr Graham Oakes is the principal of content management, product development and customer service strategies consultancy Graham Oakes Ltd. Email: graham@grahamoakes.co.uk. Website:* ***www.grahamoakes.co.uk****.*