

Optimizing Infrastructure and Service Management in Tough Economic Times

Lionel Lamy

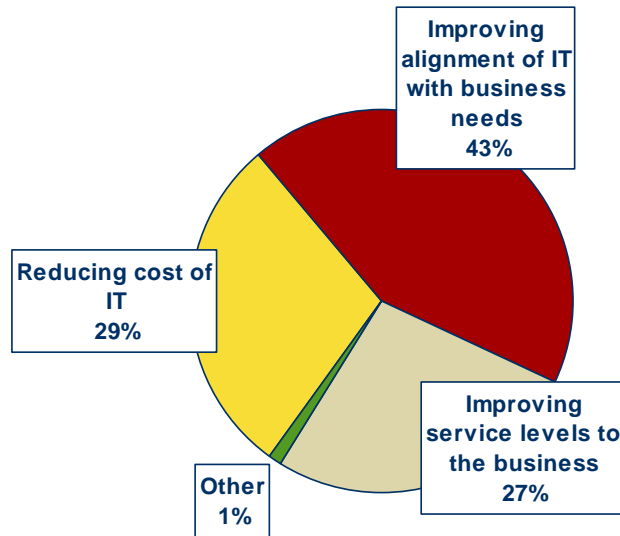
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Changing Business Priorities - Focus on Cost Reduction

European Enterprises' IT Strategy for the Next 24 Months

Q: Which of the following statements best describes the general trend of your IT strategy for the next two years?



- **Dramatic increase in emphasis on cost cutting.** Decline in emphasis on spending to improve service levels.
- One in eight organizations reacted strongly to the crisis — **but the majority have not changed their strategy dramatically.**

Advice:

- Focus is on **short-term business gains** and **conservative themes** such as **efficiency, cost, service quality** and **risk reduction.**
- IDC believes organizations will **consolidate spend on fewer suppliers** — so focus on expanding **share of wallet.**

Note: n = 553
Source: IDC European Services Survey 2009

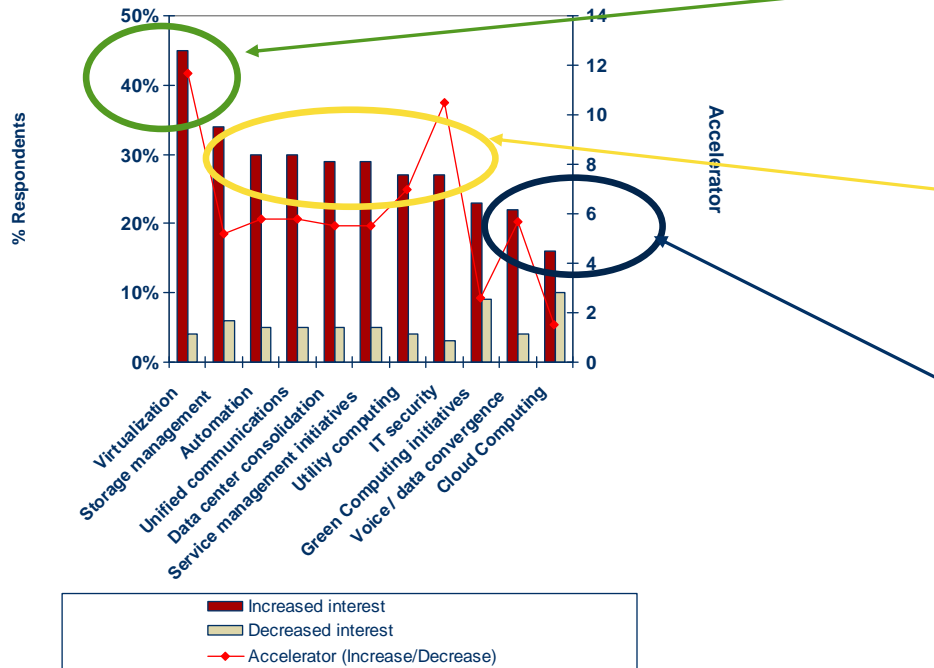
What Customers Want: Economic Impact on Infrastructure Initiatives

In response to the economic environment UK enterprises **focus on virtualization** with its promise of cost efficiencies. Although traditionally a top investment priority, **IT security also receives a boost**.

Other infrastructure concerns, such as **storage**, and **data centre consolidation** remain key investment priorities, too.

Despite the hype, **“Green IT”** and **Cloud Computing** are **lesser** investment priorities and put on the back burner.

Q: How has the current economic environment influenced your plans for investing in the following types of initiatives?



- Virtualization has been the “winner” from the economic turbulence with 45% of decision makers we spoke to showing increased interest in these technologies.
 - Twelve times more respondents would increase investments in this area compared to decrease – as shown by the accelerator.
 - Storage management is the area where the second highest proportion of decision makers (34%) plan to invest as a result of the economic environment.
- Automation, unified comms, data centre consolidation, service management, utility computing and IT security are areas cited by between 27-30% of decision makers as gaining investments, with accelerators of 6-7 times.
 - IT security** is also cited by 27% of respondents as an area for increased investment. IT security also have the second highest accelerator with 11 times more decision makers increasing spending in this area than decreasing it.
- Green computing, voice/data convergence, and cloud computing are the areas that will see the least positive investment impact due to the economic environment.
- The infrastructure investment agenda thus remains *pragmatic and hard-headed*, focused on areas that hold the promise of cost saving, while continuing to move the infrastructure environments forward. Less concrete topics, such as “Green IT” and Cloud, lose out.

What Customers Want: Infrastructure Investments – The Rankings

Q: Thinking specifically about your infrastructure environments, what are your three most important areas for investment in the next 12 months?

	Ranking			Aggregated
	1	2	3	
Virtualization	20	6	7	33
IT security	11	12	10	33
Automation	11	7	7	25
Storage management	8	10	11	29
Data centre consolidation	7	14	11	32
Unified communications	7	7	5	19
Service management initiatives	3	6	10	19
Utility computing	3	5	6	14
Green computing	3	4	4	11
Voice/data convergence	2	5	5	12
Cloud Computing	2	1	1	4

- 26% of UK decision makers ranked virtualization as the most important area for investment in the next 12 months
 - 14% of respondents said that security and automation was the most important areas
- In an aggregated view, combining the 1st, 2nd, and 3rd rankings, virtualization, IT security and data centre consolidation was of equal importance, with storage management close behind

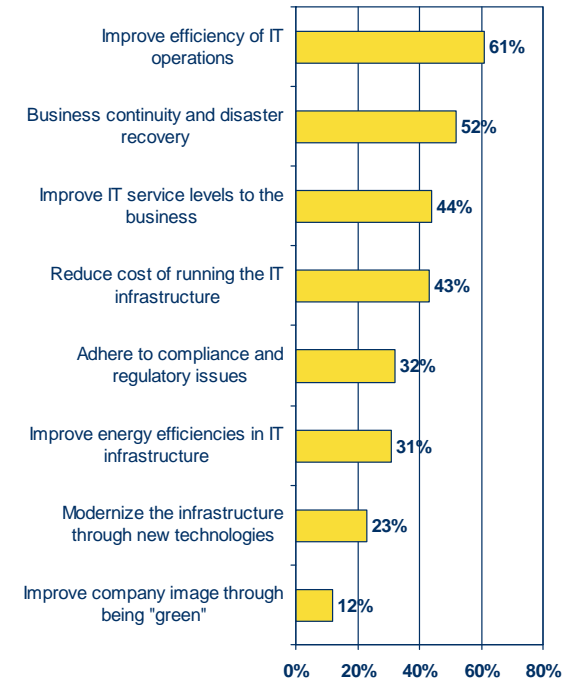
What Customers Want: Drivers for Infrastructure Investments

UK decision makers consider **efficiency improvements** and **adding value to the business** are seen as two of the top 3 drivers for infrastructure investments. Ensuring **business continuity** despite tight economic conditions is the 2nd most important driver.

Cost reduction in IT operations in itself is not the most important driver for infrastructure investments – despite budget pressures. End-users want some **future proofing**.

- Almost two thirds of decision makers cited improvement in the efficiency of the IT operations themselves as the most important driver for investments in the infrastructure environment.
 - Pure cost reduction of the IT infrastructure was the fourth most important driver – after improvement in the IT service levels to the business
- Over half of decision makers said that business continuity and disaster recovery would drive their infrastructure investment decisions.
 - This shows that the companies are concerned that with efficiency improvements and cost cutting exercises they still need to ensure that they can support the business and minimise downtimes in case of any disruptions.
- These reasons for investments implies that UK IT decision makers are not yet ready to play a pure cost game. Although it may be “back to basics” to a large degree, there needs to be a future purpose to the investments.

Q: What are the three most important criteria for your investment decisions in your infrastructure environment? (Multiple answers)



What Customers Want: Vendor Selection Criteria

Enterprises want a mix of **technical capability** and **business insight**.

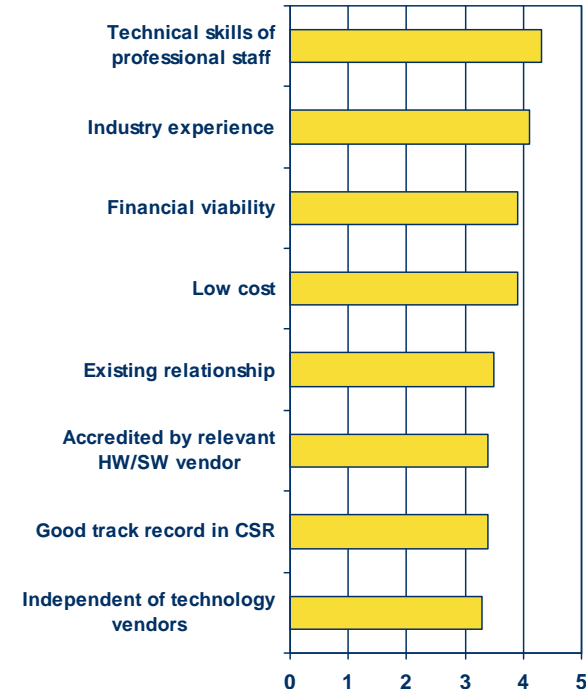
They want **financially stable** partners who employ **great people**.

But they also want their vendor to offer a **good price and value for money**.

An existing relationship does not cut the mustard on its own.

- Technical skills is continuously taking the lead as the key selection criterion for service providers but industry experience is gaining in importance at 4.1 (up from 3.6 in 2008).
- Existing relationships is downgraded in importance by IT decision makers, signalling that customer loyalty is decreasing (see later discussion)
- UK IT decision makers are fairly indifferent to whether their service provider is accredited by HW/SW vendor or technology independent.
- Not surprisingly, low cost has increased in importance as a selection criteria – but it is still only taking 4th place!

Q: How important are the criteria below for selecting an external IT service provider (5 is highest and 1 is lowest)



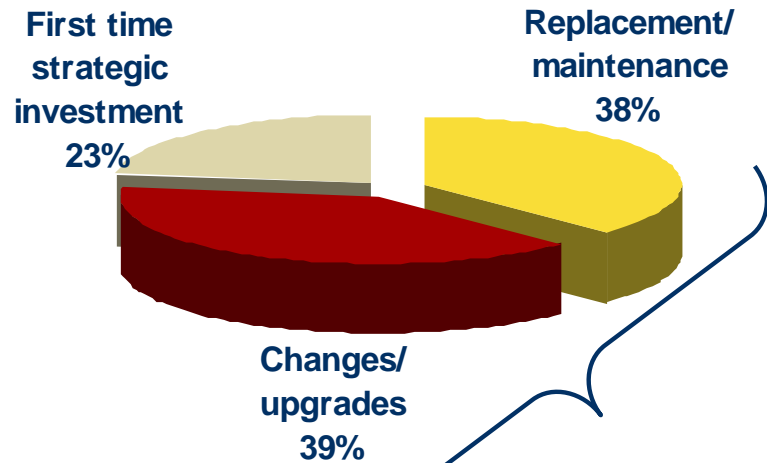
What Customers Want: Cost or Value? It's Both

Enterprises say that cost reduction is not the dominant concern of their IT strategy, even if it has increased dramatically in importance. This can be slightly misleading, however. **Cost reduction underpins** (and generates the cash for) the other investments that are top-of-mind right now.

- About a third of decision makers we talked to in the UK said that reducing the cost of IT was the main thrust of their IT strategy.
- But . . . “low cost” was mentioned reasonably frequently as a selection criteria when enterprises were choosing their principal IT services supplier
 - Customers say non-cost criteria are dominant, but that doesn’t mean ‘cost is dead’
 - Cost-effective delivery must underpin and complement the higher-value services
 - This emphasises the growing importance of global sourcing in service delivery
- In our in-depth customer conversations, a theme emerges: **customers assume cost reduction as a given** (often with bold targets). This is non-negotiable, but taken as automatic and therefore frequently absent from conversations. But its absence does *not* accurately reflect its importance. Some quotes from conversations with outsourcing customers:
 - “It’s about cost. It’s a lot cheaper to have a third party handle the workload” – major utility
 - “Objectives: first, customer satisfaction. Second, save money.” - consumer goods maker
 - “Quality is important, but not as important as cost and flexibility” – high-tech manufacturer
- Why does cost often seem absent from the picture? Because it’s actually the “canvass on which the picture is painted”. Don’t try to paint without having a canvass!
 - How many projects get past CFOs without saving money, or at least paying for themselves?

The Catch 22 Dilemma

Q. Could you please provide your total IT expenditure across these 3 objectives?



77% of Budgets are spent on running existing IT

Operating Cost

- > **\$8** in maintenance for every \$1 spent on new infrastructure
- > **20-30 : 1** server-to-admin ratio

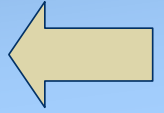
Source: IDC Continuum Survey, 2008 (N =108)

Shifting Investment Economics

Let's Do the Math

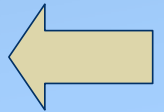
- **Pre-crash:**

- Typical cost of capital: 5.50% to 7.50%
- Typical investment threshold: 12.00% to 15.00% or 2x



- **Post-crash: Rates are normalizing; behavior isn't:**

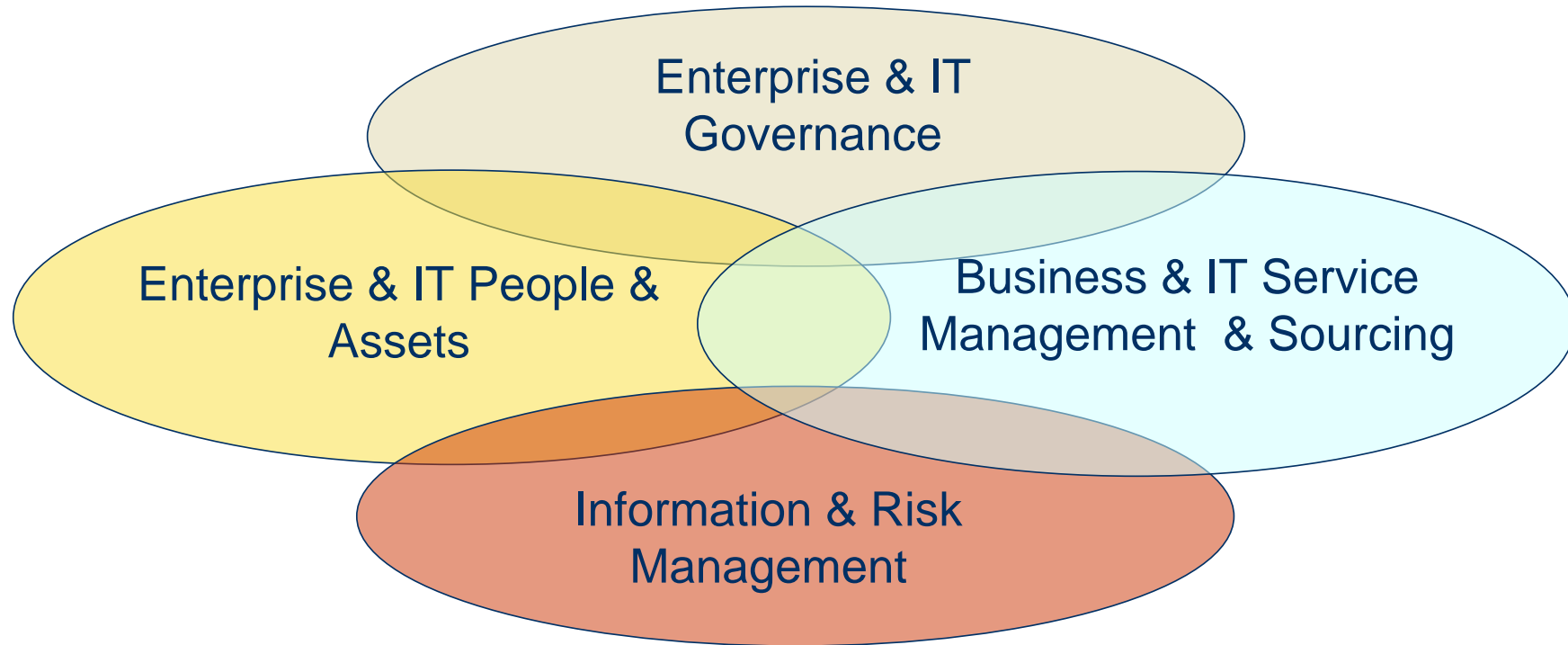
- Previous cost of capital: 5.50% to 7.50%
- New cost of capital: 6.50% to 8.50%
- CAUTION PREMIUM 200 basis points
- New investment thresholds: 15.00% to 20.00% or 2x



Although Capital Markets Are Stabilizing, Investment Screens Remain Very Tight

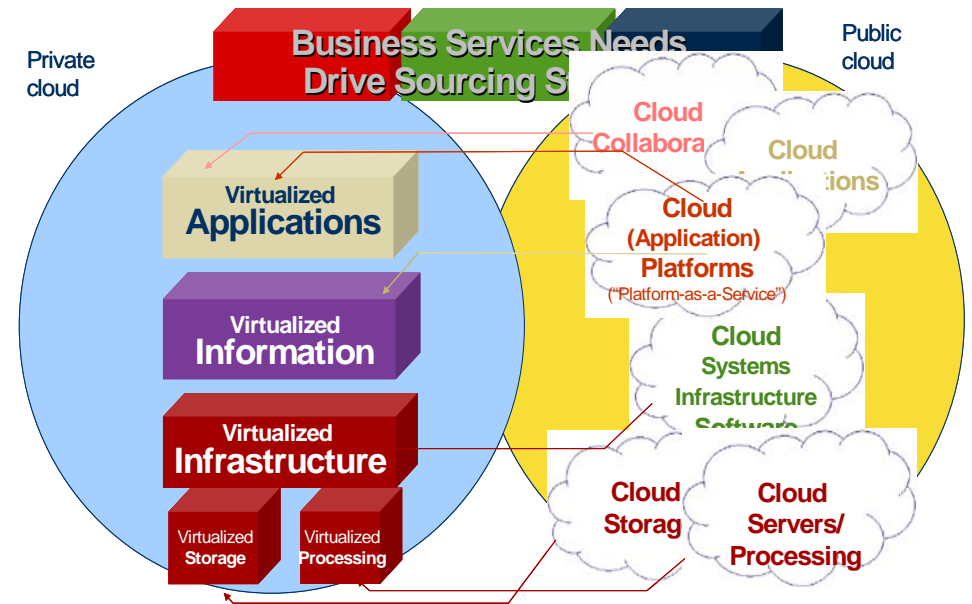
Business Imperative: Optimize to Survive and Thrive

Coordinated management of business and IT services, information, assets and infrastructure required



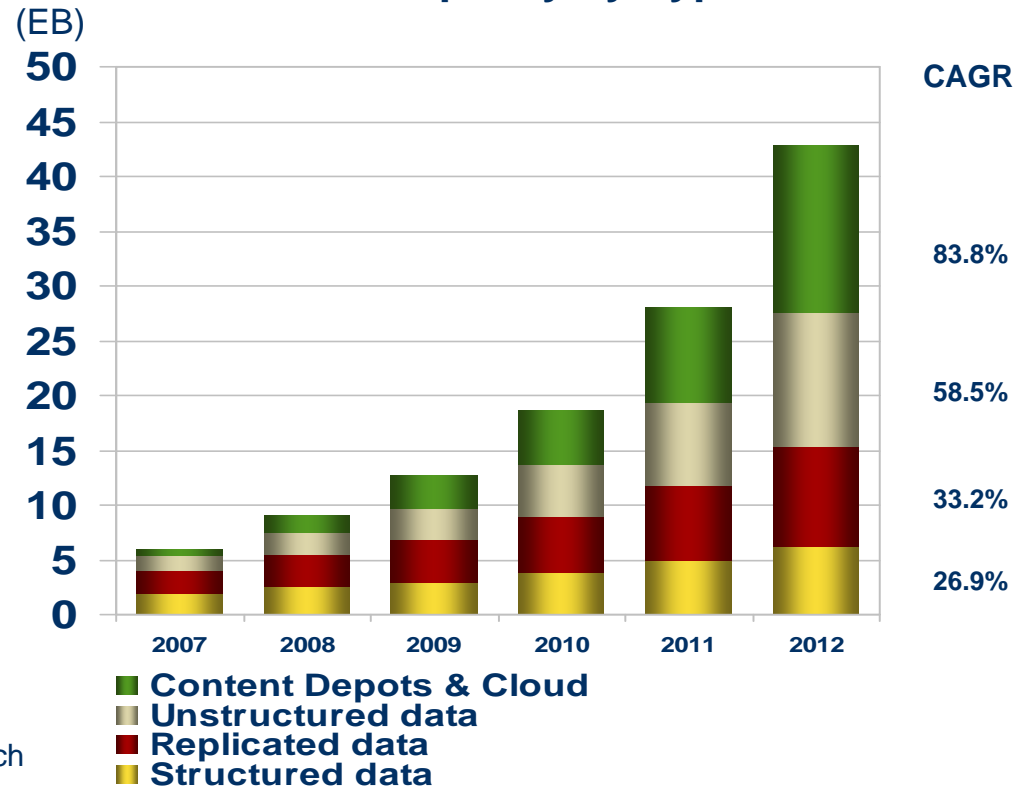
Service Management Mindset Required

- Joint business & IT governance to define services, SLAs, and risk assessments
- Shift to shared services & cloud computing delivery models in some cases
- Pool and virtualize internal resources for flexibility
- Automate management
- Optimize smart asset & energy utilization as business demand fluctuates
- Address information and storage security, protection and scale considerations



- Balance cost and speed concerns vs. need for control, compliance and accountability
- Recognize the critical importance of different types of information assets and pay particular attention to the way each type is stored, protected, archived, and accessed
- Smart assets proliferate the information management challenge by dramatically increasing the sources and volume of data

Consumption of Enterprise Disk Capacity by Type

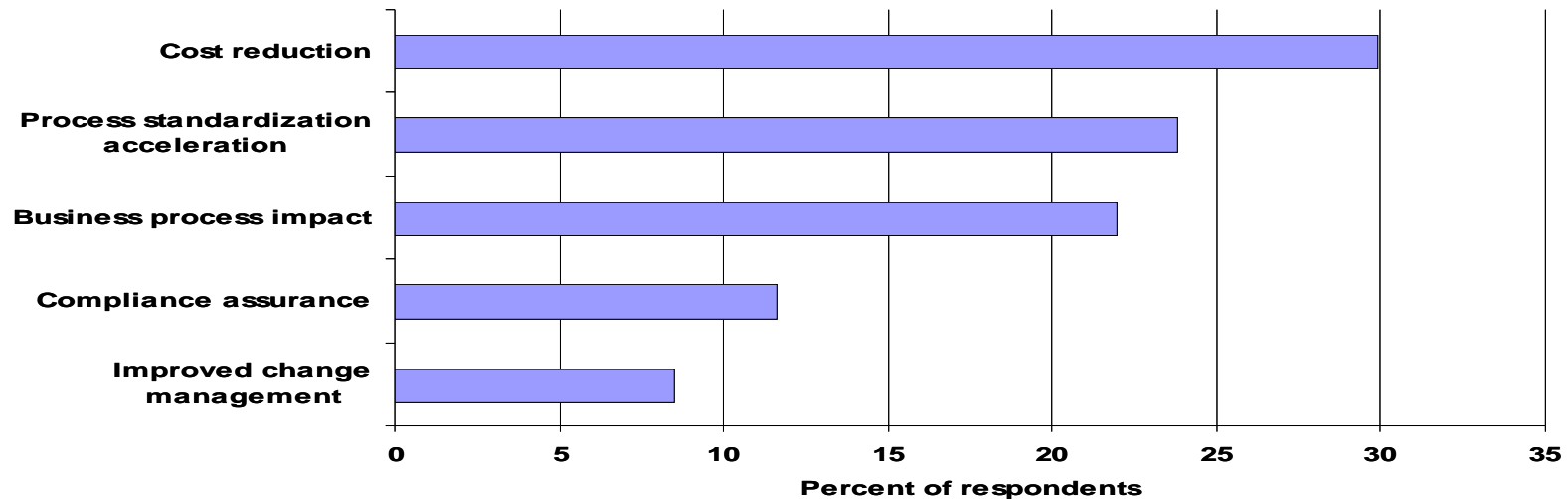


Source: IDC Enterprise Disk Storage Consumption Model, March 2009

Considerations and Drivers for IT Automation

- Customers need to balance cost and agility concerns vs. need for control, compliance and accountability
- Look to enforce standard processes and policies to reduce costs, improve service levels and optimize asset utilization

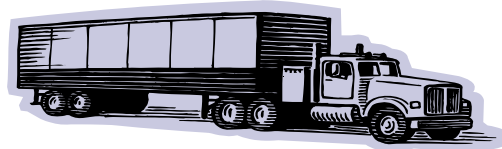
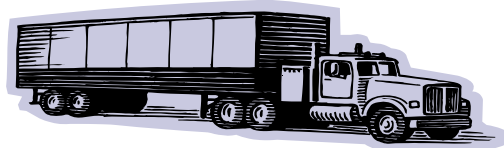
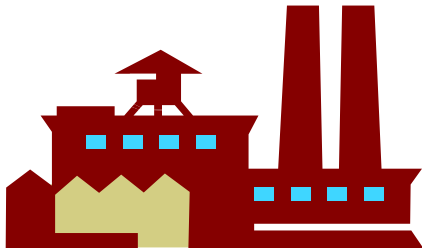
Five most frequently mentioned factors supporting business case analysis for automation solutions



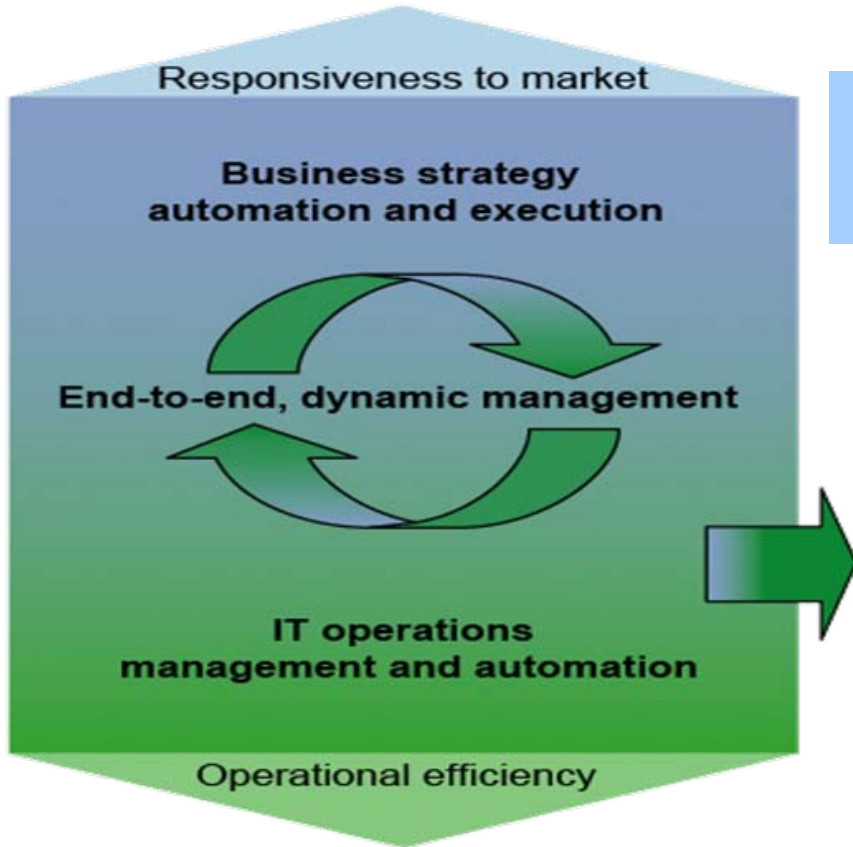
N=164

Source: IDC Survey: Data Center Automation: Accelerating Market Maturity Through Investment in IT
August 2008

- Development of smart asset ecosystems are just beginning
- Many sensor-enabled and smart devices are being developed to address specific use cases such as metered power distribution or industry specific supply chains.
- First steps should focus on incremental proof of concept projects that directly address cost saving, business productivity and time to market priorities



Service Management is at the Heart of Dynamic Infrastructure



Increase operational efficiency and performance

Deliver better performance in support of the business and lower operating costs by:

1. Automating labor-intensive tasks
2. Developing end-to-end management capabilities
3. Reducing “hardwired” inflexibility through virtualization and cloud
4. Adopting flexible sourcing and payment options
5. Optimize enterprise asset utilization over time

Service-level management and automation	
Metering, measurement, and chargeback	
Security	
Infrastructure virtualization & provisioning	
Information and storage management	
Platform monitoring and operations	



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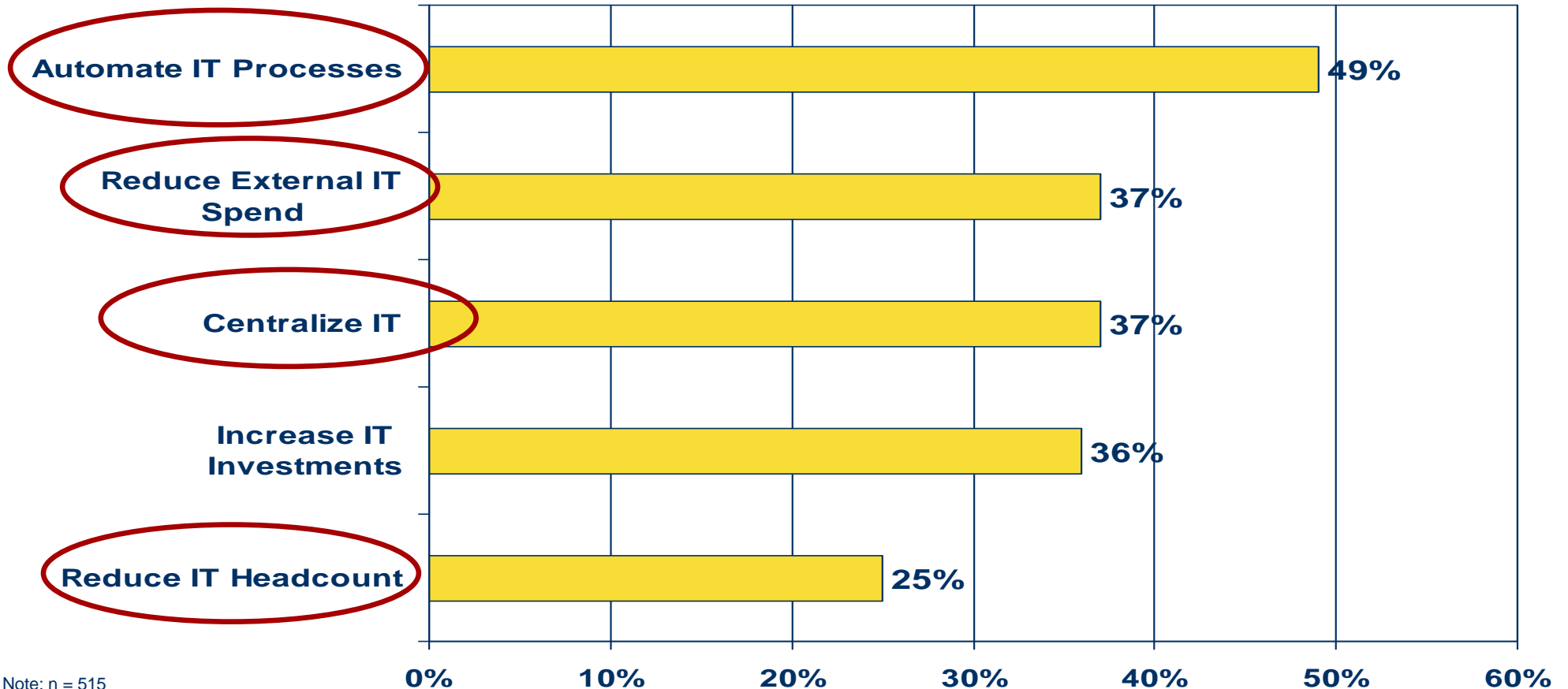
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Priorities in Response to the Crisis



Note: n = 515
Source: IDC European Software Survey 2009