The State of IT Infrastructure & Operations

Research Report

CURVATURE

Executive Summary

The State of the Market

In today's IT market, it is becoming increasingly apparent that digital technologies are influencing the way businesses use and process information in all sectors (including economic, developmental, marketing, and competitive contexts). Because of this, businesses will require a vigorous data center to handle gradually more big data. **The challenge that IT decision-makers face is the pressure to reduce costs paired with the pressure to progress digital maturity.**

This challenge for businesses is commonly impacted by the costs of **network hardware and maintenance**, especially with 40% of IT budgets dedicated to infrastructure.[1] Companies are increasingly looking to upgrade their data center, and to do this, they will have to reduce network hardware and maintenance budgets. This issue raises the question: **Do businesses miss significant capital (CapEx) and operational (OpEx) cost savings by prematurely upgrading networking infrastructure, and by insufficiently evaluating maintenance contracts?**

Capturing the Voice of IT Decision-Makers

Curvature recently engaged with Forrester consulting to capture the state of IT infrastructure and operations in the report, Challenging the Status Quo on Maintenance Contracts and Refresh Cycles to Lower Costs.[2] The goal was to investigate whether businesses allocate too much of their budget to refresh cycles and maintenance contracts because they have been pressured to make investment decisions under vendor influence.

Over 300 IT decision-makers around the world were surveyed about their objectives, processes, and budgeting. The goals were to discern which issues dominate IT priorities, observe when equipment upgrades occur and what motives govern said upgrades, and to examine the level of awareness around third-party maintenance.

> When it comes to IT procurement, businesses may be focusing on the wrong thing. Many are spending too much time trying to shave a few percentages off hardware costs when they can actually save more if they refocus their strategy on current maintenance contracts and refresh cycles.

Trends in big data and the internet of things will require smarter IT spending.

Because digital technologies are influencing every aspect of businesses, IT departments should pay particular attention to their procurement strategy. However, many are still:

▸ Unduly influenced by vendors

▸ Unaware of available options for alternative maintenance contracts

The survey results revealed the following:

▸ Cost-cutting dominates IT priorities

▸ Vendors rush hardware refresh cycles

▸ Too much working equipment is being disposed too soon

▸ 80% of respondents would purchase maintenance contracts from a third party

> "...even though IT budgets are under constant scrutiny, businesses have defaulted to vendor influence, which has blinded them to the rewards of extending hardware life cycles and third-party maintenance solutions."
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> **FORRESTER®**

A Shift in IT Priorities
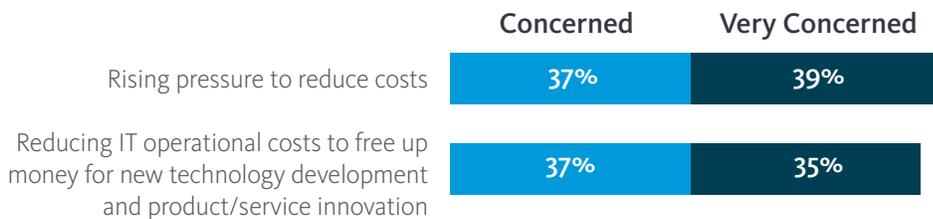
Looking to the Future

With digital technologies becoming entwined with every business function, organizations are undoubtedly looking to free up financial resources. IT trends in big data and the internet of things will require an IT budget that supports stronger data centers and new vendor maintenance strategies.

Deploying new strategies in managing network hardware lifecycles will ultimately lead to new opportunities for reduced costs.[3]

Reducing costs dominates IT decision-makers' priorities. 76% of respondents reported being either concerned or very concerned with the rising pressure to reduce costs, even though 40% of IT budgets are dedicated to infrastructure.
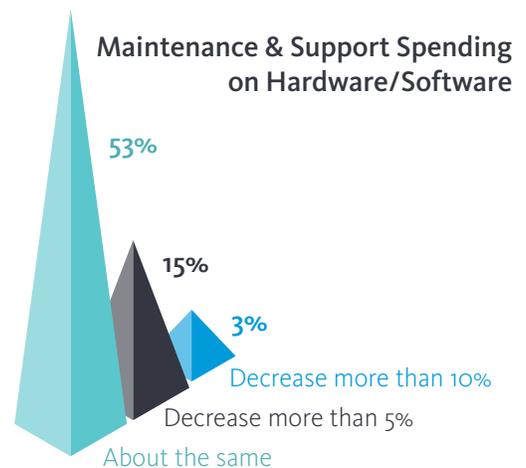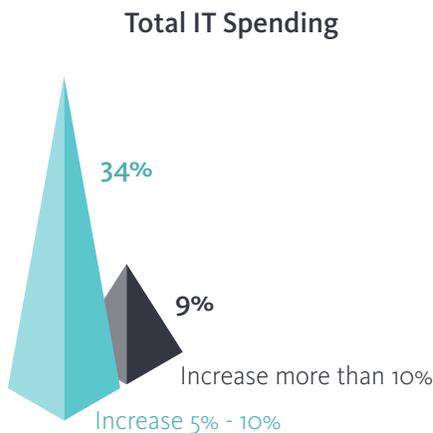
▶ *"How concerned is your firm with the following business issues?"[3]*

	Concerned	Very Concerned
Rising pressure to reduce costs	37%	39%
Reducing IT operational costs to free up money for new technology development and product/service innovation	37%	35%

> 76% of IT decision-makers reported being concerned or very concerned with the rising pressure to reduce costs.

Hardware maintenance support is getting a smaller portion of the budget. 43% of decision-makers expect to increase total IT spending. According to over two thirds of the survey respondents, maintenance and support spending on hardware/software may get a smaller portion of the overall budget or will stay the same. The most prevalent strategy to make room for new technology and development is to allocate less of their budget to maintenance support.

▶ *"How do you expect your spending on the following categories to change in 2013 compared with 2012?"[3]*

Total IT Spending

34%
9%
Increase more than 10%
Increase 5% - 10%

Maintenance & Support Spending on Hardware/Software

53%
15%
3%
Decrease more than 10%
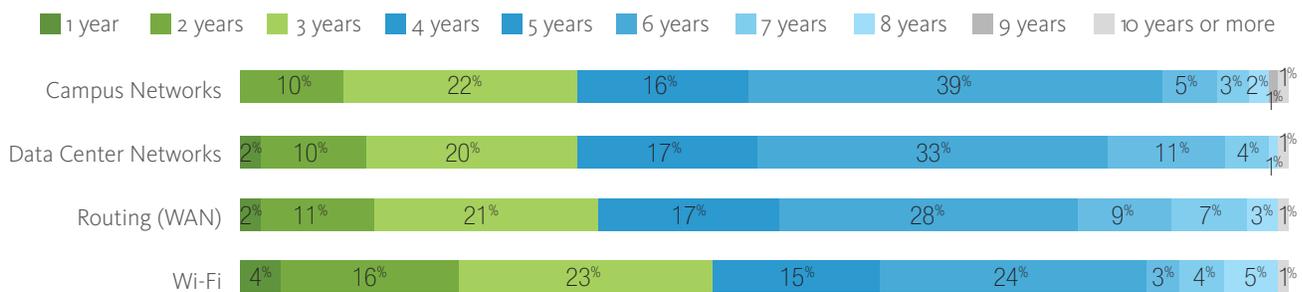Decrease more than 5%
About the same

Vendor Influence Drives Refresh Cycles

Organizations are missing out on cost savings. Server virtualization has changed the data center, as well as the cost model for data center equipment. This type of trend means infrastructure and operations (I&O) should continue to challenge their organization to reduce costs in other areas—specifically maintenance contracts and equipment refresh cycles.[2] Up to 79% of organizations refresh their infrastructure every 5 years, guided by industry averages **that originate from the vendors themselves**. In order to drive future innovation and meet business demands, companies must take back control of their procurement cycles and no longer depend on vendor agendas.

More than half of organizations refresh their infrastructure every 3-5 years. Even when no new functionality is needed, customers still choose to refresh their networking equipment at their vendor's directive.

▶ *"When thinking about each technology, what is your refresh cycle?"[3]*

	1 year	2 years	3 years	4 years	5 years	6 years	7 years	8 years	9 years	10 years or more

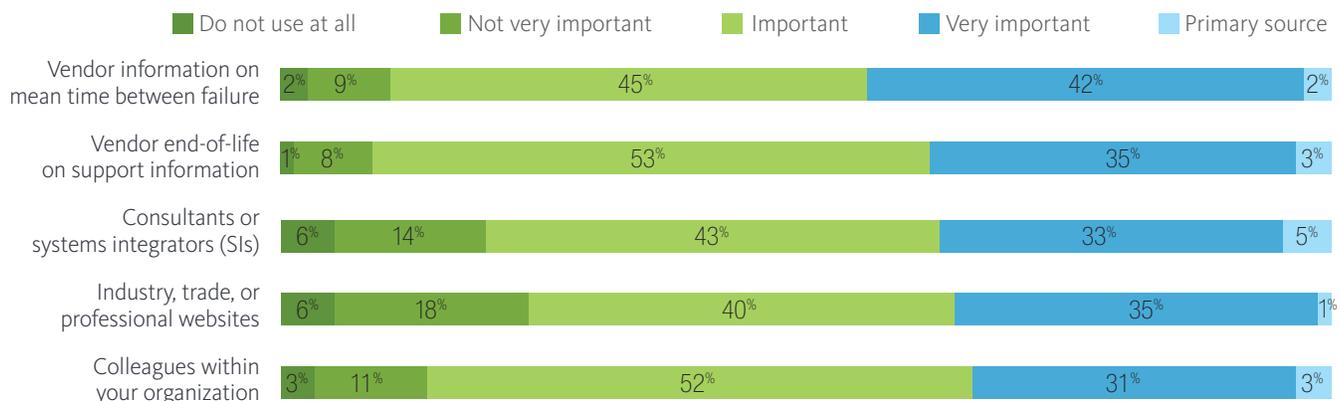|									
Campus Networks	10%	22%	16%	39%	5%	3%	2%	1% 1%
Data Center Networks	2% 10%	20%	17%	33%	11%	4%	1% 1%
Routing (WAN)	2% 11%	21%	17%	28%	9%	7%	3%	1%
Wi-Fi	4% 16%	23%	15%	24%	3%	4%	5%	1%

End-of-life agendas—set by vendors themselves—rush refresh cycle. When asked which information sources guided their upgrade decisions, the top two sources respondents reported were both based on vendor-provided information.[2] Because the most popular sources of information about the issue are straight from the vendors themselves, many businesses give in to OEM-rushed refresh cycles.

Forrester shows that vendors set end-of-life dates, which results in unnecessary and expensive replacement of IT equipment still carrying market value, with 20+ years mean time between failure (MTBF).[2] Because industry-reported averages from the OEM govern refresh cycles, businesses must ask themselves these questions:[2]
- Is this optimal for the business?
- Is networking equipment built for long life?
- Can the equipment last longer, thereby delivering more value to the business?

▶ *"In regards to how long you will keep equipment in your network, where did you get that information, and how valuable was each source?"[3]*

	Do not use at all	Not very important	Important	Very important	Primary source

Vendor information on mean time between failure	2% 9%	45%	42%	2%
Vendor end-of-life on support information	1% 8%	53%	35%	3%
Consultants or systems integrators (SIs)	6% 14%	43%	33%	5%
Industry, trade, or professional websites	6% 18%	40%	35%	1%
Colleagues within your organization	3% 11%	52%	31%	3%

Think Outside the OEM

More value can be extracted from networking equipment. To find this value, IT decision-makers must realize:

- Current infrastructure is often underutilized
- Infrastructure equipment has a longer lifecycle than vendors report
- Infrastructure equipment can be used long after the vendors' end-of-life notice

You're not only losing hardware value due to vendor-rushed refresh cycles that require you to retire your equipment too soon...

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You're also losing additional money by defaulting to OEM maintenance contracts to support the new equipment.

Most organizations follow the relatively same process when it comes to buying maintenance contracts and refreshing hardware[2]—they default to OEM-provided information and refresh their equipment without considering its long lifespan. Defaulting to this cycle should raise concerns with all organizations, especially when companies are looking to make room in their IT budget for the increasing influence of digital technologies in all business sectors.

Companies throw away value by turning in equipment before the value has disappeared. And 85% of respondents admitted they would have kept some equipment continued vendor support had been available.

▶ *"What percentage of equipment would you have kept if the vendor continued to support it?"[3]*

85% responded that they would keep 10% to 100% of equipment.

12% responded that they would keep less than 10% of equipment.

2% responded that they don't know how much equipment they would keep.

Leverage Third-Party Options

Few organizations know they have options

Businesses experience many challenges with OEM maintenance services, and an overwhelming majority would leverage alternative options if the price was lower. The chart below shows that IT decision-makers are unsatisfied with their maintenance contracts, yet they view it as a tax that needs to be paid when buying networking products.[2] **This indicates that there is a general lack of awareness when it comes to third-party maintenance.**
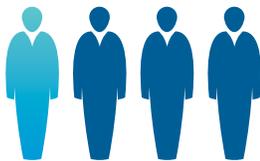
Only **21%** of respondents leveraged competitor third-party bids into their negotiations when purchasing service and maintenance contracts.

Vendor flaws: IT decision-makers saw little return on maintenance services from their OEMs. When asked about the challenges with their existing vendor's maintenance, respondents indicated that misrepresented cost savings, new fees, and inflexible pricing models were the biggest issues. Vendor contracts are restrictive, costly, and rigid. Businesses miss a large opportunity to reap cost benefits from third-party maintenance. While so many companies purchase warranties from the same vendor from which they buy their hardware, they should treat maintenance contracts the same way purchases are done with infrastructure: put it out for competitive bidding.

▶ *"Which of the following are your firm's biggest challenges with your existing IT vendor's maintenance services?"[3]*

Very few have acted on lopsided vendor contracts. Even though many expressed discontent around OEM service contracts, only 21% of respondents leveraged competitor third-party bids into their negotiations when purchasing service and maintenance contracts.
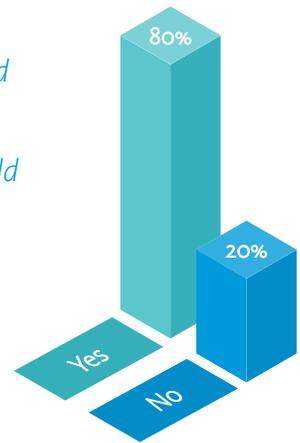
More than 1 in 3 say cost savings are lower than expected

Nearly 1 in 4 say vendors are not flexible regarding price model evolution, volume changes, or scope changes

29% say vendors try to constantly upsell new services and new fees

18% cite the inability of vendor/contract structure to respond rapidly to changing business needs
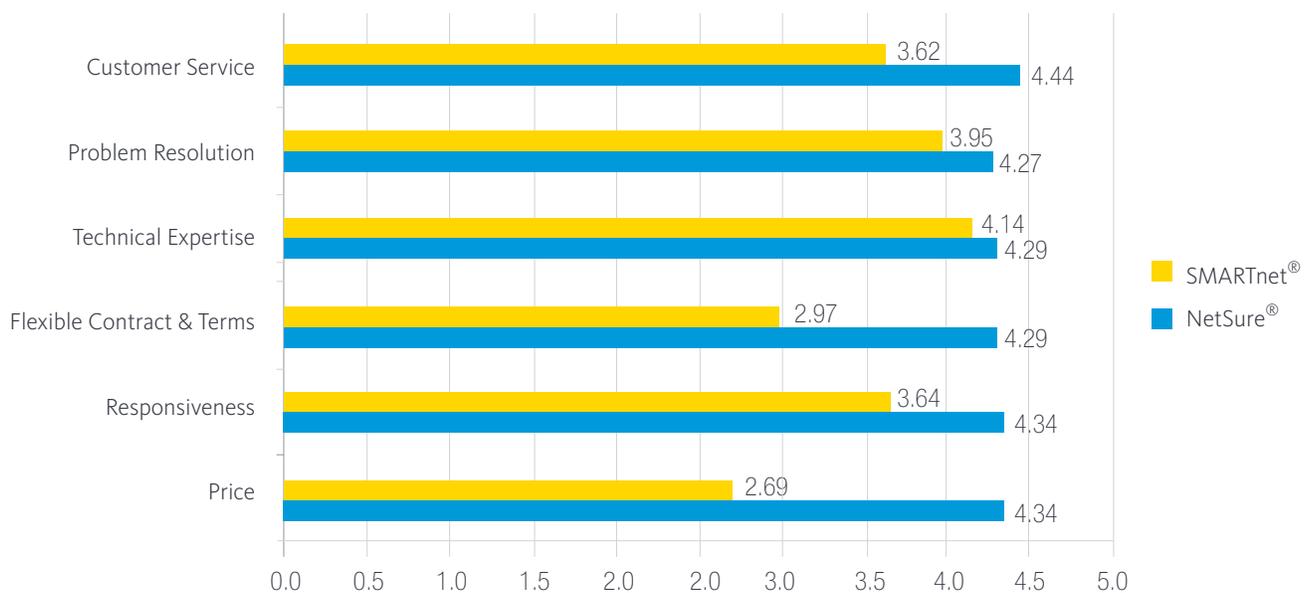
17% say vendors lack a fully developed and functioning global delivery model

An overwhelming percentage of organizations would look to third-party maintenance options. There isn't a lack of options in the network maintenance market—the problem is the lack of awareness. 4 in 5 IT professionals report they would invest in a 3rd-party maintenance solution if it was more affordable than their current contract.

▶ *"If there was an option to purchase support and maintenance contracts from a third party, would you do it if the cost was lower?"[3]*

80%

20%

Yes

No

NetSure® Exceeds OEM on Service

	SMARTnet®	NetSure®
Customer Service	3.62	4.44
Problem Resolution	3.95	4.27
Technical Expertise	4.14	4.29
Flexible Contract & Terms	2.97	4.29
Responsiveness	3.64	4.34
Price	2.69	4.34

Source: Curvature Customer Satisfaction Survey - September, 2013

Focus on a vigorous data center at low cost. It's clear that businesses are interested in lowering IT expenditures to allocate more money for innovation, and hybrid maintenance strategies provide affordable, consistent support without forced upgrades—including unique options tailored specifically for each network's needs.

Look ahead. It's been apparent that each business's network will become even more unique and vast. IT departments have already been expanding to accommodate the increasingly blurred lines between technology and marketing goals. As big data and the internet of things become more prevalent in the workspace, the ability to drive initiatives and understand consumer behavior through technology becomes more necessary.

Make a shift in thinking. In order to keep up with the different trends disrupting the networking equipment market, businesses must begin to focus on both long and short term cost saving strategies. Curvature provides NetSure, a maintenance contract that is based on recovering the "waste," or excess expenses, while providing the same quality of service and SLAs that customers have with OEM contracts—at a much lower price. NetSure includes support for products that have passed the last day of support; this allows businesses to keep products in place and take advantage of the product's longer useful life.

Four Strategies IT Leaders Should Execute

1 ✓ **Keep what's working.** Organizations should take a pragmatic view of their infrastructure and asses which services need to be delivered and what the infrastructure can handle.

2 $ **Be aware! Don't pay for software updates if there are none, or if they are available for free.** Maintenance agreements with OEMs are costly and do not always provide proper upgrades for the hardware or software.

3 📄 **Put maintenance contracts out for competitive bid.** Consider third-party options in addition to those from other resellers.

4 📈 **Put metrics in place** to reward value, quality, and longevity, not just resiliency.

WINNER
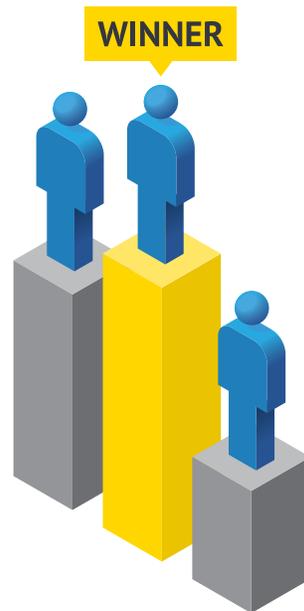
About the Survey

On behalf of Curvature, Forrester conducted an online survey of 304 organizations in Australia, France, Germany, India, Japan, Singapore, the United Kingdom, and the United States to evaluate the challenges that organizations face in working directly with OEMs and the value of working with a third-party. Survey participants included decision-makers in executive positions, finance, information technology, and procurement. Questions provided to the participants asked about the overall business situation, how vendors are selected, upgrading solutions, end of life, and maintenance. The study began in January 2013 and was completed in February 2013.

Survey Demographics

82%	Information Technology, Information Systems, MIS
12%	Executive
4%	Finance
2%	Procurement
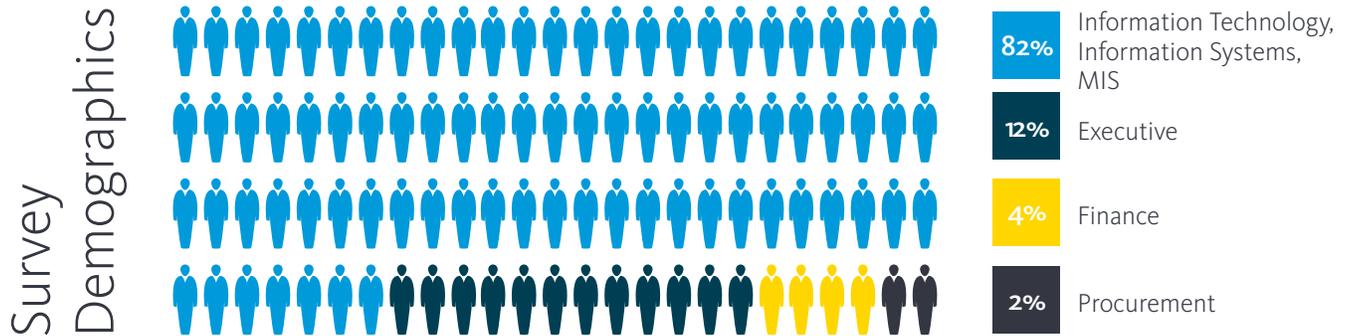
About CURVATURE

Curvature is transforming how companies procure, maintain and upgrade equipment and support for multi-vendor network and data center environments. Founded in 1986, the company, formerly known as Network Hardware Resale, has become a trusted strategic partner for more than 10,000 organizations globally, including some of the largest telecommunications carriers, top financial services firms and Global 1000 organizations. Based in Santa Barbara, California, the company specializes in delivering 24X7 global technical support, advanced hardware replacement, and complete lifecycle management of networking and data center equipment from corporate locations in the Americas, Europe and Asia. For more information, visit www.curvature.com

Let's Keep the Conversation Going

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[1] Forrsights Hardware Survey, Q3 2012, Forrester Research, Inc.

[2] *Challenging the Status Quo on Maintenance Contracts and Refresh Cycles to Lower Costs,* a commissioned study conducted by Forrester Consulting on behalf of Curvature, May 2013. To see the full report, please go to www.curvature.com/Forrester-TLP

[3] *How to Reduce Network Equipment Maintenance Costs,* Gartner, Inc. 13 May 2014