IDC ANALYST CONNECTION

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Rapid Changes in IT Innovation Drive Diversified Investment Strategies

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The IT industry is once again experiencing a rapidly shifting technology platform landscape, and many issues are still unknown. However, even with technological uncertainty, a number of consistent customer themes remain linchpins for IT organizations: help grow the business, align with the business, manage risks, and reduce costs. To grow, IT and business need to collaborate on technology solutions for new initiatives while reducing costs and increasing system security. Managing risks while reducing costs presents a tight line to walk when product and service delivery schedules are shorter than ever, customer satisfaction issues require rapid response, and corporate financial statement and tax concerns (i.e., capitalization and depreciation) impact IT deployment decisions. Business alignment often requires executives and senior managers to integrate new IT strategies that will push both innovation and speed to market, often driving adoption of new IT equipment solutions and service offerings such as public, private, or hybrid clouds, as well as the use of converged systems even as current systems have remaining book value. As in the past, business imperatives are at the forefront of every technology plan, and with these imperatives, we are seeing an updated technology acquisition trend — the need for a diversified investment strategy.

The following questions were posed by Oracle Financing to Susan Middleton, research director for IDC's Technology Financing Strategies practice, on behalf of Oracle Financing's customers.

Q. How is IT acquisition changing with the transition to new technology platforms and the need to match investments with business growth?

A. Without question, shifting boundaries between technology platforms accelerate the pace of change within business and IT departments as they integrate traditional IT options with new solutions. For most customers, the incorporation of new platform technologies is being driven by business transformation propelled by 24 x 7 ecommerce and tighter customer integration, with IT supplying the required tools to reach new corporate goals. As CIOs and IT managers contemplate multiple new technology choices, the speed of change in the IT industry, evolving customer markets, and the potential impact balance sheet and income statement schedules may have on maintaining a current, up-to-date IT infrastructure are leading many to realize the importance of diversified acquisition investment strategies. Flexible acquisition options including financing or leasing are now blended with pay-per-use models, increasing their importance to business and IT managers. Balance must be achieved among an accelerating pace of technological change, an increased level of asset acquisition unpredictability, and the need to maintain existing accounting and tax schedule compliance. As a result, C-suite executives are now considering diversified investment strategies for emerging IT solution options, incorporating traditional technologies with new offerings through different financial and utilization structures that offer greater flexibility than pure cash purchase transactions.

Q. How will the concept of choice, not only in the time frame of initial acquisition and deployment but also over the full life cycle of a solution, influence customer investment strategies during periods of rapid transformation in new platform technologies?

A. Embedded in the multiple platform options now available to enterprises is the concept of choice: choice of solution, deployment location, and acquisition strategy. Beyond cloud options, the use of converged systems and bundled original design manufacturer (ODM) options is quickly gaining traction. With the rapid move to new platforms, the old practice of planned upgrades on a three- or four-year cycle may no longer be acceptable. Increased speed of innovation often requires technology refresh activities to occur in more compressed time frames. In addition, rapid changes in business or project plans may now demand deployments of less than six months with a dramatic increase in capacity. As a result, set upgrade cycles no longer map to current project needs. Speed of implementation and speed of technology refresh must match the increasing speed of industry innovation and adoption. Long development and review times of the past are no longer tenable in today's fast-changing business and technology landscape. In addition, keeping installed IT solutions up to date through a consistent refresh program becomes more critical as new technologies increase system speed and capacity with decreased power consumption. Collaborating with a finance partner to share in the risk created by life-cycle shifts and unforeseen equipment introductions is integral to a more productive and efficient IT investment strategy.

Q. How does IDC expect rapid adoption of new platform technologies to impact customer scope, stakeholders, and investment criteria over the next 24 months?

A. Another change we are witnessing is the emergence of business line managers in IT technology solution decision making. In a 2013 survey, we asked over 1,200 technology buyers how they allocated spending dollars for technology projects, and the results were surprising: Lines of business are funding 61% of the IT projects. We expect this stakeholder shift to remain as line-of-business managers are empowered to take more initiative with technology procurement because of increased business urgency and the need to complete new projects quickly. Closely tied to this trend is the fact that most organizations are revising their capex practices to tighten integration between IT and business stakeholders when requesting capital investments. This requirement goes beyond ROI and increases the financial link between technology and business to clarify the value and purpose that IT investments will have on the business opportunity. Managing new business and technology requirements while dealing with potentially impaired IT assets because of a mismatch of customer needs and equipment book values has led corporate executives to consider more flexible IT investment acquisition strategies than ever before. This tighter integration between business and IT is a reality today. Within the next 12–24 months, customers will be requiring IT financing partners to provide financial tools that help them navigate this rapidly changing IT equipment space.

Q. What strategies are executive stakeholders adopting to drive corporate initiatives and maintain competitiveness while meeting the needs of shareholders and customers?

A. For IT organizations and business managers, the shift to new platforms is complex because it involves not only new IT infrastructure but also new business strategies and metrics. The goal is to clarify the business outcomes that will drive competitive advantages. One of the first outcomes of the shift to the 3rd Platform is that IT executives are implementing a cloud-first strategy — defined as evaluating cloud options before investing in new IT projects. A review of CIO studies from 2012 and 2013 reveals that this trend is increasing. Equally important are the goals of IT and business groups to collaborate on technology solutions for new business initiatives while reducing costs and increasing system security. In the future, the emphasis on improving customers' experience with the organization and improving responsiveness will be as important as ROI. With 24 x 7, "always on" commerce, businesses must adapt to new customer expectations, deploying the best technology available to ensure continued customer satisfaction while maintaining a secure system environment. By flexibly tailoring their IT solutions and acquisition strategies to match this rapidly evolving environment, corporations may better match market need with platform availability.

Q. How has the movement to new IT platforms changed customer preferences for more flexible acquisition options — including periodic use and payment solutions — that produce better budgetary alignment and enable easier equipment transitions?

A. Frankly, for the majority of clients, the shift to new platforms has changed their acquisition requirements too. We have repeatedly discussed the need for flexibility, not only for term length or upgrade options but also for equipment types, transition issues, and monthly payment terms based on use and not capacity. So when we discuss customers' need for flexibility, it is related to many aspects of the transaction: flexibility for investment strategies, platform selections, and future investment choices that are often unknown and constantly changing. Today, a common thread is the need for "transition funding and asset management options" that help customers move from their current IT infrastructure to emerging architectures. Often this is not a wholesale change; rather, the change happens gradually as customers evolve to new platforms that may include an IT cloud option, converged architectures, or solutions yet to be announced. Recently, financing vendors began addressing this key concern of their IT customers and developed programs to assist with the transition from traditional equipment to new IT options. Clearly, diverse equipment and financing strategies are necessary tools to help customers move across rapidly evolving platform boundaries. Working with a technology provider that can help build a diversified investment acquisition program will ease these transition issues and facilitate a true partnership between provider and customer through this IT evolution.

ABOUT THIS ANALYST

Susan Middleton is a research director for IDC s Technology Financing Strategies and Technology Valuation Services programs. Ms. Middleton s areas of expertise are the midrange and high end server marketplace, enterprise storage, and HP printers. For each of these technology segments, Ms. Middleton follows trends, technology changes, and market forces that impact life cycles and IT portfolios.

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