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Authors:
Raymond Boggs

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Flexible IT: Opportunity for Midsize Companies to Coordinate On-Premise and Cloud-Based Resources in an Effective Hybrid IT Environment

IDC OPINION

For midsize firms around the world with 100 to 999 employees, advanced technology plays an increasingly important role in business success. Companies have been adding cloud resources to supplement on-premise server, storage, and networking capabilities. At the same time, growth of mobile and remote workers is also changing how companies need to support workers to allow them to be as productive as possible. Like larger companies, midsize firms must make sure that they are effectively coordinating on-premise, public cloud, and private cloud capabilities. Unlike large companies, though, midsize firms are limited in both financial and technical resources to design and coordinate effective solutions to meet specific needs. Rather than invest in a major overhaul of their IT environments, midsize firms have to move incrementally, supplementing current resources with new cloud and on-premise capabilities that provide the performance, efficiency, and flexibility needed to prosper in an increasingly competitive environment.

Situation Overview

Key Business Objectives

Midsize firms in developed countries (the United States, the United Kingdom, Germany, and Japan) and developing countries (India, China, and Brazil) are diverse in many ways, though surprisingly similar in their basic business goals. Multiple objectives are typical, but growing revenue, improving efficiency, and reducing costs (or at least managing them) are the most

widely cited goals among midsize firms worldwide (see Figure 1). Other objectives are closely related to these key performance aspirations. While midsize firms in some countries are more likely to want to grow revenue and others more likely to want to improve efficiency or manage costs, all are clearly looking at improving their financial health as a key objective. The question then becomes what kinds of technology investment can best support that objective.

FIGURE 1

Top Midsize Business Priorities for the Next 12 Months

Source: IDC's *Worldwide SMB Survey, January 2017*

Technology Spending Priorities

Midsize firms worldwide indicate that a growing share of their IT spending is associated with cloud computing. This is in keeping with the growing use of "3rd Platform" technology — specifically social, mobile, cloud, and big data. At the same time, though, the largest share of midmarket IT spending will continue to be associated with "2nd Platform" technology — specifically PCs, servers, storage, and networking.

Midmarket firms are investing in both traditional on-premise and cloud capabilities. But only about a third of midsize firms cite investment in integrating on-premise and cloud resources as an IT spending priority for the next 12 months. The supplementing of on-premise capabilities through both public and private cloud resources will be an increasing part of midmarket technology strategy, but formal coordination is not yet part of the thinking of many firms (see Figure 2).

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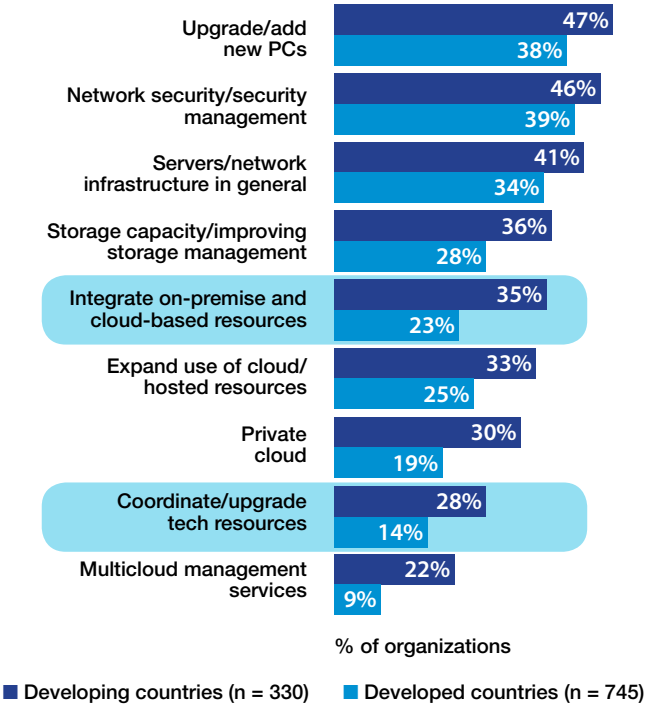
A mix of traditional on-premise and new cloud resources is most often cited, along with ways of improving their coordination.

FIGURE 2

Top Midsize Business IT Spending Priorities for the Next 12 Months



Source: IDC's *Worldwide SMB Survey, January 2017*

Attitudes Toward Technologies

Although midsize firms tend not to consider investment in technology alignment and coordination to be a top IT spending priority (just 25–35% depending on the country), most midsize firms across different countries agree that they are working to coordinate technology to improve efficiency (see Figure 3). This coordination and alignment is what digital transformation is all about: Upgrading and connecting resources for maximum impact will help position firms to take advantage of opportunities associated with the new digital economy. Most companies will be satisfied with the resulting improvements in efficiency, but the real beneficiaries will be the companies that take the next step and transform their business models to identify and capitalize on new opportunities. In effect, the most successful companies will not only modernize their operations but also shift their business to find new and more efficient ways to serve customers by providing unique value.

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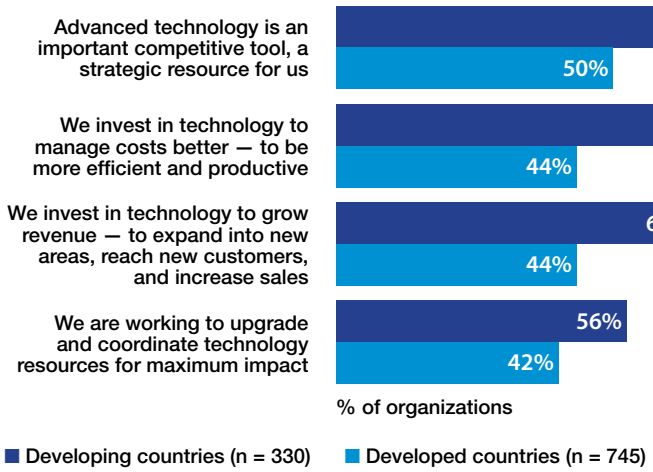
Midsize firm technology attitudes are in keeping with business goals, with many viewing technology as essential to their success.

FIGURE 3

Midsize Business Agreement with Key Technology Attitudes



Note: Data represents 6 or 7 on a 7-point agree/disagree scale.

Source: IDC's *Worldwide SMB Survey*, January 2017

Growing Pressure to Coordinate On-Premise and Cloud Resources

The coordination of public and private cloud resources, and alignment with on-premise capabilities, has been made more challenging but also more essential by the expanding number of cloud applications being used by midsize firms. Over the past years, as cloud penetration has grown and with over four out of five midsize firms currently using the cloud, the number of applications has also grown. What was once a "one and done" desire to expand storage resources via the cloud, or add hosted email capabilities, has become an almost continuous process of adding new applications, sometimes by users operating independently of their IT departments.

In the United States, the average number of cloud applications in midsize firms is 8, and the average number of cloud applications in firms with millennials (those born in 1980 or later) in management positions is 10 (see Figure 4).

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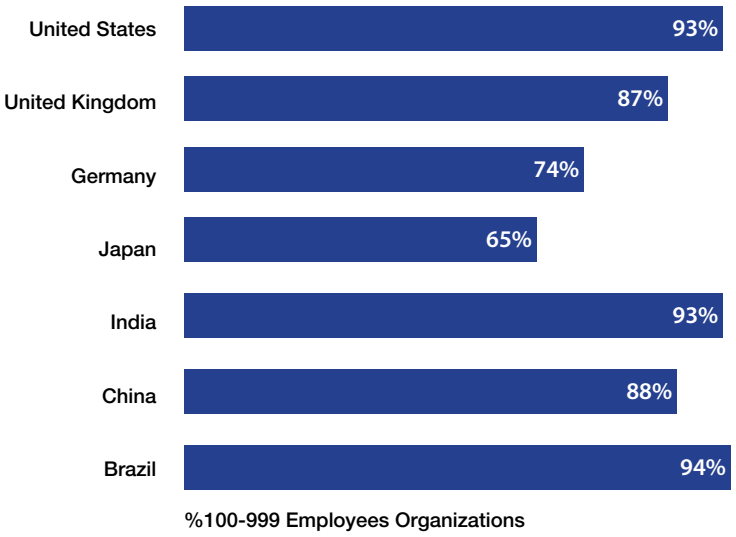
Cloud use is almost universal among midsize firms worldwide.

FIGURE 4

Share of Midsize Firms Using Cloud Resources



n = 1,075

Source: IDC's *Worldwide SMB Survey*, January 2017

Cloud Adoption Drivers

For over 10 years, since the earliest days of cloud computing, the greatest appeal of a hosted solution was the "pay only for what you use" business model. Rather than companies obtaining a software license and paying for it up front, a subscription model provided for continuing payments that would be scaled up or down depending on the number of users and the capabilities delivered. Seasonal increases or decreases in requirements? No need to overprovision to cover peak periods; just expand or contract the number of users appropriately.

But now the greatest appeal of the cloud is operational, not financial. Ease of deployment, effective integration into current IT environments, and greater flexibility and agility are all cited more often by midsize firms worldwide than the appeal of a subscription payment model and associated opex versus capex financial impact (see Figure 5).

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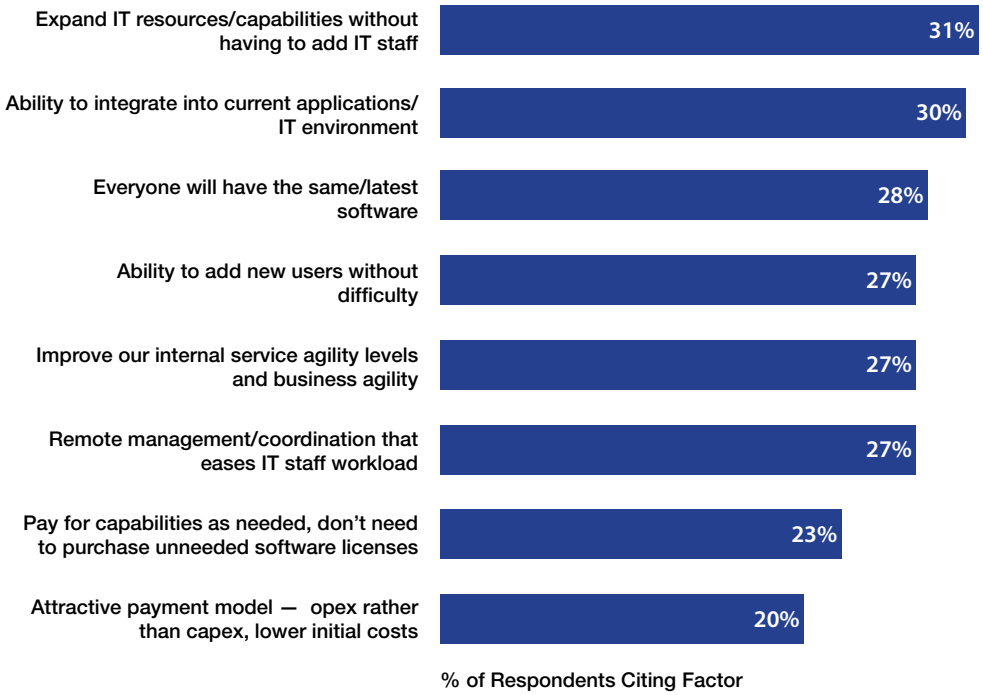
Improving productivity and easier management and deployment drive cloud adoption today, not lower prices.

FIGURE 5

Factors Encouraging Cloud Use by Midsize Firms



n = 1,075

Note: Multiple responses were allowed.

Source: IDC's *Worldwide SMB Survey*, January 2017

The expansion of cloud applications, including the hosting of a company's own private cloud, will place new demands on internal network resources. Effective broadband access and wireless capabilities to support mobile workers in a secure way will be essential.

Computing power, available storage, and support for secure VPN connectivity that provides remote workers with access to on-premise company resources all need to keep pace with changing infrastructure needs. The growing use of virtual servers has helped IT staff at midsize firms manage their internal environments more effectively, and IDC has seen an actual reduction in the number of servers used in midsize firms. But the servers in place are doing the work of many more. While midsize firms don't have the same opportunity to save on power and cooling expenses or space in the datacenter that large firms do, improvements in management and control are important incentives for virtualization and the investment in more powerful servers that allow for server consolidation.

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IT managers at midsize firms face the sometimes difficult, sometimes easy decision regarding what capabilities should remain on-premise and what should be moved to the cloud. In some cases, regulatory requirements will make it essential to keep sensitive information on-premise (and the location of a cloud services provider may factor into this decision as well.) Senior management preferences will also be important when deciding where customer information or financial records are maintained. Security is still the reason most often cited for not using the cloud, though now just 44% of midsize firms cite the factor compared with over 60% three years ago.

Improvements in on-premise resources to support cloud engagement will be essential to effective technology deployment in midsize firms.

IDC Essential Guidance

The coordination of cloud and on-premise resources will be increasingly important for midsize firms looking to make the most of past IT investment and future technology additions. Widespread use of cloud comes at a time of increasing interest in improving on-premise capabilities as well as private cloud resources (see Figure 6).

FIGURE 6

Opportunity for On-Premise and Cloud Resource Coordination Will Grow

Q. Where is your company in the opportunity diagram?

% of share of U.S. midsize firm

n = 1,075

Source: *IDC's Worldwide SMB Survey*, January 2017

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The coordinated enhancement of IT environments will provide for the decentralized availability of resources to employees independent of where they are working. This flexibility will enhance productivity while allowing firms to maintain control and security of operations. While midsize firms do not typically have the luxury of doing wholesale replacements of their IT environments, investment in greater coordination, improvement in on-premise infrastructure, and continuing expansion of cloud capabilities will provide the performance gains necessary for continued success participating in the ever-changing digital economy.

IDC Global Headquarters

5 Speen Street
Framingham, MA 01701
USA
508.872.8200
Twitter: @IDC
idc-insights-community.com
www.idc.com

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