



What is IT Consumption?





The era of business transformation

When you hear the phrase “business transformation,” what springs to mind? Visions of Silicon Valley entrepreneurs? Unicorn start-ups? Self-driving cars? How about the grocery business? Grocers have served a very clear-cut purpose that hasn’t changed much for several decades. The same can be said around the world, which made it all the more unexpected when the Vice President of IT for a leading grocery store chain suddenly found himself at the helm of a burgeoning pharmacy business (that would quickly generate over \$1 billion in revenue!).

The grocer’s shift to a new product line had tremendous IT infrastructure implications. A simple online promotion for a free product inadvertently snowballed into an IT nightmare, which ended up crashing the grocer’s website. A simple but treacherous misstep—IT was not included in the marketing team’s project plan. Without any warning of the impending surge of web traffic the online promotion would bring, IT did not have enough scale to respond immediately. As a result, the promotion failed—not because of lack of customer interest, but rather from a communication breakdown between the business and IT.

Sound familiar? This scenario has become all too common. In today’s Idea Economy, an innovative idea can be as powerful as yesterday’s multi million dollar budget, pitting entrepreneurs against Fortune 500s to win market share and customer loyalty. The pressure to accelerate business transformation has become intense. In fact, a 2015 global survey of IT and business leaders conducted by CEB found that 63 percent of business leaders still feel their organizations are too slow to exploit technology-enabled opportunities.¹

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Tomorrow belongs to the fast. Organizations now require a greater degree of flexibility to seize business opportunity. The agility to nimbly sidestep the unpredictable—market volatility, cybersecurity threats, or competitive curveballs—is now a must-have. And the race is on. The question is, can you transform your IT without transforming how you acquire and use it?



Rethink IT consumption

Take a moment to think about how IT has been traditionally acquired, paid for and used. The short list typically topped out at three options: buy, outsource and lease. The common thread? Predictability. All of these acquisition methods were built upon fixed, long-term commitment. The traditional hardware-centric data center was by nature, predictable. The hefty price tag attached to server, storage and networking equipment meant that companies tightly managed the capital spend needed to acquire technology. Procurement then calculated return on investment based on depreciation averaging five, seven, even nine years or more, and that was that. IT and Finance parted ways, nary to meet until the next annual budget meeting.

As the interdependence of business and IT intensified, the impact of a long-term ownership model has become increasingly apparent. For example, the high cost associated with maintaining a traditional data center often exceed original ROI and IT budget calculations, leaving the organization with unanticipated costs. The uptick in speed of business has caused more unpredictable demands on the data center—putting a strain on current server and storage capacity without spare IT budget to bolster capacity. IT assets that age need extra maintenance and support. ROI measures typically fail to calibrate this, and before you know it, the “fixed” costs of asset depreciation and maintenance have tied up the bulk of the IT budget.

Compounding the problem is the challenge of IT and the business estimating need versus use of IT. Organizations have struggled with the consequence of wasted capacity and IT budget, as a result of over-provisioning server and storage units based on the inability to accurately predict future needs. In fact, 30 percent of physical servers are considered “comatose,” or those that have not delivered information or computing services in six months or more.²

Fast forward to present day, companies are reinventing how they do business, and exploring new ways to build, operate and use technology. IDC reports that by the end of 2016, 50 percent of companies will demand payment models based on usage for major IT and data center investments, basing vendor decisions on these programs.³ Organizations now have the ability to choose how and when to access IT innovation in order to suit unique (and unpredictable) business needs—more aggressive revenue growth targets, new and rapidly-changing customer

demands, technology proof-of-concepts—you name it. Yet those traditional ROI frameworks, which were designed for a more static, steady state IT and business environment, still remain intact within many organizations. Business leaders recognize it's time for a change in order to drive business transformation. But taking action will require bold moves; a fundamental shift in mindset, behavior and business model in regards to how IT is leveraged to drive business results.

To kick start that reinvention process, many business leaders have turned to the cloud. More than a buzzword these days, public cloud is a viable solution for many common business applications. Take payroll for example. Virtualizing payroll can reap near-immediate benefits, freeing up precious on-premises storage capacity and funds that could be reinvested elsewhere within the organization.

Now, think of a hospital environment. Confidential patient information protected by governmental regulations, such as HIPAA in the United States. Critical, time-sensitive scenarios requiring access to this data occur constantly. For this type of application data, control, security and cost are vital. A public cloud environment, if not properly managed, could have risky and costly repercussions. In fact, though many businesses are beginning their cloud journey, the elements of control over security, capacity needs and cost are critical. As a result, many businesses choose to retain control in the data center.

“We are seeing enterprises shifting away from acquiring IT assets,” says Susan Middleton, Research Director for IDC’s Technology Financing Strategies and Technology Valuation Services programs. “We are seeing much more strategic investments in terms of what they are going to put on-premises and a real evaluation of what they are going to put in managed service.”

Based on recent IDC findings, two-thirds of senior IT executives want to be able to execute a best-of-breed cloud strategy or integrate best of breed choices where required to deliver the best possible solution.⁴ Exactly how IT is acquired, consumed and managed should be carefully considered from business application to business application.

The “one-size-fits-all” approach to payment structures that went along with traditional IT acquisition models no longer restricts the options that organizations have today. Rather, IT consumption models can be designed and selected to help achieve a variety of business outcomes—and you don’t have to trade flexibility for control.

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A timely example can be found in the telecommunications industry, which is getting hit hard by business transformation demands. As a sector that has thrived on traditional IT infrastructure for decades, the pressure to integrate newer technology to meet customer demands has skyrocketed. A global telco and media provider recently found itself with a unique challenge; the pursuit of a new (but potentially risky) revenue stream opportunity. The company aimed to launch a brand

new on-demand service, but required a lengthy trial period to beta-test the service components and ensure a healthy customer appetite. The ability to access the necessary IT for a trial period, without blowing IT budget, was not something they had considered; however, with an IT consumption model approach a flexible and shared-risk model could become a reality.

IT consumption is about how technology is acquired, paid for and used to drive business outcomes. To get a crystal clear picture of what those business outcomes are, one must start at the end. Once business leaders have identified tangible KPIs and measures of success, an IT consumption and payment model can be aligned to provide the appropriate service duration, units of consumption and contract obligation, for example. The flexibility of an IT consumption model approach provides the ability to customize payment structure with greater ease based on current, anticipated and quickly changing business needs.

Let's go back to our grocer. Our VP of IT wasn't challenged with flexibility of IT access like our telco. His challenge was access to additional capacity to account for an unexpected surge in traffic to his website. However, both challenges could be resolved with their own unique IT consumption approach.

Tomorrow belongs to the fast

There's no doubt that tomorrow belongs to the fast. But it's not about getting there first, it's about staying there. Shifting from the old world to the new world means familiar territory is long gone. The velocity of change in business demand and market offerings requires IT to adapt to shorter, more iterative planning cycles. The ability to map an investment strategy to a technology strategy can pay dividends by accelerating transformation and providing that extra degree of flexibility needed to adapt to more frequent disruptions within the market landscape. When companies build the capability to adapt to constant change there's a 66 percent average probability of change success, compared to 34 percent for those who manage change as a project.⁵ Thinking, behaving and acting in familiar ways will bring familiar results. When it comes to driving business transformation, old habits die hard. Now is the time for business leaders to do what they do best—lead.

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¹ CEB, Accelerating IT's Clock Speed, CEB CIO Leadership Council, 2015

² Jonathan Koomey and Jon Taylor, Anthesis Group. New data supports finding that 30 percent of servers are 'Comatose', indicating that nearly a third of capital in enterprise data centers is wasted, June 2015

³ IDC, FutureScape, Worldwide Datacenter 2016 Predictions, November 2015, IDC #259808

⁴ IDC Multi-Client Study CloudView, 2016

⁵ CEB, Principles for High-Speed Change—How IT Can Make Change Self-Propelled, 2015



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