



**Susan Middleton**

*Research Director, Technology Financing Strategies and Technology Valuation Services*

## **Emerging Considerations in Financing Next-Generation IT Infrastructure**

*June 2013*

*Today's rapidly changing business environment demands a new level of flexibility to meet business needs. As a result, many companies are leveraging various cloud strategies to increase the efficiency and effectiveness of IT operations. The number of successful private and public cloud implementations is ramping up quickly. IDC's latest forecasts show that the worldwide public cloud IT infrastructure market totaled \$9.2 billion in 2012 and will increase to \$20.1 billion by 2017. The challenge of the IT cloud is advancing the dialogue to a more robust discussion of the opportunities, risks, and potentially differentiating competitive advantages associated with using a new IT platform. This might involve accelerating new capabilities, lowering costs, or obviating the need for major capital investments in IT infrastructure. Furthermore, the shift from older legacy models to new IT paradigms brings a high level of unpredictability into the equation, increasing the need for new financing vehicles to help companies manage unprecedented levels of change. These new approaches give IT managers new options when configuring their datacenter requirements and are altering the way they acquire and finance IT infrastructure assets.*

The following questions were posed by HP to Susan Middleton, research director for IDC's Technology Financing Strategies and Technology Valuation Services programs, on behalf of HP's customers.

**Q.    What are the key trends in cloud computing, and what type of flexibility are enterprises now looking for from their technology vendors as a result?**

A.    The transition to cloud infrastructure has crossed the line from a concept to a trend. In 2012, IDC conducted a study of IT buyers in North America, and 71% of the survey respondents were using, planning to use, or researching cloud technology. Additionally, the number of private and public cloud projects and successful implementations is ramping quickly. According to IDC's latest forecasts, the worldwide public cloud IT infrastructure market totaled \$9.2 billion in 2012 and will increase to \$20.1 billion in 2017.

The forecasts for the worldwide private cloud IT infrastructure market are also impressive. IDC estimates that this market totaled \$9.8 billion in 2012 and will increase to \$22.2 billion in 2017. Both public and private cloud IT infrastructure projects are experiencing rapid growth because customers see that the business case for the cloud is about increasing the efficiency and effectiveness of IT operations. In this turbulent economic environment, senior IT executives are faced with increased demands for improved productivity while budgets are decreasing. In the ongoing battle against the cost of complexity, CIOs continue to pursue solutions that simplify their application and infrastructure portfolios. Cloud financing programs offer a solution to IT customers struggling with these issues. We have surveyed customers about what they expect from IT cloud financing providers, and overwhelmingly, the responses were about flexibility and simplicity with respect to both contract terms and invoices.

**Q. What new approaches are required to help enterprises respond to this increasing need for IT flexibility?**

- A. The 3rd Platform is driving change and disruption in the IT space as customers look at the need to increase IT agility to improve business effectiveness. The four initiatives driving this change are Big Data/analytics, cloud, social, and mobility. Companies are embracing many facets of these initiatives as they develop their future IT infrastructure.

As companies embark on this transition, we are seeing an array of different requirements from customers. Today, IT executives are facing a number of important questions about whether and how to best use cloud services and how to restructure their datacenter. They need to understand whether investing in in-house IT infrastructure is the best use of the firm's resources or alternative methods should be considered. As a result, CIOs are looking for new approaches that offer flexible usage models that allow them to be more responsive to changing IT requirements.

**Q. How are new approaches such as cloud computing changing how customers think about fixed asset investment and datacenter development?**

- A. Companies are looking at infrastructure options such as private, public, and hybrid clouds; converged datacenters; and mobile platforms as new ways to structure their IT environments. This new style of IT is impacting how enterprises approach technology investments and is challenging traditional capital depreciation models. We are already seeing new and innovative models being developed in response as CIOs look for a more agile IT infrastructure that allows them to be more innovative by investing in new business initiatives.

Enterprise IT organizations want to acquire IT infrastructure via an open-ended, affordable model that offers new levels of flexibility. In our view, the next generation of IT investment models will need to have this flexibility to effectively adapt to evolving business needs. This will allow companies to acquire, use, and pay for IT in a way that best meets business needs regardless of usage models or timelines. Flexible usage investment solutions allow customers to build programs to match the varied and specific useful life of all of their technology solutions. They also anticipate and allow changes to be made to those investments as business needs change. IDC believes that these kinds of models will be the norm in the near future and going forward.

**Q. How will these new approaches help address some of the previous business issues enterprises might have had with more traditional models?**

- A. Traditional IT models led customers to performance upgrades that absorbed a significant share of the IT budget annually. Now, the budget allocation and review process is under increasing scrutiny as companies are continually asked to apply ROI metrics to support those budget outlays. In our view, this increased scrutiny, coupled with the introduction of new computing models, gives IT managers new options when configuring their datacenter requirements. It will alter the way that they acquire and finance those assets.

Companies will utilize various IT consumption models, such as asset ownership and on demand, as they shift to the new "asset lite" style of IT. Our survey research underscores this point. We asked IT buyers about IT cloud financing structures, and the results were evenly split between preferences for traditional and innovative offerings. Recent analysis of cloud financing deals indicates a trend toward the capacity-on-demand model. Also, it's clear that having to choose one usage model over another is no longer efficient and that enterprises need the flexibility to utilize the models individually or collectively as they move to the "asset lite" style of IT.

**Q. In terms of the innovative financing techniques now available, what guidance would you give enterprises seeking to leverage new IT technologies?**

A. First of all, it's important to work with a trusted partner that understands your current IT environment and forecast growth requirements. As discussed, to gain the financial efficiencies that an "asset lite" style of IT can provide, companies need the flexibility to dynamically manage their IT on terms that meet their evolving business needs. The criteria of flexibility and simplicity also frame this new approach to IT investing as companies recognize that there are aspects of the technology shift to the 3rd Platform that introduce more unpredictability into IT operations.

Working with a partner that has the requisite experience and expertise in the new technology platforms mentioned and that also will provide flexible terms to transition from your current financial obligations to a new infrastructure is ideal. When we asked customers about their requirements for IT cloud financing, many responded that, because this was a new project, they wanted to work with the vendor that was supplying their IT assets. Given the volatility inherent in today's markets, look for a partner that can provide new financing tools and guidance to navigate these unpredictable changes.

#### ABOUT THIS ANALYST

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

---

#### ABOUT THIS PUBLICATION

This publication was produced by IDC Go-to-Market Services. The opinion, analysis, and research results presented herein are drawn from more detailed research and analysis independently conducted and published by IDC, unless specific vendor sponsorship is noted. IDC Go-to-Market Services makes IDC content available in a wide range of formats for distribution by various companies. A license to distribute IDC content does not imply endorsement of or opinion about the licensee.

#### COPYRIGHT AND RESTRICTIONS

Any IDC information or reference to IDC that is to be used in advertising, press releases, or promotional materials requires prior written approval from IDC. For permission requests, contact the GMS information line at 508-988-7610 or [gms@idc.com](mailto:gms@idc.com). Translation and/or localization of this document requires an additional license from IDC.

For more information on IDC, visit [www.idc.com](http://www.idc.com). For more information on IDC GMS, visit [www.idc.com/gms](http://www.idc.com/gms).

Global Headquarters: 5 Speen Street Framingham, MA 01701 USA P.508.872.8200 F.508.935.4015 [www.idc.com](http://www.idc.com)