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## **Analyst Connection: Risk Management Considerations for Datacentres in 2013**

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*Innovative Canadian IT executives are becoming "service brokers" rather than "service providers" to drive productivity and competitive advantage. Managed hosting is a key part of their sourcing strategy, offering enterprise-class datacentres that can support today's business requirements of performance, security, and resiliency. The following questions were posed to Mark Schruett, Director of IDC's Service and Enterprise Applications research regarding the role of managed hosting in supporting leading Canadian executives and what to look for in a service provider.*

**Q: Are today's datacentres meeting business needs?**

**A:** The average Canadian datacentre is eight years old and many are 15 to 20 years old. Most of them are costly to operate, unable to support current and future technologies and are liabilities to many Canadian companies. Another key issue is space: many companies have simply run out of room in existing datacentres and expansion is not a viable option. Combined, cost and capacity are the top two concerns Canadian CIOs have about their datacentres. These facilities cannot support the high density and high availability requirements of today's technologies and frequently fail. IDC's 2012 datacentre study found that more than half of enterprise-sized datacentres have experienced significant outages over the past 12 months which have led directly to higher costs and ultimately lost revenue. This is the reality of today's datacentre: a public sector organization's breach in security affected more than a million citizens; a Canadian retailer lost C\$25 million in peak holiday time; and a health agency that incurred C\$10 million in additional costs during a three day outage. These situations are unacceptable and avoidable.

**Q: What is the best way to innovate IT for current conditions?**

**A:** Even the best run datacentres have their challenges. If it is not capacity, performance or resiliency, it may be a shortage of skilled resources or limited security capabilities. And as companies expand, so do their challenges, creating duplication in costs and compounding the complexity for both users and IT. These challenges do not lessen over time; in fact, they get more difficult as the datacentre becomes older and less capable of meeting evolving business needs.

Many leading CIOs have come to the conclusion that they should not be in the datacentre business. Realizing the limitations of today's datacentre, innovative and progressive CIOs have already taken the next steps. These technology leaders are embracing market solutions

including outsourcing and managed services, and expanding their capabilities through offshoring, and are beginning to reap the benefits of the cloud.

These CIOs have set the path of best practices. Many use a multisourcing strategy in which CIOs oversee a portfolio of service providers to deliver best-in-class solutions. Along with the financial advantages that competitive tension introduces, IDC's research shows that the main benefits of multisourcing are flexibility and innovation — but it requires commitment and effort to manage the relationships. When it comes to hosting, the leading Canadian companies prefer to work with Tier 1 providers: suppliers that exhibit a breadth and depth of service capabilities that are difficult to match. Only a handful of multinationals, such as IBM, have these capabilities. Enterprise hosting takes significant capital and investment in tools, technologies and experienced professional resources. When it comes to hosting services, Canada's largest companies use a combination of models from colocation to shared hosting. Managed hosting, where the provider is responsible for technology investments and accountable for operations, has become the preferred vehicle for enterprise firms. Managed hosting provides not only the required infrastructure as the other models, but the security and 24x7 operations to ensure maximum uptime, availability, and resiliency.

Managed services (of which managed hosting is a subsegment) and outsourcing are critical in the strategic shift of the IT department from provider to service aggregator. While other models cut cost and provide a degree of resiliency, managed hosting really sets the stage for higher IT performance. The path is not easy and will not occur overnight or on its own. CIOs need to prioritize their applications, couple them with the most appropriate hosting model and build a roadmap that may include sunseting, upgrading, transitioning or replacing their systems. Technology executives need also to ask why they are outsourcing, what benefits they are expecting, and pick the right solution to meet their needs. The answer will not be one model or another but a combination of infrastructure solutions that can be maximized to deliver the greatest return.

In addition to these sourcing options that can provide immediate pay-back, innovation can be found in continuous improvement in quality and price. Today, these are table stakes in the managed hosting market. CIOs are asking more of their key service providers, expecting them to introduce new and better ways of doing things, but also opening the door for collaborative relationships that focus on a higher level of value and innovation. Managed hosting providers have responded with lights out, remote infrastructure management models, infrastructure-based cloud offerings and new ways to provide disaster recovery and business continuity.

Cloud, with the ability to rapidly and easily scale and pay for only what you use, is a game changer in the mix of managed hosting services. Cloud is a new platform for developing software. Test/development on the cloud has already taken a strong hold at high-tech Canadian businesses such as software, communications, and media firms. Other industries such as banking and insurance are quickly leveraging Platform as a Service to develop applications in a fraction of the time and cost of the old way of doing things. Cloud is also a game changer in the area of hardware and network infrastructure. For Infrastructure as a Service, datacentre services can encompass mechanical and electrical components, as well as the network and security functions, the server infrastructure, and the virtualization layer.

Cloud has also revolutionized certain markets. One of these is backup and recovery. Cloud provides cost-effective backup, recovery and standby resources so that servers can be restarted immediately in the case of disasters or failures. Redundant, cloud-based solutions provide businesses with the potential to eliminate lost revenue due to downtime, which is a significant competitive advantage. In the future, cloud will introduce even better ways of doing

things and allow companies to expand, introduce new products and services, and drive efficiencies in an unprecedented manner.

**Q: What should I expect from enterprise managed hosting providers?**

A: The decision to outsource starts with the business case. The business case provides the rationale, benefits, and costs, as well as the expected results for investments by organizations. The IT business case typically has an executive summary and six components: background, current state and options; financial review; risk management; strategic fit; execution plan; and ongoing management.

The business case is the blueprint for the outsourcing decision. Discussions with providers should start early in the buying cycle. IDC believes it is critical that buyers evaluate the ability of providers to meet and exceed the following selection criteria:

- Tier 3- or 4-like capabilities, designed for mission-critical systems.
- Physical security — things to look for are audits and personnel checks, monitoring by third-party security firms, two-level verification for access, and isolated authorization zones.
- Security practice, which speaks to capabilities, standards and tools — things to consider include SAS70 certification, PCI compliance, and the providers' investment and commitment to a security practice that can offer customized security solutions specific to a customer's needs, such as 24x7 security monitoring and event correlation.
- Infrastructure availability and resiliency, including DR, data synchronization and system redundancy — these features should be built in and available to clients.
- Fully redundant and highly available network and power supply.
- Risk profile, which relates to location — things to consider are the proximity to high risk zones (natural and man-made disasters) and the measures in place to mitigate risk and maximize uptime.
- Financial stability to ensure sustainability of the services — things to look for include management and financial metrics such as debt coverage and return on investment.
- Range of capabilities — provider capacity to offer value-added services as required, such as architectural design, legacy migration and integration and various hosting services from colocation to cloud, to full-scale outsourcing.
- Value — not just a competitive cost, but a pricing model that allows for the flexibility to change as the client's business changes.
- Sustainability, or how green the datacentre is — things to look for are LEED certification, target and actual power usage effectiveness (PUE) levels.

The shift towards managed hosting takes time and effort. A transition plan will identify the roles, responsibilities, key milestones, and the application and systems roadmap.

The "shift" in technology, though, is manageable and in most cases will result in an upgrade of IT assets and resiliency. The real change that technology executives need to be ready for is managed services and the shift in mindset towards that of a broker of services to internal

clients. Technology executives need to prepare for when IT is no longer the doer but is rather an integral part of business enablement that can rapidly introduce robust new technologies and innovation to drive productivity and competitive advantage. Outsourcing enables CIOs to solidify IT operations, introduce the required degree of rigour and professionalism, and make this shift in value.

**Q: Is it possible to future proof?**

A: Technology has firmly established its importance in daily life and its significant contribution to business, healthcare, and public services. Investment in technology continues to expand yet the cost to support and the size of the typical IT department is getting smaller. However, it is not a "do more with less" proposition but a strategic decision to focus on the core, having IT more ingrained in the business, and leveraging third-party providers. IDC believes the IT department of the future will grow even smaller and focus almost exclusively on adding value to the business. In order to deliver on this vision, buyers will have to develop strong partnerships with external providers and benefit from the investments and world class capabilities that specialization affords.

Many leading CIOs are already there. For these executives, the good news is there are more sourcing choices and alternatives than ever before. IDC recommends that CIOs plan, scale quickly and include managed hosting as a key component of their IT delivery strategy.

**ABOUT THIS ANALYST**

*Mark Schrutt manages the IT Services and Enterprise Applications team for IDC Canada. These programs include Canadian IT Competitive Dynamics, Application Services, Cloud and Enterprise Applications and Strategic Sourcing. As the lead for strategic sourcing, Schrutt provides research insights and thought leadership on the key issues and trends affecting outsourcing markets. Primary focus areas include outsourcing contract analysis, governance issues, vendor positioning and competitive stance, and industry-specific process issues in the areas of infrastructure outsourcing.*

*Mark Schrutt authors IDC Canada's outsourcing research studies, participates in various industry conferences and events, and works with IDC's clients in the creation of business plans and market strategies. He also plays a management role in IDC's IT service benchmark practice and works with vendors and IT users to measure efficiencies and cost-effectiveness of service delivery.*

*Schrutt has extensive experience in the outsourcing industry. Prior to joining IDC Canada, he held unit director positions at Bell Canada Enterprises, including managing the life insurance practice at CGI Group and strategic planning at BCE Emergis. He was also employed by EDS Canada, where as Director, Communications Industry Group, he managed EDS' business development efforts in the telecommunications marketplace.*

*Schrutt holds a bachelor of science in management from the State University of New York at Buffalo and a masters in information studies from the University of Toronto. He is a member of the ACM, SLA, ARMA, IAOP, and is a research board member of the Centre of Outsourcing Research and Education Research Committee.*

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