Financing the third platform

Mobile computing, cloud services, big data and social networking underpin the 'third platform'. IDC's research director for technology financing strategies **Susan Middleton** explains to Steve Dunkerley and Christian Doherty how managing and financing the assets associated with it has evolved.

The digital wave has created a new set of opportunities and challenges for CIOs and CFOs. As IDC's research director for technology and valuation, Susan Middleton has observed these changes over the past decade, and thinks the market is now emerging from a period of retrenchment as budget constraints begin to lift.

"During the recession, there was a lot of what we call cash hoarding in the US and worldwide," she says. "This led to an extension of installed infrastructure, so that customers and enterprises were keeping assets far longer to evaluate alternative options, such as cloud and service provider options, as well as to conserve capital."

This doesn't quite spell the end of the traditional model of in-house IT ownership, however. IDC's research suggests that the 'second platform' (a client server system with high-end mainframe servers that work closely with a data centre) still has a role to play. "Pieces of that configuration are still very viable and customers are going to keep them because of their importance to the enterprise," says Middleton.

"We are seeing a transition towards being what we call 'asset light', however, and that involves less ownership. Over the next five years, many organisations will stop managing parts of their own infrastructure and rely more on hosting managed services for existing assets.

> "CFOs and CIOs are asking what their enterprise infrastructure will look like in the future, and what options are available in terms of reducing our budgets, as well as providing scalability, flexibility and rapid deployment."

The past 12–18 months have seen a change, though. "Now customers are well under way in the adoption of a 'third platform'," continues Middleton. "CFOs and CIOs – as well as business managers – have many more options to consider. They are asking what their enterprise infrastructure will look like in the future, and what options are available in terms of reducing our budgets, as well as providing scalability, flexibility and rapid deployment."

Whether that's within their own premises, or off-site with a service provider, it's going to change."

That change will take various forms. Middleton thinks that companies are likely to turn to cloud-based services, effectively retiring enterprise centres.

She also highlights the growth of offerings such as 'facility as a service', which involves complete data centres being delivered to clients, and managed locally under service agreements with vendors. "The growth in those types of services means that there are more options, and CFOs are no longer tied to huge expenditure on aging infrastructures that can't support new business growth," she explains.

As a result of that growing freedom, Middleton reports that many budget holders are looking at new ways to spend their resources, and IDC has identified cloud, mobile, social and big data/analytics as the new pillars of IT strategy.

Talent redistribution

These are already causing some CFOs and CIOs to rethink their plans, not just in terms of external investment, but also of internal resource allocation.

"Rather than losing their jobs," she says, "some IT employees might be reassigned to other strategic projects that need talent and personnel. We're just seeing talent being refocused."

Of course, investments must generate returns, and for many CFOs, the focus has shifted from simply supporting IT by financing infrastructure upgrades to a more returns-based approach by which expenditure is subjected to closer scrutiny.

"For most of the enterprises IDC talks to, the change in approach happened a while ago, and the complete focus on return and cost has really changed the dynamics within the companies," says Middleton.

"Instead of saying, 'this is the platform we're on and we need to upgrade because we're at a certain capacity', each new acquisition is analysed in terms of what it will cost and the likely returns it will bring."

With that in mind, the ways in which IT upgrades and new infrastructure are financed have also changed in recent years. Previously, banks would take a principal role when helping organisations make big investments in IT. A variety of leasing strategies allowed firms to secure long-term funding for infrastructure, reassuring CFOs that assets were covered, while the CIO dictated strategy.

The market is evolving, though. "Two trends are beginning to emerge," says Middleton. "First, captive financing vendors are working with the product side to put programmes together that really meet the demands of clients, not only from a technology perspective, but also from a financing viewpoint.

"Helping customers upgrade from the second to the third platform can take a range of forms. If, for example, a customer is already leasing IT assets, those costs can be reallocated, which is certainly a benefit to CFOs struggling with the transformation."

The other trend, which is proving popular with CFOs and line and business managers, is a pay-per-use (PPU) model that allows enterprises to allocate exactly the right amount of money for each project.

Knowing the cost associated with a programme and being able to measure it exactly against the returns generated means overall profitability of a scheme can be measured easily and accurately.

The growing enthusiasm for the PPU model certainly means plenty of opportunities for captive financing, but Middleton stresses that it's too soon to write off the banks.

"In the US, at least, banks have more of an appetite for risk," she claims, "and as the economy here has strengthened and stabilised over the last year, many of them have shown an increased interest in project financing."

In addition to the return of the banks, Middleton suggests that an accounting issue is influencing the way in which CFOs are thinking about financing investment. The proposed changes to lease accounting (with some suggesting its abolition) may well push some companies to look again at their arrangements: "I think the changes in the ways in which customers are buying assets are going to link pretty well with changes in accounting standards."

Susan Middleton
Susan Middleton is a research director for IDC's technology financing strategies and technology valuation services programmes. Middleton's expertise is in the mid-range and high-end server marketplaces, enterprise storage and HP printers, for which she follows trends, technology changes and market forces that affect life cycles and IT portfolios.

Client focus

So, will we see more of the same from vendors in how they interact with their clients? What is influencing CFOs' views on how to structure IT investment?

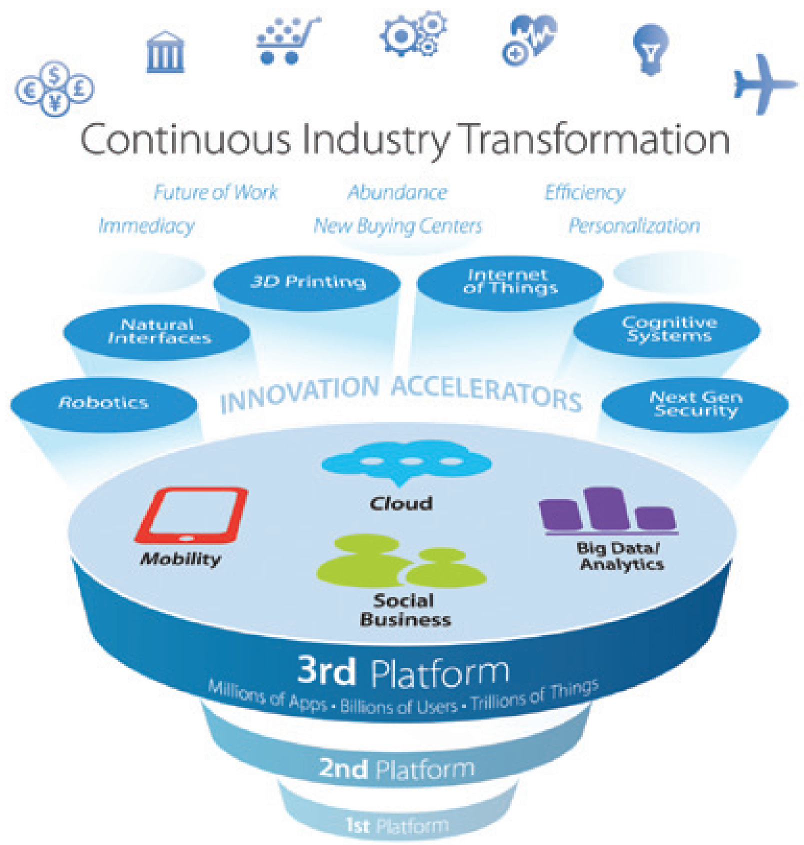
"We've been talking to our clients about how financing companies need to rethink the way they talk to their clients about what they are offering in terms of flexibility and simplicity," says Middleton.

"Some of the major captive financing vendors have already started to incorporate much of that type of messaging into their product launches, and as a result, lots of tested programmes are being put in place, and more will be rolled out this year.

"Previously, the focus tended to be on how much money a client required to grow by a certain amount by end of the year, and vendors responded by putting out special programmes to secure deals.

"Now you're going to start seeing more branding around clear initiatives, where vendors have identified certain scenarios affecting a certain proportion of their clients, and have responded with programmes for those."

Step onto the third platform



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