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Making the Business Case for IT Consolidation

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IDC OPINION

CIOs understand that the fastest way to reduce costs is to simplify infrastructure. IT executives also face the need to improve service delivery with limited resource increases. Two common strategies to achieving this business objective are through network and systems management tools and datacenter consolidation. These strategies require a balance of investment across technology, process standardization, automation, staff training investment, and the ability to work through political inertia. IDC believes that IT organizations are increasingly being asked to "do more with less." As such the simplification of an IT organization's management or datacenter infrastructure is often a transformational way toward achieving service management, realizing more efficient and effective operations, and delivering business impact.

SITUATION OVERVIEW

Enterprise IT organizations have been successfully executing IT consolidation projects over the past 10 years. Key areas of investment include datacenter consolidation and IT management tool consolidation. As IT organizations have become more strategic to achieving business objectives, the issues of cost reduction and innovation often dominate the reasoning for deploying consolidation projects. Increasing IT capabilities for achieving cost containment, compliance, and business resiliency is also a key issue for IT and business executives. For CIOs, several business triggers drive the decision toward consolidation. These triggers include:

- **Mergers and acquisitions.** Market consolidation from mergers and acquisitions is one of the most common business strategies to increase revenues, market share, and offerings. By default, these strategies substantially increase the technology complexity, often resulting in redundant technologies and processes.
- **Simplification.** Technology costs must be controlled and managed; as such, reducing the number of vendors and products in IT organizations can simplify tasks and create more efficient IT organizations.
- **Process standardization.** Simplifying technologies is only part of the solution; process standardization enables more efficient use of IT staff and supports tool consolidation through the use of agreed-upon process definitions that align IT stakeholders.
- **Increased agility.** IT infrastructure must continue to offer automation, availability, and agility to respond to business demands that shift in real time from globalization, competition, and pricing pressures.

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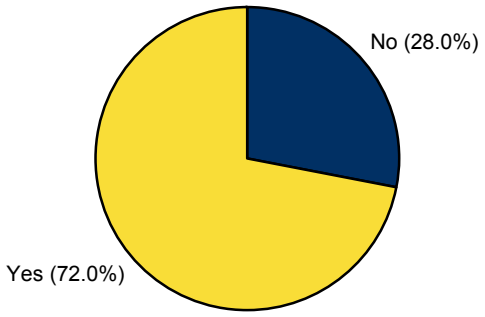
During the past 10 years, many CIOs have initiated datacenter consolidation utilizing virtualization, hardware consolidation, and management software consolidation. Many IT organizations have successfully deployed technology and process consolidation in their quest to lower operating costs per unit, create a more agile infrastructure to quickly respond to business demands, and improve resource utilization and IT service delivery. As the consolidation business case is developed, it is important that IT organizations consider these projects by evaluating maintenance costs, feature deficiencies, and the opportunity that improved integrations can deliver. The ability to measure consolidation projects from hard and soft costs is a crucial requirement. Improved service availability, security, streamlined processes, return on assets (ROA), return on equity, and return on investment (ROI) are good metrics to consider for consolidation projects.

Using a simple example, many IT organizations utilize virtualization during a datacenter consolidation project. As such, the growing challenge of managing virtual infrastructure is a critical investment decision. In late 2007, IDC conducted research in this area. Figure 1 indicates that IT organizations are interested in having a consolidated view of the emerging virtualized infrastructure from existing management solutions.

FIGURE 1

Virtualization Management Plans

Q. Do you plan to manage your virtual infrastructure from your existing system management solutions?



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Source: IDC, 2007

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Getting Started: Consolidation Recommendations

Executives and IT teams must consider the impact of consolidating a hardware or software infrastructure. Existing legacy management tools and processes, point solution integration overhead, maintenance/support costs, staffing levels, and training are key points of consideration. There are broader implications of the impact on the IT service life cycle when IT silos come together and utilize common data models to determine code, performance, or change degradations. Standardization and consolidation force IT organizations to consider these impacts and how they can benefit from them to drive more strategic business discussions with managers. One key area IT executives must consider is the automation of processes; both human and technology based. Automation has developed in solutions over the past few years to the point of acceptance in many IT organizations. It is often no longer an option for adoption, as projects that utilize automation often deliver more secure operations and higher service availability. In consolidation projects, automation capabilities are often driving integration and data collection discussions that directly impact business objectives such as cost reduction goals.

There are several starting points in the process to determine consolidation options for building the business case. Common consolidation scenarios include:

- **Controlling staffing growth.** Many companies face tightening budget constraints and must reduce the need to hire new staff. Consolidating management tools enables existing staff to focus on a consolidated solution portfolio and get more capability from these tools via training. This staff focus enables higher tool utilization, reducing the total cost of ownership (TCO) and enabling IT staff to perform problem, change, configuration, and related tasks faster and more efficiently. Staff develop a knowledge base that can be used across teams to drive teamwork and an end-to-end service perspective. Staff also have the opportunity to improve the utilization and functionality of the standardized management solutions as a standardized tool base evolves and matures over time; this offers the potential for higher ROI through higher functional capabilities utilization and knowledge to apply the functionality.

- **Mergers and acquisitions.** The business trend of mergers and acquisitions continues as industries consolidate globally. The impact on IT in these situations is often profound; many CIOs are forced to make technology decisions to reduce operational costs in the infrastructure as well as streamline staffing team roles and responsibilities. The complexity across technology infrastructure, staffing, and process standardization is addressed during a merger or an acquisition. During the acquisition process, IT investment and legacy infrastructures are often under cost-cutting scrutiny; thus, consolidation is a common strategy. Management tool consolidation and datacenter consolidation are common ways to assist in achieving expected cost savings objectives set forth in the acquisition strategy.

- **License and support cost reductions.** Reducing license and maintenance costs is a common driver for consolidation. The opportunity for a stronger negotiating position for the IT organization diminishes as the number of deployed management tools increases. In fact, many CIOs today are consolidating management tools across "IT silos," whereby data integration and process standardization drive lower costs. From a training perspective, teams that are well established and well trained on a single management tool set are more productive and valuable to the IT organization and business partners. The utilization of the management tool solution greatly increases, and vendors are able to work more strategically with IT organizations to drive product development.

- **Application portfolio rationalization.** IT portfolio management is a growing executive investment area that looks to reduce and organize the application portfolio to lower application support costs and increase the focus on mission-critical applications. By gathering resource utilization and cost data per application, executives can better determine where the highest ROI resides.

- **Human factor.** The creation of a power base of common tools based on one platform will continue to accelerate as consolidation in the management markets continues. CIOs will recognize that higher ROI can be achieved as process standardization based on frameworks such as ITIL and CobiT continues to become adopted.

- **Process standardization.** The benefits of standardizing on critical processes (e.g., change, configuration, problem, and incident management) include improved security, reduced human error, higher IT service availability, and improved compliance visibility and reporting. With IT infrastructure and management tool consolidations, the long-term benefits of process standardization become easier to achieve. Additionally, staffing accountability increases as teams better understand who owns what part of a process. As IT operations teams standardize on processes, they become more efficient and effective in the way they deliver and manage IT services. However, for IT teams to meet business objectives, it is critical that both process and infrastructure standardization take place to support the need to "do more with less."

- **Architecture migration.** From both hardware and software perspectives, many CIOs look to move workloads from various platforms; as such, standardizing on a hardware and software platform can reduce costs and simplify infrastructure operations. CIOs must have data to support the key pain points, such as high maintenance costs, poor customer service, and code quality concerns. It is important that due diligence be completed to understand the functionality of the existing legacy solutions and determine the uplift in capability that the new vendor offers.

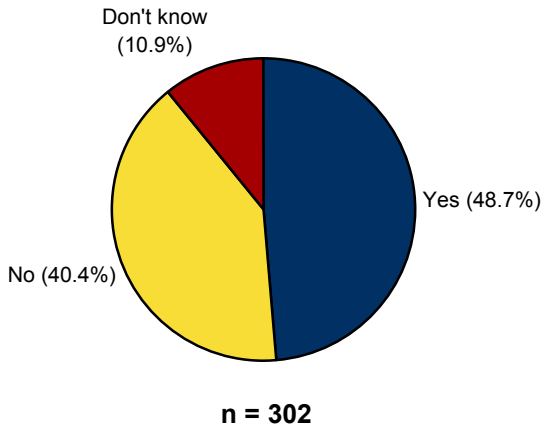
- **A phased approach.** Many CIOs who are locked into license terms must consider consolidation in relation to the terms and the maturity of the deployment. Taking a step-by-step approach to consolidation can reduce the risk of failure and increase the utilization and value of the broader consolidation deployment over time by considering the integration requirements.

Concerning process standardization and its importance to technology consolidation, most executives have now moved forward with aligning process and technology investments (see Figure 2). IDC research indicates that this adoption trend is accelerating; projects that have process and technology integrations are more often successful at reaching expected business outcomes.

FIGURE 2

Adoption of IT Best Practice Standards

Q. Is your IT organization currently using an IT maturity model, process standard, or set of best practices such as ITIL, CobiT, CMM/CMMI, Six Sigma, etc., to manage at least one of your internal IT processes or workflows?



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Source: IDC Enterprise Panel Quick Poll Questions ITIL Forum, 2007

IT organizations need to analyze a few key areas prior to making the consolidation decision: risk management, contingencies if a vendor is acquired, simplicity benefits, integration road maps, and the business impact of the decision on IT's ability to deliver for business managers. Another important consideration is the use of professional services for implementation of a standardized infrastructure. Services engagements often deliver high levels of value through management tool deployments, integrations, and timeliness.

Business Impact of Consolidation

Consolidating management solutions that an IT organization uses increases the ability of senior IT executives to measure the IT organization's ability to align and deliver business outcomes. Consider the following common scenario executives face when attempting to work across IT silos to drive lower operational costs. The application development team sends an application to the testing and staging group to determine the scalability of the applications. After testing, IT operations is responsible for the availability of the applications. Three teams, often working against each other, are involved with the creation and management of the application.

However, CIOs increasingly want to cross the chasm of IT silos as they recognize that teamwork, process, integration, and business demands require cross-silo integrations. However, political inertia, technology expertise, and lack of process often inhibit solution consolidation. Process standardization and executive buy-in often chip away at the political pressures, while tool consolidation and integrations from a single vendor's portfolio across IT silos drive more efficiencies and clearer articulation of business impact. In fact, some CIOs are working strategically with these vendors during consolidation projects by making, as part of the vendor contract, measurable metrics that require cross-silo success and visibility.

Vendor consolidation has increased the breadth and number of management solutions available to customers from a single vendor. As such, customers can look across various silos to view the most opportunistic workflows to integrate for maximum business impact. Common projects include change, configuration, application management, as well as compliance and virtualization. Vendors are increasing their development objectives across broad product portfolios that transcend IT silos through integrations that enable data exchange across products supporting the cross-silo viewpoint. Roles-based interfaces and reporting are becoming common, providing value from a single set of data that can be interpreted and analyzed specific to the needs of the IT role. Portfolio integration for management solutions has increased over the past few years, and IDC expects an acceleration in this area as competitive pressures force this requirement.

CIOs are increasingly asking their strategic vendors to repurpose key data for a different IT silo or buying center; the result is an end-to-end perspective on a specific problem area. For example, performance data is critical for ensuring IT service availability for IT operations teams; however, the same data is critical and can be used by application support, change advisory, or application development teams. CIOs are now asking strategic vendors to utilize and repurpose the data for different IT silos to drive management solution consolidation across silos. The requirement to show value across IT silos through data-, event-, agent-, and interface-level integration is growing and is a key trigger in showing value for each silo and reducing political barriers that inhibit solution consolidation.

This strategy is increasingly being adopted by some North America–based companies and is accelerating in the EMEA region, where multiple geographies, IT centralization, and process standardization are critical to delivering business impact and lower operations costs. In the Asia/Pacific region and Japan, many organizations are currently considering consolidation options for management tools and datacenters as mergers, portfolio rationalization, and cost reduction pressures mount due to accelerating growth and globalization opportunities.

ROI is another important business impact to drive management and infrastructure consolidation projects. Increasingly, vendors are assisting CIOs with building a consolidation business case during the sale cycle, often from a short-term consulting engagement. Both hard and soft costs are examined, as well as the impact on the IT organizational structure and current expertise levels. Business analysis of ROI, ROA, TCO, return on invested capital, and related metrics is a good way to measure the financial impact of consolidation projects.

Unexpected Consolidation Benefits

IT executives face many different business and technical considerations when deciding to consolidate: compliance, costs, staff productivity, availability, security — and the list goes on. Often, executives find that consolidation brings unplanned benefits such as increasing the level and accuracy of information that IT can deliver to business managers. This data has a direct correlation to IT becoming more strategic to the business and during business strategy planning sessions. Additional, unseen benefits include:

- **Innovation.** Innovation arises from improved business decisions and customer visibility from data across IT silos around quality of experience, service availability, response time, and business process relevance. This data can drive better technology project investment decisions in a real-time fashion.

- **Process adoption.** Process standards such as CobiT, ITIL, Six Sigma, CMM, and others are fast gaining acceptance in IT organizations. Consolidation projects that address both new and legacy infrastructures are often based on process as a foundational requirement. Process and tool integrations are common and offer IT a faster path to savings and business impact.

- **Improved compliance.** IT governance and compliance initiatives often benefit through the reduction in risk via integrated processes and management solutions. Compliance projects require visibility across multiple "IT silos"; a key capability enabled through tool consolidation.

- **IT service life cycle.** As single vendor management solutions become integrated, IT staff can utilize similar scripts and information across IT silos. These types of capabilities shape the service life-cycle perspective. IT organizations are empowered to analyze the cost of service delivery across IT silos. In many IT operations teams today, there exist significant costs of nonintegration and related maintenance costs across too many fragmented solutions from many different vendors. Through management solution consolidation, IT organizations can place more data into the system and get the service perspective.

HP Software Offerings

Building on traditional strengths in network, system, and IT service management, HP Software has made several acquisitions over the past few years that have greatly increased its portfolio for managing across an IT organization. Many executives now have conversations with HP that involve both hardware and software consolidation projects. When combined with a datacenter consolidation project, a unified IT management approach often begins with capabilities for integrating performance and availability management across infrastructure networks, servers (including blades), operating systems (including virtualized environments), storage, and core applications. The HP Network Management Center and HP Operations Center software solutions provide the foundation for this first infrastructure level of IT management tool consolidation. This is often complemented by standardization and consolidation of IT processes such as change, configuration, incident, and

problem management. The HP Service Management Center and associated change and configuration management offerings provide the basis for this next level of management tools.

Some of the common consolidation software solutions that exist in the HP Operations Center, HP Network Management Center, and HP Business Availability Center are as follows:

- HP Operations Manager software
- HP Network Node Manager software
- HP End User Management software
- HP Business Process Monitor software
- HP Universal CMDB software

As the need to manage from business policies continues to increase in IT organizations, consolidation of tools will become an important factor in enabling the execution of policies to trigger actions across a service life cycle. As the product list shows, HP Software offers many starting points in relation to consolidation. Besides product, migration expertise, policy creation, and encapsulation (i.e., virtualization), consulting and partner engagement are important considerations for consolidation projects to transform the datacenter. Solution pricing must be considered in relation to the long-term value that consolidation offers; product support packages, support, and flexible pricing options can make or break expected benefits. It is helpful if the same vendor team that is executing the proof of concept is the same team implementing the products.

The Role of Services for Consolidation

Datacenter consolidation and management tool consolidation are not easy projects; successful deployments require deep levels of knowledge in technology solutions, processes, and ongoing training options to reduce costs and create agile infrastructure. From both vendor-led and indirect partners, executives must consider the necessity for services that help improve the utilization and success of consolidation projects. Consulting expertise that HP offers includes:

- Classic consulting expertise for product deployments, integrations, and customization
- Outsourced and software as a service (SaaS) solutions
- Training services
- Process deployment and standardization services

CASE STUDIES

Many IT organizations have developed consolidation projects of their datacenter and/or their IT management solutions. The following case studies are just two examples.

Global Pharmaceutical Company

A global pharmaceutical company wanted to create a shared service model for its IT infrastructure to centralize the IT function and reduce costs while improving the availability of services without headcount increases. By taking a phased approach, and utilizing ITIL as the process foundation, this organization simplified its IT management infrastructure by reducing the number of products the team used. The team also began to work more efficiently, as it no longer had to deal with multiple vendor products.

Benefits

- Multiple integrations into third-party solutions, across IT silos, reduced the number of service desk tickets and improved communications with the application development team, driving lower costs and higher service availability.
- The company was able to lower the cost per service unit and improve its ability to track and maintain compliance.
- IT has the capability to now improve customer self-service for resource requests and track costs per service across multiple IT domains.

Large Utility Provider

This large utility provider was under regulatory, labor, and cost pressures across the IT and business organizations. The CIO needed to act quickly and decided consolidation of the IT management solutions was a critical enabling project to achieve the objectives. The consolidation decision surrounded the core monitoring tools, with the buying decision based on product integration capabilities, breadth of offerings, and the existing customer experience with management solutions. Other key purchase decision requirements included the need for third-party integrations, fair pricing, and the customer relationship the vendor would have postdeployment. The consolidation project was phased in over many years, spanning network and systems monitoring and application management. The key business drivers included the need to achieve improved visibility from an end-to-end service perspective, compliance tracking, and centralized management, as well as get staffing costs under control.

Benefits

- The initial business case ROI expectations were achieved, which was based solely on cost savings across maintenance, support, and staffing costs.
- Process standardization (ITIL) enabled incremental savings over the course of the project while establishing a team-based IT culture.
- Recent virtualization buildout is now being considered as part of the management platform; integration of the architecture will enable a "single pane of glass" to manage both physical and virtual deployments.

FUTURE OUTLOOK

IT consolidation will continue within IT organizations as vendor mergers and acquisitions reduce the number of leading vendors across the market. This fact will increasingly require IT organizations to consider the impact of consolidation on their infrastructures, as well as press them to develop the opportunities that consolidation brings. Point solutions no doubt will have a role; however, IT organizations should expect a decreasing or nonstrategic role to the end-to-end delivery of mission-critical IT services. Taken together, IT staff, process, and technology can deliver a consolidated infrastructure perspective with benefits that keep delivering value far past the "end" of the project.

CHALLENGES/OPPORTUNITIES

In consolidation projects, HP Software faces the opportunities and challenges noted in the following sections.

Opportunities

- **C-level deals.** HP Software has broad product and sales coverage across many IT organizations and growing influence in the C-level suite.
- **Cross-portfolio integrations.** Integrations across product portfolios have received development and product road map focus; as such there are tighter integrations across various solutions to deliver more automated actions and end-to-end service visibility.
- **Services expertise.** Technology integrations, process standardization, and organizational adjustments are often critical areas of expertise to utilize during a consolidation project. This expertise is critical for faster deployment and time to value.
- **Broad and deep portfolio.** HP Software has a broad portfolio of tools that span IT operations, networking, systems, and datacenter automation. There are many starting points for executives to consider for consolidation projects.

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Challenges

- **Sales education.** HP Software's large sales arm must understand the broad portfolio, and salespeople from acquired companies must expand their knowledge of the various products that cross IT silos.
- **Competition.** Most competitors are focused on broadening their product portfolios through acquisitions; as such they may have larger product and sales footprints to offer customers.
- **IT political inertia.** Crossing IT silos and entering various buying centers can often elongate a sales cycle and cause IT political tensions to rise. HP Software must offer solutions that appeal to the buying centers and market to the pain points.
- **Business impact.** Delivering business impact and solving IT's pain points through solutions are critical requirements for building a consolidation business based on software and hardware standardizations.

CONCLUSION

Business executives are increasingly looking to CIOs to drive business impact through best-in-class service delivery and operations. The easiest and fastest way to accomplish this goal is to simplify and standardize the infrastructure. By doing so, IT staff expertise in the products increases, process standardization becomes easier, and cost reduction becomes clearer. Business impact is often achieved as IT fully understands IT management capabilities and how IT can deliver business objectives.

Understanding when and what to consolidate and mapping the requirements of the project to the vendor that best matches the needs across product, process, and services are important criteria that lead to successful and measurable consolidation projects.

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