Fast-Forward to 2013

550 Global IT Execs Share Their IT Outsourcing Strategies
IT Outsourcing
A Proven Way to Fast-Forward to Business Success

A message from Savvis
Simple survival amid economic turbulence was the theme of our market survey in 2010. In last year’s report, we saw budgetary constraints eased somewhat, but IT leaders still needed to heed a general cry to do more with less even as their organizations began positioning themselves for potential growth.

Our 2012 report is able to deliver much more positive news. Businesses are again thinking strategically. And IT must remain at the forefront of enabling this. Our 2012 report shares key learnings and strategies from IT leaders around the globe, comparing attitudes, issues and potential solutions so you can steer your IT organization in the right direction.

This year, heads of IT told us that budgets are less restrictive than even 12 months ago. Only one in four organizations reported that budget constraints were preventing them from accomplishing their IT goals. Instead, IT is seen as a key enabler of business success. Reading between the lines we believe that IT departments need to focus on three critical business goals: first, increase collaboration both internally and throughout the extended enterprise; second, enable operational efficiencies at all organizational levels and all departments; and finally, achieve a competitive advantage in the marketplace.

But how to get there? According to the respondents of our survey the answer is one word: outsourcing.

IT leaders are beginning to understand the strategic importance of outsourcing. Globally, organizations are swiftly moving up the learning curve about outsourcing. More respondents in 2012 agreed that owning IT infrastructure wasted resources (60 percent) than in 2011 (46 percent) or 2010 (38 percent). And from this year’s survey, we find at least one third of organizations worldwide are not outsourcing applications that they feel should be outsourced.

This is a trend that we see in the Savvis global client base as well. Increased efficiencies that results in cost savings are some of the drivers behind this trend. That’s not surprising. In fact, looking forward, companies now say they expect to save a whopping 25 percent of their IT budgets through outsourcing. But what you might find surprising is that cost is not the primary driver. The primary reason to outsource is to enhance the ability to respond with more agility to changing business needs. With the fast pace of business today, companies are finding it even more important to take a strategic approach to making sure that their IT operations can keep up. In fact, the more successful companies will leverage their IT operations as a key differentiator that propels them towards faster business success.

Cloud continues to grab ever-larger mindshare of IT leaders as a way to accomplish this. Cloud is already being used by 85 percent of organizations and cloud outsourcing will play a huge role in the IT landscape of the next decade. The United States appears to be taking the lead in this. In particular, a significant proportion of US organizations plan to migrate the majority of their IT operations over the next 10 years from in-house IT, to managed service providers, to cloud outsourcing.

In summary, the priorities of IT executives across the globe are to provide a competitive advantage through enhanced agility, scalability, and enhanced operational efficiencies. One of the key ways to do this, as evidenced by this survey, is to adopt an outsourcing strategy.

At Savvis, outsourcing is at the heart of what we do for enterprises. With Savvis’ best-of-breed enterprise-class cloud and colocation solutions, we promote business agility; provide transparency, predictability, and control over IT cost models; and maximize the adaptability of IT operations with one-stop shopping across a broad portfolio of services for cloud, network, managed hosting, colocation, security and application support.

Whether you are taking your first foray into outsourcing, or whether you are ready to embark on a complete transformation of how your IT operations are managed, we can work closely with you, as we do with all our global clients to understand your business challenges and design solutions to help you achieve meaningful results. We look forward to hearing from you.

Best regards,

Bill Fathers
Leaving constraints behind, fast-forwarding to the future

2008 seems a long time ago. Yet organizations until recently were still struggling with the aftermath of the financial crisis and the resulting economic downturn. Today, budgets are still somewhat constrained — in some parts of the world more than others. But in our third annual survey of CIOs and IT decision makers, we’re seeing the shift from a focus on cost cutting to setting business strategy nearly complete. And in this environment, the strategy an organization pursues for its IT operations is more important than ever.

Specifically, over the next 12 months, organizations told us that they need their IT departments to facilitate three critical goals: first, increase collaboration both internally and throughout the extended enterprise; second, enable operational efficiencies at all organizational levels and all departments; and finally, achieve a competitive advantage in the marketplace.

The good news is that organizations reported 2011 budgets that were overall less restrictive than in 2010. This year, only one in four organizations overall reported having IT budget constraints. This varied from region to region. Japanese companies were the most likely to be challenged by reduced budgets (48 percent of respondents). The United Kingdom was only slightly behind that (45 percent) compared to just 22 percent in the US and Germany. Otherwise, companies reported other challenges as being either equal or more top of mind than doing more with less.

Hong Kong companies were equally divided between being challenged by budget constraints, needing to increase collaboration, and being under pressure to drive efficiencies (28 percent each). German organizations said their toughest challenge was IT staffing (31 percent). And in Singapore, more than half of respondents (56 percent) cited greater operational efficiencies as their No. 1 challenge.

But looking back over the past year’s IT decisions and activities raised some regrets. CIOs and VPs of IT reported that they made mistakes when spending their IT dollars. Specifically, most admitted that purchasing their own IT assets turned out to be a mistake. In retrospect, outsourcing IT infrastructure would have been the wiser choice.

Indeed, looking forward, companies now say they predict they would save a whopping 25 percent of their entire IT budgets through outsourcing. And that after looking back, they now see a better path for fast-forwarding their organizations to business success.

What other lessons have 550 surveyed organizations learned? Read on for some surprises from our 2012 report.

Owning infrastructure results in high costs, wasted resources

Conventional IT wisdom has been that owning and operating your own IT infrastructure is more cost effective than outsourcing. But our 2012 survey definitively shows that most organizations’ experience has been the opposite. Three in five organizations surveyed reported that owning and operating their own IT infrastructures resulted in higher costs and wasted precious resources (see Figure 1). The US and Singapore are the most likely to recognize this (73 percent and 74 percent, respectively).

Interestingly, organizations in Japan — which were the most likely to be resource constrained — were also the least likely to realize that owning their own IT infrastructure creates higher costs (44 percent). Likewise, UK organizations, almost half of which were budget-constrained, were also among the least likely to understand that owning IT infrastructure wastes resources (49 percent).

Figure 1:
The number that agree that owning their own IT infrastructure creates higher costs and wasted resources varies across the globe
We also found a correlation between the global annual revenue of respondents and their opinions about the costs of owning and maintaining their own IT infrastructures. The higher the annual revenue of the organization, the more likely they are to agree that owning IT infrastructure wastes resources and results in unnecessary cost.

The good news here: globally, organizations are catching on. More respondents in 2012 agreed that owning IT infrastructure wasted resources (60 percent) than in 2011 (46 percent) and 2010 (38 percent). See Figure 2.

**More regrets: unnecessary infrastructure purchases**

Another important insight from the survey is that more than half of organizations surveyed admit to having IT equipment that they now regret purchasing.

Once again, we see that organizations with the highest revenues are more likely to agree with the statement that they regret IT purchases. Figure 3 shows that awareness of previous investment mistakes rises as company size increases.

**US companies seem most comfortable with non-ownership IT model**

Judging from the fact that three quarters of organizations in the United States agree that owning IT infrastructure creates high costs and wastes resources — the second highest percentage globally — we believe that US companies will have a very positive attitude toward outsourcing. This opinion about owned IT infrastructure has changed significantly since 2010, when just 47 percent of respondents agreed that owning IT infrastructure wastes resources, and since 2011, when 50 percent of respondents agreed.

Additionally, we found that US organizations are most likely of all countries surveyed to have IT equipment that they now regret purchasing (66 percent), compared to 38 percent in Japan, and just 34 percent in both Hong Kong and Singapore. From this we conclude that US-based organizations may be the most comfortable with a non-ownership IT model.
Outsourcing frees up money for more strategic initiatives

A logical inference we can make from the results of this survey is that if a larger number of organizations used outsourcing to free up money from their budgets, they could focus their attention on more strategic issues. Figure 4 shows how once budget challenges are eliminated from the picture, organizations can turn their attention to increasing collaboration within the organization, being more agile and flexible, and improving competitiveness.

Outsourcing — and expected savings from outsourcing — on the rise

Although we could infer that organizations would benefit from outsourcing, we were curious as to how many actually outsourced IT infrastructure, or had specific plans to outsource all or part of their IT operations.

We found that outsourcing plays a significant role in today’s IT strategies. Organizations are presently outsourcing slightly more than a quarter of their IT infrastructure. By doing so, they anticipate saving 26 percent, on average, of their IT budgets. US companies anticipate saving the most — in fact, they expect to save twice as much as Singapore through outsourcing (see Figure 5a).

We also found differences in what organizations expected to save through outsourcing across vertical industries. Media firms expect to save the most (29 percent), and government/public sector organizations the least (22 percent). See Figure 5b.

“We prioritize outsourcing because the companies we outsource to provide better services than we could ever offer in-house — and for a reduced cost.”

- 2012 Survey Respondent
Not surprisingly given these numbers, organizations expect that within five years a full 40 percent of their infrastructures will be outsourced. On average, this is a global increase of 15 percent, although the specific percentage varies from country to country (see Figure 6a). Singapore organizations expect to outsource the most infrastructure (53 percent), followed by the United States (44 percent). Germany plans to outsource the least (33 percent).

Taking a look at this same point from the vertical industry perspective, although the private healthcare sector currently outsources the largest amount of infrastructure (28 percent), organizations in that vertical are predicted to have the smallest increase in outsourcing over the next five years (see Figure 6b).

One very notable point: When analyzing outsourcing plans based on organizations’ global revenues, smaller companies plan to increase their outsourcing over the next five years at a much faster rate than larger ones, implying that this is where much of the growth in outsourcing activity will be.
Outsourcing for agility

Cost savings are not the only reason organizations are turning to outsourcing. A full half of all organizations across the globe are outsourcing to enhance their ability to respond more agilely to changing business needs.

This reason for outsourcing is most prevalent in the United States (where 59 percent of respondents pointed to agility as a reason to outsource), Japan (56 percent) and the UK (50 percent).

Looking more closely, we found that many organizations feel their agility is being hampered by existing legacy systems. Outsourcing, then, is seen as a way to eliminate their dependence on such legacy-owned infrastructure. Indeed, more than two in five respondents overall pointed to aging in-house infrastructure as a reason to outsource. In Singapore and the United States, the percentages were much higher — 56 percent in Singapore and 53 percent in the United States.

Outsourcing solves staffing problems, allows organizations to focus on core businesses

The organizations we surveyed pointed to other benefits of outsourcing other than simply cost and agility. In Germany, for example, organizations are having trouble finding qualified IT personnel. For them, outsourcing is a way of easily and efficiently solving their staffing challenges. Hong Kong companies, on the other hand, wish to increase outsourcing so they can redirect IT resources to enhance their core business strengths.

Overall, global organizations are warming to the idea that outsourcing delivers numerous benefits — all of which combine to make them more competitive. We saw this reflected in the fact that 59 percent of the senior IT decision makers we surveyed agreed that new IT applications and services should be outsourced. Only 47 percent agreed with that statement in our 2011 survey. However, the precise percentages varied by industry (see Figure 8).
United States leading in some outsourcing areas — but not all

When we looked at the amount of infrastructure organizations have already outsourced, the United States was in the lead (30 percent). US companies also predict the biggest savings as a result of outsourcing (31 percent). However, although this expected savings is almost twice that of Singapore (16 percent), within five years we expect Singapore to have the highest percentage of outsourced infrastructure — 53 percent, compared to 44 percent in the United States, and just 33 percent for Germany.

Singapore-based organizations are also the most likely (78 percent compared to 76 percent in the United States) to agree that they should prioritize an outsourced infrastructure solution over owned IT infrastructure for new applications or services.

Huge need for quality outsourcing services in coming months and years

Given that so many organizations plan to prioritize outsourcing of new IT applications and services, we were curious about the specific technology areas they were targeting.

As Figure 9 shows, fewer than half of organizations, on average, currently outsource in each area, ranging from a high of 49 percent for test and development, and a low of 27 percent for pre-production infrastructure. However, between 31 percent and 38 percent of organizations are evaluating outsourcing infrastructure for each area. This implies a huge opportunity for outsourcing in coming months. For example, 38 percent of respondents are investigating infrastructure outsourcing for big data analytics and regional applications. Meanwhile, pre-production infrastructure is looking to play catch up, with 35 percent of organizations evaluating outsourcing for this area.
Contractual obligations main barrier to outsourcing

One of the most interesting findings from our 2012 survey was that at least one third of organizations worldwide are not outsourcing applications that they feel should be outsourced. Figure 10 shows the applications and services they feel they should be outsourcing.

“I would prefer all new applications and services that the organization deploys this year to be outsourced, we can utilize our funds in a more targeted way, and then have all the latest applications and services, as our needs as a company change.”

- 2012 Survey Respondent

Why would this be? Organizations today are most likely to name contractual obligations as the main reason not to outsource, whereas in 2010 and 2011 company culture was the most common inhibitor. This indicates a major shift in thinking. The exceptions are the United Kingdom, where company culture is still the No. 1 roadblock; and Hong Kong, where sunk cost is the biggest inhibitor.

Keeping a sense of control over IT is still an issue. Although the public healthcare and software sectors are most likely to say that they don’t outsource because they feel more in control if they manage infrastructure themselves, they are not alone. Altogether, 40 percent of all organizations state a lack of control as a reason not to outsource. This supports our theory that starting with managed services could be perceived as a less risky way for organizations to get their foot on the outsourcing ladder.

US firms beginning their journey to cloud outsourcing

Currently, most organizations around the world still maintain the majority of their infrastructure in house. For the first time, however, less than half of respondents from the United States (49 percent) said they kept the majority of their infrastructure in house. This number is beat only by Singapore (42 percent).

Adding to this, a significant proportion of organizations in the United States seek to migrate over the next 10 years from in-house, to managed service providers and to the cloud in the next ten years (see Table 1).
Why some US organizations don’t outsource

We were curious as to why some US organizations did not outsource. Company culture, although a big inhibitor in other geographic areas — notably, the United Kingdom — was only the fifth most common reason in our 2012 survey. This marked a significant change from previous years (see Table 2).

For US companies, the overwhelming reason not to outsource is control. But the fact that poor vendor service (47 percent) and fear of vendor lock-in (47 percent) were also high on the list indicates that the choice of vendor is a key decision — companies need a trusted service provider before they are confident enough to outsource.

Benefits of a utility-based, pay-per-use outsourcing model

Outsourcing services can be delivered in a variety of ways. An increasingly popular model for outsourcing is the “utility-based” model, in which the usage of IT services is flexible and adaptable to business needs and, therefore, rather than paying a fixed upfront CapEX or long-term contract fee, the cost varies with the amount of services used.

Our respondents believed that the utility model delivered significant benefits. The three most commonly cited were cost reduction or containment (39 percent), infrastructure scalability and flexibility (39 percent) and improved quality of service (37 percent). Interestingly, enhanced security wasn’t far behind (35 percent). See Figure 11.
Nine-tenths of organizations already or beginning to benefit from outsourcing

Companies were overwhelmingly positive about either already seeing benefits from their outsourcing arrangements (48 percent) or beginning to see the benefits (39 percent). Overall, 87 percent of respondents viewed the actual or probable benefits of outsourcing in a positive light.

Organizations with larger revenues are more likely to be already seeing benefits from their outsourcing arrangements (Figure 12).

US Firms Benefit Most from Flexibility and Scalability of Utility Model

Although all other countries surveyed cited cost reduction as the top benefit of the utility-based outsourcing model, US firms ranked that particular benefit seventh. Instead, US organizations told us that infrastructure scalability and flexibility was the single most important benefit, followed by improved quality of service and enhanced security (see Table 3).

A full 62 percent of US organizations — the largest percentage of all countries surveyed — expressed satisfaction with the benefits they had received from outsourcing.
Adoption of cloud computing increasing

You can’t talk about IT in 2013 without talking about cloud computing. Cloud computing is the delivery of computer resources (hardware and software) as services over a network, usually the internet, in a utility-based, pay-per-use delivery model. Most enterprises have either already begun moving IT applications and services into the cloud or area planning to do so.

“We just made some large IT investments into hardware to support the large virtual cloud infrastructure which we are planning to roll out shortly.”

- 2012 Survey Respondent

Although a relatively new technology — on average, organizations that we surveyed have only deployed cloud for 11 months — cloud is already being used by 85 percent of organizations. This represents a sizable increase from 2010 and 2011. Cloud computing use is more prevalent in larger organizations, and the majority of cloud users have implemented private rather than public clouds (see Figure 13).

Table 3:
Benefits of a utility-based model to organizations in the USA compared to the rest of the world

<table>
<thead>
<tr>
<th>Benefits of a utility-based model to organizations in the USA compared to the rest of the world</th>
<th>USA</th>
<th>Global Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure scalability and flexibility</td>
<td>38%</td>
<td>39%</td>
</tr>
<tr>
<td>Improved Quality of Service (QoS)</td>
<td>36%</td>
<td>37%</td>
</tr>
<tr>
<td>Enhanced security</td>
<td>36%</td>
<td>35%</td>
</tr>
<tr>
<td>Environmental considerations, e.g. reduced power use and CO2 emissions</td>
<td>35%</td>
<td>25%</td>
</tr>
<tr>
<td>Ability to more quickly leverage innovative platforms</td>
<td>31%</td>
<td>22%</td>
</tr>
<tr>
<td>Faster time-to-market</td>
<td>28%</td>
<td>25%</td>
</tr>
<tr>
<td>Cost reduction or containment</td>
<td>27%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Figure 13:
Organizations are more likely to be using, or partly using, private cloud than public cloud
Cloud on the horizon: The coming juggernaut in outsourcing

When we asked our 550 survey subjects about their projected use of cloud outsourcing, their responses indicated it would be a major force within 10 years. Given the patterns we saw in the responses, we believe that organizations may consider using a managed outsourcing service as a “transitional” step before outsourcing completely into the cloud.

As you can see from Figure 14, the number of organizations that plan to outsource the majority of their infrastructure to managed service providers (grey line) will increase over the next two years, then decrease as cloud begins to dominate the landscape, rising from just four percent today to 40 percent within 10 years.

We believe this gradual movement to the cloud could be due to a number of reasons, perhaps to acclimate internal cultures to outsourcing, to pilot outsourced functions, or to mitigate security concerns.

As Figure 14 also illustrates, currently the majority of organizations keep their IT infrastructure in-house (red line), but that will change over the next 10 years to just 18 percent. The software industry sector is most likely to keep infrastructure in-house (80 percent) — probably for control reasons — compared to around half that (44 percent) for the private healthcare sector. Especially noteworthy is the fact that the number of organizations keeping the majority of their infrastructure in-house has decreased over the last three years. We expect this to continue in coming years.

Concerns about security are the main impediments to cloud adoption. But organizations are also worried about their ability to manage and control cloud deployments, and have concerns as well about the legal and compliance issues that could arise when storing or processing workloads remotely.

“Cloud providers are constantly developing and offering more specialist services for the applications we use. I think cloud is becoming more secure and it’s certainly significantly more widely available than ever before.”
- 2012 Survey Respondent

Figure 14:
Cloud outsourcing will overtake both in-house management and the use of outsourced managed services in the next five to ten years
Benefits of cloud computing
Scalability — or the ability to match computer, storage, and bandwidth resources to fluctuating needs — was the No. 1 benefit of cloud cited by respondents across most countries (see Figure 15). The only exception was Hong Kong, where improved reliability was the most important benefit (38 percent).

Organizations that are using, or plan to use, cloud do so most frequently for email (59 percent) and internet (57 percent). However, this differs considerably by sector: the media sector is more likely to put customer relationship management (CRM) into the cloud, and organizations in the software sector are more likely to put their intranets into the cloud (see Figure 16).

“Several key business tools such as email have been moved to the cloud to largely divorce us of management responsibility — driving cost efficiencies through headcount reduction more than systems.”

- 2012 Survey Respondent
More organizations in the United States are using cloud now than in 2011 or 2010. However, although they have increased use of both private and public clouds, they have decreased use of hybrid clouds from 28 percent in 2011 to just 13 percent in 2012. Still, organizations based in the United States are more likely than those from the rest of the world to use, or plan to use, private and public clouds for each of the applications listed in Table 4.

Today, just four percent of organizations in the United States don’t deploy cloud in some way, compared to 48 percent in Singapore. This is interesting considering the large percentage of organizations in Singapore that currently outsource their infrastructures. Also interesting is the fact that companies in Singapore have been using cloud the longest of any other country (one year and five months). This implies that movement to the cloud may have stalled there.

On the other hand, organizations in the United States have been using cloud for the least amount of time, implying a recent uptick in deployments. And US companies are more likely to put their intranets in the cloud than their email systems — the opposite of the rest of the world.

### Conclusion

Organizations have come a long way in the last 12 months when it comes to attitudes and behaviors about outsourcing. Most prominently, a larger number of IT leaders realize the benefits of outsourcing, and company culture is no longer perceived as holding organizations back from attempting to outsource all or part of their IT operations.

Moreover, organizations now clearly understand how outsourcing can enable them to focus and improve other areas of the business other than IT. By redirecting resources away from infrastructure to their businesses’ core competencies, increasing collaboration, and enhancing operational efficiencies, they position themselves to become more competitive in today’s fast-changing environments.

Fast-forwarding 10 years ahead to the IT landscape as forecast by answers to our 2012 questions, we see that outsourcing — both traditional managed services as well as cloud-based — promises to play a dominant role in enterprise IT around the world. However, for these forecasts to come true, organizations need to first address some key challenges. Alleviating security concerns is one of these. Convincing organizations that they can safely relinquish control of their IT infrastructure to an outsourcing vendor is another.

The benefits of IT outsourcing are wide and varied. And trusted outsourcing providers like Savvis can amplify these benefits, reduce the risks, and allay the concerns of organizations by offering a broad range of flexible, high-performing, and secure solutions capable of meeting business needs both today and in the future.

To receive more information on Savvis and to learn why our enterprise-class IT outsourcing solutions are leading the field, please contact Savvis at 1.800.728.8471 or email us at strategictO@savvis.com.
About Savvis
Savvis, a CenturyLink company, is a global leader in cloud infrastructure and hosted IT solutions for enterprises. Nearly 2,500 unique clients, including more than 30 of the top 100 companies in the Fortune 500, use Savvis to reduce capital expense, improve service levels and harness the latest advances in cloud computing.

Savvis IT Outsourcing Solutions
At Savvis, our Strategic ITO specialists know infrastructure and applications for large enterprises. While you focus on your core strengths and developing products that differentiate your company, let us provide the IT infrastructure and applications that sharpen your competitive edge in today’s demanding, ever-changing global marketplace.

Savvis offers a broad set of services that helps large enterprises to:

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• **Maximize IT flexibility.** Savvis offers one-stop-shop convenience across a broad portfolio of services for cloud, network, managed hosting, colocation, security and application services — all with predictable and reliable enterprise-class performance and security, and with customizable service-level agreements (SLAs).
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• Broadest product portfolio with enterprise-grade quality-of-service
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• Globally-consistent standardized ITIL processes
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About the Research
This independent survey was commissioned by Savvis and conducted with 550 CIOs, IT Directors, Heads of IT and Senior IT Managers of global large enterprises based in the USA, UK, Germany, Japan, Hong Kong and Singapore, and was completed in August 2012. The research was conducted by Vanson Bourne, a research based technology marketing consultancy offering clients analysis and advice based on incisive, rigorous research into their market environment. The research used a combination of online fieldwork methodology and telephone interviewing. All research carried out by Vanson Bourne adheres to the latest MRS Code of Conduct. Demographic detailing of respondent communities includes industry sector, country in which the respondents were based, and size of business.