A Forrester Consulting Thought Leadership Paper Commissioned By Curvature

Challenging The Status Quo On Maintenance Contracts And Refresh Cycles To Lower Costs

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FORRESTER

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Executive Summary

> … the bells of "doing more with less" ring so loud as to send cracks through the status quo within IT processes.

In today's economic conditions businesses highly priortize expense management, placing continual pressure on departments to maintain or reduce operating budgets. With nearly 40% of the IT budgets dedicated to infrastructure, organizations have been challenged to deploy much more cost effective solutions. [1] This translates to infrastructure and operations teams working with their procurement organizations to push their suppliers to shave points off contract wins or send RFP's out to multiple entities. A lot of organizations spend an immense amount of resources shaving some percentages off the hardware costs. In reality, significant cost savings can be attained if the resources were focused on maintenance contracts and refresh cycles.

In February 2013, Forrester hypothesized that businesses miss a big opportunity for significant capital (CAPEX) and operational (OPEX) cost savings by prematurely upgrading networking infrastructure and insufficiently scrutinizing on-going maintenance contracts. Based on customer engagements, Forrester has found that organizations that turn to OEMs for their network hardware, software, and maintenance are often at the will of vendor information, underutilizing the value of existing infrastructure investments and rarely aware of alternative solutions to any or all of these services. To investigate this hypothesis and quantitatively assess these findings, Forrester, commissioned by Curvature, developed and fielded a survey designed to explore how customers do some of the following: evaluate and select networking technology vendors; schedule equipment upgrades; and gauge awareness of and sentiments around third party networking solutions.

After surveying 304 IT decision-makers, **Forrester found that even though IT budgets are under constant scrutiny, businesses have defaulted to vendor influence which has blinded them to rewards of extending hardware lifecycles and third party maintenance solutions.**

Key Findings

Forrester's study yielded the following key findings:

- **Businesses look to free up resources so they can leverage them in other areas.** Forrester surveys show that businesses have prioritized increasing revenue and acquiring new customers which mean costs need to be cut in other areas. Consequently IT will need to increase the amount of services they provide to the business, but the maintenance spend allocation won't keep up. Using total quality management best practices found in the manufacturing arena that revolutionized car quality, companies can improve services to hard cost ratio by wrapping metrics of value or longevity around infrastructure designs. As a result, organizations might not carry software services on their equipment that was never needed on past equipment like edge switches.

- **Untapped cost savings from not challenging status quo.** More than half of organizations refresh their networking infrastructure every 3-5 years, guided by industry averages which **originate from vendors**. Since most replaced equipment still carries market value and has 20 plus year mean time between failure life cycles, these accelerated refresh cycles primarily benefit manufacturers and do not optimize the investments customers have already made in their hardware. Companies can change this easily by keeping the equipment longer with no negative side effects therefore increasing the value of their existing hardware. Operation costs would go down too because rip and replace operations would be spread over a longer cycle, not including disruptions to the business.

- **Pulling the curtain back to find value beyond OEMs.** Over 80% of organizations buy warranty contracts from their OEM manufacturer even though they see little value in what they are purchasing. Whether purchased out of ease, proximity or default, most organizations don't know they have options. 80% of organizations claimed that they would leverage third party maintenance contracts. Money is thrown out the window if there isn't a consistent procurement strategy between their hardware acquisition process and maintenance contracts.

Economic Conditions Push Cost Cutting To The Top Of Business Priorities

Austerity and restructuring plans continue to put immense economic pressures on businesses around the world and locally. Many companies are on the cusp of business expansion and implementing new business models based on customized products and services that require the help of IT and new emerging solutions like cloud.[2] The customized services and products model requires a company to be as dynamic, flexible, mobile, and connected as its customers. Thus 68% of respondents were concerned or very concerned with the accelerating rate of technology change and its effect on product and service life cycles (see Figure 1).

However the new services can't be ignited to support their "have it my way" market until other capital or resources are freed up. This means businesses will have to continue to cut costs internally so those resources can be reallocated. Forrester's survey of 304 IT decision-makers report that the top two business concerns were rising pressure to reduce costs and reducing IT operational costs to free up money for new technology investments.

Figure 1

Reducing Costs Dominates Decision-Makers Priorities

Base: 304 IT decision-makers

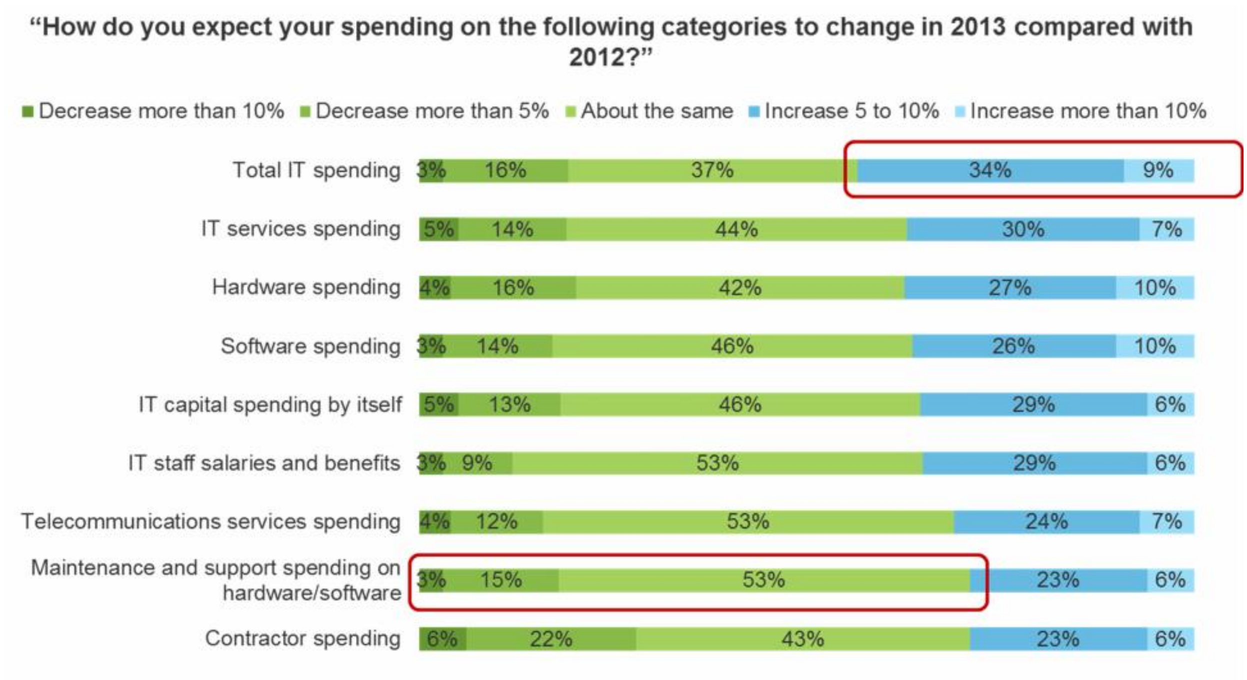
Source: A commissioned study conducted by Forrester Consulting on behalf of Curvature, February 2013

Businesses want to take advantage of the latest technology solutions, yet with budgets tightening across the board, investing in new solutions requires a re-assessment of capital distribution. When Forrester asked specifically about expected changes to IT budgets, 43% of IT decision-makers expected IT spending to increase while 71% projected spend on maintenance and support on hardware and software would remain the same or decrease (see Figure 2). This means the overall support budget is getting smaller relative to the overall budget. Companies will have spread their support money over a large set of hardware.

Businesses hold IT responsible for guiding the integration and implementation of new technologies. With an overall mandate to reduce cost and while delivering new and differentiated services to the business and its customers, IT decision-makers are challenged to distribute funds over a wider variety of items while maintaining services levels and system availability. Hence, the bells of "doing more with less" ring so loud as to send cracks through the IT traditions and force new thinking. Infrastructure and operations professionals should start to ask the following questions: Is the business getting the most out their equipment? Do they need all the software support services they were sold? Are there market alternatives to hardware maintenance support? What metrics should they be using to measure value of the hardware and support services?

Figure 2

Hardware Maintenance Support Getting Smaller Portion Of The Overall Budget



Base: 304 IT decision-makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Curvature, February 2013

And Yet, Vendors Control The Purse Strings

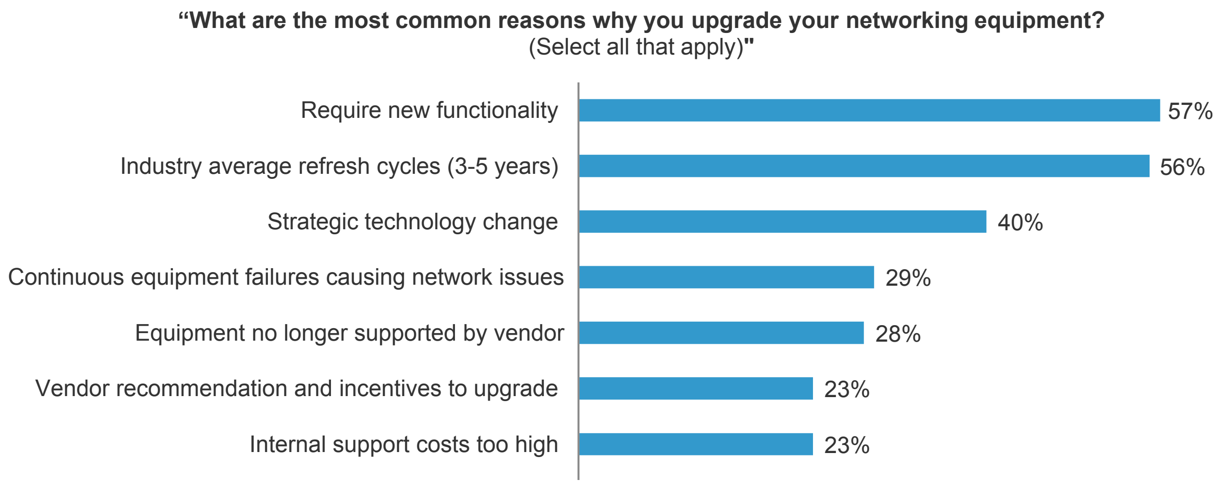
Server virtualization changed the data center paradigm and cost model which has released business from the constraints of rigid physical environments. But this isn't enough for business, and it shouldn't be. Infrastructure and operations (I&O) should continue to challenge themselves in other areas and ask if that's the best option for the business. In regards to maintenance contracts and life cycles, nothing has changed over the last twenty years. Most organizations follow the relatively same process when it comes to buying maintenance contracts and refreshing hardware which should raise concerns with any organization inside and outside of I&O.

To highlight refresh cycles, Forrester asked IT decision-makers how often firms determine when to upgrade or refresh their network infrastructure, specifically the hardware supporting campus networks, data center networks, routing (WAN), and Wi-Fi. The majority of respondents claimed to refresh their infrastructure every 3-5 years (see Figure 3). While the equipment upgrades are predominantly driven by new functionality requirements, 56% of IT decision-makers reported that the industry average refresh cycles of their peers encouraged this decision. This has been the traditional method of operations.

Functionality upgrades and strategic technology changes aside, industry reported averages govern networking equipment time lines. The questions that need to be asked are: Is this optimal for the business? Is networking equipment built better and can it last longer thereby delivering more value to the business? Where does this refresh cycle number come from? To understand how IT decision-makers are coming to this decision, Forrester asked what information sources inform their equipment upgrade decisions. The top two reported sources were both vendor provided information (see Figure 4). This implies that even when no new functionality is needed, customers still chose to refresh their networking equipment as per their vendor's directive.

Figure 3

Industry Standards Drive Network Refresh Cycles

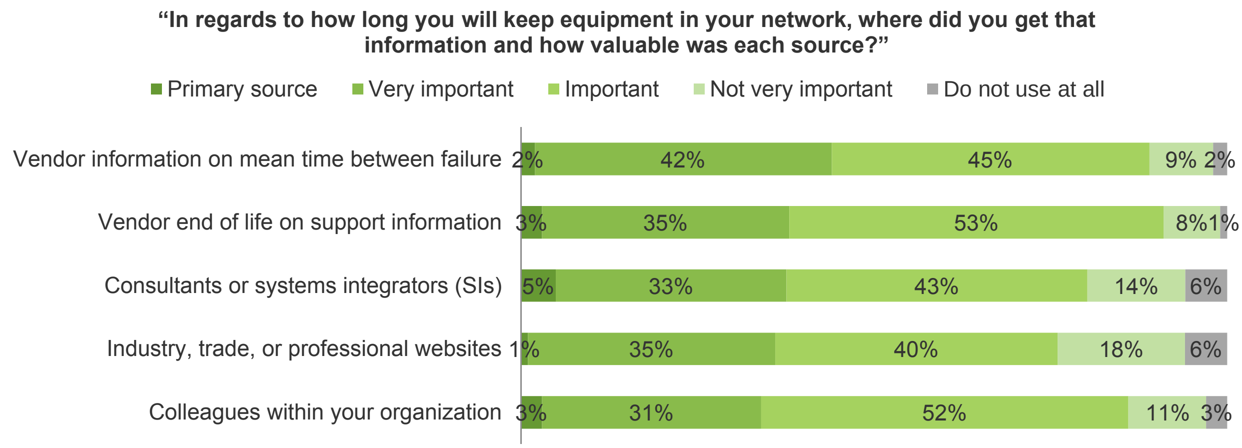


Base: 304 IT decision-makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Curvature, February 2013

Figure 4

Vendors Set End Of Life Agenda



Base: 304 IT decision-makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Curvature, February 2013

In addition to losing hardware value due to 3-6 refresh cycles, organizations lose more money by just defaulting and procuring their maintenance contracts from the equipment manufacturers. More than 80% of IT decision-makers purchased hardware maintenance contracts that come from their equipment manufacturer through a value added reseller or direct. Few companies put much thought into their maintenance contracts. Forrester clients just refer to it as tax that needs to be paid when buying networking products. Forrester surveys show that over half reported that they purchased maintenance contracts at the same time they procured the equipment.

Figure 5

IT Decision-Makers Saw Little Return On Maintenance Services From Their OEMs

Base: 304 IT decision-makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Curvature, February 2013

Based on inquiry calls with Forrester analysts, few companies feel their organization extracts much value from the maintenance services. Consequently to dig into discontent, Forrester asked respondents in the survey to express the biggest challenges with their existing IT vendor's maintenance services. The top responses were all motivated by misrepresented cost savings, new fees, and inflexible pricing models. And even though organizations seem dissatisfied with contracts, few businesses challenge vendors, who make large profits from that side of the business. Some in the industry refer to it as the vendor's black gold. Typically, Forrester will see large disconnects given to hardware because the manufacturer will make it up on the service contracts.

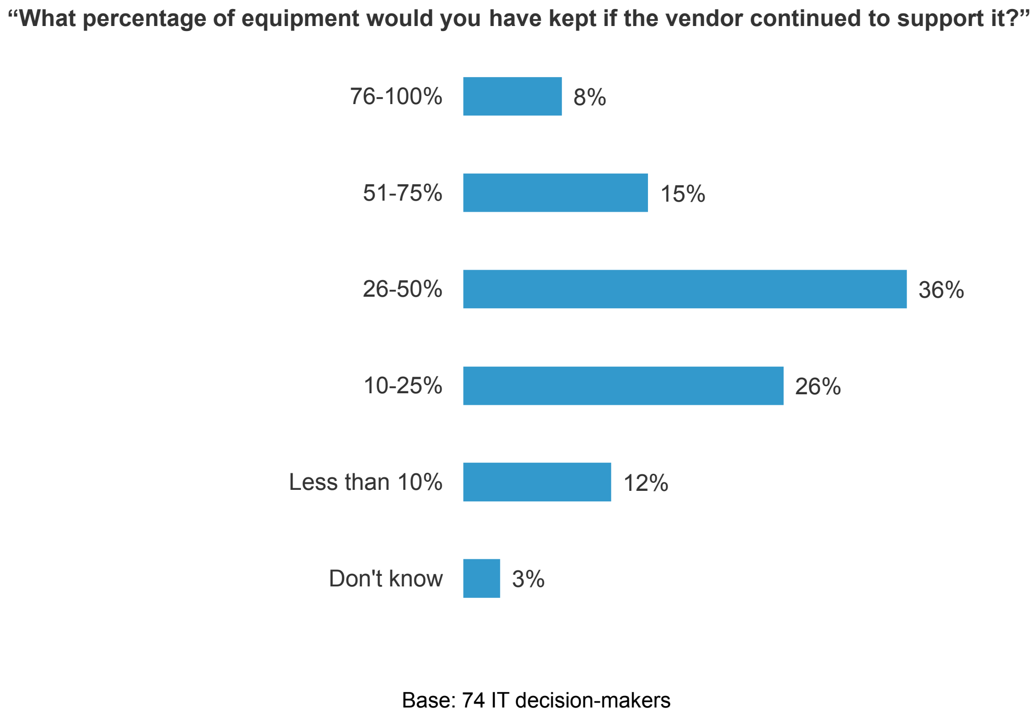
Value Beyond OEMs

With vendors dictating refresh cycles and more often than not automatically appending warranties onto their hardware sales, businesses have a large opportunity to reap significant shifts in costs with little effort. For example, even though equipment upgrades and investments are initiated by the customers, IT decision-makers are persuaded by industry reported averages, and vendor contracts hold them to these timelines. In many instances, Infrastructure and Operations (I&O)organizations feel that the equipment is old and doesn't have value while others worry about failure which contradicts standard business practices. However the reality is that more value can be extracted from networking equipment if I&O realizes that the infrastructure:

- **Is underutilized**. For example when networking equipment needs to be replaced, almost half the respondents trade in legacy hardware or sell it to third party for re-use (see Figure 7). If vendors are giving trade in value or third party recycle companies purchase it, then there is still untapped value or useful capability that is being lost by the business. This doesn't include the one time operational and business cost of tearing the infrastructure out and implementing the new solution.
- **Has a longer life cycle then the industry reports**. The majority of IT decision-makers reported that less than 25% of equipment was replaced due to mechanical failure. Major vendors report on their websites the average mean time between failures is 20 plus years. I&O organizations should dismiss the fear about networking equipment failure rates after three years.
- **Can be used after vendor end of life notice**. Nearly three quarters of respondents claimed that they would keep up to 50% of their legacy networking equipment if the vendor continued to support it. Companies need to disconnect the belief that equipment is no longer useful after the manufacture no longer supports it. Besides the availability of service contracts from third parties, close to 90% of stable edge networking devices never go through update.

Figure 6

Most Equipment Discarded Due To Lack Of Vendor Support

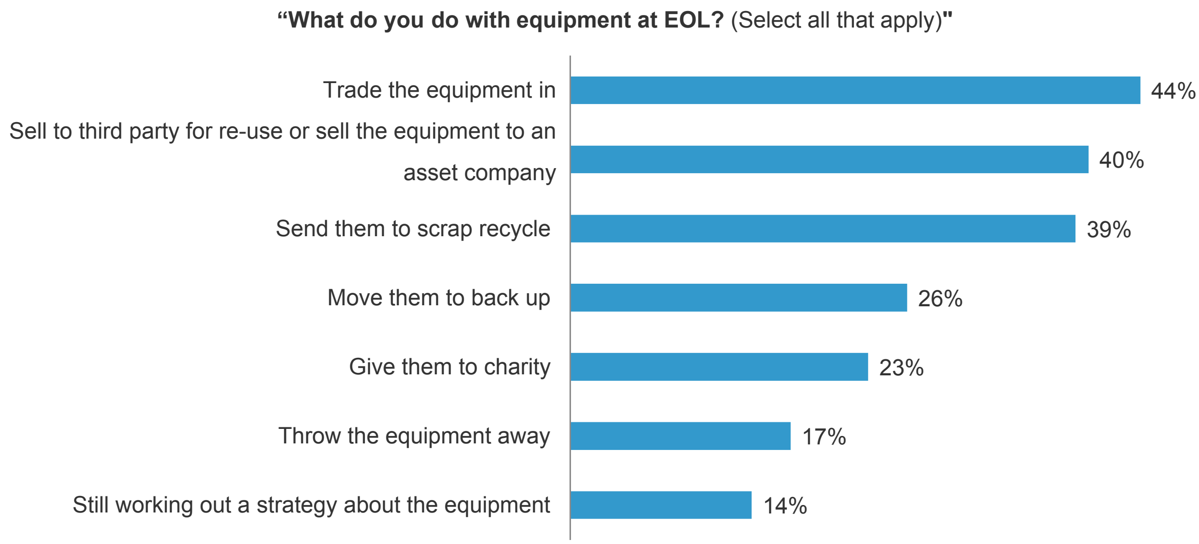


Source: A commissioned study conducted by Forrester Consulting on behalf of Curvature, February 2013

While defaulting to packaged services out of simplicity, proximity, or cost without performing due diligence of alternative solutions, customers risk locking themselves into overvalued service contracts. Another relatively easy way to decrease costs that occur on an annual basis is to treat maintenance contracts the same way purchases are done with infrastructure. Even though many respondents expressed discontent around OEM service contracts, only 21% of respondents leveraged competitor third party bids into their negotiations when purchasing service and maintenance contracts (see Figure 8). If a company's process is to put network refreshes out to competitive bids for different manufacturers to respond, hardware maintenance contracts should go through the same process. Competitive bidding responses should include third party vendors in the process.

Figure 7

Getting Rid Of Equipment That Still Carries Value

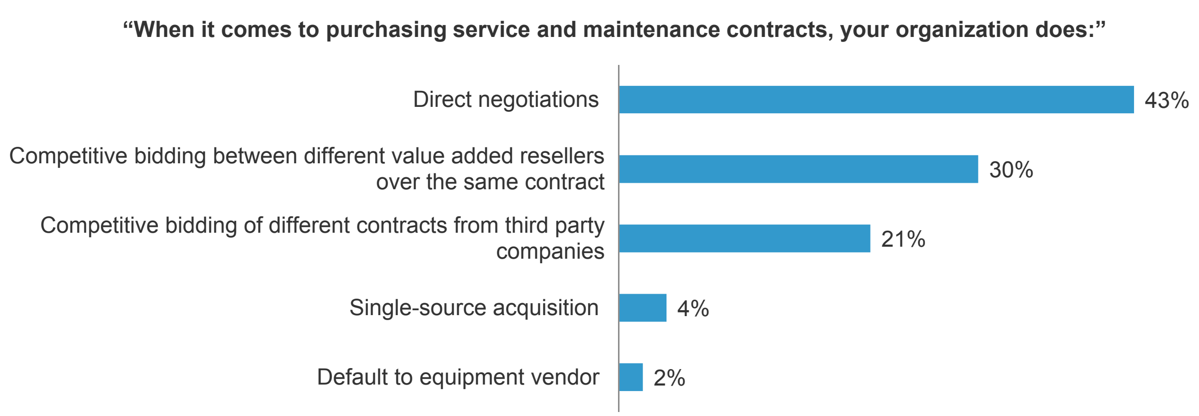


Base: 304 IT decision-makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Curvature, February 2013

Figure 8

Few Organizations Know They Have Options



Base: 304 IT decision-makers

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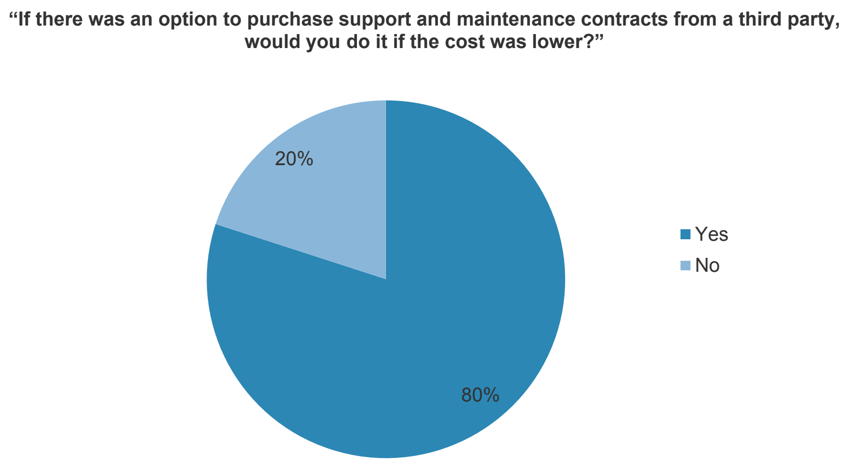
As forewarned, lopsided vendor contracts may not always have the customer's best interest in mind. And this is not because of lack of options in the market. 80% of IT decision-makers reported that they would invest in a third party solution if it was more affordable than their current contract. If customers are willing to invest in third party solutions, the slow penetration of the market must be attributed to the lack of general awareness of these solutions and not the fear, uncertainty, and doubt (FUD) manufacturers have tried to associate with third party companies.

Figure 9

Overwhelming Amount Of Organizations Would Look To Third Party Maintenance Options



Base: 304 IT decision-makers

Source: A commissioned study conducted by Forrester Consulting on behalf of Curvature, February 2013

KEY RECOMMENDATIONS

Infrastructure and operations (I&O) professionals have a large number of networking choices at their disposal and use those choices to find the best technology and prices for their business. And yet, most infrastructure teams don't carry that granular investigation to other areas — refresh cycles or maintenance costs. Both options leave I&O teams short of their ultimate goal of improving the overall value of their hardware they purchased. Consequently to improve the return on investment, I&O professionals should:

- **Keep what's working**. Organizations should take a pragmatic view of their infrastructure and do assessments of what services need to be delivered vs. if the infrastructure can do it. Often edge switches will be replaced long before they need to be because of new features which never get ignited because the I&O organization doesn't need them for that business. For example, Forrester sees organizations get caught up in network access control functions but the implementation of NAC isn't on a 5 year strategy
- **Don't pay for software updates if there are none or if they are available for free**. Maintenance agreements with OEMs are costly and do not always provide maintenance and upgrades for the hardware that customers are running. Forrester has found that the new features in the software don't affect the edge switches. Also edge switches rarely get modified after initial set up. Considering there are many edge switches to core, customers pay a lot of money for service they never use.
- **Put maintenance contracts out for competitive bid, not just to different resellers but also include third party options**. For a multitude of reasons, businesses buy their warranties from the same vendor they buy their hardware. To decrease their support costs, organizations have used direct vendor negotiation to get lower prices or shop the contract around to different value added resellers. procurement practices on the hardware side, and if they put it out to competitive bid maintenance contracts that should include third party companies.
- **Put metrics in place to reward value, quality, and longevity, not just resiliency.** Few architects and engineers have incentives to design outside of to create the biggest, baddest infrastructure. The industry saw this trend in the US automotive industry pre 1980s, but for a variety reasons customers rejected buying cars with the most horsepower or top end speed. Automotive engineers were tasked and measured to create high quality cars at an affordable level. Powerful cars didn't suffer as some markets witnessed the rise of SUVs.

Appendix A: Methodology

In this study, Forrester conducted an online survey of 304 organizations in Australia, France, Germany, India, Japan, Singapore, the United Kingdom, and the United States to evaluate the challenges that organizations face in working directly with OEMs and the value of working with a third party. Survey participants included decision-makers in executive positions, finance, information technology, and procurement. Questions provided to the participants asked about the overall business situation, how vendors are selected, upgrading solutions, end of life, and maintenance. Respondents were offered an online gift card as a thank you for time spent on the survey. The study began in January 2013 and was completed in February 2013.

Appendix B: Endnotes

[1] Forrsights Hardware Survey

[2] Companies are moving forward and continuing to prioritize lean process thinking as business decision-makers position their companies for expansion. As a result, businesses will approach this by embedding themselves in their customers' lives. This has two distinct benefits: loyal customers and a reoccurring revenue stream that Wall Street favors. CEOs are turning to CIOs and challenging them to create an infrastructure that can support a new business model: customized services and products. see December 12, 2011, Forrester Report, "Virtual Network Infrastructure [59733]" report