

Why Managed Services?

Top Findings:

- IT and network operations staffing is a growing problem for many organizations
- Recessionary times call for cash conservation practices
- Managed services can exploit economics of scale in operations, lower operating cost derived from new technologies, conserve cash and address staffing shortages

Qualified IT Staffing Is A Growing Concern...

There is mounting concern for the degradation of the state of US information technology careers and students:

- 60% of CXOs surveyed by the IT Governance Council report that insufficient numbers of IT staff is a continuing problem.
- Anne Margulies, the CIO of the Commonwealth of Massachusetts, points out that time is running out for the Commonwealth's IT organization. 30% of the IT staff expect to retire within the next five years.
- In one of Bill Gates' last public acts before retiring from Microsoft he visited Congress and asked for congressional action on encouraging science and engineering careers for young people.

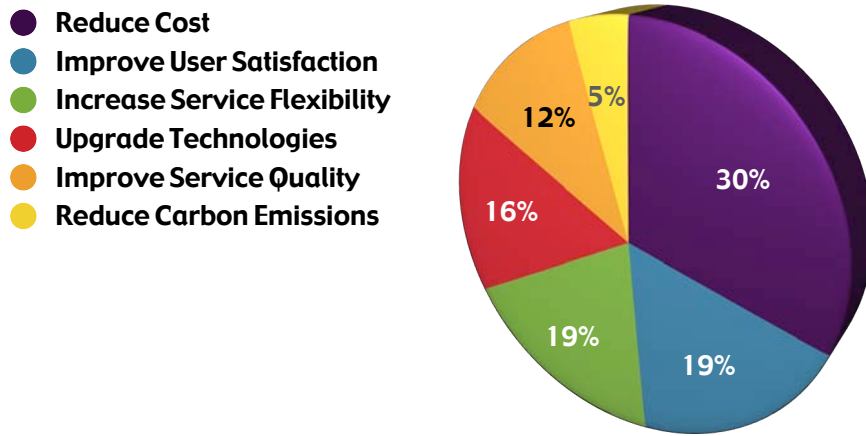
The Research Panel

- Survey conducted in November 2007
- 109 respondents participated:
- 43% are based in Europe, Middle East or Africa; 40% are based in North America
- 48% are from organizations with more than 1000 employees
- 45% are architects and decision makers

While addressing this 'crisis' through tighter relationships between engineering schools that train IT professionals and employers may work for major organizations such as the Commonwealth or Microsoft for example, the more obvious solution is to concentrate skills and leverage economies of scale through managed services. This effectively makes the talent

problem the managed service provider's issue and gives the organization the opportunity to meet an important IT operational goal - reduce cost.

Figure 1 - The primary service priority for 2008.

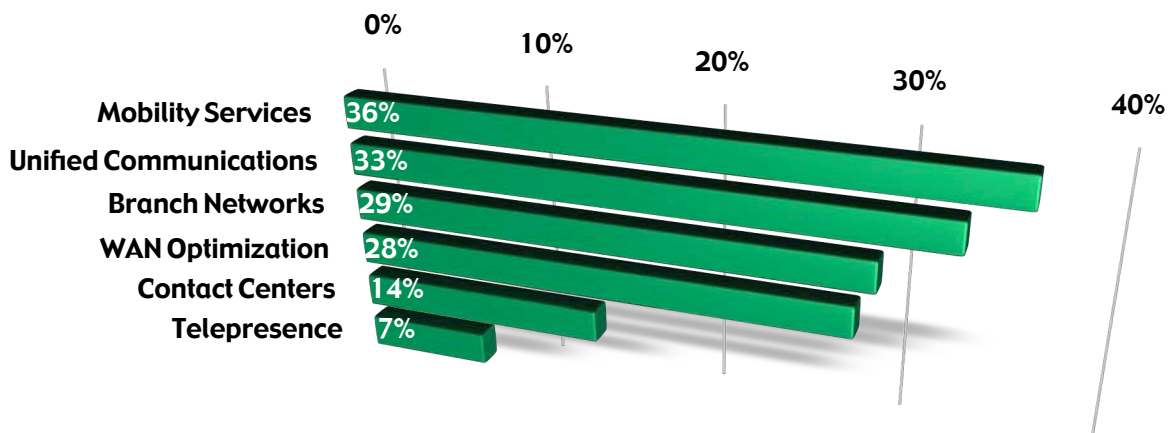


Cost reduction is possible since there are economies of scale to be had in WAN operations, in telepresence managed services and in unified communications operations. At some point, it is only in combining the management requirements of many companies can the average cost of operations be reduced. The managed service provider can also create career paths and train staff on the latest technologies, practices and tools.

Participants in a study conducted in November 2007 discussed their organizations' primary operational plans for communications equipment, services and technologies investments in figure 1. The most frequent priority is to reduce costs in 2008.

Reconciling The Call for Cash Conservation Practices

Figure 2 - The proportion of participants rating these priorities as very important in the 2008 communications operations plan.



In times of economic difficulties, many companies implement cash conservation practices, which routinely conflicts with other business goals. New communications and information technologies improve productivity, reducing period cost and

compressing the time interval of business processes. Yet, since acquisition of new equipment or software consumes cash, permission to invest may not be granted. This could reduce the competitiveness of the firm, particularly since the financially stronger competitor may not suffer from the same constraint on investment.

That's why recessionary times demand strategic thinking about how to achieve the seemingly conflicting goals of reducing cost while conserving cash. As shown in table 3 below, the managed service can be designed to convert the depreciating assets into a utility cost - a monthly bill scaled to number of users for example - and unlike straight leasing arrangements, can reflect the lower cost from technology efficiency improvements. In table 3, this lower cost is 20% lower than the operational cost of the purchase and operate and lease and operate options.

Table 3 - Comparison of life cycle costs of project with \$100,000, 5% annual interest rate, \$10,000 annual cost of operations over three year term, future value of implementation is \$0 in three years.

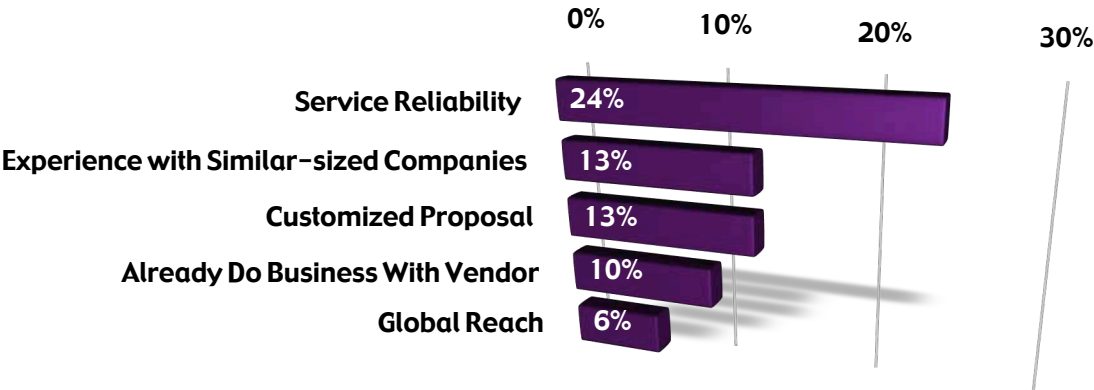
| Period | Purchase & Operate | Lease & Operate | Managed Service with 20% lower cost of operations |
|-----------------------------|--------------------|-----------------|---------------------------------------------------|
| Year 1 costs | \$110,000 | \$46,720.86 | \$44,720.86 |
| Year 2 costs | \$10,000 | \$46,720.86 | \$44,720.86 |
| Year 3 costs | \$10,000 | \$46,720.86 | \$44,720.86 |
| Current Value of Cash Flows | \$122,470.58 | \$127,232.49 | \$121,785.99 |

If the relative cost of operations were higher as compared to the purchase price, (in table 3 this is a 10% ratio), then the 20% typical operating cost reduction would have a much greater effect on the comparison of the current value of cash flows.

Some managed service options such as hosted services may even cost less since they are designed to scale with the number of users, so the company will not need to purchase excess inventory of functionality (hardware or spare licenses) in case the organization need grows. Hosted service users typically purchase what they need and can add or subtract capacity as required.

Technology Transitions Are Ideal Opportunities For Managed Services

Figure 4 - Top 5 selection criteria for managed service providers in technology transitions.



Technology transitions are a particular circumstance involving a significant network, service or application change. Some examples of communications technology transitions include deploying a brand-new network architecture to enable wireless more effectively, upgrading voice technology from circuit to packet voice, delivering an entirely new network-intensive application such as telepresence are all technology transitions that require specialized planning, coordinating and technical skills. These specialized skills must be sustained for the life of the implementation phase and significantly reduced once the transition is completed.

Conclusion

The economic conditions are ripe for many enterprises to reduce their cash demands and ongoing cost of operations at the same time that they might upgrade their communications technologies through the use of managed services. Managed services can allay much of the risk of project failure, project cost overruns and skilled staff shortages since the service provider's larger operations scale and high concentration of expertise provides a highly motivated staff, a critical mass of skills and best practices that come from the experience of managing hundreds of networks for hundreds of clients.

Many research participants agreed with the potential of managed services where nearly a third (29%) of study participants cited a need for technology transition services in their companies in 2008.

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