

■ COMMENTARY

Throwing out your IT equipment too soon?

A global survey finds that SMEs are not maximising returns on investments

By Jason Ogden

IN this day and age, the deployment and leverage of information technology is a lifeline in the way businesses sustain themselves and move forward. Maximising a business's IT infrastructure is indispensable.

The proliferation of "big" concepts such as data analytics, data centre and data centre infrastructure management, and a host of other terms add to the buzz and complexities of the marketplace.

Within this context, large corporations, and their vast IT departments, operate in a structured and process-driven manner which emphasises continuity of the "same" strategy, rather than looking for smarter and evolving options. Any change to strategy in such an IT operation, if any at all, takes place in a very incremental manner.

For smaller and medium-sized enterprises, about 17,000 of Singapore's 22,000 incorporated businesses on the island republic, the picture is different.

Less financial and human resources accompanied by the constant focus on business growth force them to deal with the realities of the IT infrastructure in a sporadic manner.

Between these two groups of businesses, there still remains one common challenge: The continuous pressure to try and cap the costs of deploying the latest IT equipment while getting the most out of their system.

Specifically, the challenge for businesses is commonly affected by the costs of network hardware and maintenance, especially with 40 per cent of IT budgets dedicated to infrastructure. Businesses are increasingly look-

Rethink your IT investment strategy

- **Keep what's working.** Organizations should take a pragmatic view of their infrastructure and assess which services need to be delivered and what the infrastructure can handle, especially know that networking equipment and IT infrastructure have a longer working life than just five years.
- **Be aware!** 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 proper upgrades for the hardware or software.
- **Put maintenance contracts out for competitive bid.** Consider third-party options in addition to those from other resellers.
- **Put metrics in place to reward value, quality, and longevity, not just resiliency.**

ing to invest more into applications to drive innovation and growth, and to achieve this, they will have to reduce networking infrastructure hardware and maintenance budgets.

This then raises the question: Do businesses miss significant capital and operational expenditure savings by prematurely upgrading networking infrastructure, and by insufficiently evaluating maintenance contracts?

In a recent engagement with global research firm Forrester Consulting, Curvature Solutions tried to ascertain

and analyse the state of IT infrastructure and operations in businesses.

The global survey, which had 10 per cent of its responses from Singapore businesses, aimed to investigate whether businesses allocated too much of their budget to refresh cycles and maintenance contracts because they have been pressured to make investment decisions under vendor influence.

Four key conclusions emerged from this survey. These were:

- **Cost-cutting dominates IT priorities** – Many businesses spend too much time trying to shave a few dollars off their hardware costs when they can actually save more if they re-focus their strategy on current maintenance;
- **IT suppliers tend to push businesses to rush their hardware refresh cycles**, resulting in new and expensive installed equipment which only yield an incremental benefit to companies;
- **A significant number of working equipment is being disposed of too soon** – IT equipment have a useful life of about seven to 10 years but they are being disposed of between the third and the fifth year, generating unnecessary wastage;
- **80 per cent of respondents would purchase maintenance contracts from original equipment makers even though they see little value in what they are purchasing.**

The decision to acquire, maintain or change the IT infrastructure is treated as a routine, by-default strategy, where little thought is given to strategic alternatives which will yield a better return on investment.

As the Forrester research report put aptly, even though IT budgets are under constant scrutiny, businesses



The Forrester research report found that even though IT budgets are under constant scrutiny, businesses have defaulted to vendor influence, and have allocated too much to refresh cycles. PHOTO: BLOOMBERG

have defaulted to vendor influence, which has blinded them to the rewards of extending hardware life cycles and third-party maintenance solutions.

Time for a rethink

These key findings give room for much thought, and businesses would do well to relook some of their IT investment strategies. In this regard, there are four key takeaways.

First, the survey showed that 76 per cent of decision-makers remain concerned with the growing pressure to reduce costs. With digital technologies becoming intertwined with every business function, organisations are undoubtedly looking to free up financial resources.

The big IT trends in big data and the "Internet of things" will certainly require an IT budget that supports stronger data centres and new vendor maintenance strategies.

The solution lies in conceptualising and deploying new strategies in managing network hardware life cycles which will ultimately lead to new opportunities for reduced costs.

One key strategy is for businesses

to take a practical look at what they currently possess and maximise the use of these assets.

Second, the survey showed that more than half of organisations refreshed their infrastructure every three to five years, and even when no new functionality is needed, customers still choose to refresh their networking equipment at their vendor's directive. SMEs would do well to take stock of what they have and not necessarily heed the desire to refresh their equipment.

Third, most businesses follow relatively the same process when it comes to buying maintenance contracts and refreshing hardware, that is, they default to OEM-provided information and refresh their equipment without considering its long lifespan.

Defaulting to this cycle should raise concerns among all organisations, especially when companies are looking to make room in their IT budget for the increasing influence of digital technologies in all business sectors.

In this regard, businesses should attempt to keep a reasonable proportion of their IT equipment running in-

sofar as continued vendor support is available. Fourth, legacy practices have led to a situation where businesses repeat their IT purchases despite being unsatisfied with their historical contracts. Basically, the survey showed that business saw little return on maintenance services from their OEMs.

When asked about the challenges with their existing vendor's maintenance, these businesses said that there were misrepresentations in cost savings, new fees and inflexible pricing models.

Our takeaway here for businesses is that they need to place specific deliverables in place to ensure they get the maximum value from their IT purchases and infrastructure.

In sum, a transformation in thinking is required. In order to keep up with the trends disrupting the networking equipment market, businesses must begin to focus on both long and short-term cost-saving strategies.

The writer is vice-president of the Asia-Pacific for Curvature