



**WHITE PAPER: Outsourcing for Innovation**

# Outsourcing for Innovation: How Cloud Transforms Outsourcing from a Cost-Cutting Measure to Something More Strategic

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## Introduction

Cloud computing is now a viable option for businesses seeking to outsource part or all of their IT operations. But in this new era — where the power of the Internet is harnessed for IT tasks — outsourcing to the cloud can be a strategic maneuver, not just a cost-cutting measure. After all, the goals of IT cost reduction include freeing up resources to focus on core competencies: enhancing solution/service competitiveness, generating revenue from new business development, streamlining existing business processes. As enterprises return to expansion, they will prioritize revenue growth over cost cutting by focusing on maintaining competitive advantage, retaining and growing customers, attracting and retaining talent, and improving efficiency to intrinsically reduce costs.

To accomplish these goals, businesses are seeking ways to optimize their infrastructure by trying to avoid two extremes: wasted capacity, which results in excess spend; and insufficient capacity, which directly impacts their ability to respond to market demands. Enterprises now require a spectrum of IT strategies atop an adaptive infrastructure to do more with less, and transform the forced austerity of the last two years into competitive advantage.

This is where cloud computing comes in. Analysts suggest that cloud is poised to change all phases of the sourcing lifecycle by forcing enterprises to reevaluate their basic infrastructure attributes — including the partners that deliver resources, their approaches to managing infrastructure and applications assets, and the economic and commercial models they use to acquire, deploy, and manage solutions.

To fully achieve the maximum benefits cloud computing offers, enterprises need to embrace hybrid service models and service integration expertise. By judiciously deciding when it makes sense to transition to the cloud, when to keep critical components of their infrastructures on more traditional service models, and how to flex in an environment with different infrastructure services, companies can focus on business priorities to achieve a competitive advantage. According to Gartner, “Competitiveness will be the new litmus test guiding IT investments.”<sup>1</sup> Although cloud is going to change the face of outsourcing, companies need to partner with service providers that thoroughly understand all enterprise sourcing models to ensure they find the right balance.

**“Coming out of a global recession, businesses must adjust to the ‘new normal.’ This requires putting an adaptive IT infrastructure in place that maximizes flexibility, scalability, and performance while driving down costs at a time when business environments are becoming more complex, and end users’ needs increasingly diverse.”**

**– Steve Garrou  
Vice President, Outsourcing and Cloud Services, Savvis**

<sup>1</sup> Gartner on Outsourcing, 2009-2010, December 23, 2009.

Savvis has long been highly regarded as a global leader in infrastructure outsourcing. But a less known fact is that Savvis provided cloud computing before it was called cloud. Savvis' original utility compute and dedicated compute hosting solutions have been delivering value to customers for more than a decade. Subsequent iterations of these solutions — Savvis' dedicated and virtual hosting solutions — took advantage of advances in virtualization, networking, and security to deliver even greater cost savings and flexibility to businesses. Today, with Symphony Dedicated, Symphony Open, and Symphony Virtual Private Data Center (VPDC), Savvis is still pushing the innovation envelope, providing scalable, just-in-time computing resources in the cloud to help businesses gain a competitive edge.

Perhaps most importantly, Savvis offers a robust outsourcing portfolio that includes, but which is not restricted to, cloud. Its outsourcing model includes flexible financial terms, a global footprint, and a service catalog that can be tailored for the specific needs of individual businesses. Never pushing cloud for cloud's sake, Savvis understands how to help businesses integrate a range of diverse IT environments in a way that makes sense.

### **IT Outsourcing is Back**

After a period of stagnation related partly to the economic downturn, the IT outsourcing market is again growing. According to IT consultancy EquaTerra, more than 75 percent of the service providers it polled in the third quarter of 2009 reported continued growth in their deal pipeline — up 10 percent from the previous quarter and 34 percent from the same period year-over-year.<sup>2</sup> Technology Partners' most recent Global TPI Index found that the total contract value of IT outsourcing in the fourth quarter of 2009 was \$19 billion — the highest quarterly total in six years.<sup>3</sup> And in Savvis' own research, more than half (51 percent) of respondents said the majority of their IT infrastructure would be outsourced by 2020.<sup>4</sup>

These numbers are bolstered by the attitudes of business executives. Sixty-six percent of IT decision makers surveyed said that “pursuing outsourcing or off-shoring” is likely to be one of their IT organizations' top technology priorities over the next 12 months, according to Forrester.<sup>5</sup> When coupling the move toward greater outsourcing with these executives' top three business priorities over the next 12 months — growing overall company revenue (53 percent); lowering overall operating costs (52 percent); and acquiring and retaining customers (35 percent), it seems apparent that outsourcing is increasingly seen as a holistic business strategy rather than just an IT cost-cutting measure.

<sup>2</sup> EquaTerra's 1Q10 Advisor and Business/IT Service Provider Pulse Survey, April 2010.

<sup>3</sup> “Global TPI Index,” Technology Partners, April 2010.

<sup>4</sup> “Rising to the Challenge: 2010 Global IT Leadership Report, Savvis.

<sup>5</sup> “Business Continuity and Disaster Recovery Are Top Priorities for 2010 and 2011”, Forrester Research, Inc. September 2, 2010

Indeed, in a recent Capgemini survey,<sup>6</sup> 60 percent of executives said outsourcing could make their businesses more agile and flexible. Seventy percent of them also said that by outsourcing IT as well as other core functions, they could fund strategic business initiatives with the money saved. This in turn improves their ability to be innovative and compete more effectively in their market segment.<sup>7</sup>

## The Move to the Cloud

Cloud in particular has created a new wave of IT outsourcing that has the potential to drive competitive advantage for businesses.

In Savvis' 2009 "Rising to the Challenge 2009" survey, most businesses were skeptical about cloud — indeed, a full one-third of IT professionals surveyed were unsure of or didn't know anything about cloud. A significant percentage felt it was oversold, and too risky for enterprise-class applications.<sup>8</sup>

The story told by the 2010 survey was dramatically different. Almost half of respondents are more confident today that cloud is enterprise ready. More than half (54 percent) either currently use cloud, or plan to use it within the next 12 months. Indeed, one conclusion of the research is that the catalysts for the businesses plans to migrate to an outsourced IT model over the next decade is largely due to the cloud.<sup>9</sup>

### Businesses that outsource to the cloud get numerous benefits, including:

**Increased flexibility and scalability.** Business agility is not an option, but a necessity in today's global markets. Because of this, "buyers of outsourcing will be more demanding of their providers to deliver IT value and quality, which will mean greater participation of the business user in sourcing decisions. These users will likely push for consideration of alternative services, to deliver the speed and agility that competitiveness demands," says Gartner.<sup>10</sup> The just-in-time model for provisioning and de-provisioning services enabled by cloud will be very attractive to business units, because they are assured that IT capacity will be there when they need it while minimizing their operating expenses. IT will need to dial up and dial down compute resources in near-real-time without having to overbuy to meet peak loads.

**Lower total cost of ownership (TCO).** All cost reductions are not equal. In the recent economic recession, it was not uncommon for enterprises to cut capacity and capabilities as they tried to drive costs out of operational and capital budgets alike. However, organizations need to understand that rather than cost-driven decision-making, they need to take a more holistic view of what it means to be cost competitive. With cloud computing, capital expenditures (CAPEX) are shifted to operational expenses (OPEX), which has important implications on cash flow and taxes.

<sup>6</sup> "2009 Capgemini Executive Outsourcing Survey," August 2009.

<sup>7</sup> Ibid.

<sup>8</sup> "Rising to the Challenge 2009," Savvis.

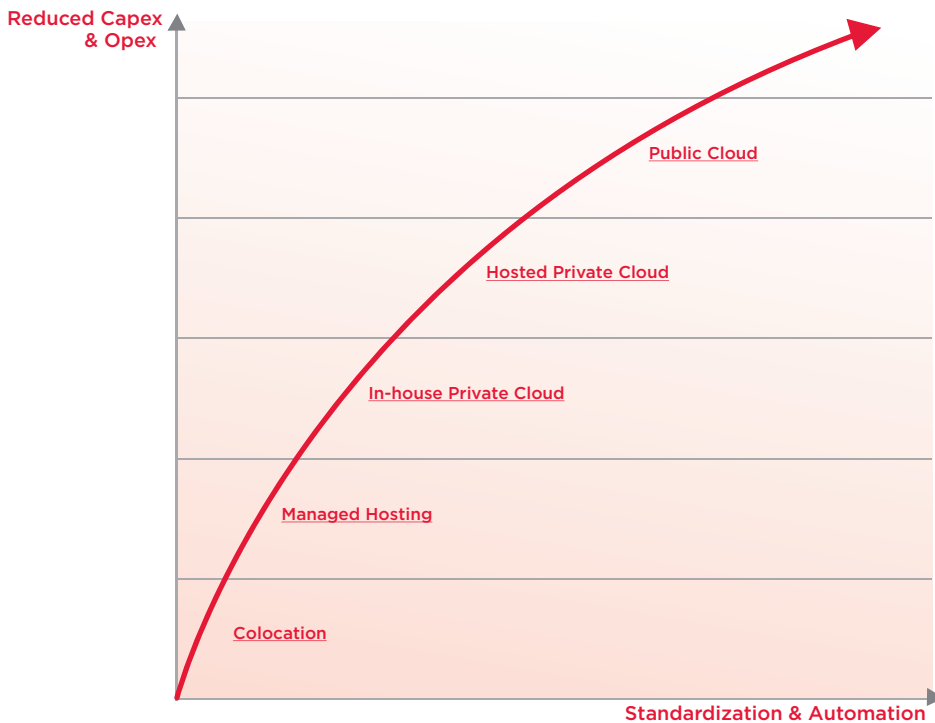
<sup>9</sup> "Rising to the Challenge 2010," Savvis.

<sup>10</sup> Gartner on Outsourcing, 2009-2010, December 23, 2009.

Moreover, cloud will help IT to get closer to the business. According to Gartner, “Industrialized infrastructure solutions focused on business outcome will require internal IT to develop proactive demand management tools that enable business outcome measurement and to become an enabler for change.”<sup>11</sup>

Also according to Gartner, “cloud-enabled services are becoming increasingly viable. The attraction is scalability, pay-as-you-go and freedom from infrastructure build-out. The cloud is likely to accelerate the transfer of ownership for other assets as well, from servers to whole data centers.”<sup>12</sup> And the fact that capacity will be accessed just in time basis has enormous ramifications for budgeting. When outsourcing to the cloud, companies can cut costs without cutting capabilities because of such things as instant modernization, portfolio rationalization, vendor consolidation, standardization, and the adoption of a service-oriented architecture (SOA).

There is a gap between the benefits of cloud, and actually realizing its potential. “Businesses need to leverage the IT assets they already have – throwing them away is simply not an option,” said Michael Spires, senior manager, Shared Services and Outsourcing Advisory, KPMG. “If I’m moving a major application to the cloud, I don’t want to end up with dead hardware assets. If I don’t have a strategy for utilizing those assets, then cloud simply can’t be financially justified for certain types of applications.”



<sup>11</sup> Gartner, “The Future Trends for Infrastructure Outsourcing,” August 16, 2010.

<sup>12</sup> Gartner’s Top Predictions for IT Organizations and Users, 2010 and Beyond: A New Balance. December 29, 2009.

**Improved reliability.** Availability is everything. Business users depend upon their applications, and the enterprise depends on round-the-clock operational integrity of all infrastructure components: servers, network, and security. Outsourcing to the cloud with a trusted provider can guarantee as high as “five 9s” availability (99.999 percent uptime), with robust redundancy and fail-safe disaster recovery capabilities that minimize mean time to recovery (MTTR), as well.

**Access to latest cloud technologies and skills sets.** Already, more than half of IT departments are “somewhat or extremely understaffed”; 40 percent say this is a “big or huge” problem.<sup>13</sup> Because cloud is still an emerging area, most businesses don’t yet have experienced cloud technologists and analysts in house. Perhaps they never intend to hire such resources. By outsourcing to a managed IT services provider, they immediately acquire world-class cloud experts to be virtual members of their IT teams.

**Reduced IT infrastructure waste.** Approximately 39 percent of organizations are using only 55 percent of capacity at maximum server utilization. The fact that 43 percent of them only reach maximum levels 128 times a year speaks worlds of the advantages of using the just-in-time feature of cloud versus the traditional method of overbuying capacity.<sup>14</sup>

**Continuous infrastructure upgrades.** Keeping on top of the latest and greatest infrastructure technologies is often not an option for businesses, which have to make sure their investments in technology last for years. But when outsourcing infrastructure in general, and outsourcing infrastructure to the cloud in particular, businesses reap the advantages of service providers’ constant “refreshes” of key infrastructure components such as servers, storage, operating systems, networks, and security mechanisms.

**Complete control over cloud monitoring and management.** Top-tier cloud outsourcers not only closely monitor and manage the performance of key infrastructure components for their customers, they offer businesses the ability to monitor and manage their own infrastructures from self-service portals or consoles. This allows businesses to stay on top of all key metrics to ensure their infrastructure is performing as needed, while giving them the ability to know precisely where their data resides in the cloud. This latter feature is critical for addressing businesses’ increasing regulatory and security concerns.

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**— Michael Spires  
Senior Manager, Shared Services and Outsourcing Advisory,  
KPMG**

<sup>13</sup> “2010 State of the Data Center Report,” Symantec.

<sup>14</sup> “Rising to the Challenge 2010,” Savvis.

## Getting the Best of All Outsourcing Worlds

Each business operates at a different part of the adoption section, and not every organization should immediately transform its entire IT infrastructure to a cloud-based model. Depending on business and technology requirements, there are cases when traditional IT service models make sense. What matters is that each enterprise chooses a service provider that can integrate a broad range of sourcing models — traditional as well as cloud — to come up with a balance that suits its specific needs.

A case in point: previously, businesses had to choose between predictability and flexibility when building their IT infrastructures. Predictability meant that peak capacity and capabilities would be there when they needed them. On the other hand, flexibility referred to the ability of the organization to adapt its IT infrastructure to its actual needs. There were advantages and disadvantages to both approaches.

Today, with the combination of cloud and traditional IT infrastructure outsourcing services, businesses can flexibly support a global IT infrastructure environment with much better scalability — and an infrastructure that is both predictable and flexible. Their ability to turn on and turn off resources — and pay for only what is used — will be hugely liberating to companies used to having to overinvest to handle burst modes. On the other hand, being able to move over only those IT assets that require this kind of flexibility to cloud and keep the others operating in more traditional ways is the most flexible route of all to take.

Outsourcing in this way offers financial flexibility to a degree previously unimaginable in the IT world. The ability for businesses to balance cost effectiveness and standardization against a flexible infrastructure could be a huge advantage in today's unpredictable post-recession economic environment. To fully reap these advantages, as KPMG's Spires advises, businesses should work together with their outsourcers to incorporate traditional IT models with cloud in a way that allows them to protect their investment in existing IT assets. As IDC points out, 2010 is the year for service providers to reinvent themselves through transforming their business models. "Savvis is unique because it provides clients with an Infrastructure-as-a-Service integrated hosting model across multiple service components. Within the hosting continuum, the company's service offerings span from collocation to managed hosting and include virtualized cloud offerings."<sup>15</sup>

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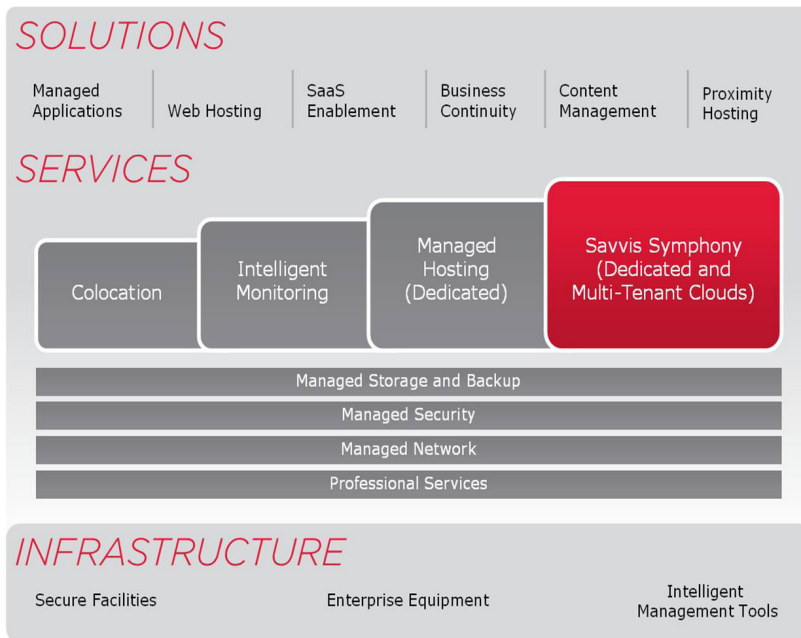
**— IDC, Savvis: "Web Hosting and Managed Services Offerings", Doc # 224173, August 2010**

<sup>15</sup> IDC, Savvis: Web Hosting and Managed Services Offerings, Doc # 224173, August 2010

## The Savvis Portfolio

Savvis' flexible service approach offers its customers long-term value by meeting their infrastructure needs at any given point in time. From basic colocation services, where businesses retain control and management of their own equipment; to managed services in which Savvis owns and manages the physical hardware, to our Symphony offerings, which delivers infrastructure services in the cloud, Savvis helps its customers achieve much greater flexibility and lower total cost of ownership (TCO) by reducing both complexity and risk. See Figure 1.

Figure 1



In particular, the Savvis Symphony cloud product line extends Savvis' leadership position in managed services — including both dedicated and utility hosting — to new levels by combining virtualization technology from VMware with Savvis' own cloud infrastructure. By giving businesses the ability to provision new instances on-demand based on flexible term commitments, organizations can rapidly build, control, and customize their infrastructures to support volatile demands with Savvis offerings such as Symphony Open cloud and Symphony Dedicated cloud. And with its Symphony VPDC cloud offering, Savvis introduces a new era of its leading cloud computing services: the industry's first enterprise-grade Virtual Private Data Center (VPDC) with multi-tiered quality of service (QoS) levels.

## Conclusion

According to leading analysts, virtualization and cloud computing were the top two technology priorities for 2010. IDC predicts that 25 percent of IT budgets will be spent on cloud purchases by 2012.<sup>16</sup>

Migrating to cloud services represents a new approach to IT that requires a change in mindset by enterprise IT leaders. Outsourcing to a managed services provider with a portfolio of cloud solutions that include private, public, and hybrid models is an approach that mitigates risk while providing a high ROI and an intrinsically low TCO. Perhaps even more importantly, however, is that the chosen outsourcing vendor understand the importance of flexibility when implementing cloud — flexibility of the commercial model and the support structure as much as the technology itself — so businesses can move to cloud at a pace that is right for them.

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<sup>16</sup> IDC's Directions 2009 conference, March 2009

## Case Studies

### Innovest Depends on the Savvis Cloud

Innovest was founded in 2000 to provide innovative technology-driven middle- and back-office solutions to trust companies, wealth management firms, not-for-profit institutions, and other organizations that manage assets held in trust. Since its inception, Innovest was a colocation customer of a company whose assets were eventually acquired by Savvis. In 2004, Innovest realized it needed more than a colocation solution to keep up with its rapid expansion. It chose to implement what was then called the Savvis Utility Compute service in 2004.

“A lot of companies were offering managed hosting, but Savvis was ahead of them all with its utility compute platform, which offered us the scalability of being able to turn up a server for 30 days and bring it back down as needed,” said Ray Umerley, vice president, chief security officer at Innovest.

Now, after being a satisfied customer of Savvis cloud solutions for more than six years, Innovest is beta testing Savvis Symphony Virtual Private Data Center (VPDC) in preparation for deploying it as the platform for its industry-leading SaaS trust and wealth management solutions.

Innovest now has the flexibility, scalability and control it needs to keep its IT infrastructure in sync with customer demand for its solutions. “Today, if I need more resources, I don’t even have to contact Savvis. I can go directly to my customer portal and create a data center and deploy it,” Umerley said. “I don’t have to talk to sales; I don’t need to talk to an engineer. Right now, via the SavvisStation portal, I can actually go in and provision storage, I can provision virtual machines, all without having to deal with any Savvis personnel.”

Whereas in the past it could take up to 90 days to provision physical servers and build out the operating systems, Umerley can now deploy new systems in under an hour. “Then we can turn it off and make it go away, and we don’t have to pay any more,” he said. “This ability to expand and shrink as needed contributes directly to our bottom line.”

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**- Ray Umerley  
Vice President, Chief Security Officer, Innovest**



To find out more about Savvis  
Outsourcing and Cloud Services visit  
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