

IT Outsourcing

Understanding the Business Case

(Assessing the Costs and Value of Specialized Support)



Information technology (IT) outsourcing is a critical way companies can control costs and reduce the “pain” and complexity of building and managing their in-house data center operations.

In fact, more companies today are outsourcing their business applications and IT infrastructure – and this trend is expected to continue.

According to DCD Intelligence’s “Data Center Outsourcing:

A New Paradigm for the Hybrid IT Era,” IT outsourcing is expected to grow to \$58 billion by 2020, while investment in data center facilities will increase to \$101 billion during the same time.

Leading organizations are relying on outsourcing to drive transformational change. They are also turning to third parties for support in order to reduce costs and focus their attention squarely on improving their business results, according to “Deloitte’s 2016 Global Outsourcing Survey.”

A growing body of evidence affirms that IT outsourcing and colocation services will continue to rise. Let’s explore some of the reasons why.

Security Fears

The need for threat intelligence, advanced security automation and analytics solutions is growing, according to Jimit Arora, a partner in the Everest Group’s IIT services division. Companies simply lack the resources and expertise to do it themselves, although most (69%) believe some of their existing security solutions are outdated and inadequate.

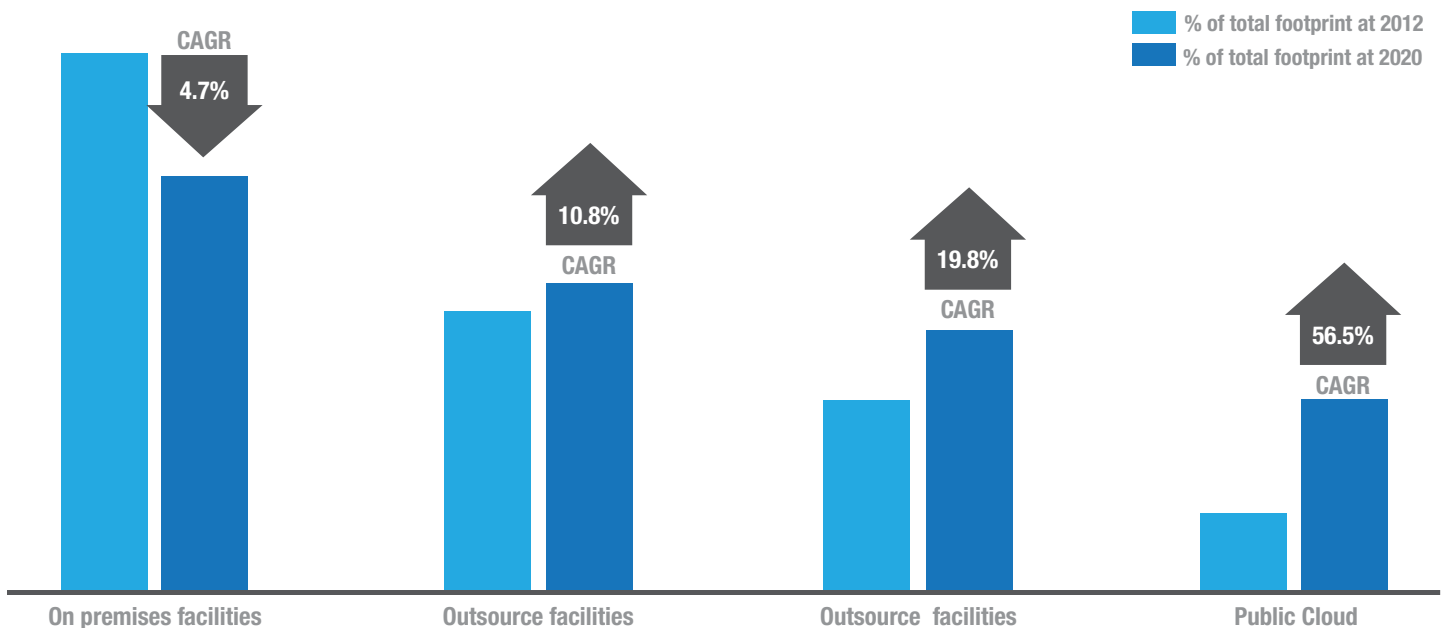
“As threat vectors change and become more sophisticated, more specialized skills are required to protect an organization,” said David Wagner, vice president of research for Computer Economics. “Also, many organizations are changing strategies from primarily threat prevention to threat detection, which requires another skill set. IT departments are responding by outsourcing more.”

Additionally, many enterprises cannot manage security on their own because internal resources are already stretched thin, and they lack the bandwidth to adequately perform security functions. According to CIO.com, the most outsourced security functions include penetration testing/threat assessments, spam filtering, threat intelligence, log monitoring, firewall protections, business continuity, and disaster recovery and awareness training.

Scalability and Flexibility

The need for data storage grows as businesses expand. Companies are finding they are woefully underutilizing the space in their private data centers and are stuck with the labor and power costs required to operate them. Outsourcing to third-party providers enables them to use and pay for only what they need, when they need it.

With more cloud computing taking place, it does not make financial sense to own massive amounts of data center real estate. Gartner predicts that by 2020, more computing power will be offered within infrastructure-as-a-service and platform-as-a-service providers than sold and deployed through enterprise data centers. In the future, most companies will use a combination of on-premises, off-premises, cloud and noncloud architectures.



"I couldn't even begin to speculate the costs we save over owning our own (data center), as it is simply much too significant." –

Keith Archer Vice president of infrastructure and operations Activision Blizzard Inc.

Escalating Costs

Data center construction requires an average annual cost per kilowatt of \$5,467 for those larger than 50,000 square feet, to \$26,495 for facilities between 500 and 5,000 square feet.

Not only is physical space needed to house IT servers and racks, companies must factor in operating and maintenance expenses, as well as costs for security and IT applications and personnel.

According to "Outsourcing IT: Colocation vs. the Cloud," "one of the main reasons data center managers chose colocation over running their own private data centers is cost, though the exact savings can be difficult to determine. Prices vary according to the size of the company, network bandwidth, local power prices and the local building environment."

Competition for dollars is impacting IT budgets as well. According to Computer Economics' 2016 "IT Spending and Staffing Benchmarks" study, 60% of IT executives felt their IT budgets were somewhat or very inadequate to meet the needs of their business.

Complexity

Companies' IT infrastructure is becoming increasingly difficult and complex to manage, which is why IT outsourcing remains an important strategy for companies seeking to reduce that pain.

For example, Data Breach Today reported that "the Internet of Things (IoT) is changing how operation and strategic

security decisions are executed. With the increase in IoT devices connected to your network, the complexity of security is multiplying in every aspect of the enterprise. Gartner predicts that by 2020 there will be close to 20 billion IoT devices."

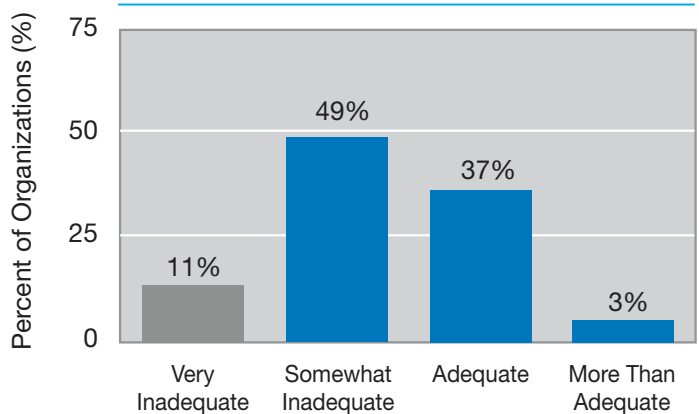
Additionally, the "World Hyperscale Data Center Market – Opportunities and Forecasts, 2015-2022" report noted a "rise in cloud computing, social media, big data, online gaming and other online applications. As a result, there is a constant need for enhanced IT infrastructure that caters to the ever-increasing demand for resources."

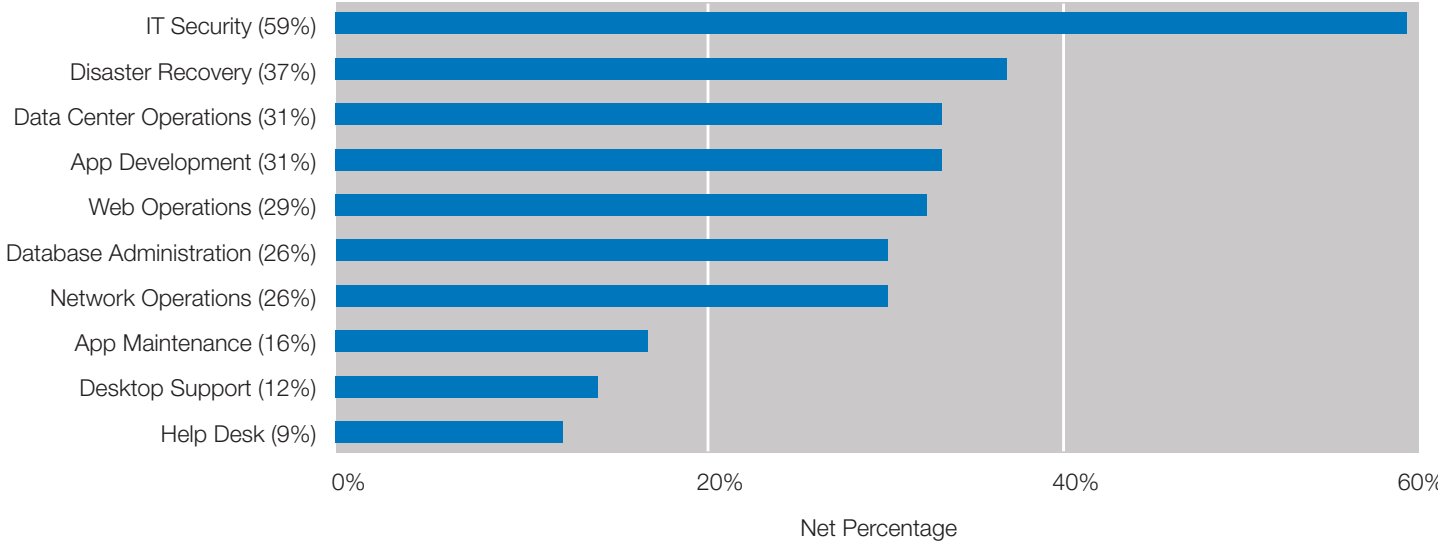
Current IT Outsourcing Practices

Companies are no stranger to outsourcing IT services – 72% already do, according to "Deloitte's 2016 Global Outsourcing Survey." Another 31% plan to outsource more IT services in the near future.

In terms of particular services, Computer Economics' IT Outsourcing Statistics 2016/2017 study found that 6 in 10 respondents (59%), when prioritizing their outsourcing needs, said outsourcing IT security was at the top of their list, followed by disaster recovery and data center operations. Conversely, organizations were less likely to outsource help desk, application maintenance and desktop support.

Adequacy of Current IT Operational Budget to Support the Business: All Sectors





Barriers to Outsourcing

Common concerns about outsourcing IT management include loss of control (perceived or real), increased costs, risks around cloud computing and unplanned downtime.

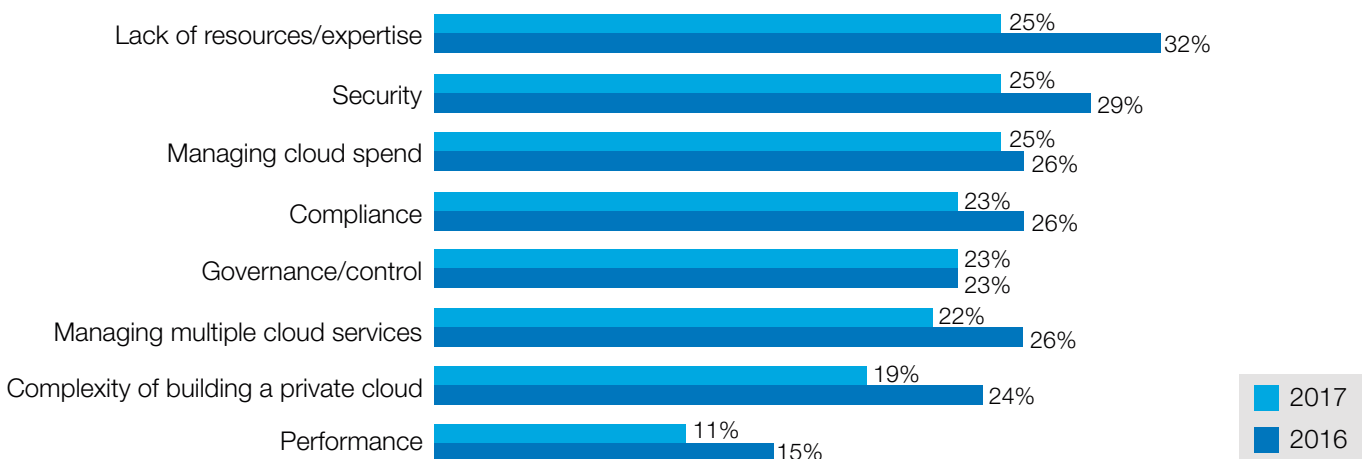
Uncertainty of the Cloud

According to The Business Value of Cloud Computing, finance executives are worried about implementing cloud-based systems due to data security risks and uncertainty over who is responsible for data protection. Nearly 7 in 10 (68%) cite this concern as an obstacle to cloud migration.

RightScale's "Cloud Computing Trends: 2017 State of the Cloud Survey" found that IT managers fear losing control over their data, as well as the challenges highlighted in the chart below.

There also is a misperception that because cloud computing is automated, it is more efficient and cost-effective, but that is not always the case. In fact, roughly 30% to 40% of enterprise apps cost organizations more in the public cloud than they would on existing, on-premises systems, according to TechTarget.com.

Cloud Challenges 2017 vs. 2016



Source: RightScale 2017 State of the Cloud Report

Organizations also must perform administrative and operational tasks – patching operating systems, installing applications and integrating with on-premises systems – manually or with additional tools. This often requires specialized expertise in cloud architecture, cloud administration and systems integration.

Despite these concerns, outsourcing to the cloud is expected to expand rapidly, with the worldwide public cloud services market alone projected to grow 18% in 2017 to \$246.8 billion, up from \$209.2 billion in 2016, according to Gartner Inc.

Unplanned Downtime

A 2017 Alliance Risk Barometer report found that business interruption remains a key concern to enterprises, with 37% of respondents rating it as one of the three most important risks their companies face.

Their concern is valid. North American businesses lose \$26.5 billion each year due to IT downtime and data

recovery. According to a 2016 Ponemon Institute study, a data center outage costs businesses an average of \$8,851 per minute. The report also found that since 2010, the average total cost of a data center outage is up 38%, to \$740,357.

Security

In “Deloitte’s 2016 Global Outsourcing Survey,” 73% of respondents expressed concern about security risks due to outsourcing. But they also realize a partner’s solutions may do a better job of protecting their data.

“Businesses just can’t keep up with providing common security services,” said Garret Bekker, a senior security analyst at 451 Research.

When you consider how increased interconnectivity and sophisticated cyberthreats are threatening critical IT infrastructure, it is no surprise that organizations are turning to experts for help.



- 1. Scalability**
Data center providers can easily and quickly add additional storage, cabinets and power to handle expanding needs.
- 2. Cost control**
Outsourcing allows more budget flexibility, enabling organizations to pay only for what they need.
- 3. Reliability**
Data center teams provide 24x7x365 support with no interruption.
- 4. Expertise**
Outsourcing enables access to new technologies and tools and deep experience.
- 5. Security**
Outsourcing can provide 24x7x365 coverage from trained security experts.
- 6. Savings**
Outsourcing can significantly reduce capital and operating expenses.

Outsourcing extends organizations' in-house capabilities by providing extra hands and expertise without the need for long-term capital investments. Specific to IT outsourcing, benefits are delivered through:

Cloud-based solutions. Reduced costs and increased revenue are why more companies are using a cloud provider. Gartner predicts that through 2020, cloud adoption strategies will influence more than 50% of IT outsourcing deals.

Cloud services offer “agility, scalability, cost benefits, innovation and business growth,” said Sid Nag, Gartner’s research director.

Colocation

More enterprises are selling their own data centers and transitioning to colocated providers to save money, drive efficiency and improve reliability. This trend has already taken a foothold; total sales volume for data center assets more than doubled from 2015 to 2016, to nearly \$1.78 billion.

Managed hosting

Managed service providers keep systems up and running, manage cloud solutions, and reduce labor and hardware costs. More companies prefer working with a team of experts based on their unique needs instead of bringing competencies in-house. According to a study published by Statista, spend on managed IT services will reach \$916 billion in 2017.

Why Do Companies Outsource?



Source: “Deloitte’s 2016 Global Outsourcing Survey”

Outsourcing IT is an important decision and requires assurances that proper procedures and safeguards are in place to protect critical data/information assets. Making the business case for IT outsourcing requires more than calculating the cost savings. To gain their trust and confidence, companies need to know that sensitive and confidential information in the possession of a third party is protected to a standard that mirrors or exceeds their own practices and expectations.

About CyrusOne

CyrusOne specializes in providing highly reliable, flexible and scalable enterprise data center colocation that meets the specific needs of customers across its broad portfolio of carrier-neutral data center facilities in the United States, Europe, Asia and Latin America. CyrusOne employs its Massively Modular® engineering and design approach to optimize design and construction materials sourcing and enable just-in-time data hall inventory to meet customer demand. The company engineers its facilities with redundant power technology, including an available 2N architecture.

CyrusOne customers can mix and match data centers to create their own production and/or disaster recovery platforms by combining facilities via the low-cost, robust interconnectivity provided by the CyrusOne National Internet Exchange (IX).

