

Prudent and strategic IT business

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As the UK begins the slow and difficult climb towards recovery and companies wrestle with unprecedented challenges, the responsibility for cost-cutting is settling firmly on the shoulders of the finance director.

Businesses are wrestling with a bewildering array of pressures from cutting costs to capturing knowledge and coping with unforeseen weather chaos.

With independent research analysts Gartner predicting that by 2012, 20 per cent of businesses will own no IT assets, thereby radically changing the way they conduct business, it's clear that more and more companies are turning to technologies to help them survive the tough economic conditions they find themselves in. Analysts are predicting huge growth in cloud computing and managed services with a less optimistic outlook for application development and systems integration. Research company TechMarketView supports this view, predicting that cloud services alone will be worth around £1.2 billion per year in the UK by 2012. Amidst all these IT predictions, it is the task of finance directors to make the right decisions for their organisations and ensure investments are prudent.

Outsourcing in 2010

All of this means that 2010 is set to be one of the most interesting yet for outsourcing. Recent acquisitions in the banking sector mean that while some banks are undergoing immense internal restructuring and availing of business process outsourcing (BPO) to reduce costs and cut out duplication, firms in other sectors are split between those starting to spend on strategic projects, and others firmly focused on survival. While the good news for consumers is increased competition, for finance directors across all sectors the pressure is on to make wise choices in hostile market conditions as they consider what IT investments to make.

It is true that the enormous financial pressures which led many firms to sign outsourcing contracts two years ago have eased somewhat, with Gartner forecasting a 3.3 per cent increase from 2009 in worldwide IT spending this year. Some of these recession-driven contracts — signed in haste as part of aggressive cost-cutting measures — may have delivered short-term benefits, but firms may find they are no longer fitting the bill. Review and re-negotiation of some of these contracts is highly likely in most sectors and it needs to be a top priority for finance directors to ensure that they are getting value for money.

The good news for outsourcing service providers is that management boards are starting to once again give the green light to IT investments. But it's not time for celebration just yet. Firms choose outsourcing for many different reasons — to mitigate the risk of technology change, focus on core competencies and ensure compliance with government

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regulations. Time and time again however, firms cite cost-cutting as the number one reason for outsourcing. Regardless of the latest outsourcing trends — the buzz surrounding cloud computing and managed services — cost-cutting still features at the top end of the agenda.

While the focus on cost is not going anywhere, it's time for businesses to make IT decisions with the aim of transforming their operations. In contrast to the deals signed two years ago, companies now expect long-term benefits. So, in a fiercely competitive arena, it's up to outsourcing service providers to demonstrate real business value to convince finance directors to part with their cash. While service providers may relish the prospect of a return to discretionary spend and the mega outsourcing deal, it is most unlikely that companies will start simply throwing money at IT. However, increased service offerings and the consolidation of outsourcing service providers — particularly as Indian service providers make a greater bid for European market share — is all good news for business and in particular for those who make the critical decisions that finance them.

Risk mitigation is key

With all eyes on the newly formed financial landscape, companies and banks in particular need to show they are responsible and resilient. Business leaders are well aware that operational risk does not disappear in a recession. In fact, the opposite is often the case as a company will be far more sensitive to a problem in the supply chain or a power outage in trying financial times.

Whether in retail, construction or banking, system-downtime may result in loss of a customer. Customers simply will not tolerate companies that do not appear to be taking risk management seriously. And they don't have to — if your bank does not appear to be taking risk management seriously, a customer can up and leave and go to a rival who does. Business continuity is not optional — firms need to invest

investments for

in support and back-up operations because application or system down-time is extremely harmful. Of course, business leaders have long been aware of the importance of business continuity and disaster recovery planning. Increasing amounts of data — and where the financial sector is concerned, highly sensitive data — poses a risk if not managed and stored securely.

Business continuity and disaster recovery planning is no longer the remit of the IT manager. It's a discussion for the boardroom and financial directors need to understand the risks and the reality. Firms will firstly need to identify mission-critical information and secondly, ensure that this is hosted securely. The dust may be settling over the turmoil of the past couple of years but there is no room for complacency.

Despite the recession, companies are recognising that an evolved service offering that truly helps businesses to achieve their goals is the solution. A firm's infrastructure must be resilient so that mission-critical information is available at all times. Managed services will prosper because they deliver long-term benefits to business. Put simply, managed services can be broken down into four broad categories — network and telecom (VoIP, IP toll free), infrastructure, applications and security. There are a number of reasons why many businesses have already opted for managed services. Although in-house delivery is ideal for when business is booming, it is expensive in leaner times. As a managed service allows a business to pay only for what it requires, it is therefore cost-effective. There are a number of reasons, however, why businesses opt for this type of service. Firms either do not have the in-house capability to cater for all of their business needs or they don't want to dedicate time and resources to IT management.

Managed services are an ideal entry point for off-shore delivery as the flexibility of the service allows a business to focus on its core capabilities yet it is sufficiently robust to meet the complex security needs. Managed services allow the business to focus on the business.

Software, hardware and storage 'as-a-service' is likely to be a welcome and novel idea for business. Unlike more complex application development and transition of services, they require low initial investment and are quickly adopted. Managed services carries the double advantages of limiting capital investment, while increasing the flexibility of IT infrastructure. And if suitable terms are negotiated, managed services should deliver both on cost and capacity. Companies will rightly remain prudent about their choices and look for value. Pay-as-you-go allows a business to ease its financial burden in IT.

Cloud computing

The pay-as-you-go model has already taken off through cloud

computing. Put simply, cloud computing allows businesses to consume software and applications hosted in a secure environment over the internet on an on-demand basis. So what are the risks? As with any IT decision, security is a top priority. Understandably, concepts such as cloud computing have raised security fears. Choosing the right cloud is crucial. Private clouds allow businesses to retain control of their critical data while external clouds are hosted by third parties in their data centre network. Financial firms need to consider what information they want stored in the cloud and the security measures in place to protect that information.

It's a fairly straightforward idea — a pay-as-you-go infrastructure and hosting service allows the business to focus on its core services and offerings while saving money.

However, entrusting an outsourcing service provider to manage your data/applications/infrastructure does not in itself equal risk mitigation. The benefits of delivering resources, applications and servers when and where they are needed is only realised if risk is truly mitigated. So if the selected service provider does not have a robust network of data centres in place, a business could expose itself to serious risk in the event of a major disaster affecting the primary data centre. No-one can have missed the criticism of banks and other financial institutions for becoming too risk-averse, but when it comes to critical back up and recovery services, this is a bonus. A managed services provider must provide every assurance to a business that it can provide backup and recovery resiliently.

Conclusion

Whether a business is easing its way out of recession and looking to grow this year, or valiantly struggling in a sector that has not yet seen the last of the downturn, the focus for finance directors is to help reduce operating expenditure. Intelligent IT decisions such as managed services and cloud computing will help companies to stay ahead of the competition.

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Ravi has worked with companies such as ITC Infotech Limited, where he was Vice President for Business Development in Europe and played a vital role in expansion of the business and sales channel. He has over 15 years' experience in managing consultancy and technology services businesses in the UK and international markets, and has been involved in most types of products and services that the industry has to offer.