

Avoid the Hidden Cost of Bias and Preference in IT



What your vendors, VARs (and even some employees) don't want you to know.

INTRODUCTION

WITH DATA CENTER OPERATIONS, IT EQUIPMENT MAINTENANCE, TECHNICAL staff and enterprise software licenses consuming an excessive portion of IT budgets, companies have much to gain by optimizing their current operations. But saving money is never easy. Many initiatives to reduce recurring long term costs are complex and expensive endeavors in themselves, difficult to implement during an economic downturn. Moreover, companies cannot always judge their budget situation objectively without getting tripped up over common vendor and internal staff bias.

Trusting too much in the advice of product-incented vendors or even their own staff can lead companies astray when undertaking major initiatives such as virtualizing the server/storage environment, relocating the data center, and implementing new departmental or enterprisewide applications. Even in the best of times, such projects warrant a thorough technical and business evaluation to make sure they align with the company's business and economic direction.

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In this white paper we will provide examples of how vendor bias, limitations in staff experience and silo operations are consuming significant budget resources unnecessarily. We will also show how to overcome these prejudices by applying vendor neutrality, third party oversight and strategic outsourcing. Finally, we will introduce Transitional Data Services (TDS) as an example of a new breed of "embedded advisor" working side by side with your team to optimize your budget. Such an advisor can provide unbiased assessments, recommendations, oversight and improvements for IT that are closely aligned with your environment and business goals.

The State of IT Budgets Today

IT-intensive companies tend to be more productive, and most economists now agree that ongoing investment in IT was the largest factor accounting for the resurgence in U.S. productivity from 1995 to 2005. In fact, according to market research firm Forrester, up to 70% of the work done in large companies today can be classified as information-processing work.

But it is also true that thousands of IT projects still fail to deliver on their productivity promises each year. CEOs and CFOs are justifiably disappointed in IT's inability to consistently document and deliver financial benefits commensurate with their budgets.

One reason for this is that both IT and business managers can be sidetracked by the latest technology de jour. Unfortunately, such product detours can be prohibitively expensive. All too often, attention-grabbing new product categories, such as Gartner's "10 Strategic Technologies for 2009," will have little or no bearing on a company's real business requirements once the excitement dies down. While some of the technologies on Gartner's list are sound—including virtualization, cloud computing, green computing and enterprise mashups—many are still early in their "hype cycle" where inflated expectations (and bleeding-edge costs) abound.

Don't get caught up in the excitement. With economic uncertainty, now is not a good time to experiment with new technology that takes months or years to implement (see sidebar, "Why Rapid ROI Trumps Everything Else"). Instead, focus on fast-turnaround projects using proven products where quick payback can be reasonably assured.

Why Rapid ROI Trumps Everything Else

Today more than ever, cost containment in IT is job one as earnings come under intense pressure. Technical expertise, strong budgetary controls and procurement discipline are increasingly necessary to maintain operating margins during the current economic crisis.

Across the board in IT, organizations need smaller, quick hit projects that provide increased visibility and control over spending and financial risk. Successful enterprises will postpone or scale back major finance transformation projects as managers look for rapid ROI by either better utilizing what technology assets they already have, or beginning new initiatives with short implementation and payback times.

World-class organizations will increasingly invest in solutions that deliver well-defined results that minimize disruptions to employee productivity. Most projects will demonstrate a return on investment (ROI) of nine months or less.

The High Cost of Bias

Progressive managers willing to take a fresh and unbiased look at their total IT spend will typically find many areas to save money. Those who cannot will increasingly place their companies at risk, particularly during an economic downturn. Many will execute on plans that drain IT budgets needlessly in the short run. In some cases, poor decisions made today regarding new technology (or even failure to replace existing systems when appropriate) will cost many thousands of dollars over time when maintenance, licensing and renewal fees are taken into account.

IT managers can easily get lost in today's heterogeneous and confusing computing environment and may as a result rely too much on the advice of their inner circle. Among those who have their ear are:

LONG-TIME VENDORS. Most businesses, staff and even executives have a handful of preferred systems suppliers who performed well on a previous project. Unfortunately, this success does not predict the future. Their products may have changed or simply may not be appropriate to the new use. Your key contacts at the company may no longer be there. It is more likely that recommendations made will be driven by their own corporate strategy much more so than yours. No matter how well intentioned, they represent a specific product portfolio and motivation to make it fit.

VALUE-ADDED RESELLERS. Most VARs have a long list of products they can recommend and sell. Still, it's natural for them to focus on those that are easiest to describe, have the best marketing support, and pay the highest commissions. They will point to the complete line of offerings as proof of their objectivity but will tend to sell their favorites nonetheless.

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INDUSTRY ANALYSTS. Many analysts purport to be objective, but it's no secret their income frequently relies on sales to major IT system and software providers. As industry gurus are naturally drawn to new technology, some analysts may also recommend newer products not yet suitable to real-world business needs.

INTERNAL STAFF. A company's own employees can be equally biased in terms of their narrow view of enterprise IT alternatives which can affect sound decision making. For example, an employee may want to learn a new technology in preparation for a career change or even take the easy way out to minimize exposure. Even the most trusted employee can have good general IT skills but lack experience when evaluating competing technology solutions outside of their niche.

More progressive CFOs and CIOs acknowledge that such shortcomings exist, and will seek independent expertise and counsel to help them reach the best possible solution when embarking on a major IT infrastructure change or when trying to solve an expensive hardware/software problem. They understand that any technology project must be subject to an objective analysis that not only measures a solution's technical and operational merits, but also factors in the economic impact of implementation over time.

When to Consider Outside Help

Progressive companies view access to independent IT expertise as a resource, not a threat. Unlike their less-progressive colleagues (see chart, "Why Companies Avoid or Delay Asking for Outside Help") they seek outside advice when one or more of the following warning signs are present:

- IT spend is over budget and employee productivity or customer satisfaction is down;
- The IT department lacks the skills to adequately evaluate a new technology or undertake a major move, such as a data center consolidation/relocation or ERP deployment;
- A large part of the IT budget is spent on annual maintenance and licensing fees; and
- Projects are routinely awarded to a handful of entrenched vendors without first conducting a thorough and objective business analysis and ROI calculation.

Why Companies Avoid or Delay Asking for Outside Help The following reasons are among those most likely to prevent a company from examining its IT options objectively.	
Delay Factor	How It Manifests
Fear of Change	<ul style="list-style-type: none"> • In the executive’s mind, changes in the IT facility, operations, or staff presents unknown risks • Replacing the “devil you know” with a new and unproven solution seems daunting, even when current systems are badly broken
Will Not Validate Advice	<ul style="list-style-type: none"> • Personal or emotional ties to managers, employees, vendors, and institutions can make an objective analysis difficult. So an executive may freeze, unable to do what is needed • As is often the case, trusting the judgment of someone you know is the easiest course of action to take
Staff Pride	<ul style="list-style-type: none"> • Less-progressive CIOs/COOs rarely admit the decisions they’ve made are not working. Many believe their handpicked staff should be trusted to evaluate vendors and recommend solutions on their own • In the event a necessary skill is missing, their first inclination is to hire and fill the void. This adds delay and risk to the task at hand when compared to the services of an outside expert
Unwillingness to Spend	<ul style="list-style-type: none"> • Companies not used to working with embedded advisors and oversight may believe them to be too costly (even though a good engagement should save far more than what is spent)

Signs of Bias—and How to Overcome Them

There are many instances of IT waste resulting from ineffective practices or poorly implemented systems. In many cases, the primary cause can be traced to bad decisions reached as a result of a flawed or biased decision-making process. The following scenarios are all based on real companies that eventually relied on an embedded advisor to help solve one or more money-draining problems.

Understand In-House Motives

In-house employees, including senior managers with lots of experience in their field, can become cheerleaders for projects that interest them personally, keep them in their comfort zone or practically guarantee long-term job stability. This was the case at a Fortune 1000 manufacturer that planned to relocate into a new data center at a projected cost of \$17 million.

The facilities manager had spent months considering the move and was among the chief advocates to build out a new data center over the next two years. The primary site selection was based on traditional real estate values—e.g., size, location and cost—which unfortunately do not translate well into data center requirements.

By retaining an outside advisor, an extremely embarrassing \$17 million mistake was avoided. The company discovered that a fiber ring connecting the new data center would need to be installed at a recurring cost of \$500,000 per year. On top of that, the existing raised floor space was unsuitable to cool the expected power density desired and significant upgrades were needed for the mechanical, electrical and plumbing (MEP) systems.

By starting with the client requirements (and not limiting the analysis to the identified target facility), the embedded advisor found suitable colocation/lease space with total annual costs equivalent to the fiber trunk expense alone. By going into a colocation facility with multi-carrier access, the fiber trunk requirement was eliminated; facility construction avoided; and the cost of the MEP upgrades went away. In total, they saved \$17 million. On top of this, the client moved into the space one year ahead of schedule.

WATCH FOR DEPARTMENTAL SILOS. Large enterprises with big IT, operations and facilities staff typically have multiple departments reporting to different parts of the organization. It's not uncommon for such groups to operate in independent "silos" largely in isolation from one another. Such arrangements do not ordinarily cause problems. However, the ensuing lack of communications can become an issue, particularly when a major corporate initiative, such as a new data center design, build and/or relocation, is undertaken.

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What often happens is that major decisions are reached in isolation and without having adequately considered all of the ramifications. Expensive data center moves, for example, often overlook what's been dubbed the "Power Density Paradox." This states that as you increase the density of your data center, you reach an inversion point where additional density requires more power and total space, not less. Companies that avoid this trap typically have IT, operations and facilities managers all working together to plan the move, not isolated in separate silos.

TAKE A FRESH LOOK. Stories of the left hand not knowing what the right hand is doing are rampant. An embedded advisor was called into a major investment firm, for example, to perform a comprehensive assessment of the company's data center. The center had grown over the years through mergers and acquisitions and by decisions made by department heads that didn't work together. Not surprisingly, the company was concerned about its ballooning IT budget.

Soon thereafter, the advisor discovered the company was spending \$2.7 million annually on a jumble of disparate security systems with an overlap of features and sometimes even installed in a cascading fashion. By more effectively using the existing technology, the advisor was able to save the company over \$300,000 per year.

Question Your Vendor and VAR

Placing too much trust in the hands of a small group of vendors or VARs is also quite common. Say, for example, that your applications run on servers primarily from one or two major providers. When new hardware is needed, it may be tempting to simply call your favorite rep and ask for the new hardware at the previously-discounted price.

In reality, a sole-source approach rarely works in the customer's favor. When time is taken to first run a business analysis and then create and distribute an RFP to multiple vendors and VARs, the savings can typically be 20% or more. Even when one or two suppliers are favored, it's common for all bidders to price their offerings more competitively and to recommend the best solutions they have in their portfolios—not just those with the highest margins.

Still, many companies fail to follow a rigorous evaluation process, even though vendor bias is fairly easy to spot. Having established strong vendor relationships over the years, they feel they can trust their vendors. Be careful; the temptation for product based vendors to act in their own self interest and maximize profit margins is stronger than their commitment to you.

KEEP ASKING QUESTIONS. As an example, a trusted advisor was recently commissioned by an educational institution in the Northeast U.S. to evaluate a \$180,000 proposal from the incumbent hardware vendor to upgrade the organization's network infrastructure. The advisor quickly discovered the plan included far more hardware than necessary. After designing an appropriately sized network that fully satisfied the operational requirements, an RFP was put out for competitive bid. The original vendor's new proposal came back at \$70,000—a savings of \$110,000. They still used their initially preferred vendor and met requirements.

Vendor bias isn't restricted to cases involving new technology purchases. It may involve sticking with an incumbent vendor simply out of convenience. As an example, the advisor was brought into a midsize company to assess the overall IT infrastructure. As a minor part of their analysis, the consultants discovered the company had been spending \$17,000 on annual maintenance for a software firewall product that had once been a market leader but now was obsolete. Because the company had no firewall expert on staff, it continued to pay the steep maintenance fees each year without question. The consultants were able to recommend a more capable and less expensive alternative, saving the company over \$12,000 per year. While small, these savings contribute directly to company profitability.

What to Look for in an External Advisor

When negative tendencies emerge, companies should consider leveraging a neutral outside organization with the technical and business skills required to address the IT problems at hand. The goal will be to look beyond internal and supplier bias and help IT evaluate technologies more effectively, save money and increase productivity. Such an advisor should be willing to roll up their sleeves, quickly internalize management's most pressing problems, and work side by side your business and technology teams to recommend an optimal solution.

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First and foremost, the experts brought in should have the technical skills needed to advise on the problems at hand and understand the complexities of IT infrastructure, enterprise applications and data. In larger companies, outside help is most frequently needed in data center optimization, high density data center facilities, network storage, data security and ERP. Smaller companies or offices within larger organizations may want to consider using outside resources for similar projects or to outsource complete systems development. In all cases, the chosen organization should be able to apply lessons learned from other companies and industries to your environment.

FOLLOW THE MONEY. To guarantee objectivity, an advisor should work directly for you and not be compensated in any way through commissions paid to product vendors or VARs. They should labor under a clear scope of work with stated objectives and be willing to negotiate a notice of termination clause that can be executed by either party. In the end, the money you save from the engagement or value added to your business should far surpass whatever service fees are charged for advice. If at any point you see signs this isn't happening, you have every right to walk away.

Finally, even if your advisor has the capabilities to both design and implement the solutions it recommends, they should be willing to open the RFP process for bidding once the implementation phase is reached. This helps guarantee the best and most cost effective solution is deployed.

THE TDS ADVANTAGE

One of the best ways to overcome vendor and staff bias is to seek out an advisor with the skills, best practice experiences and integrity to assess your current IT environment and work side-by-side with your team. Transitional Data Services (TDS) is such a company. Our consultants first understand your business goals and your technology environment, then work as one with IT management to recommend the best and most cost-effective solutions.

Unlike VARs, large IT vendors, and even quasi-independent research firms (which get a significant portion of their income from the manufacturers) we are completely vendor-agnostic. We work without bias to hardware, software and services and are careful to match whatever products or vendors we ultimately do recommend with the business strategy of our client. While we seek to earn your long-term trust and business as your embedded advisor, our clients appreciate that we do not require long term contracts and that we are never blinded by the latest trends or highest commission (an all too common occurrence with vendors and VARs).

TDS provides independent assessments, recommendation and improvements for IT. We are experts on data centers (designs, build, consolidation and relocations), operational support, enterprise software/ERP, web and mobile applications. We work alongside your own employees during the design and implementation phases to provide advice and oversight. TDS principals and consultants are qualified to implement many of the solutions we recommend, if appropriate.

Regardless of the economic environment, no company should waste precious IT resources on poor decision making. TDS can provide the unbiased assessments, recommendations and improvement for IT that your company deserves.

About Transitional Data Services (TDS)

Since 2002, Transitional Data Services has provided data center consulting, systems development and technical operations services that help clients boost the performance of their technology operations and business processes. TDS provides independent assessments, recommendations and improvements for IT including data center designs, relocations, operational support, ERP, web and mobile applications. Our recommendations cross departmental and technology silos to achieve the best ROI for our clients. Since we do not operate as a vendor or VAR, we are unrestricted to a specific product portfolio and unbiased by the latest trends and highest commission.

TDS clients include successful organizations of all sizes and focus including John Hancock, Monster.com, Boston Red Sox, Cedars Sinai and Liberty Mutual. For more information, please visit www.transitionaldata.com.