



# IT Financial Management Series: Top 10 Technology Investment Ideas to Generate a Positive ROI within 12 Months

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As a result of the economic crisis, your company is looking for ways to cut costs.

- Your CFO is looking closely at the IT Budget
- You know that simply cutting costs is not the best approach
- How can you generate savings without sacrificing current business functions?
- How can you generate savings so that your department will be able to accommodate business needs in 2011?
- What IT investments should you consider that will drive significant returns?

Read on to learn NET(net)'s top 10 investment ideas to help your 2011 IT budget create more value for your organization.



## Tough Economic Times

How do you react when your company is in a tough economic situation? IT is usually viewed as a big spender, and when times get tough organizations look to IT for cost saving opportunities. Rather than just cutting costs, we recommend the approach of identifying ways in which IT can invest wisely to increase value while reducing overall spending. This may sound like a contradiction, but it can be done. Here are ten ways in which you can invest wisely to save money while increasing the value IT brings to your business.

## Top 10 IT Investment Ideas

### 1. TECHNOLOGY REFRESH

In an environment which is demanding doing more with less, investing in new servers is not likely on the top of the corporate investment priority list, but based upon some of the legacy architectures, maybe it should be. When buying new servers, it is true that there are transition costs to consider. These include:

- Cost to purchase the hardware and support
- Installation
- Training (potentially)

At first glance, these costs may appear daunting, however after closer inspection, many clients have been surprised to find the cost of carrying the existing infrastructure often exceed the costs associated with replacing it. Some of the costs displaced include:

- Support contract for server hardware and operating system, depending on age, these could be amplified by extended support
- Energy costs
- Management costs
- Third party software

For example, when evaluating UNIX server replacement hardware, depending on function, Itanium servers can offer comparable performance with as few as half of the processors of their PA RISC predecessors. While PA RISC to Itanium is HP specific, similar benefits exist for the other lines of UNIX servers.

With the enhanced performance of the smaller machines, they cost less to acquire and less to support. They also use less energy. Due to their comparable performance with less CPUs, Itanium based servers also require less third party software to support the same application function. Taking into consideration the costs eliminated, avoided or reduced, companies can often upgrade components of their infrastructure with a Return on Investment (ROI) of as little as one year.



## 2. TELECOMMUNICATIONS OPTIMIZATION

Telecommunications, the services we often take for granted in the background of many businesses: voice long distance calling, Internet access, cell phones and Blackberries, wide-area networking, etc., is also quietly one of the organization's largest operational expenses. It is also inordinately, and some would say deceptively, complex to manage the services and the suppliers behind it.

Telecommunications carriers, like AT&T, Verizon and Sprint, and sundry niche providers across the country and across town, are notorious for uneven service, complex and inaccurate billing, convoluted pricing, and mind numbingly long and byzantine contracts. Combine this with the complex array of telecom related services that are necessary to run today's complex, fast-paced, geographically dispersed and increasing mobile business, it adds up to a significant functional and financial management challenge for most organizations.

Optimizing the value of your telecommunications services portfolio and reducing needless expenses can be a daunting challenge, with most organizations lacking the knowledge and market visibility to know how much better things can be. However, there are many achievable tactics that can be employed that have a quick return on investment.

- Read the telecom carrier agreement. Know what you're buying and what you should be paying for services.
- Conduct monthly billing reviews: Compare the agreement pricing with what you are actually paying on the invoice and question anything in doubt.
- Don't let your telecom carrier agreements lapse. Most organizations have dozens of carrier agreements with all sorts of terms, expiration dates, early termination penalties, revenue commitments, auto renewal clauses, and advanced notices of termination.
- Keep good records of products and services. It's difficult to manage your telecommunications environment if you don't keep good records of what products and services you have, what you should be paying for them, what agreements they're under and who manages your account to contact when service is needed or trouble arises.

Considering a third party service to assist with optimization of telecommunication optimization is a wise alternative and certainly will provide a great return.

## 3. APPLICATION RATIONALIZATION

Many companies have more than one application in use for a specific business solution, and rationalizing these different applications can have a quick, positive impact on your IT budget. Common situations include multiple packages for Customer Relationship Management or Business Intelligence. Often this application redundancy is the result of a merger or acquisition, or it is a result of several business units making relatively small purchases of these tools independently. Take CRM packages for example; with the increase in Software as a Service (SaaS) applications, it is easy for each business unit or even department within a business unit to justify the small cost of entry for a CRM application. If the application provides business value, soon more people are using the application and the end result can be a very large spend which was never envisioned at the start of the "pilot" effort.



Depending on the particular usage, rationalizing these applications and achieving a positive ROI can often be done by simply consolidating the total spend and negotiating a much lower cost per seat. In some cases, the business units may have to adapt a different package; however, providing an option for reducing their overall spend can be a compelling incentive for change. Whether you consolidate multiple applications into one, or simply take advantage of the economy of scale provided by analyzing and rationalizing the total usage across the enterprise, you will undoubtedly be able to show a positive Return on your IT investments in less than a year.

#### 4. VIRTUALIZATION

Virtualization means many things to many people in IT, from virtual servers and storage, to virtual applications and hosting, to cloud and utility computer, and even the virtual workplace with employees working remotely. Let's focus on consolidation and virtualization of server and storage in the data center, where the biggest bang for the buck can be achieved with some basic first steps—taking advantage of the proverbial low-hanging fruit.

Total Cost of Ownership (TCO) decreases with the complexity of maintaining fewer physical devices. Server virtualization is taking the many server operating systems, often running applications on hardware that is typically vastly underutilized, and placing them onto only a few powerful multiprocessor machines. There are many tangible benefits that contribute to a reduction in the TCO on this environment, including lower staffing (managing fewer servers requires fewer people), centralization translates into better governance and improved cost control, infrastructure consolidation in this manner delivers an improvement in data and application integration and—importantly—lends itself to greater storage consolidation.

Storage consolidation goes hand in hand with server consolidation. Physically separating the storage from the processors allows both layers to be managed more efficiently, as distributed servers lead to a sprawl of processing silos that are underutilized, having separate Direct-Attached Storage (DAS) for each of those servers leads to underutilized storage islands.

However, storage and server virtualization initiatives are costly, complex and take special training to design, plan and execute properly with minimal disruption to the business. There are things that can be done today that are easier to implement, less costly and achieve concrete benefits with a shorter return on investment that are important first steps to a more mature implementation of virtualization in the enterprise later:

- Eliminate server sprawl and physically consolidate servers in one or fewer locations. This can often be achieved with a data center or server room consolidation effort to reduce the costs of physically managing remote and often redundant server hosting locations.
- Consolidate storage. This will bring a higher level of security and availability to data and applications as servers are consolidated into one or fewer locations. There are many low cost entry level storage area networking (SAN) solutions. This also improves Disaster Recovery capability and migration of storage capacity as needed from one application to another.
- Look for changes in the refresh cycle. Don't necessarily buy servers for the sake of server virtualization. Look for virtualization opportunities when new hardware needs to be purchased for a new application anyway.

- Virtualize testing and development environments. Reduce the overhead of managing these non-production environments (and related staffing and maintenance costs) and virtualize within the pool of servers already allocated for this purpose—building the server and storage virtualization skills needed when tackling a mission critical virtualization project later.
- Cost avoidance. Rather than taking the traditional approach to designing your hardware, software and storage configuration necessary for that big new software application project, such as so many servers allocated for production, development, testing and disaster recovery, because this is the way it has always been done, use this initiative to take a serious look at virtualizing the servers and storage environment and avoiding unnecessary hardware investments.

Considering these few steps will provide a foundation for gaining great value in the future.

## 5. DATA CENTER CONSOLIDATION

The spread of data centers and servers rooms that many organizations have experienced through mergers and acquisitions, or the result of unplanned server sprawl over the years, can be reversed with a thoughtful consolidation strategy. Concentrating computing resources into a small number of physical locations can boost the productivity of IT assets and personnel and create a more manageable IT environment. Of course, a certain amount of duplicity is required for disaster recovery purposes, but this likely not the sole reason for the many duplicative islands of technology that are maintained by many organizations today. This may or may not be the result of some deliberate strategy to spread out the resources to be closer to the owners of the applications or the end result of an acquisition that led to inheriting another large scale data center operation.

When contemplating a data center consolidation strategy, the first order of business is to determine the TCO in operating the current environments. Armed with this information you can then make informed financial decisions about how to go about consolidating the data center operation. Further, it is important to outline all of the services that your in-house or third-party personnel perform to manage this environment, as this is often a significant outlay of staffing, with the consequent overhead of maintaining and managing this skilled personnel. Next to the hardware and software investments, it is likely one of the highest expenses of maintaining a data center environment.

Organizations considering an effort to conduct data center consolidation should not overlook the use of third-party data center hosting solutions, from simple co-location where the provider supplies space, electrical power and networking in a very robust facility; or managed services where the provider supplies the hosting facility like co-location, but also the skills, governance and personnel to manage all or a portion of this environment in a manner that may be managed better and often less expensive than you can do so yourself within your own organization.

Data center consolidation should be a fundamental strategy for many IT organizations and is fundamental to providing a cost effective, scalable, manageable, secure and highly available IT environment. Most organizations will realize a quantifiable return on investment in such consolidation efforts and, with proper planning and doing first things first, realize a shorten ROI in step with the accompanying investments as they are made.

## 6. OUTSOURCING

Determining and evaluating what IT functions to consider for outsourcing can be a difficult task. Knowing that a bad decision can result in a significant investment to recover it is important to first determine what is core and non-core to supporting your business. Once you have determined what is non-core, outsourcing of some services can be accomplished fairly quickly and with little investment. In looking at areas to consider for outsourcing that may be non-core we have discovered that many companies have found the following to be prime candidates:

- Outsource your helpdesk. Small transition and startup costs, per call/ticket cost reduction.
- Outsource your desktop support. Small transition and startup costs, per desktop cost reduction.
- Outsource your email to a SaaS model. Transition cost investment. Avoid software\hardware maintenance, re-provision hardware.
- Outsource your telecommunications expense management solution. Telecommunications expense reduction through elimination of duplicate and/or erroneous charges, comparison to contracted rates.
- Consider outsourcing or optimization of your print to aggregate and reduce expendables spend.
- Outsource your contract management solution whether through professional services or ASP. Financial benefit is mitigation of potentially large non-compliance costs and improved negotiating leverage with your suppliers.

There are many more areas that can be considered for short term or long term outsourcing. Close evaluations of current spend and available services will assist with determining which ones will drive a quick return for your business.

## 7. PORTFOLIO OPTIMIZATION

A commitment to Portfolio Optimization entails companies re-evaluating their existing contracts and on-going investments with suppliers to identify opportunities to drive short-term and long-term savings. While most suppliers will not readily and arbitrarily reduce their recurring financial obligations (typically an annual maintenance renewal for licenses and support), various tactics and a strong business case can be forged to compel action with an understanding of the market, the suppliers' policies, and of course, your own business and technical requirements.

Companies may chose to optimize a single supplier arrangement where significant dollars are tied up, or may elect to initiate an extensive review of a broader array of the IT portfolio of assets to take advantage of many opportunities, big and small, to trim operating expenses.

As suppliers seek to protect their own interests during tough economic times, do not expect they will proactively share with you the best ways in which you can reduce the amount of money you send to them. In fact, when requesting a supplier consider providing relief, you are likely to be met initially with stern resistance



– the typical canned answers suggesting that you already have a “great” discount, and your fees are “fair and reasonable”. Do not settle for the standard responses from a supplier. Instead, focus on areas where the cost of the investment with the supplier does not align with the value being received for that investment. For example, without contractual caps in place, suppliers will seek to cushion the economic impact by exercising their right to increase your fees, often ranging from 3% to 10% ,a disproportionate proposition especially if your business is experiencing flat to negative growth. Also, the decline of the business climate may also be yielding reductions in the key metrics driving the pricing of your recurring investment ( i.e. # of users, # of employees, # of CPU's, revenue, amongst others).

This is an opportunity for you to work with the respective supplier to right-size your investment, and possibly re-configure the license schematic to either derive more value, or to create excess capacity that did not previously exist, such that opportunity for savings can be realized.

## 8. IT SOFTWARE ASSET MANAGEMENT

An effective Software Asset Management (“SAM”) does not have to be a large scale, high cost multi-year project. A SAM program can be as simple and low-cost as a few policy and procedure changes, implemented with existing staff and resources. NET(net) has found that many larger IT organizations already have software such as Microsoft’s System Center family (formerly SMS and MOM), Novell ZEN Works, or Symantec / Altiris (etc). Even without one of these tools in place, organizations can quickly gain substantial cost saving from making use of appropriate tools, policy and practices:

- Implement a company-wide policy that no software is to be loaded on any company equipment, by any means including “free” internet downloads, without prior IT approval. This includes software for internal IT use such as server builds, test / dev systems, and evaluation software.
- Control physical access to CDs and code repositories. If electronic monitoring tools are in use, monitor and limit download activity.
- Build in control points so that software can only be loaded by authorized personnel, and only after licensing has been verified.
- Work with software suppliers and resellers to arrive at a current state summary of license entitlements for the key suppliers in use. Hint: don’t ask your suppliers to audit you; simply ask for a statement of your current licensing entitlements.
- Remember to harvest licenses from retired hardware and re-allocate licenses among departments / divisions (as permitted by your license agreements).

Perform an internal count of software installed, and usage patterns. This effort is likely not feasible without good electronic tools, and many enterprises have tools which claim to suit this purpose but in practice are difficult to use or unreliable. NET(net) recommends that many enterprises would benefit from hiring a carefully selected and contractually bound third party service provider perform this internal usage audit. Investments for this type of service can range from “free, with strings attached” to approaching \$100 per PC. Keep in mind that



someone with subject matter expertise must interpret the raw results of the audit and compare to licensing rules and entitlements. Do not allow your software suppliers or resellers to perform that service.

Typically an enterprise-wide self-audit will identify a mixture of over and under-licensing. To some degree the under-licensing can be mitigated by uninstalling software, retiring unused hardware, and re-allocating unused licenses. Evaluate the over-licensed scenarios for opportunities for immediate cash savings, or to re-negotiate contracts for more favorable terms. In some cases, excess licenses can be sold to other enterprises. Any remaining under-licensed situations must be resolved quickly, since they represent an identified legal risk to the enterprise.

In NET(net)'s experience, efforts of this nature return a strong positive ROI in less than 12 months. The bulk of ROI comes from cost reductions from over-licensed situations. The primary cost drivers are internal staff time allocation, external service provider fees, and license fees to remedy any under-licensed situations.

## 9. WEB CONFERENCING

Video conferencing has been touted as the killer application to reduce business travel costs for years. However, it has never quite caught on because of the expense, complexity and quality of this remote conferencing technology. This is now changing with a new paradigm in virtual conferencing that combines video and audio conferencing with web conferencing technologies such as document presentation, chat, application sharing and whiteboarding.

It's true that all of this technology has been around for some time, but implementation from suppliers such as Adobe (Acrobat Connect), Cisco (Webex), and Microsoft (Live Meeting) are more elegant, affordable, and easier to use. However, good technology is not enough without thoughtful execution. The real return on investment, not just in reducing travel expenses, but in creating more effective communication with employees, suppliers and customers, is in creating a truly collaborative, engaging and interactive web conferencing experience wherever the participant might be. This takes a deliberative effort to create an interesting and effective virtual world in which to conduct a meeting; allowing for all the activities that typically take place in a meeting or presentation: taking questions, side-bar conversations, demonstrations, gathering in meeting "rooms", and creative uses of multi-media technologies. It's the same deliberation you might take to plan an offsite meeting at a fancy hotel to present to the stockholders or conduct sales leadership training or perform customer training—at much less expense.

Using the web conferencing technology at hand today, your business can create an excellent and, arguably, better meeting or conferencing experience at times than with a traditional setting where everyone commutes to a single location. Of course, it's not a substitute for those times when human contact is important, but there are likely many examples where needless travel expenses can be reduced by using web conferencing technologies with a tangible benefit to the bottom line.

## 10. PROFESSIONAL PROCUREMENT SERVICES

Many companies during difficult economic times find it difficult to provide the high level of support that IT organizations require from company procurement departments. A decrease in support levels can cause unnecessary increases in costs. Consideration should be given to alternate options to support IT procurement needs.



There are third party services available that will perform these functions and not only provide a high level of service but also bring considerable knowledge and intelligence to the table in supporting your procurement needs. Depending on the services chosen and fee structure, some companies have been able to quickly recover costs of professional services in a very short time.

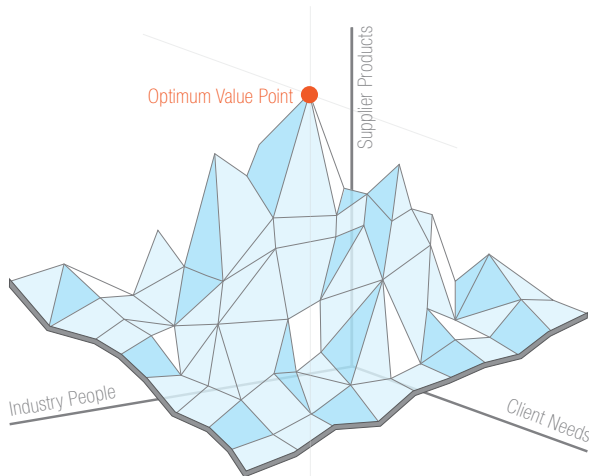
Consider looking at the costs and services of third party procurement services as another way of getting a quick return on your investments.

## Bottom Line: Putting It Into Practice

During tough times the focus is almost always on cutting cost. We suggest along with cost cutting, consider looking at things a bit different and consider these investing ideas mentioned above and the level of value you are achieving. There is no doubt that savings opportunities exist and value can be improved. If you would like more information on how NET(net) can assist you in gaining increased value, contact us at [info@netnetweb.com](mailto:info@netnetweb.com).

### OPTIMUM VALUE POINT

Organizations would benefit greatly from a 360° perspective to determine the Optimum Value Point of their IT investments.



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NET(net) has worked with more than 1,500 clients around the world in virtually every industry, professionally managing more than 15,000 engagements with over 250 different technology suppliers. As a direct result of our proprietary IT optimization process, we have an industry leading track record of exceptional performance, helping clients average savings in excess of 33%, capturing more than \$50B of incremental value since 2002.

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