Managed Hosting and the Shift in IT

A White Paper by John Engates, Rackspace CTO

Managed Hosting and the Shift in IT

The rise of managed hosting and the cloud have sparked much speculation among IT professionals. Do these help or hurt IT job prospects? Are IT departments in danger of being shut down? How can IT cope with these new trends?

It's an emotional debate, with no firm statistics to settle it. For example, figures from the U.S. Bureau of Labor Statistics do show a 10-year decline in full-time employees in the "information" and "data processing" sectors, but these numbers are not granular enough to answer these questions.[1]

A recent survey by UK IT placement firm, CW Jobs, was more positive. After querying 1,300 IT pros, this study concluded, "More IT jobs are likely to be created as a result of the rise of cloud computing services such as managed hosting... 75% think that cloud computing skills will make them more employable."[2]

Whatever the exact stats, everyone agrees that IT is going through a shakeup due to the recession, the cloud, and outsourcing. How can a CIO deal with these changes?

This white paper proposes three steps: First, acknowledge the need for change. Next, answer these two provocative questions posed by The Standish Group. "Are you working on the right things, and are you doing them in the right way?"[3]

STEP 1: ACKNOWLEDGE THE NEED FOR CHANGE

It's no secret the economy has gone global, business moves faster than ever, and almost every company is facing new competitors.

"Most industries are in a state of profound change, where businesses are having to accomplish new levels of productivity and sources of revenue simply to survive, let alone grow... Chances are someone else in your industry is vying to deliver what you do at lower cost."[4]

When the world changes; IT must change with it. That means CIOs must adapt to the realities of the post-recession economy, including the increasing popularity of managed hosting and the cloud.

CIO magazine says that executive recruiters are now looking for "visionary IT leaders who can partner with the front office, are focused on external customers, speak the language of business, and can use data to drive revenue or uncover new business opportunities."[5]

Are you ready to acknowledge the need for change and do whatever it takes to deal with it?

STEP 2: MAKE SURE IT IS WORKING ON THE RIGHT THINGS

No IT team can do everything that everyone asks. Yet IT is still doing many maintenance tasks that don't add much value to the company, like racking or patching servers. If you're still running your own datacenter, you know managing multiple vendor relationships eats up hours and returns little value.

The truth is, too much IT is done for the sake of IT, not for the sake of the business, especially the many routine chores that amount to nothing more than "keeping the lights on." Most executives agree: To get better results, CIOs must focus more on strategic innovation and less on routine maintenance.

TURN AROUND YOUR 80-20

The Pareto Principle observes that 80% of results are often generated from only 20% of efforts. The 80-20 rule applies to many IT departments: Many devote only a small fraction of their efforts to strategic new projects.

"Many large organizations currently devote around 70 to 75% of their IT budget to managing their existing infrastructure, leaving little room for innovation that can bring value to the business," noted one HP executive.[6]

To generate real results, CIOs must use the 80-20 rule to change their priorities; in other words, flip from 80% maintenance to 80% innovation.

STRATEGIC PROJECTS TO CONSIDER

Major cost-cutting from operations helped companies survive the recession. Now CEOs want to see imaginative plans to re-engineer inefficient processes for ongoing savings.

According to a CIO briefing from Gartner, CEOs today want projects that generate cash, create new efficiencies, avoid new taxes, and provide long-term sustainability. More specifically, Gartner says, "the majority of CIOs should add e-commerce, e-service, social marketing, smartphone, or location-based innovations."

Other popular strategic projects are virtualization and business intelligence. Every one of these projects can be achieved faster and at lower cost through managed hosting and the cloud than through in-house development and deployment.

Gartner goes on to suggest a radical strategy. "CIOs should target at least one major business process to be revolutionized or obliterated in 2011 or 2012... One example would be eradicating paper statements to customers."[7]

Just because you've always done something doesn't mean you always will.

STEP 3: MAKE SURE IT IS DOING THINGS THE RIGHT WAY

The mantra "do more with less" still echoes in every boardroom. In fact, The Standish Group estimates that the average IT team is asked to reduce costs by 10% every year. To do this, IT has to scrutinize every line in its budget and confirm that it's still cost-effective.[8]

Fortunately, IT managers can use managed hosting and the cloud to achieve both ends of the equation: To slim down their budgets by outsourcing routine chores, and to get quick results from strategic new projects. What's more, every CFO prefers to see an operating expense for services rather than a capital expense for hardware, which is a drag on corporate balance sheets... so the CFO will more likely be on IT's side for these proposals.

Beyond the CFO, other executives hear about the cloud every day. Line-of-business managers may go behind IT's back to deal with SaaS providers. End users want an experience more like Facebook and less like some client/server application from the 1990s.

All these pressures are hard to satisfy without moving to cloud computing or managed hosting. That doesn't have to mean losing control. While SaaS or cloud computing provides a quick, easy path to new apps, over time the CIO needs to take those under his wing to manage and integrate them properly.

APPS TO CONSIDER HOSTING

"There are some things that are core to the business that you might want to keep inside," notes one CTO. "But there are plenty of other apps that make sense to outsource, so you owe it to yourself as a leader to evaluate different options."[9]

You can use hosting or cloud computing in bite sized chunks; it's not an all-or-nothing decision. Here are some areas to consider for managed hosting:
- External-facing apps like websites, portals, and e-commerce
- E-mail or collaboration tools that people access from different locations
- A new or upgraded app for marketing, HR, or finance

If you're running out of datacenter space, needing to expand capacity, or launching new apps, these are ideal times to look at managed hosting.

"Organizations across the globe have cut millions of dollars from their IT budgets by closing and consolidating data centers, reducing servers, and centrally controlling operations," says The Standish Group.[10] Your enterprise could do the same.

BE PREPARED TO REDEPLOY YOUR PEOPLE

Most IT managers want to protect their people and preserve their jobs. However, not everyone likes doing routine maintenance. As IT shifts to doing more strategic projects in a more innovative way, people's jobs must shift accordingly.

Here are some tactics IT managers can use to retain staff:
- Shift people into new roles, such as training or project management
- "Embed" people in other departments as business analysts or IT evangelists
- Assign people to be liaisons between internal teams and new service providers
- Re-train a select few as architects
- Help proficient developers and sys admins add to desirable skills

As for anyone who resists the transition to more strategic responsibilities, wouldn't your team be better off without them?

"The IT department is far from dead," said "Does IT Matter?" author Nick Carr in a recent forum. "We're going to see a great deal of disruption in the IT job market over the coming years. But the good news is that IT is becoming more, not less, important to the global economy, and that means if you have the right set of skills you're likely to have rich opportunities."[11]

CONCLUSIONS

Managed hosting and the cloud are shifting IT jobs from routine maintenance to a strategic focus on delivering value to the business. Despite some dire predictions, executives realize that IT is a vital element of any successful business. The real question is not how to downsize IT, but how to improve IT strategy, performance, and ROI. Managed hosting and the cloud can help CIOs do more with less and contribute to the strategic success of the enterprise.

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If you'd like to hear from the author, please contact our Enterprise team and we will happily schedule some time to discuss this topic further with you.

Philip Bankey
210.312.1779
philip.bankey@rackspace.com

Katie Schmidt
210.312.1788
katie.schmidt@rackspace.com

SOURCES

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