

The Strategic Benefits of Consumption Based Technology Models

A strategic business technology perspective

In the past, business IT was merely a business support function. Technology leaders were internally focused and defined “customers” as internal departments and users. The classical mission of a technology leader was to manage infrastructure, systems, and applications. IT leaders were caretakers, not innovators.

But, as digital technology advances and digital customers mature, IT can no longer be a supporting player. CIOs are accepting a new role, as a critical and direct contributor to business outcomes, focused on business needs over transient technologies.

We have reached a complex and transformative stage in digital business as the pace of innovation reaches hyper speed. Technology purchased today will be two or three generations out of date by the time their book value is fully depreciated. Yet, that same technology is expected to contend with accelerating, excessive demands.

New business models offer new options.

Background

Before the advent of the electric utility grid, early electricity users owned, operated and maintained all the tools and hardware themselves. For those that could afford it, the cost of ownership was very high, distribution distance was low, and a seemingly random set of standards powered new uses from lighting to industrial motors.

However, the innovation of early grids rapidly led to new innovations in electricity distribution and widespread adoption, enabling customers to draw from the grid only when they needed electricity. Of course, this evolution did not occur without the active resistance of local power suppliers, who had enjoyed a healthy ROI selling into an increasingly dependent and closed market.

Although paying for electricity, as a consumption-based service seems obvious to us now, the impact and benefits of metered on-demand electricity were not always universally accepted.

The future of technology consumption is beginning to look a lot like the early days of utilities, when the answers weren't so clear and the players weren't all acting in the market's best interests.

The shifting business role of IT

As technology as a service and open architectures mature, the role of IT is metamorphosing from technology caretaker to orchestrator. IDC predicts that by 2020, 80 percent of software and hardware purchasing by enterprises will be based on subscription, and that by 2018, 65% of all companies' assets will be off site while a third of their IT staff will be employees of third party service providers. This doesn't mean IT professionals will no longer be required, but it does highlight how the role of IT is evolving into that of a hybrid "business technologist."

Today's enterprises find themselves running on two simultaneous tracks: the analog past and the digital present. The past is where large systems owned and run by the enterprise support huge volumes of transactions and securely store massive amounts of data. The present is where on-demand resources are there when you need them, freeing the enterprise from the burdens of ownership and creating a more nimble and responsive organization.

Meanwhile, the future is where competitive digital enterprises need to go. That's where a seamless blend of the two contrasting approaches achieves an ideal balance of flexibility and stability, of availability and security, of agility and continuity. It's a place where the notion of "hybrid IT" will have taken hold, enabling companies to make themselves better, stronger and faster.

Consume vs. Buy

Technology business models are evolving for vendors and customers alike.

Technology has long been a capital expense investment with a business value that often resembles a bell-curve over the period of functional life. As new technologies are introduced in a CAPEX model, complexity and management costs also increase, affecting ITs total cost of operation. In contrast, consumption models are scalable, outcome focused and shift the burden of managing complexity to the vendor.

But the strategic consideration of consumption models and “the cloud” is not just about price. Price and cost of ownership are not the same as any economist will explain, and business value considers factors beyond direct ownership costs. While the acquisition cost of capital is tangible, and operational costs can be estimated, opportunity costs are often overlooked in cost analysis of technology capital investment.



Variable industries like education and hospitality might be well suited for pay-per-use arrangements that allow them to dial IT assets up and down based on use and occupancy. What model is right for what company is a question that must be answered on a case-by-case basis.

It is a mistake in today’s business environment to underestimate the importance of adapting quickly to change. New opportunities and threats emerge quickly and new cost models can elastically align to revenue and consumption cycles.

Economies of scale, expertise at scale

One of the major advantages of cloud and consumption models is scale and elasticity. As infrastructure becomes commoditized, consumption models highlight vendor differentiation through services and expertise, and expertise at scale is another important benefit in a vendor-customer consumption relationship. The ability to turn capacity, expertise and features up and down individually or en masse is immediate and powerful.

There is a relevant distinction between cloud, consumption, and outcome based models. It is often overlooked, or at least under-defined. Each is an alternative to the traditional B2B CAPEX model of “make, sell, ship,” moving the relationship between vendor and customer towards a partnership based on mutual success.

CORE DIFFERENTIATORS

	Free capital CAPEX for core business	Variable bill Flexible cost base	Business agility Rapid scalability	Risk sharing True partnership
Pay per outcome (aligned to business)	●	●	●	●
Pay per use (consumption)	●	●	●	●
Pay per month (lease)	●	●	●	●
Pay upfront (capital)	●	●	●	●

The economies of scale apply at many levels beyond price in a consumption model. Risk is minimized, the ability for technology teams to focus on innovation for the core business increases, and the accessibility of technical expertise can be infinitely greater than in an “own and operate” model. Ultimately, your business, your market and the environment in which you operate frame the right business technology decision.

The future of business technology

Consumption models allow for the elastic availability and cost of technology to be both granular and a business-driven operational expense. The result is an improved balance sheet, increased focus on the core business, and increased liquidity of capital for business development.

New models providing simple, immediate access to technology resources is an important digital business evolution. While both immediate and flexible, often the greatest value is the partnership between vendor and customer, and ultimately defines success based on mutual business objectives and outcomes.

Agile, consumption-based IT models achieve balance between IT and the business. When IT consumption patterns match the business activity they are designed to support, strategic alignment results, eliminating waste and inefficiency.

Alcatel-Lucent Enterprise’s strategy culminates in a mission to share the technology risk with our customers and partners, committed to our customers desire to purchase technology for business reasons, not technology reasons. Our vision is to ultimately change the way customers buy technology.