

## **Predicts 2003: Gartner View for Buyers of IT and IT Services**

**Mark Nicolett, Diane Morello, Lorrie Scardino**

Buyers of IT and IT services will need to tread carefully in 2003 as they confront resource constraints and a risky vendor landscape.

## ANALYSIS

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During 2003, IT buyers — whether they are buying tools, applications, services or infrastructure — will be under increasing pressure to demonstrate lasting business value from their investments in IT and services. Memories of year 2000, the dot-com meltdown and disappointing returns on past initiatives, such as e-commerce, supply chain and enterprise resource planning, have reduced IT's credibility as a strategic investment. Whether enterprises pursue an external or internal sourcing strategy, the challenge during 2003 will be to cope with the rigorous demands while preserving future flexibility and resilience.

### Cost Actions and Reactions

**Prediction: Enterprises that focus on short-term cost reduction will sacrifice long-term business agility.**

The loss of IT credibility, combined with a weak economy, have created an overwhelming and tactical focus on IT cost reduction. IT staffing, IT infrastructure and the application portfolio are under scrutiny. Properly executed asset management and consolidation projects can help an enterprise create an agile infrastructure, reduce software and support costs, drive up utilization levels on current systems, and avoid further expenditures on hardware and software.

Cost reduction and economies of scale are not automatic. They require project work to standardize and process-enable a consolidated IT infrastructure. Enterprises that pursue a strategy of consolidation without redesign — and become overzealous regarding staff reduction — will be left with higher long-term IT costs and a brittle IT environment. They will experience a deterioration in service, and that deterioration will damage their ability to execute IT projects that will be needed to move the business forward when the economy improves.

*Recommendation:* Enterprises must reduce costs in a way that preserves the ability to support and sustain a high rate of change. Doing so requires an approach to IT infrastructure deployment and operations that is grounded in standards and process, and also requires adequate staffing to execute various asset management, standardization and process implementation projects.

### A Changing Technology and Vendor Landscape

**Prediction: Business value from IT will require vendor management and targeted investment in technology.**

During 2003, buyers of IT software, infrastructure and services will need to navigate a risky landscape of stressed vendors, while preparing for major changes in business processing. To stay competitive during the next five years, enterprises will need to interact seamlessly with the services, information, processes and knowledge bases of their suppliers, partners and customers — in real time. Externally focused business processes will require service-oriented application architectures, new approaches to application development and a highly available and adaptive IT infrastructure. Web services, portals, policy-based computing, shared server and storage resources, and network connectivity (Internet, converged and wireless) are some of the building-block technologies that will be required.

### Vendor Management

Buying strategies for products and services will need to change to exploit diverging pricing trends and to mitigate risk in a drastically changing vendor landscape. In 2003, the overall trend of declining prices and steep discounts will continue in some markets. In other markets, this trend will reverse, bringing stabilized or modestly increasing prices. Vendor viability issues will intensify

in some market segments, and there will be an acceleration of the overall trend toward market consolidation.

*Recommendation:* To obtain the best prices, buyers will need to time purchases based on the differing pricing trends of specific technology and service market segments. Risk mitigation will require a focus on vendor evaluation, due diligence and smart negotiation. Contracts should include provisions for changes in ownership and lapses in service.

### **Service-Oriented Application Architectures**

Emerging service-oriented application architectures will radically reshape the roles and delivery models of application development organizations, tool vendors, system integrators and outsourcers.

*Recommendation:* In 2003, enterprises should begin piloting technology investments that enable service-oriented applications to gain experience with new engineering processes, tools, middleware and design principles. Enterprises need to prepare for a shift in the service-oriented development of applications (SODA) market. The most-likely SODA leaders will be the major application platform suite vendors, while most other vendors will face major near-term challenges.

### **Business Applications**

During 2003, enterprises will look past the unrealistic expectations of customer relationship management, enterprise resource planning (ERP) II and supply chain management and will focus on ways to wring business value from substantial past investments.

*Recommendation:* In 2003, enterprises should focus on improving the integration of business applications with other internal systems to improve business value. Enterprises also need to develop better "outward-facing" integration with the systems of subsidiaries and partner organizations.

### **Security**

Security remains a critical concern for enterprises, and it is becoming more complex because of Web services deployment, more-sophisticated threats, and increasing audit and regulatory requirements. 2003 marks the early phases of a radical change in the way that perimeter protection, intrusions and vulnerabilities are managed. Emerging security platforms will integrate firewall, intrusion detection and vulnerability assessment functions in a way that provides real-time application-level security monitoring and intrusion prevention.

*Recommendation:* Investigate the deployment of IT security management technologies and managed security services to reduce labor costs, and to improve threat management capabilities while security platforms and intrusion prevention technologies mature.

### **Servers and Storage**

The aggressive server pricing reductions of 2002 have set the stage for more-stable 2003 pricing. This will not stop enterprises from wringing more costs out. A growing number of IS organizations are broadening the use of Linux on Intel platforms as a means of cost reduction, which will increase pricing pressure on reduced instruction set computer (RISC) vendors. Storage area network adoption will accelerate as the incremental cost premium of shared storage technology declines.

*Recommendation:* In 2003, enterprises should look for opportunities to expand the use of Linux in the enterprise as a lower-cost alternative to RISC and Windows, and also as a pricing lever against incumbent RISC vendors. Be skeptical of vendor cost-saving claims with respect to large-scale server hardware consolidation technologies. Enterprises should carefully evaluate the effect

of software vendor pricing policies, because those policies frequently counteract the savings that are accrued from shared hardware efficiencies. Consider the targeted deployment of emerging provisioning technologies to drive down short-term infrastructure deployment and management costs while positioning for future policy-based computing initiatives.

## **Networking**

During 2003, enterprise buying strategies need to focus on protection from a telecom environment in which vendor viability is a major concern. The multiyear trend of network service pricing declines will reverse in 2003 in some geographies and market segments.

*Recommendation:* In 2003, enterprises should pursue a multivendor network service provider strategy to obtain the required set of services and to mitigate vendor viability risks. Enterprises need to pursue a pricing lock-in strategy that varies according to the pricing trends of specific geographies and market segments. Limit converged voice and data network implementations to tactical and opportunistic deployments.

## **Workforce Missteps**

### **Prediction: Enterprises will make clumsy workforce decisions that weaken their competitive stance.**

Single-minded enterprise focus on cost containment and return on investment can take a toll on worker morale. Employees carry heavy workloads, lack the time and tools to adapt to change, and lose touch with needed skills. Continued pressure in 2003 to contain and reduce costs will cause many enterprises to freeze hiring, learning, development and workplace programs that would keep worker skills and spirits in good condition.

To fill the gaps between what they need and what employees can provide, many enterprises will turn to outsourcing vendors in developing markets. However, without a significant infusion of new business investment funds in the primary demand markets of Europe and North America, the movement of work offshore will displace many jobs in IT and support roles (for example, call centers, human resources and recruiting). No matter where they are located, some executives will fail to envision which IT skills, knowledge or processes will fuel tomorrow's innovation. As a result, they will unwittingly shed skills and knowledge today that will weaken their competitive stance when new business investment increases tomorrow.

*Recommendation:* To avoid weakening their competitive abilities, enterprises should identify which knowledge, roles and processes will drive critical business objectives and define what to retain, surrender and take on as a result of that analysis. Negotiate new expectations around enterprise demand for IT and the required funding and people to satisfy that demand. Redesign workloads with the goal of reasonable yet aggressive work demands, schedule flexibility and sane hours. Introduce e-learning programs into the business to deliver education, training and employee development quickly and economically.

## **Service Delivery Models**

### **Prediction: Enterprises will seriously investigate new service delivery models.**

In 2003, most enterprises and IT buying centers will continue to deliver services through a mix of internal resources and external resources. Some will increase their use of outsourcing as a way to reduce near-term costs, refocus on critical competencies and improve their competitive standing. The success of service-delivery decisions will depend on the soundness of the enterprise sourcing strategy. When designed well, a sourcing strategy lays out a road map for making key decisions about service delivery options, the relative maturity of those options, and the opportunities and risks that are associated with those options.

Enterprises should use 2003 to investigate the service delivery options that are emerging in the external market, including business process outsourcing, application service providers, offshore outsourcing and IT utility services. All four of those models will gain traction among IT buying audiences. Finally, as enterprises continue to pursue IT consolidation, many IS organizations will reconfigure themselves as competitive service providers, adopting the internal service company model or the shared-services model, both of which will heat up in 2003.

*Recommendation:* IT buying centers — whether business units, functional departments or IS organizations — must actively investigate options for delivering IT and business process services. When appropriate, they should engage neutral parties to help them understand and evaluate the choices, and size up the right combination of sources and models for their near-term and long-term needs. They must follow up on that investigation with action plans that are based on a sound sourcing strategy.

Enterprises need to balance the tactical need for cost reduction with the strategic need to position for impending and drastic changes in business processing. In 2003, enterprises must begin to build the IT capabilities that will be needed when the economy improves, in a way that consumes a minimal amount of scarce resources. During the next five years, enterprises that go too far in 2003 with tactical cost cutting will trail competitors that were able to achieve the proper balance between tactical and strategic needs during this difficult period.

### **Gartner Predicts 2003 Spotlights**

- "Predicts 2003: Application Development"
- "Predicts 2003: Application Integration and Middleware"
- "Predicts 2003: Business Applications"
- "Predicts 2003: Business Management of IT"
- "Predicts 2003: Enterprise Management"
- "Predicts 2003: Enterprise Networking"
- "Predicts 2003: Hardware & Systems/Hardware Platforms"
- "Predicts 2003: Internet Platforms and Web Services"
- "Predicts 2003: Sourcing"
- "Predicts 2003: Wireless and Mobile"
- "Predicts 2003: Workforce & Workplace"

### **REGIONAL HEADQUARTERS**

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Corporate Headquarters  
56 Top Gallant Road  
Stamford, CT 06902-7700  
U.S.A.  
+1 203 964 0096

European Headquarters  
Tamesis  
The Glanty  
Egham  
Surrey, TW20 9AW  
UNITED KINGDOM  
+44 1784 431611

Asia/Pacific Headquarters  
Level 7, 40 Miller Street  
North Sydney  
New South Wales 2060  
AUSTRALIA  
+61 2 9459 4600

Latin America Headquarters  
Av. das Nações Unidas 12.551  
9 andar—WTC  
04578-903 São Paulo SP  
BRAZIL  
+55 11 3443 1509