



A Strategic White Paper for Enterprise Decision-Makers

***Reduce Costs, Minimize Risk and
Improve Network Performance with
Managed Services***

SIEMENS

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Executive Summary

Enterprises are becoming increasingly dependent on corporate networks to conduct their businesses, especially as they rely more heavily on global resources and remote workers.

While the networking technology that enables global supply chains and remote computing has become more prevalent, it has also become more complex to deploy and administer. The complexity of information technology (IT) and communications networks can often force in-house support staff to spend three-quarters of their time reacting to problems rather than developing new functionality or business applications.

As enterprises contend with escalating budgetary pressures in the face of intensifying competition, they must adopt new, more economical and effective strategies and methods to optimize the performance and business value of their IT and networks.

Managed services has become an attractive alternative for a growing proportion of enterprises that want to gain a competitive advantage from their IT/network operations without dedicating a disproportionate amount of their human resources and capital toward acquiring and administering technology infrastructure.

THINKstrategies defines managed services as a set of packaged services offered by a variety of service providers that assume responsibility for specific aspects of a customer's IT or network operations on an ongoing basis.

As we will see in this white paper, managed services are a form of 'shared services' and an 'out-tasking' alternative to in-house management and traditional outsourcing. Rather than allow an outsourcer to assume full responsibility for an enterprise's entire IT or network operations, managed services are aimed at solving specific ongoing management challenges without requiring the enterprise to transfer their assets, staff and control of their operations for an extended period of time to the outsourcer.

Managed services have become one of the fastest growing segments of the IT/networking industry. There is a rapidly expanding array of voice managed services supporting converged environments including voice server and network monitoring, managed application, desktop, messaging, networking, security, storage and other services available from a variety of managed service providers (MSPs), including established equipment vendors.

This white paper will show how enterprises can leverage managed services to reduce the costs and increase the reliability of their IT/network operations. It will also illustrate how managed services permit enterprises to redeploy their limited internal resources to focus on their core competencies rather than continuing to be distracted by the daily problems associated with IT and corporate network operations.

Key Market Drivers and Enterprise Challenges

Enterprises in almost every sector are facing five major challenges:

- Intensifying Price Competition
- Declining Customer Loyalty
- Expanding Globalization
- Escalating Operating Costs
- Increasing Technology Complexity

The proliferation of goods and services created commodity markets in almost every sector. Without clearly differentiated products and services, enterprises are having an increasingly difficult time competing on the value of their solutions. This environment has created intense price competition in many commercial segments. This situation has also enabled customers to easily abandon their suppliers. As the range of comparable substitute products and services expands, the level of customer loyalty has dropped.

In response to these business pressures, many enterprises have sought less expensive offshore resources to reduce their costs of goods and services. Yet, building global supply chains creates its own set of capital costs and operating complexities. New network infrastructures are required to support new servers and systems which in turn permit new business applications to be developed and deployed.

In many enterprises, the IT and network staff that should play an integral role in developing leading edge applications are preoccupied responding to system failures or other performance issues. Gartner and other research firms estimate that internal IT/network staffs can spend 70-80% of their time reacting to problems rather than proactively contributing to new business initiatives or supporting more strategic functions.

A history of failed enterprise application projects and mega-outsourcing deals, along with growing frustrations with under-utilized and inflexible legacy systems has made many enterprise executives and end-users disenchanted about the value of technology. This perception was captured by Nicholas Carr in his infamous 2003 Harvard Business Review article entitled "Why IT Does Matter" and follow-on book, "Does IT Matter?"

In both publications, Carr argues that enterprises should not continue to invest in building and supporting their own IT/network infrastructures because these assets have become commodities that do not create a competitive advantage. Instead, Carr suggests that enterprises should selectively outsource various infrastructure support functions and redirect their limited resources toward other activities that can generate a greater economic return to the organization and better differentiate its goods and services in the eyes of its customers.

THINKstrategies refers to this method of selectively outsourcing specific IT/network management tasks as "out-tasking". This approach is especially timely because many enterprises need additional resources to meet the escalating performance expectations of enterprise executives, end-users, consumers and strategic partners.

The Managed Services Alternative

Managed services are a form of selective outsourcing, or “out-tasking” in which an enterprise selects a managed service provider (MSP) to assume responsibility for delivering a specific technical function or capability.

For example, in the area of Voice Managed Services, selective out-tasking functions may include having the MSP perform end-user assistance, incident and problem management, change management, release and configuration management, vendor management, and convergence monitoring.

Targeting these areas for an MSP to support have historically enabled companies to better utilize valuable internal staff; reduce maintenance, moves/adds/changes and sub-contractor costs; and improve network availability, performance, and overall quality of service.

Enterprises also benefit by leveraging the MSP’s proven management tools, infrastructure investments, multi-vendor skills, purchasing power and clearly defined operating methodologies, policies and procedures.

Managed services target desktops and networks, security and storage, messaging and virtual private networks (VPNs), and business continuity and disaster recovery. These services are typically sold on an annual subscription basis with a usage-based fee structure.

Managed services are not an entirely new phenomenon. They are an outgrowth of the facilities management and shared services business of the 1970s, corporate telecommunications services of the 1980s and hosted services of the 1990s.

Enterprises are increasingly adopting managed services because of frustration regarding the day-to-day chores of deploying and administering IT and network operations, and the poor track record of success of mega-outsourcing deals. Enterprise Management Associates (EMA) estimates that despite all the management tools organizations already in place, 80% of organizations don't know what systems they have or how to manage them. As a consequence, EMA believes most enterprises are not getting the full benefit from their management tools because they don't know how.

Gartner estimates poor hardware management alone increases the total cost of IT ownership 7-10% per year. Unstable or insecure IT and network operations can cause far greater business and productivity costs due to system downtime or poor performance.

Yet, Gartner, Deloitte Consulting and others have reported that more than half of major outsourcing deals fail to meet their original business objectives and are either substantially restructured or terminated. Given this dismal record and the significant risks associated with transferring an entire IT or network operation and staff to an outsourcer, it is no wonder that enterprises have turned to managed services as a less risky alternative.

In essence, managed services enable enterprises to make a ‘build’ versus ‘buy’ decision regarding each IT or network function or task they must perform. Rather than transfer the ownership and relinquish the control of their entire operations in a traditional outsourcing arrangement, managed services permits enterprises to contract or out-task specific functions or tasks for a shorter period to ensure the success of the arrangement.

As a result, the managed services market has become one of the fastest growing segments of the IT/network industry, expanding at a compound annual growth rate (CAGR) of more than 17% through 2007 according to IDC.

Managed Services Benefits and Opportunities

THINKstrategies believes enterprises can benefit from managed services in the following ways:

- Refocusing on Core Businesses
- Offloading Specific IT/Network Functions
- Adding New IT/Network Functionality
- Accelerating IT/Network Deployments
- Leveraging Industry Best Practices
- Augmenting Internal Skills
- Increasing IT/Application Performance

At a time when corporate budgets continue to be tight and controlling costs is pivotal, nearly every organization is looking for ways to increase their operating effectiveness and efficiency. THINKstrategies has found that managed services can produce 10-50% savings in day-to-day IT/network operations. It can also substantially improve IT/network reliability and performance levels.

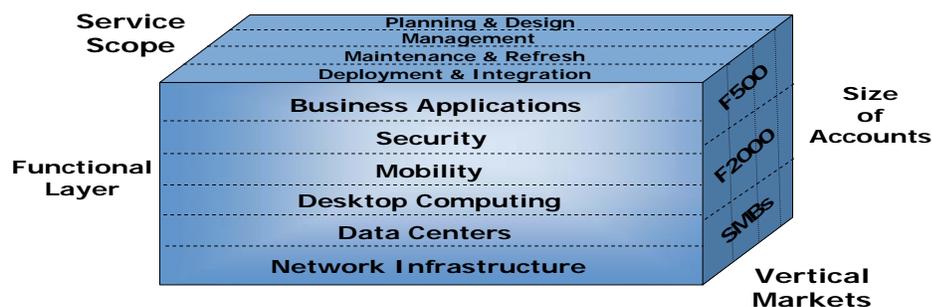
Managed services are also a good way to accelerate the rollout of new IT/network functionality. Managed services can deliver new functionality in a more systematic and automated fashion that also enables them to be continuously refreshed without disrupting the enterprises' business operations.

By assuming responsibility for the ongoing support of an enterprise's IT/network operations, managed services permit enterprises to redirect their limited internal resources toward more strategic development projects with greater corporate value.

An indication of the growing enterprise satisfaction with managed services is that more than eighty percent (82.9%) of managed service users renew their contracts according to a recent benchmark study conducted by THINKstrategies in conjunction with the MSPAlliance. The study also found that 67.8% of managed service users acquire add-on services.

And, as the managed services market gains greater enterprise acceptance it is also generating a broader array of service offerings as illustrated in the figure below.

Expanding Array of Managed Services



Summary and Recommendations

Managed services have become attractive to enterprises because they can quickly reduce the costs of IT/network operations, increase operational performance levels and reduce the risks of infrastructure failures. Managed services also represent a more palatable alternative to traditional wholesale outsourcing for a growing proportion of enterprises because managed services can be purchased on an incremental basis to address a variety of specific IT and network requirements.

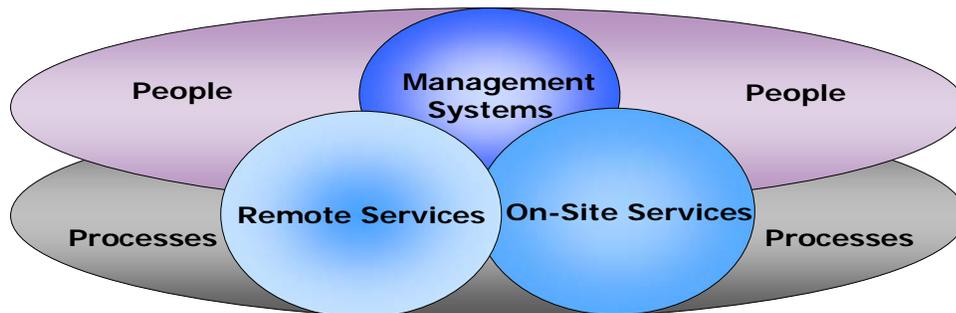
Yet, as managed services become more popular this market is also attracting a wider array of MSPs including hardware and software vendors, telecommunications carriers, systems integrators and value-added resellers. This has created a challenge for enterprise decision-makers who must select the right MSP to meet their specific technical and business requirements.

THINKstrategies believes enterprises should consider a number of factors when selecting a MSP. These include both the remote and on-site service capabilities of the service provider, as well as evaluating the people that support the managed services, and reviewing the policies and procedures that govern how the MSPs operate.

Enterprises should give special consideration to suppliers that they already utilize who know their existing technology and understand their business needs. This often means selecting the managed services offered by a vendor that is already among an enterprise's trusted suppliers.

Key Selection Criteria = The Right Managed Services Mix

A Combination of Products, People and Processes



For more information regarding Siemens Communications' HiPath Managed Service capabilities, visit <http://usa.siemens.com/enterprise>

About THINKstrategies, Inc.

THINKstrategies® is a strategic consulting services company formed specifically to address the unprecedented challenges facing IT managers, solutions providers, and investors today. Our mission is to help our clients re-THINK their corporate strategies, and redirect their limited resources to achieve their business objectives.

For more information regarding our unique services, visit www.thinkstrategies.com, or call us at 781-431-2690.