

April 10, 2015

HP Datacenter Care and Flexible Capacity: Easing the Data Center Management Burden

**Stratecast Analysis by
Karyn Price**



**Stratecast Perspectives and Insight
for Executives (SPIE)**

Volume 15, Number 14

HP Datacenter Care and Flexible Capacity: Easing the Data Center Management Burden

Introduction¹

Today's IT managers face enormous pressure and challenges in running their data centers. The business demands constant productivity increases and new services, while IT remains responsible for balancing budget and resource constraints. Conflicting demands often put IT between a rock and a hard place.

While cloud services offer some respite from infrastructure management challenges, most businesses are compelled to keep many workloads on premises, whether for performance or security reasons. This means they must optimize their own on-premises infrastructure in order to meet business demands. Many service providers have stepped up to help enterprises manage their on-premises data centers, including hardware vendors, managed and professional services providers, and even cloud service providers. However, few adequately address the need to efficiently manage on-premises—and often hybrid—environments while reducing capital expenditures. Enter HP.

HP provides infrastructure and support services that assist in effectively managing the on-premises data center. One such service, HP Datacenter Care, offers a suite of services, including operational support, infrastructure automation, environment integration and private cloud support for both enterprises and service providers. The most innovative service in the Datacenter Care portfolio is the HP Flexible Capacity component. HP Flexible Capacity offers enterprises a new way to procure and manage on-premises infrastructure with the flexibility and cost efficiencies of hosted cloud resources. The service also allows selected channel partners to retain the traditional commission structures that selling on-premises equipment entails, while enabling them to offer customers monthly billing for infrastructure resources.

In this SPIE, Stratecast explores HP's Datacenter Care service, with particular attention on the Flexible Capacity component. We examine the service, how it benefits both customers and channel partners, and why this offer can be a market disruptor.

Challenges in Managing the Enterprise Data Center

Enterprises today face increasing pressure to maximize every available on-premises resource in the data center. Capacity requirements often outpace availability, as both data and storage needs explode due to new services, applications and workloads. And as these new applications are updated to improve performance, even more capacity is required. This often leads to a capital-intensive, vastly heterogeneous environment, as enterprises add equipment to meet capacity demands. Often, the equipment added is from different vendors or uses different configurations—some physical, some

¹ In preparing this report, Stratecast|Frost & Sullivan conducted interviews with representatives of the following companies:

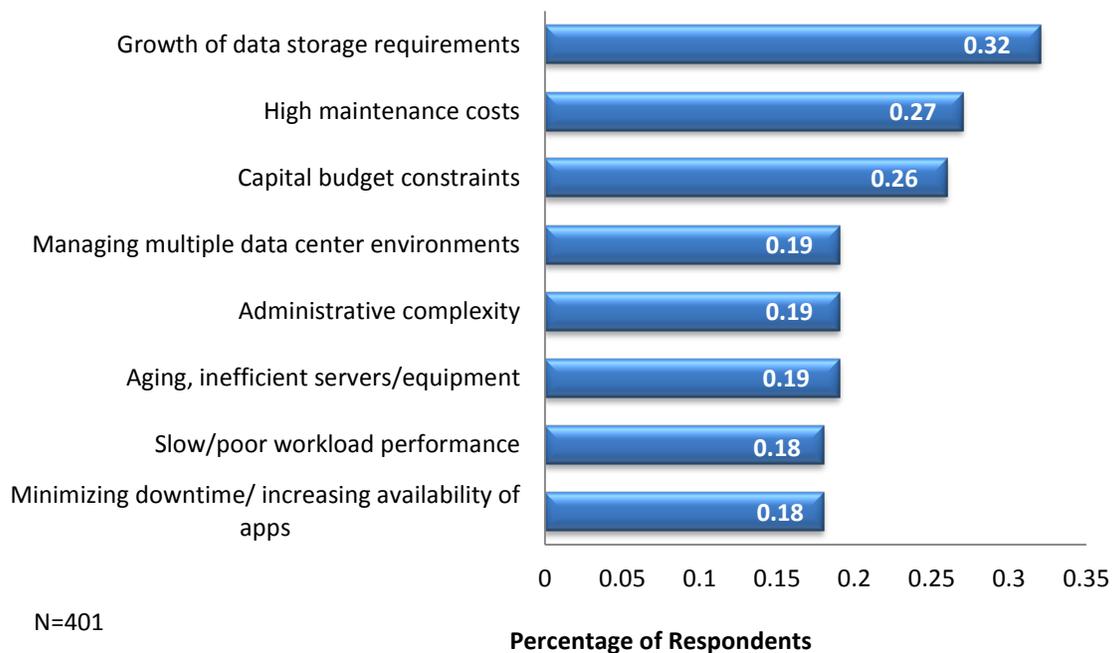
- HP – John Carter, Global Integrated Marketing Director; Barbara Christian, Campaign Strategy; and Don Randall, Worldwide Services Marketing – Datacenter Care and Cloud

Please note that the insights and opinions expressed in this assessment are those of Stratecast|Frost & Sullivan and have been developed through the Stratecast|Frost & Sullivan research and analysis process. These expressed insights and opinions do not necessarily reflect the views of the company executives interviewed.

virtualized, and some cloud-based. All of these are managed differently and separately, through different portals with different interfaces from different vendors. The result is a chaotic data center with unsustainable management and budget demands.

In a recent Frost & Sullivan survey, as shown in Exhibit 1, IT managers cite a variety of challenges that weigh heavily and impact their work in managing their data centers.

Exhibit 1: U.S. IT Decision Makers Cite a Variety of Challenges in Managing On-Premises Data Centers, 2014



Source: Frost & Sullivan

The need to easily scale existing infrastructure to accommodate times of peak usage or growth in applications or services instills additional complexity. How can the enterprise data center maintain enough capacity for times of peak usage without overspending for excess capacity that is not immediately used? According to HP, the need for a capacity cushion can cause overspending of up to 30% in the average enterprise data center.

The high cost of maintaining the data center, coupled with capital budget constraints that can limit the ability to replace aging infrastructure, leads many enterprises to seek out solutions such as public cloud computing. The consumption-based pricing, easy scalability, and provider-maintained equipment cures many common data center woes. And yet, cloud-based infrastructure as a service, or IaaS, is not a panacea for all that ails the data center. Workloads that require high security, have strict compliance rules, or simply aren't architected to work well in a cloud environment often remain in an on-premises data center. **Most IT leaders consider cloud an adjunct to the data center, not a replacement; and, as such, they must continue to effectively manage and secure such environments.** This leads to hybrid—and often heterogeneous—IT environments. Management and security of hybrid environments is yet another challenge for many data center managers. An effective response to these mounting challenges is critical.

In light of these challenges, many enterprises turn to outside help in managing their data center environments, leading to a rise in data center management services. For example, many providers that have responded with managed IT and data center offers do not meet the full breadth of enterprise demands. Some such services take the form of “break/fix” maintenance contracts. While many vendors will only provide services in conjunction with their own hardware, managed IT suppliers that charge a fixed fee, based on endpoints or components, have little incentive to optimize resource capacity utilization in a way that reduces the number of components. In addition, vendors that manage on-premises equipment and applications rarely offer easily scalable capacity similar to what is available in cloud-based environments. Finally, many on-premises equipment offers still require the same up-front capital outlay that is needed when the enterprise manages the equipment itself.

HP’s Response: Datacenter Care

In contrast, HP Datacenter Care provides a full suite of data center management services with one surprising twist: HP puts its own “skin in the game” to ensure that the data center is efficiently managed at optimal capacity.

At its core, HP Datacenter Care is a customizable, managed suite of services that helps IT to manage their heterogeneous, on-premises data centers. The offer enables customers to tailor the services they choose to the specific business outcomes they require. It is sold in a modular format, with components that can include:

- **Operational Support Services** – Supports around-the-clock, remote infrastructure monitoring and administrative services for the on-premises data center. Both HP and third-party equipment is able to be supported, with management tasks that can be offloaded to HP, including maintenance, upgrades, security, patching, and policy-based automation. HP can also assist with service strategy, design, deployment, automation, and maintenance.
- **Datacenter Care for Multi-Vendor Environments** – Consolidates vendor management and service delivery assurance into a single service agreement, delivered by HP. The service offers enterprises a single source for tier-one support, as well as single points of contact for both billing and service delivery.
- **Datacenter Care for Service Providers (SPs)** – Offers a single account contact and services to help maintain a complex environment that supports multiple end-user customers. HP can customize hardware and software support levels so that SPs can gain the support they need without paying for services they do not require. Also available is enhanced call handling, data privacy assistance, and an operational Spares Management service for parts at the customer site.
- **Datacenter Care for Cloud** – Helps enterprises manage hybrid IT environments, providing unified support for resources and workloads that run on a variety of infrastructures. In addition to cloud management, the offer includes automation integration and the most unique component of the entire Datacenter Care portfolio—HP’s Flexible Capacity offer.

HP Flexible Capacity

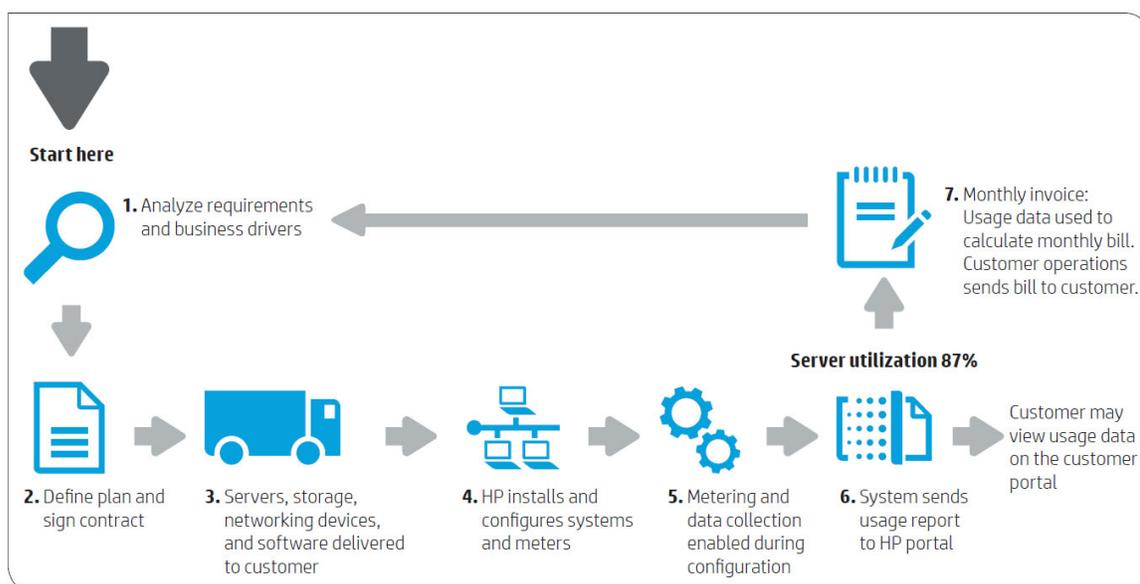
Flexible Capacity is built on Datacenter Care. The service offers on-premises infrastructure resources with cloud-like scalability and consumption-based pricing. Customers generally use Flexible Capacity resources to augment their existing data center infrastructure, especially for workloads that require scaling. Resources provided to the hybrid environment include:

- Servers
- Storage
- Networking
- On-premises software
- HP Helion Public Cloud services

At the start of a Flexible Capacity engagement, HP analyzes customers' current data center usage and future business requirements; and then tailors a contract to meet those needs, based on a minimum capacity commitment. Upon signing the contract, HP delivers servers, storage, networking devices and software to the customer's premises. HP service delivery managers install and configure the systems, along with metering software that tracks actual usage. Throughout each month, usage data is collected and sent to HP through a secure customer portal. Customers can access data usage in real-time, to monitor their own usage as well.

Pricing is customizable for each enterprise. Capacity can be billed per virtual machine (VM), or per server, storage, network, and software capacity. Enterprises pay only for the capacity that is actually used per month, subject to an agreed-upon monthly minimum that is outlined in the contract. HP's metering, which is delivered through a third-party application, tracks usage at a very granular level, down to the individual VM if configured to do so. After the monthly contractual minimum is met, HP bills customers monthly for any additional capacity that may have been used. Exhibit 2 illustrates the process through which the Flexible Capacity service is deployed and billed.

Exhibit 2: How HP Flexible Capacity Works



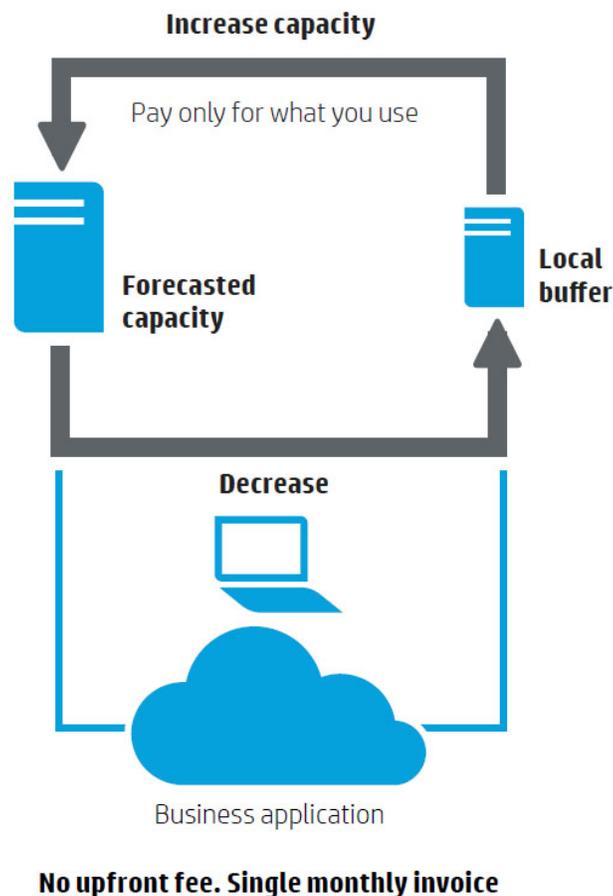
Source: HP

The Flexible Capacity Buffer

One of the most unique features of the HP Flexible Capacity offer is the on-premises buffer capacity that HP provides. The company places an agreed upon amount of local, on-premises buffer capacity to handle spikes in application traffic or growth requirements. Customers need not pay for this buffer capacity until such time as they need to use it; and HP agrees to replenish the buffer to maintain the agreed-upon level, should capacity requirements dictate. HP also meters capacity above the minimum agreement, and the customer is only billed for the amount used each month.

Depending upon the Flexible Capacity service level that the customer selects, HP can also allow customers to shrink capacity, as needed, based on business requirements. Exhibit 3 depicts the scalability of the Flexible Capacity service.

Exhibit 3: Scalability of HP Flexible Capacity



Source: HP

Benefits of the Flexible Capacity Service

HP Flexible Capacity mitigates risk for enterprises by allowing them to pay only for what they use each month. This allows customers to commit to a lower monthly minimum, because they are assured that additional capacity will be available on an as-needed basis, at a moment's notice, to meet

changing business requirements. This reduces the need to overspend to assure availability of capacity, which can sometimes account for up to 30% of an enterprise's infrastructure spend.

In addition, because the infrastructure is provided by HP as part of the service, IT may be able to shift infrastructure from being a capital expense to an operating expense, despite the fact that resources deployed remain primarily physical in nature. With budgets remaining tight throughout most IT departments, reducing capital expenditures in favor of higher operating expense is a benefit.

As was shown in Exhibit 3, customers can view usage data through the HP Datacenter Care customer portal. This data is available in real-time, as customers within the enterprise use or expand capacity usage. The ability to see how capacity expansions impact the bottom line often encourages rational consumption, as line of business managers can see exactly how their IT usage affects the business at large.

Finally, the Flexible Capacity service often enables IT to more quickly accommodate deployment of new applications as workloads, as infrastructure to support such initiatives is already on the premises. Service delays based on long infrastructure procurement cycles are not a concern for customers that use the Flexible Capacity service.

Flexible Capacity for Channel Partners

In addition to providing benefits to enterprises, HP Flexible Capacity offers significant benefits to channel partners, who are also able to sell the Flexible Capacity offer under the HP ServiceOne channel partner program. Benefits include:

- **Improved commission structure** – HP structures the Flexible Capacity monthly minimum commitments in three-year minimum terms. Channel partners are still able to bill customers monthly for both the minimum commitment as well as any metered capacity that exceeds the minimum amount. But, a longer minimum commitment term allows HP to rationalize a traditional infrastructure commission, which is paid up-front at the time of the initial sale, and based on net margin and the customer's capital expenditure. Channel partners can maintain the up-front revenue stream that comes from traditional CPE deals, while offering their customers an attractive, consumption-based payment model. Cloud deals that offer similarly priced infrastructure to end users typically only offer commissions on the small monthly revenue number—a payment structure that has caused significant revenue losses for many channel partners.
- **Higher-level Customer Conversations** – By offering Flexible Capacity, channel partners are able to focus more on their enterprise customers' business goals and desired outcomes, rather than on a major capital outlay project that drives higher commission. Partners can leverage the cost efficiencies of a consumption-based model, which moves costs from the capital balance sheet to the operating expense balance sheet—an outlay many customers may find easier to justify within the business.

Stratecast The Last Word

Enterprises agree that the on-premises data center is here to stay; and with it come ongoing challenges in efficiently managing and integrating physical resources with virtual ones. On the budget side, lack of funds for capital expenditures, and frequent overspending to ensure capacity availability are frequent hassles, while integration and performance issues continue to be top-of-mind for today's data center manager.

HP leverages its stronghold in the enterprise data center with its Datacenter Care service, assuring continued demand for its infrastructure products, as well as revenue from high-value management services. In a time when equipment prices are continuing to fall, and data center infrastructure is increasingly viewed as a commodity, HP's sacrifice of additional equipment purchases for over-capacity planning is a smart move, made in favor of a more consistent stream of ongoing, usage-based revenue. It also helps to ensure that current customers remain in the HP fold, rather than moving to a lower-cost equipment provider.

With its Flexible Capacity offer, HP has taken a bold step toward addressing enterprise desire for a cloud-like experience in the on-premises data center. The offer demonstrates that HP recognizes the need for IT to:

- Retain on-premises infrastructure for security, compliance and performance reasons.
- Optimize on-site infrastructure in order to maximize ROI.
- Move to a consumption-based payment model that only requires payment for resources actually consumed.
- Quickly support new business initiatives and opportunities without waiting for long procurement cycles.

In sharing the risk for unused capacity with enterprise customers, HP displays confidence in its ability to efficiently manage the on-premises data center, and provide improved productivity in a way that is cost-effective to all involved. Since its launch in 2012, HP reports that demand has grown more than 100%; and HP expects to exceed that in 2015—a testament to the success of the Flexible Capacity service.

Flexible Capacity is also a boon for channel partners. The commission structure on Flexible Capacity alleviates the common loss of up-front commission. It also allows the partner to elevate customer conversations to include strategic business goals and outcomes while delivering significant cost efficiencies that come along with consumption-based pricing.

The HP Flexible Capacity offer is distinctive in today's IT marketplace—for now. As such, it is worthy of attention from enterprises and channel partners, as well as other hardware providers that may choose to emulate the model as a way to protect their customer bases and equipment revenues.

Karyn Price

Industry Analyst – Cloud Computing

Frost & Sullivan

karyn.price@frost.com

About Stratecast

Stratecast collaborates with our clients to reach smart business decisions in the rapidly evolving and hyper-competitive Information and Communications Technology markets. Leveraging a mix of action-oriented subscription research and customized consulting engagements, Stratecast delivers knowledge and perspective that is only attainable through years of real-world experience in an industry where customers are collaborators; today's partners are tomorrow's competitors; and agility and innovation are essential elements for success. Contact your Stratecast Account Executive to engage our experience to assist you in attaining your growth objectives.

About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, works in collaboration with clients to leverage visionary innovation that addresses the global challenges and related growth opportunities that will make or break today's market participants. For more than 50 years, we have been developing growth strategies for the Global 1000, emerging businesses, the public sector and the investment community. Is your organization prepared for the next profound wave of industry convergence, disruptive technologies, increasing competitive intensity, Mega Trends, breakthrough best practices, changing customer dynamics and emerging economies? For more information about Frost & Sullivan's Growth Partnership Services, visit <http://www.frost.com>.

CONTACT US

For more information, visit www.stratecast.com, dial 877-463-7678, or email inquiries@stratecast.com.