

## WHITE PAPER

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# Brocade Network Subscription: A New Option to Align IT/Network Infrastructure with Changing Business Requirements

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## MARKET OVERVIEW

- ☒ In the face of a modest economic recovery, worldwide business and IT executives continue to constrain and focus IT investments to enable business innovation and enterprise cost control; maximize the value of their installed IT network infrastructure to meet capacity growth requirements; and drive IT operating efficiencies.
- ☒ Network infrastructure managers continue to manage capacity to anticipated peak load as the time horizons for acquiring, installing, and reconfiguring network capacity inhibit their ability to respond flexibly.
- ☒ The ability to forecast volatile peak network loads continues to become more difficult as global instances of ERP, collaboration software, variable infrastructure loads associated with spinning up VMs, expanding social networking requirements, and the capacity implications of an exploding population of smart handheld devices all factor, somewhat unpredictably, into planning peak loads.
- ☒ Business executives and IT leaders continue to aggressively explore new virtual computing options such as public, private, and hybrid cloud architectures as a means to leverage existing IT infrastructure investments, yet their ability to deploy these architectures is often constrained by their network infrastructure.
- ☒ IT providers are being increasingly challenged by enterprise IT buyers and managed services providers (MSPs) to offer more flexible equipment acquisition options to enable them to cope with less predictable peak loads and tight capital constraints.

## SITUATION ANALYSIS

The role of the IT network within many organizations continues to evolve. To better understand the most current thinking on IT network strategies, IDC conducted a series of 11 executive briefing sessions during May and June 2011. We spoke with IT executives across a range of organizations and industries, including financial services, manufacturing, consumer products, and government, as well as executives at several managed services providers. Their responses both reaffirmed and challenged conventional thinking.

IDC found during these discussions that IT executives' perspectives, as they relate to their network, are framed by three interrelated topics:

- ☒ The role of the IT network — a business enabler or a core element of the business strategy
- ☒ The operational strategy — determining network infrastructure capacity for anticipated usage peaks
- ☒ The network financial model — the funding strategies and trade-offs inherent in real-world operational practice

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## **The Role of the IT Network**

For years, most IT executives and business leaders characterized the IT network as a critical business *enabler* when asked about its role within their organization. They pointed to how it interconnects their organization with customers and suppliers, enables them to manage their supply and distribution chains in real time, and provides critical market and financial connections/information.

### ***Networking as a Business Enabler***

Whether in a county government that uses its IT infrastructure to deploy a video arraignment system that obviates the need for court officers to take prisoners from their outlying public safety (detention) cells and bring them to court for hearings or in a food manufacturing and processing company that uses a global IT network to connect farms, staging facilities, and production plants, the IT network is a critical enabler of organizational/business processes. As one executive put it, "IT really enables our business; however, if IT is down, there are still [manual and cumbersome] ways for us to conduct operations." Many of the IT executives we spoke with shared this perspective — that IT and the network were critical business enablers. However, a surprising number did not.

### ***IT Is at the Core of Products and Services***

Not surprisingly, the IT leaders and business executives at the managed services providers IDC spoke with all agreed that IT was core to their products and services — confirming our expectations. However, in a twist we did not anticipate, executives within the several consumer products and financial services companies explained that IT had evolved from "enabling" to "core." As one executive said, "The new technologies we are seeing are actually becoming *core* to our business." He continued, "One of our key strategies is to get closer to our customer [because our business sells through a multitier distribution system]. The emergence of social networking, for example, is giving us opportunities to do our business in far different ways, using multiple channels that we hadn't been able to leverage in the past." An executive within a financial services company (a global investment management and advisory firm) asserted, "A lot of the time it's said that this business is all about people and personal relationships. In the end, I would say our people are still first, but we have reached a stage where we cannot conduct business operations without technology. IT has evolved to become one of the core elements necessary to our business." Another executive said, "We are very dependent and become more dependent on the network infrastructure every single day."

For managed services providers, the critical role of IT within their business operation is clear: IT is not just core; it is the business. However, increasingly, in more traditional enterprise IT computing, organizations that are challenged to move faster yet operate leaner have flattened and optimized around *enabling* IT technologies. When an organization is effectively unable to operate without IT, it has evolved such that IT, along with the network, is now *one of its core* capabilities.

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## The Operational Strategy

"We plan everything for peak," said an IT infrastructure executive based at a financial services company. At a global food manufacturing and processing company, a senior technical analyst explained, "That [planning for peak usage] is ingrained in our culture." At other companies, the stories were similar. One IT executive explained, "We try and build it out so that we don't have to worry. Typically, during the major holidays, that's when consumers are more likely to try to buy something. Our partners, all the different VARs and resellers, have access into our systems." As an executive at a consumer products manufacturer said, "Yes, we have seasonal peaks or trends. Typically, since we have known peaks, we try to size for those peaks. You have to have some extra capacity, and you'll have up times and some down times. Usually, as you're going into a seasonal high point, you do assessments to say is what I have what I need for this? Is it adequate, or do I need to put more in?" Of all the insights IDC gathered, this is perhaps the most telling, "We try and build it out so that we don't have to worry ...."

"One way we [anticipate and manage demand is on] the core products/services. There's a tight business process management methodology in place. We have tight planning integration between business and IT for what we call our peak season demands," said an enterprise architect at a global financial services provider. "We anticipate the plans and forecast to make sure we have enough for that peak period going into it as opposed to saying how will we deal with the trough?"

And when the unpredicted happens? One IT planning analyst said, "We scramble for the unexpected peaks. We scramble to either shut down unnecessary traffic to make room for this other traffic, or we prioritize things in a sense. We kind of throw it at the network guys and say, 'What can you do and how quickly can you do it because we needed it yesterday!'"

But the challenge is that forecasting peaks in an enterprise that is very network dependent is becoming more difficult. Beyond known seasonal factors and marketing campaigns, a global IT vice president explained, "We are now running a single global instance of our ERP system that is starting to chew up bandwidth as we add thousands of users onto this single instance. You have enterprise-class applications that utilize the network very heavily. There are cloud computing opportunities, like maybe cloud backup, that utilize lots of bandwidth. Other things like employee collaboration tools and VoIP are utilizing more bandwidth, so *it becomes very difficult to predict what you're going to look like from time to time.*"

This is illustrated by one C-level executive's experience: "We can't constantly buy more, but we're constantly investing anyway because we have to! Lots of times, I think we're oversubscribed in some way, and in other places we're probably undersubscribed. A lot of that has to do with how we charge back for those services ..."

## The Network Financial Model

The financial challenge confronting many organizations' network infrastructure management strategy is the convergence of increasingly unpredictable demand growth, operating in an especially funding-constrained environment (as a result of worldwide economic conditions) and the limited flexibility caused by 3-, 4-, or even 7-year equipment depreciation and renewal cycles. As one executive quipped, "Typically we replace our equipment 5 to 10 years past when it should have been!" Another remarked, "Our refresh cycle is 5 years, but we've gone as long as 8 to 10 years on network infrastructure."

In the surveys conducted, most executives reported that they were depreciating their network infrastructure over 3 or 4 years. However, most explained that they kept equipment in place, on average, much longer. This was a result of several factors. If the equipment was working well, they left it in place for as many as 10 to 15 years. Many explained that their organization takes a very conservative approach to upgrading its equipment. They strive to minimize the potential disruptions caused by network upgrades. One executive commented, "Especially on the edge, you can't do that. Unless there's some reason to replace it, we don't. When we do, we just throw it away and put a new box in place."

The other major factor that is causing organizations to stretch network infrastructure is funding constraints. "I can tell you that our capital budget is capped every single year and unanticipated network expenses that were not budgeted are difficult to put in there. It's a hard nut for the company to swallow when we come in and say we need another \$2 to \$3 million because we didn't see it coming. But the demand is such that if we do it, we are going to break something," said an IT executive at a global firm.

Most of the organizations align their network funding model by major business units. Typically, they do not go the next step by aligning with product line, geography, or application, although they are well aware of the incremental spending requirements caused by each. As one executive explained, "[Our] China [business unit] just decided to install another 25 to 50 freestanding stores in some of the outlying provinces, and, good golly, now what do we do?"

## NETWORK EQUIPMENT MANAGEMENT PRIORITIES

To gain better insight into the core management values held by the IT executives who participated in this research project, IDC took the interviews in a somewhat different direction. We led the discussion to the topic of *flexibility* versus *efficiency* in building out and maintaining their network infrastructure with some surprising findings.

IT executives at managed services providers, not surprisingly, assessed their need/requirement to have flexibility as a "5" on an importance scale of 1 to 5, with 1 being not at all important and 5 being very important. As one MSP executive explained, the ability to reconfigure to meet a new or existing customer's changing requirements is its *raison d'être* — its reason for being. Ideally, being able to respond quickly as well as link specific infrastructure investments with unique customers

enhances the competitiveness of the MSP's position in the market. When asked about the need for *efficiency*, the MSP executives consistently rated it lower than their need for flexibility. In other words, for companies that view network infrastructure as *core* to their business, flexibility trumps efficiency.

IT executives within traditional IT organizations had a much more nuanced set of priorities. They typically rated the requirement for efficiency ahead of the need for flexibility. On an importance scale of 1 to 5, the mean "flexibility" score was 3.5. When we pressed the IT executives for additional explanation, especially given their comments about the constraints they face in resizing their network infrastructure to meet peak capacity requirements, the conversation took a decidedly different turn.

Virtually all the executives explained that one of their critical requirements was to recognize their organization's financial constraints and to operate their IT infrastructure as cost-effectively as possible. Many cited the intense competition their organization faced, often from other global providers. They emphasized the need to maximize their internal efficiency and stretch for maximum economy.

These IT executives viewed *flexibility*, or, more precisely, an IT acquisition model that gave them additional flexibility, as *a means to further enhancing their IT efficiency*. As one executive explained, "Because of our many mergers and acquisitions, we need to remain very flexible in our network design. This is probably our biggest issue, that we acquire and disentangle so many companies — often two or three each year."

For traditional IT organizations, additional (network management) flexibility becomes a means to enhancing their efficiency. For MSPs, because of their business model, enhanced flexibility is a business management tool — a tool that enables them to better match increases or changes in their network infrastructure with specific customers (i.e., to better align revenue with expense).

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## **BROCADE NETWORK SUBSCRIPTION**

### **Brocade**

Brocade, a company with annual revenue exceeding \$2 billion, continues to expand its portfolio of end-to-end IP-based Ethernet networking solutions and management applications for campus, datacenter, and service provider networks. With a strong company heritage of building datacenter fabrics, Brocade continues to drive cloud-optimized networking technology and business innovations that help the world's leading organizations transition smoothly to a virtualized world where applications and information reside anywhere. Today, Brocade solutions are used in over 90% of Global 1000 datacenters as well as in enterprise LANs and the largest service provider networks.

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### **Brocade Network Subscription**

Brocade Network Subscription is an acquisition option for the company's network equipment that includes a full range of maintenance, services, and support with varying SLAs. Rather than purchase or lease equipment, enterprise IT organizations

have the option of acquiring network capacity on a long-term, open-ended rental model that offers the flexibility to increase or decrease capacity upon 30–60 days' notice. This new acquisition method combines the following attributes and benefits:

- ☒ Enables IT organizations to more flexibly align network capacity with changing business needs
- ☒ Allows for rapid provisioning — expands/contracts to match demand via open-ended subscription
- ☒ Allows buyers to pay monthly subscription fees for infrastructure that is actually utilized
- ☒ No minimum term commitments, no penalties; 30-day notice required to upgrade and 60-day notice required to downsize/terminate services
- ☒ Gives customers the option of using other ports on owned or leased equipment that are not part of the subscription
- ☒ Coexists with an organization's existing network environment — no rip and replace

In summary, Brocade Network Subscription enables organizations to acquire network infrastructure on a monthly basis — expanding, contracting, and upgrading network infrastructure as required — while managing capital investment to achieve enhanced business flexibility with a new, highly flexible acquisition option.

For enterprise IT organizations seeking to improve their efficiency or MSPs seeking new acquisition models to better map revenues with expenses, Brocade Network Subscription provides a newfound level of network infrastructure flexibility.

## OPTIMIZING THE NETWORK PORTFOLIO

IDC has long held that no one acquisition or portfolio management strategy for IT equipment is optimal for every organization. As with any portfolio management strategy, the challenge is quantifying the requirements, both stated and implied, and then tailoring a strategy from the available options that best meets a particular organization's requirements. Because situations change regularly, this portfolio review and optimization practice needs to be repeated regularly. IDC recommends that this review be performed annually.

In this white paper, IDC has shared firsthand accounts from many IT organizations and the challenges they face acquiring and managing their network equipment portfolio. Our research has identified **expanded flexibility** as a highly valued characteristic among both enterprise IT organizations and MSPs. At the same time, we have noted that these organizations seek flexibility with different ends: MSPs seek new options to enable them to better link cost (equipment) with revenue. Enterprise IT organizations seek additional flexibility as a means to better align their portfolio with changing requirements, enabling them to improve efficiency and lower costs.

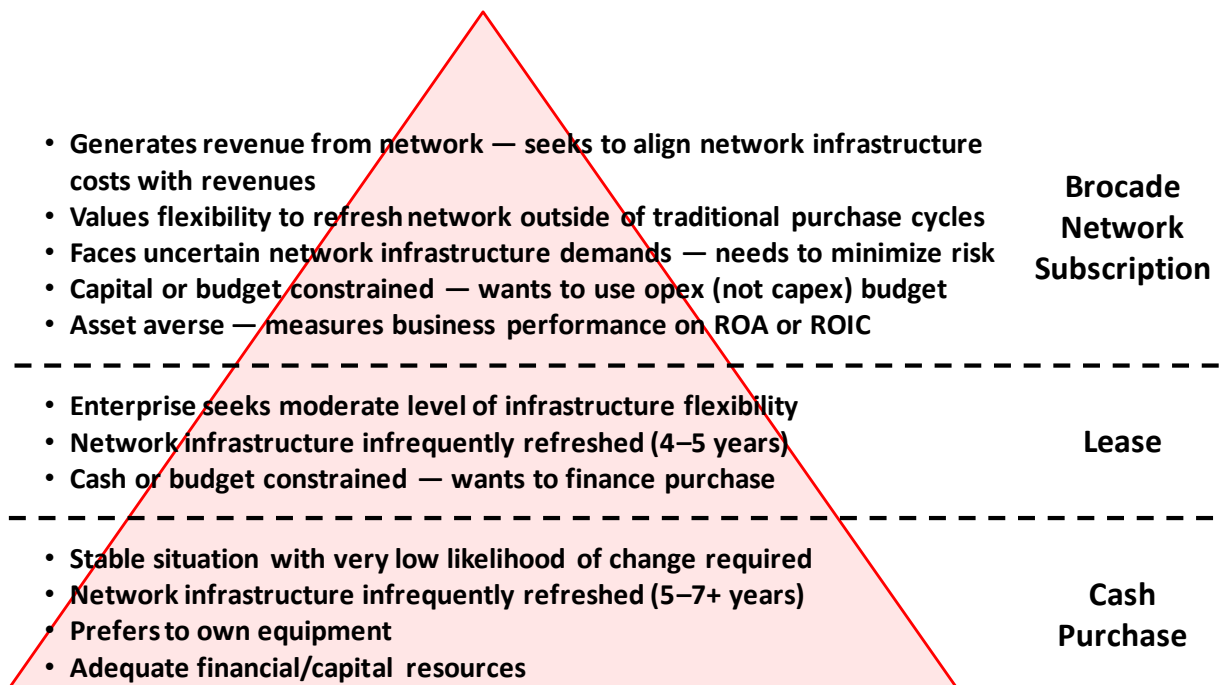
In terms of equipment acquisition models, there are three basic models: buy, lease, and rent. The difference between leasing and renting is a question of term and duration. When leasing network equipment, most companies opt for a 3-year term, at the end of which they typically have the option to purchase the equipment, extend the lease, or return the equipment. Should they return the equipment prior to the end of the lease period, they often incur penalties. Rental programs, typically structured as month-to-month contracts, generally charge a substantial premium compared with leases, as a means to offset the supplier's risk and cost of constantly installing and deinstalling equipment, as well as the nonutilization risk.

Brocade Network Subscription provides IT buyers with another option: the open-ended flexibility of a traditional rental contract coupled with a level of cost more typically associated with a leasing contract.

For most IT organizations, it is not a question of which acquisition method is "best"; it is a matter of the optimum blend of the three models to deliver an adequate level of flexibility at an optimum cost. IDC believes that a combination of owned, leased, and "short-term" asset acquisition models will provide the most advantageous outcome for IT organizations. To this end, Brocade Network Subscription provides a meaningful acquisition option for many IT organization network equipment portfolios. Figure 1 illustrates a typical acquisition model mix for network equipment.

**FIGURE 1**

A Typical Network Equipment Portfolio Acquisition Strategy Mix



Source: IDC, 2011

## FUTURE OUTLOOK

As we have described in this white paper, IT executives remain challenged by managing their network infrastructure such that it can adequately meet peak loads and then living with the low level of utilization during the remainder of the year. Even as they recognize the limitations of this model, they sense their ability to accurately size peak network loads is diminishing. As the world continues to recover from one of the worst financial crises in modern history, virtually every IT organization is seeking ways to rationalize its existing IT assets. Whether it be consolidating onto a single global instance of an ERP system, exploring new public IT cloud options, or expanding the use of the IT network to enhance employee collaboration (versus travel), the ability to accurately forecast peak network loads continues to diminish — this decrease is inversely proportional to the network infrastructure's expanding role in business operations. However, in addition to the topics discussed to this point, two other major factors will shape network infrastructure capacity planning futures:

- ☒ **Social networking.** Many consumer products/services companies have already begun actively engaging in social networking technologies; however, many industry/commercial companies have yet to actively explore this new domain. IDC research consistently shows that commercial use of social network and media sites continues to expand and will engage most organizations sooner than later. The implications for network management, for many organizations, are an open question. They have little if any direct experience and will likely learn by doing — which implies another dimension of variability to the network infrastructure forecasting conundrum.
- ☒ **Mobile devices.** As the commercial IT community has generally watched from afar, the explosion in consumer smart handhelds and tablets continues virtually unabated. For example, IDC forecasts that by 2015, over 1 billion *new* smart handheld devices will be shipped, or one for every seven people on the planet. It is not surprising then that while IDC noted there were approximately 10 billion downloads during 2010 (music and applications), IDC believes there will be an astounding 187 billion downloads during 2015. What networks will these smart handhelds be interacting with? The answer, of course, is virtually every IT infrastructure on the planet. As early smart handheld phones caused significant network congestion for their service providers, the explosion in the smart handheld population bodes an ill wind for IT network infrastructure managers because they will likely experience a degree of network load outside their direct experience. It will be nearly impossible to forecast, and when it occurs, the need to respond will be immediate.

Even as IT executives seek to manage network infrastructure in an era of constrained budgets and in a moderately expanding economy, in the face of *visible* technology challenges, the reasonable expectation is that they will face much higher levels of network capacity growth. The need for additional flexibility and capacity, however important in 2011, will become critical during the planning period through 2015.



## MARKET CHALLENGES FOR BROCADE NETWORK SUBSCRIPTION

Change and innovation are at the core of the IT value proposition, and Brocade Network Subscription presents changes to network equipment buyers, typically a conservative group. As a result of extensive dialogue with many IT executives, IDC has formed the following opinions and identified the following challenges for this acquisition option:

- ☒ As IDC has reviewed in this white paper, enterprise IT organizations and MSPs approach the basic elements of IT strategy, flexibility versus efficiency, quite differently, although they both highly value flexibility. These marked differences in how the various customer segments react to key messaging and product attributes raise challenges for Brocade and its business partners as they launch Brocade Network Subscription and present it to different customer segments. That enterprise IT buyers value flexibility *as a means to improve efficiency* is a key finding of this project and a factor that will aid the launch of Brocade Network Subscription.
- ☒ While network infrastructure managers will be challenged to fully incorporate the inherent flexibility of Brocade Network Subscription into their portfolio management strategies, financial executives, unaccustomed to this buying model, will likely want to scrutinize it closely and understand all of its aspects. To this end, having detailed answers that are oriented to the financial community, prepackaged to address their questions, will accelerate the buying process.
- ☒ Another challenge that Brocade Network Subscription raises for IT organizations is an old one — the need for effective IT asset management. Because the core value proposition hinges on an organization's ability to return equipment with 60 days' notice, this implicitly assumes the equipment can be identified. For most IT organizations, well-developed asset management processes have been standard for at least a decade. However, for some IT organizations, IT asset management remains a somewhat aspirational practice. For these buyers, IDC counsels caution. Without an effective IT asset management program, this offering has the potential to raise new complications.

## CONCLUSION

IDC believes that Brocade Network Subscription is a viable go-to-market strategy because it presents a new option for IT network infrastructure executives to acquire capacity. In conversations with IT executives, IDC found that many were excited by the possibility of a new option. IDC has concluded that Brocade Network Subscription addresses an underserved market niche. It provides additional flexibility, and in this way, IDC believes that this strategy anticipates future market direction and acquisition models.

Because this is a new acquisition model, IDC expects that buyers will embrace it cautiously. To this end, MSPs are the segment most likely to embrace the product first because they tend to be more sophisticated buyers. Enterprise-class companies with multinational and diverse IT operational requirements are the next best target because Brocade Network Subscription addresses the niche requirements in their

large and variable portfolios. Finally, given the fiscal budget constraints faced by many state, local, and federal government agencies, IDC believes that Brocade Network Subscription will provide them with an additional acquisition option in the face of their limited options.

Brocade Network Subscription blurs the line between a product and a service offering because it enables organizations to acquire the right to use network equipment assets without purchasing them or entering into long-term leasing contracts. IDC believes that this new, highly flexible option creates a viable third option for IT portfolio managers, potentially reducing additional cost by matching the asset acquisition model to the overall requirements.

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