

WHITE PAPER

Brocade Network Subscription: Two Years After Product Launch — Customer Experiences

Sponsored by: Brocade

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IDC OPINION

Investing business capital in physical assets such as IT equipment infrastructure has long been a painful exercise, and as the world's economies continue to expand, it raises a critical and topical issue. Business executives and IT leaders debate the obvious questions: Is investing in IT infrastructure the best possible use of a firm's resources? Is investing in IT infrastructure the most effective way to serve a firm's stakeholders?

Of all the IT infrastructure equipment, network equipment faces its own particular challenges. It silently delivers until the moment its capacity has been breached; then, in a moment, it cannot be expanded quickly enough. This problem is exacerbated by the fact that many organizations struggle to accurately forecast network capacity load requirements.

Two years ago, Brocade responded to its customers' requests for more flexible network equipment acquisition alternatives. Brocade created Brocade Network Subscription, an acquisition program 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 to acquire network capacity on an open-ended, affordable rental model that offers the flexibility to increase capacity at any time or decrease capacity with a 60-day notification.

In this document, IDC shares the insights gleaned from our visits and in-depth interviews with companies that have been using Brocade Network Subscription since its launch. To up the ante, IDC interviewed three service providers — companies whose business depends on their ability to leverage their IT infrastructure — with the most acute reliability, flexibility, and performance requirements. Key findings are as follows:

- ☑ Brocade Network Subscription was uniformly found to be flexible and cost effective while meeting the difficult challenges of an always-on, carrier-class environment committed to 100% uptime.
- ☑ Reduced capital expense, rapid provisioning, and the scalability to respond to quickly changing customer needs were cited as the most highly valued program attributes.
- ☑ The wide range of flexible service options associated with Brocade Network Subscription supplanted hard-to-find technical skills and expertise and provided an additional, unexpected dimension of business flexibility.

SITUATION OVERVIEW

Background

Two years ago, shortly after Brocade launched Brocade Network Subscription, the firm retained IDC to evaluate the offering. We published our findings in an August 2011 white paper titled *Brocade Network Subscription: A New Option to Align IT/Network Infrastructure with Changing Business Requirements*. At the time, we wrote, "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."

However, innovation is not a neat and tidy business. Real innovation requires hard work, patience, and perseverance. Many well-founded ideas do not necessarily play out in the market — for a variety of reasons. Some are ahead of their time; others challenge the status quo. Therefore, when presented with the opportunity to conduct in-depth follow-on executive interviews with three launch customers for the Brocade Network Subscription offering (i.e., to understand the experiences of customers using the offering for more than two years and gather their reactions and solicit their recommendations for improvement), IDC readily accepted the challenge.

METHODOLOGY

Three Brocade Network Subscription customers, all service providers, agreed to participate in this research project and work with IDC as we conducted in-depth executive interviews:

- ☒ **PeakColo**, founded in 2006, focuses on the infrastructure-as-a-service (IaaS) slice of cloud computing, delivering public, private, hybrid, disaster recovery, and custom solutions. We spoke with Luke Norris, CEO and founder of the firm.
- ☒ **Phoenix NAP** is an IaaS provider and primary network access point (NAP) for the Phoenix, Arizona, metro region. The company delivers high-density colocation, flexible server options, and cloud hosting services. We spoke with William L. Bell II, the director of the firm's cloud services offerings.
- ☒ **A service provider**, founded more than 10 years ago, focuses on managed hosting, cloud hosting, email, and apps for its large customer base, delivering services through its multiple datacenters. IDC spoke with the company's senior sourcing executive.

KEY FINDINGS

Operational Requirements

"We experience peaks on network, storage, and compute and constantly need to scale up. We need to be able to scale with contracts and the service demands from our customers, whether that is just network utilization or overall infrastructure that we have to provide them," reported a senior executive at an IaaS provider. Another provider said,

"The type of customers that we attract [technology start-ups] is more in line with why we need burst services or more infrastructure in place." The ability to rapidly scale up and down was highlighted by another provider who said, "We're providing IT infrastructure for our customers, so we have to meet their cyclical requirements to scale as their business requires. The real beauty of Brocade Network Subscription has been its ability to scale up and down from a performance standpoint."

Customer Requirements

"In our business, the very first second of an uptime interruption, we start paying SLA credits," said one service provider about his demanding clients. "Our customers are building their software to be geographically dispersed, so they are asking us to be in many different locations and provide the infrastructure to each location quickly where the customer needs it, making this product pretty valuable to us," said a service provider striving to stay abreast of shifting customer requirements. "It's really about us being able to provide [flexibility and capacity to] our clients who have immediate needs and scalability issues and need more dedicated infrastructure, which is where Brocade has really come into play," said another. Striving to meet shifting customer requirements, another service provider said, "Two of the biggest challenges in our business are managing the ability to scale up and down and to also maintain up-to-date technology."

Managing Technology Cycles

As one service provider explained, "With Brocade, we can upgrade to newer technology without a huge outlay of capital." Another said, "This product has allowed us to early adopt TRILL [Transparent Interconnection of Lots of Links] knowing that the road map for the [Brocade] VDX switches was coming and we'd be able to swap out our gear at that time for that version of the equipment and at the same time continue to upgrade our routers to handle the new 10Gig needs in our edge devices. As an acquisition model, the flexibility and technology of this product is much better because I'm able to refresh it on the faster technology cycles and keep near the same margins, as the cost increase is negligible due to my ability to refresh the gear faster. It is just a simpler, more flexible process."

Business Flexibility

"The best feature of the service is the ability to pay only for the services that you use," said one provider. "This product [Brocade Network Subscription] has a very flexible model where you can send something back if you don't need it, and they don't activate all ports on some of the devices, so there's flexibility from the growth perspective," shared one company. Another business executive continued, "The greatest feature of this product is how it enables our ability to rapidly do deployments and scale out at a much larger size than we would typically from a unit perspective, and then to grow into those units as needed, allowing us to deliver a more rapid service while also keeping our uptime considerably higher because of fewer changes and adds." Another commented, "We don't want a huge capital outlay and can better match that up to just-in-time inventory when customers need it." Finally, one executive said, "Our business has aligned with the solution to drive higher-value services."

The Financial Model

One customer noted, "I prefer to use opex [operating expense] when a technology is progressing faster than I can get an ROI [return on investment] out of a capex [capital expense]. Thus, we look to services like Brocade Network Subscription to enable us to get through the peaks and valleys of new technology rollouts. For a service provider that is growing wildly, it can be very capital intensive to try to meet a requirement of acquisition of infrastructure on a daily basis." Another explained, "This model allows us to use opex to directly tie usage to each customer. This product helps with the growth of our business ... without our having to buy hundreds of thousands of dollars' worth of networking equipment at one time. Anytime we can [use] an opex model makes sense."

BROCADE NETWORK SUBSCRIPTION

Brocade

Brocade, a company with annual revenue exceeding \$2 billion, continues to expand its portfolio of end-to-end Internet protocol-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.

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 capacity at any time or decrease capacity upon a 60-day notice. This new acquisition method combines the following attributes and benefits:

- ☒ Enables IT organizations to more flexibly align network capacity with changing business needs
- ☒ Incorporates rapid provisioning — expand/contract to match demand via open-ended subscription
- ☒ Enables buyers to pay monthly subscription fees for infrastructure utilized
- ☒ Includes no minimum term commitments and no penalties (A request to upgrade can be made at any time, and 60-day notice is required to downsize/terminate services.)

In summary, Brocade Network Subscription enables organizations to buy 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 service providers 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 the firsthand experiences of a range of IT service providers and the challenges they face as they acquire and manage their network equipment portfolio. Our research has identified *expanded flexibility* as a highly valued characteristic among both enterprise IT organizations and service providers. But at the same time, we have noted that these organizations seek flexibility with different ends: Service providers seek new options that 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.

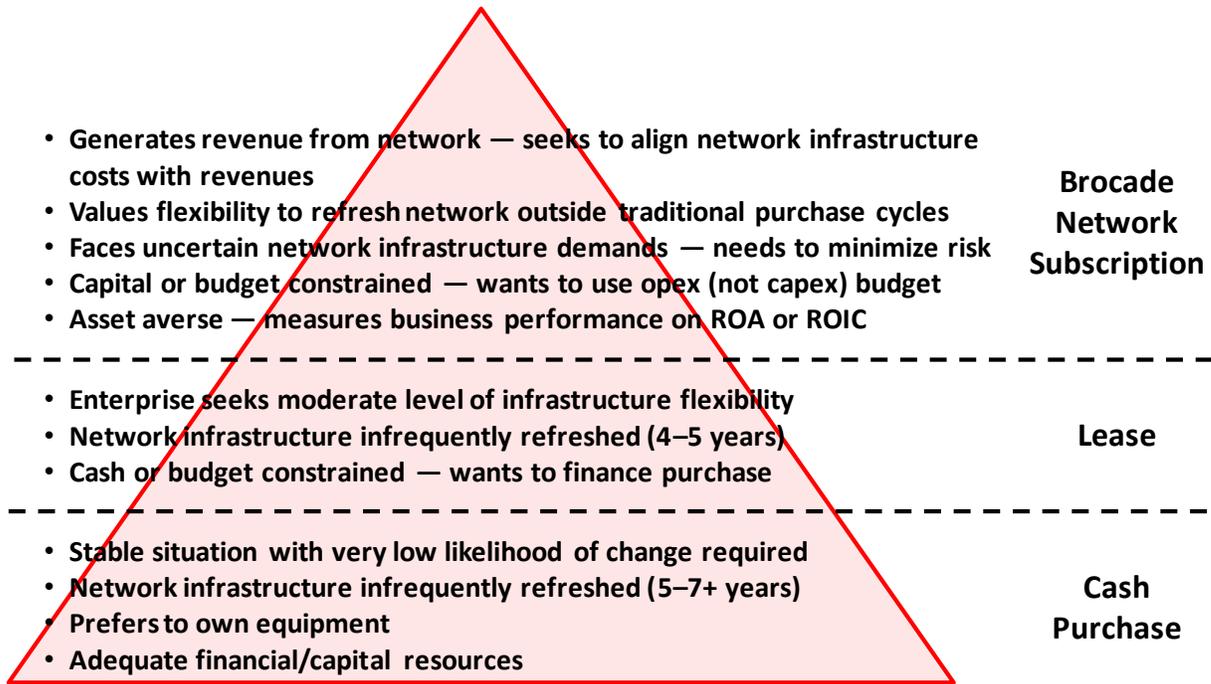
There are three basic equipment acquisition models: buy, lease, or rent, with the difference between leasing and renting being a question of term and duration. When leasing network equipment, most companies opt for a three-year term; at the end of that term, they typically have the option to purchase the equipment, extend the lease, or return the equipment. Penalties are often charged when companies return equipment prior to the end of the lease period. 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, the cost of constantly installing and uninstalling equipment, and 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 that is 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, 2013

FUTURE OUTLOOK

For service providers and the enterprise IT organizations they serve, IT management strategies and priorities are shifting. We used to say, "IT enables the business." Now, increasingly, business executives and IT leaders speak about how IT *is* the business. In many industries, an IT outage equals a business shutdown. Consider digital media streaming companies, telecommunications companies, and process manufacturing companies (such as oil refineries): In each case, a loss or an impairment of IT capability shuts down the business.

IDC's CIO Agenda research program regularly surveys CIOs and IT leaders about many aspects of their plans, ambitions, and strategies, but some of the best insights into the future direction of IT strategy come from an ongoing project to understand the CIO's personal agenda.

For the past four years, each time IDC surveyed CIOs and asked the question "What goal tops your personal agenda?" we received the same response. Overwhelmingly, CIOs responded "better align IT with the business." As we prepared to publish our top 10 CIO agenda predictions for 2013, we witnessed a radical shift in CIO personal priorities. The number 1 personal priority for CIOs in 2013 is "focus the IT organization more on business strategy than technology strategy."

Clearly, IT leaders want to move from being custodians of IT services to being participants in overall business leadership.

For IT service providers and suppliers, IDC believes this presages a powerful shift to rethinking conventional IT management assumptions, including acquisition models. Instead of worrying about buying and holding a portfolio of IT equipment, IT executives are focusing on the *use of IT services*.

Just as Brocade Network Subscription allows organizations to use network capacity and resources without buying or entering into long-term leases of IT equipment, IDC believes, increasingly, that these "as a service" acquisition models will become a contracting modality for many organizations, including both service providers and IT organizations, seeking to embrace an "IT as a service" delivery model.

CHALLENGES AND OPPORTUNITIES

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:

- ☒ Since the launch of Brocade Network Subscription two years ago, both cloud computing and the "IT as a service" consumption model have become much more broadly understood concepts embraced by a growing legion of IT buyers and service providers. Nevertheless, embracing this capacity model is still a challenge for many organizations and will require providers such as Brocade to support a longer, more complex customer education and sales cycle.
- ☒ IDC's continuing research into nontraditional IT consumption models has shown that enterprise IT organizations and service providers approach the basic elements of the IT strategy — flexibility versus efficiency — quite differently, although both groups highly value flexibility. In particular, enterprise IT buyers value flexibility as a means to improve efficiency. This is a key finding of the project and a factor that will accelerate the market acceptance of offerings such as Brocade Network Subscription. These marked differences in the ways that various customer segments react to key messaging and product attributes present a challenge to providers such as Brocade as they offer alternative IT consumption models to different customer segments.
- ☒ Brocade Network Subscription raises a familiar issue for both service providers and enterprise IT organization buyers: the need for effective IT asset management. As the core value proposition hinges on an organization's ability to return equipment with 60-day notice, this implicitly assumes that 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 discipline. For these buyers, IDC counsels caution. Without an effective IT asset management program, this offering has the potential to raise new complications.

CONCLUSION

In the words of one Brocade Network Subscription customer, "This is a revolutionary and very successful program in our eyes. I'm very happy with the agility it has brought to our business." Another volunteered, "Our products are more of an annuity-based model, so we try to align ourselves with vendors that are of that mindset. On the networking side, we have standardized on Brocade because the subscription model is a big part of that strategy." Yet another customer said, "The key drivers to this product are its flexibility and the ability to align expense with usage. It is a very good model; it fits very well with what we [service providers in general] need in this industry."

IDC believes that Brocade Network Subscription has demonstrated how an alternative IT consumption model, one that presents a "capacity as a service" market model, can fill a new and expanding segment of IT network requirements. Such a model provides additional flexibility, and in this way, IDC believes that this strategy anticipates future market direction and acquisition models. In some ways, these emerging models blur the line between a product and a service offering because they enable an IT buyer to acquire the right to use network equipment assets without purchasing them or entering into a long-term leasing contract. IDC believes this new, highly flexible option creates a viable third option for IT portfolio managers to optimize around potentially reducing additional cost by matching asset acquisition mode to overall requirements.

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