A CFO'S GUIDE

MAKING THE FINANCIAL CASE FOR ON-PREMISES CLOUD

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The CFO Objective

CHAPTER #1

Modernizing or integrating IT systems is the CFO's top objective, according to the latest McKinsey Global Survey,[1] beating out the need for the enterprise to move from good to great performance. According to the October 2021 survey, "finance leaders are deeply involved in determining how businesses adapt to on-going trends—particularly in those places where digital and finance intersect."

The business world now runs on digital. Data is coming from all directions; it's growing in volume and velocity; and the insights it generates can have crucial impacts on day-to-day operations, as well as the ability to meet future challenges.

That's why savvy CFOs are looking more closely at their tech investments. They are considering, for example, how their IT infrastructure can deliver a measurable impact on business outcomes, such as improving efficiency, sustainability, or competitive advantage.

They're doing so in the context of meeting the financial needs of the organization—by conserving cash, quickly gaining a return on investment, reducing risks, generating revenue, shifting IT assets off the balance sheet, and extending the IT asset lifecycle.

[1] https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/mastering-change-the-new-cfo-mandate

Yet, numerous factors affect IT projects, including existing investments in legacy infrastructure, supply-chain issues, cultural resistance to change—and quite frankly, having the budget to modernize.

That's where flexible financing options for tech investments and smart asset management programs can make the difference, addressing budget constraints and helping to deliver measurable results against stated business goals.

Achieving IT modernization that's flexible and adaptable is not only possible, it's already happening thanks to the as-a-service model. This playbook explores:

- The rapid evolution of tech investments
- The definition of flexible IT investing and how it works
- Considerations and questions the CFO should be asking
- The as-a-service model: How HPE GreenLake cloud services address financial, business, and IT objectives

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Tech Investing Has Evolved

CHAPTER #2

The finance world has continually dealt with change—recessions, bull markets, supply-and-demand challenges, socio-political forces, and more. Financing models too have changed, thanks to the rapid pace of technology innovation.

“I’m always looking for the best return on my investment,” said Frank Mullens, CFO/COO of Marketing Innovations International, Inc. “We used to buy all of our IT equipment, then we switched to leasing, and now we’re putting what we can into the cloud.”

> **With traditional asset-based IT, finance understands how to purchase and then depreciate these assets. The reality is that these costs have changed with the advent of subscription and usage-based capabilities. There are advantages; you can purchase just as much as you use, and you can move at the speed of business.**
>
> — Hyoun Park,
> CEO and principal analyst, Amalgam Insights

Cloud computing has been a game changer, enabling organizations to push toward digital transformation for business speed and efficiencies. Cloud also sped up the procurement process—no more having to wait months to deploy IT infrastructure in on-premises data centers—while moving assets from the balance sheet to the profit-and-loss statement.

“With traditional asset-based IT, finance understands how to purchase and then depreciate these assets,” said Hyoun Park, CEO and principal analyst at Amalgam Insights. “The reality is that these costs have changed with the advent of subscription and usage-based capabilities. There are advantages; you can purchase just as much as you use, and you can move at the speed of business.”

That said, many organizations have been cautious about cloud investment.

“The move toward cloud has been foundational to the shift in IT,” Park said. “However, that shift has been both inconsistent and incomplete. Only about one quarter of hardware and software spend is focused on the cloud. There are still a lot of assets out there being depreciated in three-, five-, and seven-year timeframes.”

The vast majority of IT infrastructure remains on-premises—typically legacy systems that require support, are complex to modernize, or must align with data sovereignty rules. For example, compliance and regulatory concerns such

as Sarbanes-Oxley and the European Union General Data Protection Act can make it challenging for organizations to place some data or workloads in the cloud, so they remain in on-prem data centers.

These balance-sheet assets can lead to inefficiencies. Most organizations over- or under-provision resources to deal with spikes in business demand, according to Futurum Research.[2] An over-abundance leads to paid-for assets sitting idle, and a deficiency causes delays to business processes and innovation amid lengthy procurement cycles.

There's also the reality of today's supply-chain issues, which are making it difficult to get the IT infrastructure necessary to meet business demands. The ability to financially forecast supply to meet demand is problematic at best.

"I've been in accounting for over 40 years and there's never been a situation I can recall that has had so many moving parts," Mullens said. "You can't make a fixed assumption on a budget and say with 90-95% assurance that it will work out. End-of-day reports sort of give us an idea what happened over the last 12 business hours, but looking forward is a challenge."

Yet, public cloud is not always an elixir, especially considering the often "ad hoc manner" in which IT and lines of business purchase cloud services.

Neither of these groups are "necessarily seeking to optimize those regular costs," Park said. "Underutilized assets and services, as well as unused or duplicate technology, which increasingly happens in the cloud, can quickly get out of hand. We refer to it as the IT Rule of 30, which is basically that any unmanaged IT department has 30% in bloat and waste."

Add to these inefficiencies the high storage and egress costs associated with the cloud, which are causing many enterprises to rethink cloud usage.

"We're helping two-to-three customers per week repatriate from the cloud due to massive cost overruns," said Frank Horning, GreenLake SAP Solutions Specialist at HPE. "In some cases, I've heard multiples of two to four times in excess of budget. One client told us their public cloud provider ate up their entire operating budget."

All these factors, Park said, are causing CFOs to "figure out what that balance is between asset investments and variable service or usage-based service investments for their technology environments."

They're straddling a line that runs from the CEO's office to the CIO's door, within financial constraints.

"I have to balance both perspectives in a way that won't impede the growth of the company and sales, but at the same time, protect and preserve cash," Mullens said.

At the same time, the role of the CFO has changed. They've traditionally been seen as the people on the money side of the business, Park said.

"They're also being asked to look at risk, strategy, and governance across business processes—not just total cost of ownership or return on investment," he said. "CFOs are now often looking at sustainability, vendor relationships, the customer experience, and how IT is part of the supply chain from a digital perspective. And they are increasingly being asked to translate operational data into something that can be shared with their board or on a quarterly or annual basis with Wall Street analysts."

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[2] https://community.hpe.com/t5/The-Cloud-Experience-Everywhere/Overprovisioning-compute-and-storage-costs-more-than-you-think/ba-p/7129600#.YiYURxPMJ8o

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Balancing IT, Business, and Financing Needs

CHAPTER #3

IT investment today requires a balanced approach. CFOs should look at this from a digital perspective across processes, services and workflows.

The rule of thumb, according to Park, should be that if you're achieving between 70% and 100% utilization of a cloud service on a consistent basis, "it's better to get dedicated capacity for that service. That should be a starting point to figuring out whether cloud, on-premises, or a variable versus dedicated approach makes more sense."

The on-premises cloud service model has grown considerably over the past few years. It combines the pay-per-use benefits of the public cloud with the security and performance of your own environment. For example, infrastructure, platforms, and workloads can be hosted in your data center or colocation facility and, like the public cloud, you only pay for the capacity—compute, storage, networking, software—that you actually use. On-premises cloud services are also managed for you, which can reduce staffing requirements and lower operational risk.

"The as-a-service model comes in a couple of flavors, and that flexibility is an important component of being able to move in an agile fashion," Park said. "All of the hype, for example, around robotics, automation, and digital transformation is dependent on being able to quickly deploy services at the speed the business requires and not being held up by the need for specific resources or talent. Also, because of the flexibility of these services, it's easy for something that traditionally fell into one bucket to suddenly split into multiple buckets at the drop of the dime, so to speak."

This as-a-service, “cloud experience everywhere” model has multiple benefits:

Accelerate revenue channels

Operationally, it helps the business work more efficiently, at speed, to create opportunities to accelerate revenue channels or develop new ones.

Optimize resources

IT efficiencies can be gained with the elimination of over- and under-provisioning of IT resources and the optimization of resource utilization.

Offers new levels of fiscal flexibility

It offers new levels of fiscal flexibility with a mix of financing options—traditional procurement, leasing, rent-to-buy, subscriptions—where IT can be an asset and/or an operational expense.

Achieve sustainability targets and goals

The as-a-service model helps organizations achieve sustainability targets, enabling IT to modernize toward more resource-efficient equipment and a reduction in energy inefficiencies. Also, the right vendor offers equipment buy-back or recycling programs to better meet circular economy goals.

Better meet targets

Done right, usage is metered and measured to help the business and financial leaders meet targets.

The as-a-service approach also gives organizations adaptability for whatever economic or business challenges lie ahead.

Learn more about the HPE GreenLake edge-to-cloud platform here.

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About As a Service: Questions to Ask

CHAPTER #4

How can you gain both flexible financing and measurable results from your IT investments? It starts with asking some questions, such as:

Q: What are the business priorities?

A: Is the CEO mandating, for example, accelerating digital transformation, enabling the remote workforce, improving the customer experience, gaining competitive advantage through innovation, achieving sustainability targets, reducing security risks, and/or supporting or creating new revenue channels?

Playing to that 70-100% utilization rate mentioned by Park, decide where your IT infrastructure investments meet the needs of daily operations versus innovation.

Q: What are the pros and cons of your existing IT investments in terms of meeting business outcomes?

A: Is IT outdated or too heavily invested on-prem or in the cloud? Is it scalable for growth, easily managed by IT or is it too complex?

First, you need visibility into all these areas: utilization rates; reliance on internal IT staff to maintain and manage infrastructure; costs for storage and app development resources; the likelihood of shadow IT–where lines of business buy IT services on their own; etc.

Also ask how well you're able to measure and monitor these factors. Doing so speeds the organization's ability to meet business objectives and better make IT decisions.

"Some companies, for example, need to make new investments in AI and ML," said Brad Shapiro, VP and managing director of Enterprise Business at HPE Financial Services. "So they may be looking to simplify a multi-generational IT environment that has become very complex to manage from an IT perspective. Simplifying and streamlining IT helps them better align with where they're wanting to take the business, while modernizing certain aspects of their existing IT estate."

Q: Can you tap into the value of these investments?

A: Consider, for example, whether your vendors offer equipment buy-back or recycling programs.

One aspect to this is sustainability and asset recovery, said Shapiro. "If for example, you're looking at a data center transformation and there are existing assets that no longer serve the new solution, you can get a valuation of those assets for buyback—and create investment capacity to transform. This has to happen early in the design process, to make sure the valuation matches the net book value of buying back IT assets."

Also, there are the current challenges around access to raw materials to consider, said Park.

"As the cost of materials continues to rise based on both supply chain challenges and geopolitical concerns in key regions, buy-back and recycling programs will be increasingly attractive for buyers seeking resources and sellers realizing they have options to remove outdated assets that may have toxic or environmentally challenging components," he said.

Another value question: Are you able to generate revenue from your stranded assets? You can gain capital, for example, by selling back equipment to the original manufacturer who then remarkets them and shares the revenues with you.

Q: What is your company's financial model?

A: No matter whether your organization is revenue-, cost-, or capital-based, a tech investment strategy should flexibly achieve your business and financial goals.

"Rather than investing in physical IT assets, why not consume IT as a service, thereby freeing up capital that you can invest in hiring more salespeople or developing new products," said HPE's Horning, HPE GreenLake SAP Solutions Specialist.

"Also consider moving to a colocation model or working with managed services providers and cloud providers so that assets are no longer sitting on the balance sheet, depreciating," he continued.

The as-a-service model addresses over- and under-provisioning of IT resources. It also mitigates the risks around the overextension of capital, getting strapped into long-term leases, and supply-chain challenges.

Q: How does colocation address the need for sustainability and IT efficiencies?

A: Colocation offers a great deal more than addressing failover or business recovery objectives. Organizations can run the as-a-service model in their colo facility to meet sustainability targets and augment IT service delivery.

For example, the colo approach can be leveraged to reduce the enterprise's carbon footprint, as well as reduce energy costs. In addition, managed services can be layered on top of colo solutions to support and enhance existing IT management.

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How As a Service Meets Financial, Business, and IT Objectives

CHAPTER #5

CFOs can meet business, operational, financial, and IT goals with HPE GreenLake. The platform brings the agility, flexibility, and pay-per-use financial model of the public cloud to your on-premises data centers, colocation facilities, edge, and cloud environments.

HPE GreenLake is an as-a-service solution that offers one unified operating model. It's a fully managed, pay-per-use approach with transparent, metered pricing, which can be aligned with business processes, projects, departments, and specific users. HPE GreenLake Central provides a centralized console to manage and operate cloud services, such as virtual machines, containers, compute, and machine learning projects, as well as to view usage and costs, and forecast capacity needs.

Businesses need to avoid costly overprovisioning while ensuring that the business always has the capacity needed to take advantage of new opportunities. HPE GreenLake includes a buffer of capacity for all its cloud services —with no capital outlay and for which you only pay for what is actually used—so your business can immediately scale as needed.

The HPE GreenLake platform helps deliver business outcomes and significant benefits.

Financial flexibility

- Align with your company's financial model, no matter if it's capital-focused, cash conservative, or ROI-driven
- Gain investment capacity and flexibility to transform. Use chargebacks to gain new revenue streams. Also, HPE GreenLake offers equipment buyback, and upcycling programs to help finance IT modernization and deliver on sustainability objectives.
- Achieve the cloud experience everywhere with cost predictability in your on-prem data center and colocation facilities.

"For example, companies can sell back older assets to HPE Financial Services to not only generate cash, but also have those assets fulfill a portion of their HPE GreenLake services," said HPE's Horning.

Case in point: Analysis conducted by Forrester Research [3] found that a global organization with 5 petabytes of storage and $8 million worth of physical assets could expect to experience benefits of $25 million present value (PV) over three years versus costs of $10.1 million PV, adding up to a net present value of about $14.9 million. Over the same period, the composite organization could achieve a 147% return on investment in HPE GreenLake.

Risk mitigation

- Improve forecasting with HPE GreenLake Central and better address fluctuations or changing demand for IT capacity. The dashboard includes KPI measurements for greater visibility and ongoing evaluation of investments.
- Right-size tech investments. Many organizations are moving to hybrid IT/hybrid cloud environments. HPE GreenLake can help right-size across these environments to avoid stranded assets and to reduce technical debt. All while paying only for the on-prem infrastructure capacity actually used.
- Future-proof IT investments. Gain scalability in real time with additional IT resource capacity on-demand with the pay-as-you-go model.

"The CFO of a large consumer goods enterprise recently told us that HPE GreenLake Central offers capabilities she hasn't been able to obtain elsewhere," Horning said. "She cited being able to load budgets, do cost comparisons to budget, and present meaningful showbacks and cross-charges to groups based on revenue or headcount."

Case in point: Flexible financing models help organizations de-risk business operations by better matching infrastructure spending to business requirements without overpaying for capacity, according to IDC. "Enterprises should take advantage of consumption as-a-service models for dedicated on-premises infrastructure that offer cloud-like usage-based pricing for infrastructure that includes built-in surge capacity that can be accessed, and paid for, only when needed." [4]

Efficiencies

- Achieve cost savings and cost control with shorter procurement and deployment cycles. Infrastructure can be delivered within weeks and installed by HPE or an expert partner.
- Create an internal circular economy with equipment buyback and HPE recycling plans. Then, use the funds to free up capital, for reinvestment—such as for IT modernization, or to generate revenue.
- Reduce staffing costs. HPE offers services to manage as much or little of your IT environment—from on-prem and colo to cloud and edge—as your business needs. This frees IT staff to focus on core business needs and innovation.

"We can provide customers with a sustainability report that documents, from an [environmental, social, and governance] standpoint, the environmental impacts," Shapiro said. "It also reports how equipment was handled, for example, whether it was redeployed fully into the circular economy or recycled."

Case in point: The Forrester report [5] found that organizations achieved: 40% savings in IT resources; total cost of ownership (TCO) savings of 30-40%; and sped time to market by 75%.

Faster time to value

All of the above help meet financial goals, while accelerating the business's ability to achieve IT modernization, innovation, digital transformation, and other objectives. To create investment capacity for digital transformation, HPE has assisted multiple customers in meeting the following types of goals: modernize multi-generational IT, extend the life of legacy systems and applications, improve deal economics, and create incremental budget.

[3] The Total Economic Impact™ of HPE GreenLake Business Benefits And Cost Savings Enabled By HPE GreenLake – 2020, Forrester Research
[4] IDC, "Future of Digital Infrastructure. Best Practices: Maximizing the Business Value of Consumption-as-a-Service"
[5] The Total Economic Impact™ of HPE GreenLake Business Benefits And Cost Savings Enabled By HPE GreenLake – 2020, Forrester Research

Getting Started & Determining Next Steps

CHAPTER #6

What next? Start thinking about whether your existing tech investments are meeting your business, financial, operational, and sustainability goals.

“Develop a roadmap based on business priorities and your organization’s financial model,” Shapiro said. “That should include collaboration throughout the C-suite.”

Then, start asking your technology vendors how they can support your organization’s financial model with greater flexibility.

Discover how HPE GreenLake can improve your total cost of ownership, control costs, meet compliance requirements, and more. Visit: hpe.com/greenlake