# Data center consolidation: Financing options address more than just costs

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# Executive summary

Data center consolidation affords corporations an opportunity to achieve multiple gains in business performance through a single strategic initiative.

With the right approach to this challenging undertaking you can cut the job down to size, free up financial resources, and focus on strategic objectives and business outcomes instead of tactical details.

As a full complement of resources to tackle such an ambitious undertaking rarely resides within any corporation, the "right approach" often involves consulting with outside experts to map the transformation, explore the full range of financial options, and arrange for disposition of decommissioned IT assets.

## A single initiative can address multiple goals

A next-generation transformation or data center consolidation project enables business leaders to achieve multiple business goals. It can:

- Update, standardize and simplify IT environments that may have grown inefficient over time or through acquisitions;
- Reduce costs by consolidating sites, moving to more efficient IT platforms and reducing energy consumption;
- Enhance performance, improve service levels and add business capabilities;
- Simplify data center management, streamline organizations and reduce staffing;
- Enhance business continuity and reduce unplanned downtime; and
- Shift resources from maintenance to innovation.

Data center consolidation has critical implications for the health of the enterprise. It demands focus and commitment from the highest levels of leadership.

Such an important and complex project is far from business as usual, so you may wish to engage outside resources to help. HP supports data center consolidation initiatives with comprehensive lifecycle services that include planning, consulting, design, analysis and implementation, as well as financial services and asset management.

## Financial and physical management of assets

An IT transformation or data center consolidation project is a major investment. IT budget dollars are almost always in short supply, so every financial resource must be optimized to make the project succeed. Program financing thus becomes a key success factor.

Will equipment be purchased or leased? How will you finance your transition from the old environment to the new? Can you recover value from older equipment you plan to remove from service? And how do you address the issue of proprietary information or sensitive customer data that may reside on decommissioned IT equipment at the end of the process?

With a strategic, end-to-end approach it is possible to answer the financial questions and minimize other concerns — such as what to do with surplus IT equipment — from the long list of challenges you must confront as you build your business of the future.

# Opportunities in data center consolidation

The continuing torrent of mergers, acquisitions, buy-outs, divestitures, spin-offs and local IT initiatives reflects the dynamism and vitality of business today. Below that tumultuous surface, CIOs are working feverishly to accommodate the changes and maintain IT systems capable of helping the enterprise compete and win.

For many organizations, the picture is not pretty: the IT infrastructure has grown inefficient, overly complex and cumbersome.

Data centers may be scattered across the country, or even around the globe. Acquired subsidiaries limp along on legacy infrastructures. Applications cannot talk to each other across business units. Information is not available where it's needed. Some servers may be maxed out, while others sit idle. IT expenses mount as short-term fixes strain the budget without enhancing overall capabilities.

## Consolidation covers many areas

As you consider reengineering the IT infrastructure, data center consolidation often moves to the core of the solution. Consolidation may focus on one or more of these areas:

- Application consolidation (reducing the number of licenses, standardizing to cut the number of applications in use and transitioning to next-generation applications).
- Server and storage consolidation and/or server virtualization (moving to new hardware, consolidating from several platforms to one). A recent trend to blade servers helps trim space requirements, reduce cabling, reduce power and cooling costs (though challenging some legacy cooling facilities), cut processor costs, and reduce the number of external switches and components.
- Adding new capabilities, including the ability to address increasing regulatory requirements for data security and reporting, and the ability to remotely monitor your IT infrastructure.
- Network consolidation (implementing a converged voice-and-data network or simplifying connectivity within the data center).
- Geographical and physical consolidation — reducing the number of data center locations and migrating equipment to sites with lower operating costs.

Inevitably, cost is a key factor in assessing the expected return on investment of a major capital project such as a data center consolidation. Data centers represent a major one-time investment as well as a long-term commitment to maintenance and recurring software and hardware upgrades.

According to industry analyst firm IDC, 80% of the IT organizations in the United States are actively consolidating, and by 2009 worldwide spending on IT consolidation is predicted to reach $25 billion. IT savings are often reported to be the top goal for a consolidation program. Not surprisingly, the upfront cost of the consolidation initiative itself is also reported to be a top barrier for consolidation.[1]

# Managing your infrastructure transformation

Financials are a key element in assessing the value of such a large project and likely will determine whether the decision is a "go" or "no go." An effective approach to financing may enable the business to reduce both capital and operating costs, while also providing increased flexibility. Indeed, some projects may effectively pay for themselves through cost savings.

Data center consolidation projects pose special challenges not common to most IT projects. First is a front-loading effect that temporarily inflates the project budget during the transition to a new infrastructure.

In most projects it will be necessary to keep the old data center operating to meet ongoing needs of the business and its customers, even as you obtain real estate and buy, install and test the new data infrastructure. An alternate approach is to establish a separate temporary facility, using identical legacy equipment and software, and transfer the workload there while the old center is dismantled and the new facility installed.

Either way, the net effect is that your business must support at least two — and perhaps three — sets of infrastructure equipment until the new consolidated data center is fully implemented. Once that's completed, you face yet another challenge — what to do with older or surplus IT equipment coming out of service.

### Disposition of surplus IT equipment

Legacy equipment you no longer need after a data center consolidation project cannot be simply discarded. The risks in mishandling surplus IT equipment are significant. Decommissioned assets represent both a potential danger to your organization and an opportunity to recapture value. The issues:

- **Data security** — Servers and storage equipment may contain customer records and company proprietary information which, in the wrong hands, could seriously harm your company's performance and reputation. Old equipment should be inventoried, secured, transported, dismantled and wiped of data, using an appropriate process.
- **Capturing residual value** — Desktop IT resources are well known for their rapid turnover, but data center infrastructure equipment may have a longer life and greater residual value when removed from service. Some of this equipment can be refurbished, tested and resold, returning significant value to the business that can help pay the cost of the data center consolidation.
- **Environmental performance** — Governments worldwide are stepping up environmental regulations as issues related to disposition of electronic waste gains greater attention. Equipment that cannot be resold should be dismantled, its useful parts recycled and hazardous materials properly disposed of.
- **Risks to reputation** — Careless or irresponsible disposition of IT equipment can lead to litigation and threaten the reputation of an organization that fails to meet the public's expectations regarding data security and environmental responsibility.

## Defusing the 'front-loading' effect

The financial pain points of a data center consolidation project can be significantly lessened through a creative strategy involving leasing, short-term equipment rental and asset recovery. Unlocking value in older IT assets is a key component.

For companies planning to build a new data center, HP Financial Services may purchase the legacy equipment, then lease it back for the duration of the new center build-out and changeover. If available, the sale/leaseback process provides an immediate infusion of cash which can be used to help fund your IT transformation. It also anticipates — and answers — the inevitable question of what to do with older IT assets you no longer need once your new data center is online and fully operational.

When the old IT equipment comes offline, HP Financial Services will use industry-standard disposition procedures to help ensure that proprietary data stored on hard drives remains secure, whether the equipment is destined for remarketing or recycling. For equipment that cannot be remarketed, HP Financial Services manages disposition in accordance with environmental laws.

If you prefer to set up a separate temporary facility while transforming an existing data center, HP Financial Services may be able to arrange a short-term rental of pre-owned equipment that replicates your current legacy environment. Once the transformation is completed and the new center is up and running, HP Financial Services removes the rented equipment. HP Financial Services also may purchase and will manage disposition of your older IT equipment coming out of service.

It's a given in high-tech environments that what looks simple rarely is. The most challenging aspect of next-generation data center transformation projects typically revolves around software upgrades — and making sure newer software will support critical legacy applications.

HP Financial Services' capability to mirror your current environment on a sale/leaseback or rental basis also provides the ability to conduct extensive regression testing to ensure your new environment will work as planned — before you commit to the cutover. Running old and new environments in parallel while all applications are thoroughly tested is the surest way to guard against unwelcome surprises.

## Asset disposition capabilities

By outsourcing the asset disposition process to a professional organization equipped with the required special skills and facilities, you can address these issues effectively and free up time and personnel to focus on optimizing your new data center.

HP Financial Services is equipped to inventory, store, ship and manage disposition of IT equipment of all kinds. The company offers a full range of data security capabilities as well as remarketing services. When equipment cannot be remarketed, it is dismantled, recycled and disposed of in accordance with applicable environmental laws and regulations.

HP Financial Services can manage disposition of your surplus IT assets, remarketing those with remaining useful life and returning the net remarketing proceeds to fund your data center consolidation program. Asset recovery through HP Financial Services provides immediate access to specialized resources in logistics (inventory control, transport and storage), disk-wiping, equipment refurbishment and resale, and environmentally responsible disposition of materials. HP Financial Services can manage IT equipment, from a variety of manufacturers, not just HP.

For more on the topic of asset disposition see our white paper, Asset Recovery – Balancing risk and opportunity.

## The leasing advantage

When compared to outright purchase of data center equipment, leasing provides substantial benefits. It allows you to expand or renew your IT infrastructure independent of budget cycles and can provide a financial bridge over this difficult period — in most cases with one-stop shopping for hardware, software and services financing.

Leasing also enables you to better match costs with benefits by spreading payments over the useful life of the assets, versus making a large one-time capital outlay. A lease can and should be customized to the specific financial and technological needs of the business. Leased-asset tracking services and integrated administrative processes improve your ability to manage these assets.

Another advantage of leasing is the financial flexibility it provides. Incidental costs, such as sales taxes and installation charges, often can be bundled into the lease rather than paid upfront. You can generally finance up to 100% of the total solution and often preserve existing credit lines.

Leasing may also permit lessees to write off monthly payments as an operating expense. You will want to consult a tax advisor to determine how the law applies to a particular situation.

Finally, leasing can minimize costs and headaches associated with end-of-life asset disposition, since that process is the responsibility of the lessor.

## Finding the right partner is critical

Data center consolidation is a mission-critical program that can tax the resources of the most capable IT operation.

A successful data center consolidation project has the potential to transform your business. How well you succeed will depend in great measure on the capability and experience of the vendors or partners you engage. Choose well, and you can bring to bear a level of knowledge and experience no single IT team anywhere could match.

The first test your partner must pass is that of brand name, reputation and integrity. A project as large and critical as data center consolidation is no time to experiment with a new and unfamiliar contractor.

The partner you choose should have available the full range of capabilities your project will require. You want one who can support, finance, service and manage your IT infrastructure through the whole consolidation project. The staff should be skilled both in complex project management and in the specific systems and applications you will use. They should be accustomed to working with the IT industry's leading suppliers, and have strong business relationships with them. And your partner should be able to provide the financing and asset disposition solutions that will help your consolidation proceed smoothly.

The third key test is experience. Your IT team could be top-notch, yet have little experience in data center consolidation. By choosing the right vendor, you can add exactly the skills you need. Your partner should bring to the job a history of success in consolidation projects — not just in general, but in *your* industry, with organizations of *your* size.

## HP's capabilities

HP believes that enabling business-changing performance in a consolidated IT environment requires a comprehensive approach that encompasses all aspects of the IT environment, including people, processes and technology. As a global leader in business technology, HP can deliver comprehensive consulting, services and IT products to support data center consolidation projects of any scope.

Our approach includes a thorough assessment of your organization's IT infrastructure, designing a plan to meet objectives, periodic reviews to verify progress, and regular reporting on results. HP has thousands of experts with extensive experience available to help customers plan, design and implement their data center consolidation projects. These experts work with technology suppliers who deliver leading management and business applications, equipment and network services. They use a structured methodology to determine which service best supports each organization's business needs and IT environment, so you can better align IT with your business goals.

Working with clients to develop cost-effective solutions, HP relies on more than 40 years of experience providing data center consulting and integration solutions. HP leverages the experience it has gained implementing thousands of global projects, including IT consolidation projects for many of the world's largest and most respected companies.

In fact, HP is currently engaged in a sweeping data center consolidation initiative of its own.

The company will consolidate 85 data centers worldwide, reduce the number of applications used within HP from 5,000 to 1,500 and consolidate its internal information technology operations. HP will reorganize its IT infrastructure into six centers in Atlanta, Houston and Austin, Texas. Each city will host two centers with more than 50,000 square feet of space. The consolidation will help HP reduce its IT spending by approximately $1 billion in the coming years.

## Financing, lifecycle management and asset disposition are keys

Project financing, asset lifecycle management and asset disposition are key elements of your IT transformation or data center consolidation project. An effective approach to financing linked to an asset disposition strategy can reduce both capital and operating costs.

HP Financial Services brings unmatched skills and capabilities to bear on next-generation IT transformation initiatives. Solutions are customized to meet each customer's individual needs, helping CIOs deliver a completed project on time, on budget and with the promised functionality.

As much as your choices of hardware and software platforms, your decisions on these issues will determine your project's success — and your reputation as a wise and effective CIO.

## For more information

www.hp.com/go/hpfinancialservices

*Asset Recovery – Balancing risk and opportunity*
http://h20330.www2.hp.com/hpfinancialservices/downloads/Asset_Recovery-Balancing_Risk_and_Opportunity.pdf

[1] "Worldwide IT Consolidation Market Opportunity," by Matthew Eastwood and Matt Healey, June 2006



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