

## The Top 10 Things to Look for When Choosing One

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Although the recession seems like it may be bottoming out, the next 18 to 24 months will likely continue to be difficult for IT organizations. They will remain under pressure and be required to do more with less - smaller IT budgets and fewer employees.

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### INTRODUCTION

As the economy remains weak, many companies continue to look for ways to reduce operating costs. As a result, companies are turning to outsourced IT service providers now more than ever. This growth in IT outsourcing presents a great opportunity for solution providers who provide the management of business applications and IT services, but also offer managed IT infrastructure services as well.

## State of the Market: Factors Driving Corporate IT Choices

### IT Spending

An IDC Market Analysis and Forecast for 2009-2013 indicates that worldwide spending by SMBs on IT will increase only modestly, by 5.6% annually. This rise from \$513.2 billion to \$674.4 billion is roughly one-third less than the same forecast from the previous year. The number of new SMBs is expected to grow by 400,000 a year through 2013.

The picture for enterprise IT spending is gloomier. On April 1, 2009, Forrester Research released its latest forecast, indicating that IT spending by U.S. businesses and government would fall 3.1%, twice what it had forecast just two months earlier.

Spending cuts will be broad based, affecting everything from hardware and peripherals, to software, communications and staffing. In 2008, an international enterprise survey conducted by Ziff Davis found that 52% of companies surveyed were already short-staffed.

### Security

Data theft is another area of concern, not only as a result of the loss or damage to data and related costs, but also because of the increasing burden of complying with new and changing data protection and retention regulations. A 2008 Baseline article cited a study that showed a rise in spending on governance, risk management, and compliance last year, for the first time in several years.

A more recent Baseline article (April 10, 2009) cites a study by the Ponemon Institute showing that: "The total cost to a company of recovering from a single data breach reached \$6.6 million in 2008, an increase of 4.5 percent from the \$6.3 million cost in 2007." According to the study, which examined costs at 43 organizations in 17 industry sectors, lost business was the main consequence of data breaches, costing organizations, on average, \$4.6 million. The Baseline article

### VAR Business Models Undergo Change

The competitive environment for VARs is drastically changing. VARs must change their business model to address the three Cs of Commoditization, Complexity, and Compliance.

**Commoditization:** The commoditization of IT hardware has resulted in significantly lower prices for customers and smaller margins for VARs. Many VARs are now losing business to manufacturers who are selling directly to organizations or SMBs.

**Complexity:** Many VARs have cobbled together their IT infrastructure, buying pieces from different partners. Now, as organizations adopt and incorporate new technologies (virtualization, RFID, etc.), IT is becoming more complex than ever.

**Compliance:** Industry and government regulations on data retention, data protection, and information access seem to be growing at a rate that outpaces Moore's Law. As such, VARs must spend growing amounts of time and money to ensure their operations meet their clients' regulatory requirements.

Because of these trends, VARs are refocusing their business model. They are shifting from hardware resellers to IT consultants and customer support specialists.

To do this, they are partnering with vendors who can provide managed IT infrastructure solutions, and can help ensure compliance with regulatory requirements.

goes on to note that security breaches reviewed in the study ranged from fewer than 4,200 records to more than 113,000, with the most common cause of breaches (88% of all cases) being negligence within the organization.

Since hackers are constantly employing new tactics to compromise systems, security management is growing ever more complicated and expensive. This makes outsourcing servers and networks even more attractive to IT organizations because it concentrates the responsibility for security in one place and spreads the cost across multiple clients. This represents a great opportunity for VARs and systems integrators. (See sidebar: VAR Business Models Undergo Change.) Many already have close relationships with these IT organizations, providing on-site hardware, applications, security and support for years.

VARs should consider shifting their customers from a model in which they install servers in the customers' offices or data centers, to one in which their customers' businesses are run through dedicated servers maintained by infrastructure solutions providers.

## The Perfect Ten

In today's competitive environment, it is paramount for VARs and systems integrators to identify outsourced infrastructure providers that can deliver solutions that meet the new demands of IT departments

IT organizations want their staff focused on unique, custom IT functions that provide the highest value to their companies while relying on service providers for what they perceive to be routine support functions. A Forrester Study, The State of Enterprise Services completed in October of 2008, showed that in spite of the economic slowdown spending on IT services is actually on the rise. Investment in IT services continues to show growth across both infrastructure and applications outsourcing, good news for managed services providers.

While the slowdown in the US economy has 70% of firms negotiating lower prices with suppliers, a full 45% of firms plan to increase their use of applications outsourcing and 43% of companies are increasing use of infrastructure outsourcing. So how can VARs parlay this market dynamic into more sales? The critical step is to review ongoing relationships with infrastructure partners, evaluating them to see if they meet 10 specific criteria.

### Ten Things to Look for in a Hosting Partner

1. Uptime
2. Redundancy and Business Continuity Capabilities
3. Data Restoration Capabilities
4. Response Time and Site Performance
5. Scalability to Meet Business Growth
6. Customer Support
7. Security
8. Cost Reduction and Benefit of One-Stop Billing
9. Optimized IT Resources
10. Financial Improvements

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*VARs and systems integrators must partner with infrastructure experts: IT service providers whose sole focus is maintaining and delivering the services, free the VAR to focus on higher-quality and higher-value services.*

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### **1. Uptime: Greater Reliance on the Web Makes “On” The Only Option.**

Many organizations rely on VARs to provide service-based offerings for critical business functions such as e-mail, security, and database applications. Today, many of these applications are provided as hosted services.

Paralleling this is a growing interest in Software-as-a-Service (SaaS). IDC’s Top 10 IT prediction for 2009 says a slow economy will spur accelerated growth in demand for SaaS, primarily because SaaS is an operating expense, rather than a capital one. In a survey updated in January 2009, IDC projects SaaS will grow by 40.5% in 2009, up from the 36% growth it had projected earlier. According to IDC:

“By the end of 2009, 76% of U.S. organizations will use at least one SaaS-delivered application for business use”

“The percentage of U.S. firms which plan to spend at least 25% of their IT budgets on SaaS applications will increase from 23% in 2008 to nearly 45% in 2010.”

The 24x7 availability of core business applications is critical to both forms of software delivery (straight hosted and SaaS). This is not just because employees want to check their e-mail remotely from anywhere around the world. It’s because global business has no real downtime. In fact, reliability and quality are key measurements for evaluating providers. To support this 24x7 climate, VARs need a service provider who can ensure high availability and uptime of their servers, infrastructure, and provide backup and redundancy to ensure uninterrupted service.

### **2. Redundancy and Business Continuity Capabilities: Because Critical Applications “Live” Online, a VAR Needs Enterprise Class Continuity.**

A VAR or integrator who manages critical business applications needs an infrastructure that ensures continued access despite outages.

For example: An outage of a CRM application that supports a client’s in-bound orders would result in an immediate loss of business. In many cases, customers would simply move to a competitor, resulting in the loss of that business... permanently.

Because client companies depend on such applications to stay in business, a VAR needs a provider with enterprise-grade business continuity capabilities. This would include hot redundant servers to roll applications over to in case of system crashes, plus redundant data lines to recover from line breaks and other problems that route traffic to avoid service interruptions. Additionally, data centers must be prepared to ride out local natural disasters such as floods, earthquakes, and tornados. If a disaster does occur, the service provider needs contingency plans to get back up and running quickly.

### **3. Data Restoration in the Case of a System Failure: eDiscovery Laws Mean Your Customers Need a Serious Backup Plan.**

For most businesses, loss of customer data could mean a permanent loss of business. Additionally, some types of data have always been subject to data retention regulations. For instance, the Sarbanes-Oxley Act of 2002 requires all organizations, large and small, to store and maintain all audit or review papers for a period of five years in the event of an audit. But now, the amount of data subject to retention laws seems to be growing exponentially. Changes to the Federal Rules of Civil Procedure a few years ago have produced what are commonly referred to as new eDiscovery laws. Those laws mandate that companies involved in litigation must produce relevant e-mail, documents, instant messages, and other electronic information. A company in litigation that cannot produce subpoenaed information risks losing the case or facing hefty fines. Loss of those kinds of information, such as email messages, can also produce damaging front-page news stories. Therefore, VARs and integrators offering applications as managed services must have the IT infrastructure in place to restore data in the event of a system failure. This is an area where VARs and integrators must verify that their IT infrastructure vendors provide comprehensive backup services.

### **4. Response Time and Site Performance: You Can't Ignore The Facts of Geography and Physics.**

As organizations increasingly rely on VARs to provide managed services for core business functions, the solution provider's site performance and response time for applications are critical.

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“A provider with operations in only one country can certainly serve the world, but it takes time for all those protocol handshakes and acknowledgements (typical in any IP application) to make the round trips between a user's site and the provider's center. It is important to work with a service provider that has datacenters and IP network infrastructure in the same geographic region of the end-customer to ensure the highest performance and response times.

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Most IT service providers can design their hosting centers to include high-performance servers and high-speed access so the site's performance meets customer needs. However, many providers are limited in what they can offer in application response times by simple geography and physics.

### **5. Scalability to Meet Business Growth: “Cheap” Providers Can't Afford to Quickly Add Capacity.**

Who knows what the next hot new thing will be. But if one of your customers has the next “it” product, they will likely want to ramp up operations quickly to seize the opportunity. That means more server and storage capacity for the business applications that process orders, collect payments, and track customer purchases. It also means increasing bandwidth to the corporate Web site and super-sizing the servers that host its Web applications.

To have the flexibility to meet such client needs, VARs and integrators must partner with a financially strong provider who has the resources to quickly add capacity and allocate additional bandwidth.

Related to scalability is startup speed. In many industries, the main competitive advantage comes from being the first to launch a new product or service. Many financial institutions now launch products each month, offering such new products as online banking services, insurance packages, and new types of loans.

The applications and services required to support these new offerings must be deployed quickly to keep pace with product development cycles. That means a VAR or integrator who provides the underlying applications as a managed service must have a way to quickly provision servers, increase storage capacity, provide higher bandwidth, and other supporting infrastructure elements.

## 6. Customer Support: Voice Mail Just Doesn't Cut It, VARs Need Choices.

Whether it has to do with service disruptions, faltering performance, or simply questions about a service, end-customers want answers immediately – 24/7/365.

That's an area where a provider's customer service comes into play. Survey after survey shows that response time to requests is one of the most important measures used by clients to gauge the value of their IT service providers.

Different enterprise clients have varying preferences in how they want to interact. And many are willing to pay for premium levels of support. So look for a provider who offers choices. For instance, one client might want a dedicated person to reach by phone when problems occur, while another might simply want someone to reply to an email or instant message in real time.

## 7. Security: Does Your Current Provider Only Offer Cosmetic Security?

Client customers want security of all types to ensure their data is safe and to protect themselves from the penalties of violating compliance regulations such as Sarbanes-Oxley or the Gramm-Leach-Bliley Act.

## What Customers Need

1. **Uptime** – Systems are always up and performing according to service levels agreements.
2. **Redundancy** – Steps are taken to ensure mission critical functionality is redundant.
3. **Restoration** – When failures occur, rapid recovery.
4. **Performance & Response Time**– Systems respond quickly as not to impede business.
5. **Scalability** – Systems can grow without compromising performance.
6. **Support** – Business partners can provide technical support to meet customer needs and growth.
7. **Security** – sensitive data and corporate information is protected.
8. **Efficiency/Cost Reductions** – Reduce Total Cost of Operations (TCO).
9. **Optimized IT Resources** – Redeploy resources to maximize effectiveness.
10. **Financial Improvements** – Leverage IT systems for financial gain.

It stands to reason that end-customers are reluctant to move to managed services and SaaS without being assured that a provider's facility is secure and fully compliant with data security and privacy regulations.

A VAR or integrator can take some steps to help ensure compliance and data safety, but they will still need a service provider dedicated to the effort. In particular, the service provider needs to offer a number of features to ensure its systems, applications, and data that reside on them are safe, including:

- **Physical security of data centers and the network operations center.** Access should only be permitted by passkey or other technology to those authorized to be in the facility.
- **Physical security of individual servers.** This includes locking them in their racks to prevent tampering or the theft of a physical drive containing data.
- **Robust systems security.** The service provider must employ firewalls, and intrusion detection and prevention systems.

## **8. Cost Reduction and the Benefits of One-Stop Billing: One Bill and One Accountable Party**

VARs and integrators, like the enterprise customers they serve, have typically taken an a la carte approach to developing their IT infrastructure. They may get hosted services from one provider, access services from another and specific application hosting services- from yet another provider.

Such an approach to IT complicates matters and adds to the total cost of doing business. Managing billing is simpler when fewer providers (preferably just one) are involved. Also, buying bundles of services from a single provider is often less expensive than paying for each service separately.

An October 2008 survey of 129 IT decision-makers, conducted by Forrester Research, found that three out of four were anticipating cuts to their IT spending in 2009. That means reducing labor costs, capital costs and service costs. At the same time, those decision-makers also expect to achieve at least some of their cost-cutting goals through improved business and IT processes, and with as little disruption to operations and customer service as possible.

## **9. Optimized IT Resources: The Importance of Dedicated Servers.**

A VAR or integrator who offers a managed service based on its own servers would need to set up numerous data centers around the world to support their clients. In many cases, there would be overlap in various regions, as individual customers demanded their own dedicated servers.

To make more efficient use of IT resources and to reduce the workload of IT staff, a VAR should partner with a provider who handles the raw management of dedicated servers. In this way, the VAR's IT staff can focus on delivering and supporting its own high-end services, whether that be managing applications or integrating business solutions.

## 10. Financial Improvements: Moving from CapEx to OpEx.

For exactly the same reason end-users have outsourced operations to third parties, VARs and integrators can reap similar cost saving benefits by leveraging service providers for their infrastructure.

In particular, rather than spending money on hardware (a Capital expense), the VAR or integrator can pay for services and count them as operational expenses.

## Verio as Your Technology Partner

Verio meets or exceeds expectations for all 10 evaluation criteria, offering a wide range of solutions now required by VARs and integrators. Verio offers a sophisticated Tier-1 global Internet Protocol (IP) network upon which VARs and integrators can offer their managed services. This network has been designed to provide Verio's customers with world-class IP data transport to move Internet traffic around the world at the highest possible speeds. Additionally, the network is built to ensure optimum network reliability and maximum performance. This is accomplished with a network footprint that is global in reach with many redundant paths between hubs, which allows traffic to automatically be re-routed if necessary to avoid service disruptions.

Verio's dedicated server offerings meet the demanding needs of VARs and integrators providing leading industry performance and reliability. Through these offerings, Verio provides a wide range of strategic solutions for dedicated hosting, managed services, security, and Internet access.

To simplify operations for VARs and integrators, Verio also offers bundled packages that include Web hosting plans, Virtual Private Servers, Managed Private Servers, and support for common business solutions including Microsoft Exchange, Sugar- CRM, and others. This provides the VAR or integrator the IT infrastructure it needs, without a heavy management burden. Most importantly, VARs and integrators can focus on customer relationships and developing new value-added managed services.