

TOP 3 PREDICTIONS FOR IT INFRASTRUCTURE IN 2023

Strategic investments will combat impending headwinds

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▼ **BUILDING A DIVERSE ECOSYSTEM IS KEY TO MAINTAINING RELEVANCE AND PROTECTING AGAINST SHARE LOSSES**

In a continuation of a multiyear trend, the go-to-market efforts of the IT infrastructure have focused little on the infrastructure itself and increasingly on becoming an integral piece of organizations' edge-to-cloud strategy. Infrastructure vendors are honing their ability to deliver outcome-based solutions in hopes of being seen as solution providers rather than transactional sellers. While the vision appears to be relatively straightforward, the successful execution ultimately relies on significant investment in engineering operating systems and management platforms to function across edge, data center and cloud environments, plus investments in engineering joint solutions with cloud vendors and ISVs that can satisfy a broad range of customer needs.




Executing on the ecosystem strategy is critical to infrastructure vendors for three key reasons.

- The burden on IT organizations to manage infrastructure has only increased since the pandemic, necessitating new solutions to automate and offload operational tasks.
- Volumes of data generated continue to grow, with significant activity happening outside of centralized data centers in edge locations, warranting new strategies for deploying and managing infrastructure and integrating it with other solutions.
- Preserving revenue growth and profitability will require a revenue diversification strategy that emphasizes solutions and services that add value beyond the hardware itself, which will be particularly important as customers pull back on infrastructure spending in 2023 over economic concerns.

Competition among infrastructure vendors will be stiff as ever going into 2023 as the market navigates revenue challenges driven by cautious enterprise spending, leaving vendors hungry to increase their relevance and value to customers outside the traditional data center.

▼ PREDICTIONS




THE STORAGE MARKET WILL REMAIN EXTREMELY COMPETITIVE AS VENDORS INVEST TO PROVIDE THE MOST FLEXIBLE PLATFORMS

-  **Trend:** Data storage has traditionally been a market with strong customer loyalty as barriers to change providers are high, but evolving market needs will lead customers to re-evaluate their storage platforms.
-  **Driver:** Customers need storage systems that are easy to integrate with both on-premises and public cloud environments. Further, storage TCO is under scrutiny as traditional practices of overprovisioning are called into question.
-  **Result:** Storage vendors are rolling out innovations on all fronts — management, integration, consumption and even related managed services — to defend market share.

Storage will be a top area of on-premises infrastructure investment, with TBR survey data indicating 56% of IT organizations plan to expand their storage footprint over the next two years. The need to increase storage footprints is driven by a combination of overall increases in data generation, the need to store sensitive data in secure locations, and increasing desires to run AI- and machine learning-driven use cases that require increased compute and storage. Despite the storage market being a fairly commoditized market with similar hardware and capabilities across vendors, customers are often more hesitant to switch storage vendors compared to their willingness to switch in other areas like servers. This is because adopting a new brand typically means costly and time-consuming retraining of existing staff, compounded by fears of potential challenges with data migration. Infrastructure vendors, on the other hand, are eager to win share from competitors in a growing and profitable segment.

As storage environments become increasingly easier to manage, vendors are slowly reducing the hurdles for customers to switch between brands. The result of heightened competition for market share is innovation across management, increasing automation, and the packaging of storage hardware and services. Regardless of the innovation area, the primary benefit to the customer is typically reduced costs. This can come in the form of fewer employee hours spent managing storage infrastructure through process automation and simplified user interfaces, increased data storage efficiency within a platform, or on-demand delivery of additional storage capacity to reduce spend on overprovisioning environments.

USER CONSOLES ARE THE OEM FRONTIER FOR ESTABLISHING AN EDGE-TO-CLOUD ECOSYSTEM




-  **Trend:** The pendulum continues to swing toward decentralization of where data is generated, analyzed and stored, which heightens both complexity and opportunity for businesses to further their digital transformations.
-  **Driver:** To deliver on a seamless customer experience that extends beyond traditional data center walls, OEMs must provide users with an interface that is capable of managing a huge variety of tasks, including remote infrastructure deployment, ongoing management, performance analytics, technical support and billing.
-  **Result:** OEMs are helping customers rethink traditional infrastructure management and are working to deliver management consoles with enough appeal to extend vendors' presence from the data center to the edge and cloud.

TBR survey data of U.S.-based IT leaders highlighted that in addition to ongoing expansion of public cloud usage among the large majority of companies, 38% will increase IT resources in edge sites, 33% will increase usage of colocation facilities and 43% will increase usage of managed hosting. The consolidation of centralized data centers and decentralization of data creation and usage have led to significant investments by IT infrastructure vendors in expanding their management platforms to seamlessly deploy and manage edge compute assets and/or integrate management of on-premises assets and public cloud assets.

Investments in building out platforms to secure and manage infrastructure spread across numerous locations ranging from edge to data center to cloud are well underway and will continue into 2023. With its BlueXP platform launched in November, NetApp is targeting hybrid cloud management for customers who use ONTAP across on-premises and public cloud platforms like Amazon Web Services and Microsoft Azure. Other vendors are building out capabilities to help manage and secure infrastructure in edge locations, including Dell Technologies' announcement of its Project Frontier edge operations software platform. Hewlett Packard Enterprise (HPE) has also expanded on edge management capabilities by adding Aruba networking management to GreenLake Central while Lenovo is positioning its Xclarity software for edge-to-cloud deployment, automation, metering and support.

The greatest challenge for infrastructure vendors will be convincing customers to utilize their platforms over competing third-party options. One potential area where vendors can fall short is lacking in ability to manage infrastructure produced by other brands, which will limit the applicability of their management consoles and take away from the single-pane-of-glass experience that is commonly promised.

MANAGED SERVICES ARE EYED AS A PROFIT PRESERVER

-  **Trend:** IT Infrastructure vendors need to diversify revenue streams as an uncertain macroeconomic environment threatens revenue and profitability. Managed services help to do so by building on vendors' core hardware strengths to expand their addressable markets while reducing reliance on hardware unit sales.
-  **Driver:** The revenue growth in IT infrastructure sales seen over the past two years will taper off in 2023, which will also result in revenue declines of close-to-the-box services.
-  **Result:** IT infrastructure vendors will roll out managed services to address specific customer use cases that align to managing their infrastructure offerings in the context of broader IT environments. Examples include security and cloud managed services.

TBR's *2Q22 IT Infrastructure Benchmark* reported the overall infrastructure market, including servers, storage, data center networking and related services, grew 5.5% year-to-year. Although many vendors are continuing to fulfil record backlogs, enterprise customers are expected to become increasingly conservative with purchasing to cut back on costs and hedge against a potential recession. These behavior shifts impact not only infrastructure hardware revenue but also the closely tied services, such as support, that are an important profit driver.

IT infrastructure vendors can increase revenue from close-to-the-box services to some extent by promoting premium capabilities such as AI-based features; however, support revenues are ultimately tied to hardware unit sales, which are likely to contract in 2023 compared to the previous two years of strong growth. Expanding managed services portfolios can help overcome this trend by creating sales opportunities that are not as closely tied to hardware units.

In 2022 IT infrastructure vendors released managed services that played to their specific hardware strengths. For example, Cisco is leveraging its Nexus Cloud and Cisco Intersight technologies to develop solutions that span the management of customer assets across their own hardware and major public clouds. Dell Technologies introduced Cyber Recovery Services to its APEX portfolios, while HPE introduced HPE GreenLake for Private Cloud Enterprise, a managed private cloud service. Many new managed services will fall into the categories of cybersecurity, data protection and cloud management as vendors seek to develop turnkey offerings that integrate their hardware into broader ecosystem solutions that span edge and public cloud.



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