A Broader Vision for Variabilization of IT

Reduced risk unlocks boundless opportunities

One of the most exciting trends sweeping the world of IT is also the hardest to say: variabilization. While it doesn't exactly roll off the tongue, for many companies it has become a seven-syllable synonym for success. Specifically, the variabilization of IT costs is tearing down barriers to market entry and expansion, and paving the road to greater profitability. As businesses begin to fully understand its potential, I believe variabilization will help to usher in the next golden age of entrepreneurship and innovation.

Let's back up for a minute and review the fundamental business case for variabilization, a concept that exists in the space where IT, finance and business strategy overlap. Not long ago, most of a company's IT costs were fixed. Under a fixed cost model, the company makes heavy up-front investments in the infrastructure they need to run the business, and they amortize those costs over time. It works fine while the business is growing, but when a recession hits, or the company loses its largest customer, things change. As its revenues decline, the company has no choice but to continue to pay for its massive infrastructure buildout (much of which now sits unused). The fixed costs cut deep into their profit margins or, worse, lead to staggering losses. In other cases, the same fixed costs can become a ball and chain that prevents the organization from making swift strategic changes to seize new opportunities or outpace competitors.

A better way

Until recently, fixed IT costs were a risk companies had to accept – go all in and hope for the best. But the rapid evolution of technology over the last decade has changed the game. Companies can reduce their business risks by making IT costs variable. Variabilization is achieved by not buying the assets outright, but rather paying a third-party provider for use of their assets. IT costs tend to go up when business is booming, and costs decrease when times are tough. CAPEX is converted to OPEX. Thus, with variabilization, the C-Suite has one less thing to fret over when sales are slow.

This model has now been widely adopted in the IT world, as companies are variabilizing costs for servers, networking gear, or even the entire data center. The practice extends beyond hardware, of course. The Software as a Service (SaaS) approach is built on the variabilization model – customers don't buy the software, they "subscribe" to it. Even IT labor that used to require full-time employees can be variabilized through external service providers.

Cloud computing, one of Dell's fastest growing business areas, has been a huge enabler of the variabilization trend. When various components of IT (hardware, software, support) are bundled together as a seamless outsourced service, companies are able to variabilize a large percentage of their IT costs in one fell swoop. The increasingly popular "cloud brokerage" model makes this practical, as companies can work with a single intermediary to help them choose the optimal cloud services from multiple third-party providers, and manage those services through a centralized portal.

Reaching the next level

The practice of cost variabilization is widely in use by companies of all shapes and sizes today. In fact, few start-up companies do IT "the old way" anymore. Yet there are still incredible untapped opportunities to be realized. Currently, we estimate that about 35 percent of an organization's total IT spending can be variabilized. We expect to push that number to 50-65 percent in the near future.

As we do, I believe we'll find that the true promise of variabilization goes far beyond the management of financial risk. There's a much broader set of benefits in store.

To begin, variabilization can remove much of the IT complexity from businesses who specialize in other fields. They gain the freedom to focus more on what they do best. Meanwhile, many IT issues are left to the manufacturers and/or service providers who know their systems best and can optimize them on the customer's behalf. A symbiotic relationship occurs, in which the supplier takes a vested interest in helping their customer succeed.

Also through variabilization, new companies face lower barriers to market entry, as setting up shop no longer requires a multi-million dollar investment. By the same token, even the most established companies will be less inhibited to charge off in bold new strategic directions, because variabilization means they'll have less to lose. And even when economic conditions turn sour, companies with variabilized costs will be nimble enough to change course and keep profitability alive.

It all adds up to improved financial health, increased competition in the marketplace, and a stiff wind in the sails of innovation. So while variabilization may be a bit of a tongue-twister, it sounds sweeter every time you say it.