TOUGH TIMES

What's in store for the technology industry this year?

by **James Francis** photography **Karolina Komendera**

Even in the dry tones of economic jargon, it's not hard to see that South Africa is in a slump. Last year started with a negative growth rate before rebounding slightly in the later quarters. Although the country avoided recession, it didn't encourage optimism around an underperforming economy. Even the government's own National Development Plan requires an eventual average growth rate of five percent annual GDP. Credit agencies gave the country a ratings smack and South Africa has a climb ahead of it even just to reach growth highs like 2011's 3.7 percent.

Cautiously optimistic
Reshaad Sha from Dark Fibre Africa believes adoption of hosted services in 2015 will accelerate.

But economists are upbeat about 2015, at least in the short term. The Nedbank Economic Unit predicts a growth rate of 2.6 percent due to improvements in mining and consumer spending. But those are shaky pillars. At the start of 2014, the Treasury had expected the year to yield 2.7 percent before platinum belt strikes changed the tide. So 2.6 percent is not really a positive number, just a return to normality.

The misfortunes of power utility Eskom put a bitter end to the previous year and will loom large in 2015, according to FNB senior industry analyst Jason Muscat: "We expect South Africa to continue on its low growth trajectory in 2015 given the country's fiscal and power constraints."

Nedbank noted the same infrastructure shortfalls. Some economists predict rolling blackouts could knock as much as a percentage from GDP. Consumer spending is also likely to remain weak due to high debt levels, writes Investec Group economist Annabel Bishop.

In such an environment, business tends to play it safe. Does this mean IT budgets, already under pressure, are likely to thin even more?

Walking the line

Technology sits in a rather convenient perch when it comes to company spend, says Lise Hagen, research manager at IDC: "Technology is ideally poised to help address challenges experienced in markets, whether through automation or process efficiencies. Still, we expect spending to be more focused on 'keeping the lights on' rather than strategic or innovative projects."

To this end, a new IDC report predicts that IT spend by South African businesses will top $13 billion in 2015, although Hagen notes this is below the growth rate seen in the rest of Africa and the Middle East. Perry Hutton, regional director of Fortinet Africa, points to the same disparity: "SA is just one of numerous African economies we're exposed to and none have such a low growth rate. There will be growth in 2015, but at a much slower pace."

Vuyo Mpako, head of innovation and channel design at Standard Bank, also expects companies to take an austere view: "There will definitely be belt-tightening. Companies are still going to spend on technology, but they will be looking firstly to drive efficiencies."

Managing consumption

But Global Micro MD J.J. Milner says this tighter focus on IT investment has been happening for several years already. He defines three types of IT spenders: companies with mature technology outlooks; companies that suffer from inefficient implementations; and companies that have kicked the can down the road too many times. The difference between the three really determines where IT money will be spent.

So companies in the first group are more likely to capitalise on the technology they procured in the past few years and take confident steps forward. Some may also look for new ways to generate business. Mpako points to two examples at Standard Bank: in 2014, it invested in IBM's cognitive computer Watson and launched the successful mobile payment system Snapscan.

But not all businesses are likely to be that bold and most IT money will be spent rather conservatively.

"Many of these companies are aggressively targeting technological efficiencies, so the cutbacks are typically not on ICT-related investments," says Muscat. "If anything, there could be an acceleration in private-sector ICT investment as companies look to drive down the basic cost of doing business."

Value, already important, will become a keystone to technology sales in 2015. Companies not caught in a legacy trap will look to get more out of their existing systems. New purchases are bound to compliment that.

"We expect less spend from IT on integrated solutions," says Eckart Zollner, head of Business Development at Jasco. "Systems will be stretched to last longer and there will be more interest in services models and scaling technology across a company."

Hosted services (XaaS) are becoming an attractive way for companies to manage consumption, while mobility is already expanding company functions to more employees.

"Companies are likely to avoid investments with large CAPEX requirements that could take three to five years to break even," says Zollner. "The market has grown very risk-averse, so whatever they purchase will have to be agile."

The service year?

Risk-aversion fits nicely with XaaS, with its piecemeal implementations and consumption management. This is often touted as a cost-cutter, but services are not about saving money.

"XaaS is a double-edged sword," says Milner. "It's great for consumption management, but not always better for the bottom line. A company might even decide to run its own services at a cheaper level than to engage with a provider. But providers invest a lot in maintaining service levels, infrastructure and security, things that companies can't focus on as effectively. It's a better value proposition."

As such, economy service hosts are losing traction as companies adopt a value-based approach. This can push the trend in 2015, although some anticipate a longer haul, expecting local service adoption to reflect international levels only over the next two to three years. The enhancements hosted services can bring to a business depend heavily on its comfort with technology.

Services are a part of datacentre culture and that brings its own obstacles, says Hutton: "Where data is stored has been a big-

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ger hindrance than anyone thought. Even internationally this has delayed adoption."

Hybrid cloud may become the de facto approach and has already been pre-empted by product launches from EMC and Microsoft. The shift of vendors towards cloud paradigms is nudging the market towards services as well. Some companies are already transitioning between legacy and hosted services due to new licence models. So despite some incentives for XaaS to boom in 2015, it could simply maintain its organic momentum.

Add some fibre

The sprawl of fibre networks around urban areas could act as a catalyst as more companies switch to this potent connectivity class. Fibre companies are certainly optimistic about the prospect.

"During 2014, we saw a significant drive towards fibre for business," says Reshaad Sha, chief strategy officer at Dark Fibre Africa, adding that 2015 will see even larger adoption. This, in turn, will compliment XaaS and mobility: "Many companies adopted XaaS cautiously, but that has started to accelerate. High-speed fibre is a critical ingredient to this."

Fibre may also disrupt the reseller market. Third parties, particularly large telecoms companies, have been repackaging services with their own connectivity and device bouquets. Armed with robust fibre networks and high-profile acquisitions such as the looming Telkom/Business Connexion purchase, these are likely to shake things up.

Sha notes that fibre will also accelerate the use of collaboration tools, such as video and unified communications (UC). Poor connectivity has held adoption back and 'businesses do have to play catch-up, but they're starting to do so quite quickly'.

Agnostic work environments that can be deployed on any capable device, regardless of the platform, will find fertile ground in fibre and mobile workforces. So better connectivity may boost adoption trends, even in a tough year.

Some areas, such as security and compliance, are likely to not be impacted by the economic climate. But overall, companies are expected to be more careful, thrifty and looking to improve what they have. b

The shifting line of business

IT spend causes numerous battles in the C-Suites of companies, since more and more business functions have become inseparable from technology. By some estimates, over half of IT purchases are even being made from non-technology budgets.

This could be a positive thing. Whereas traditional IT spend props up the backend, non-tech executives tend to focus on the business potential of such investments. But at least one vendor noted that this is making technology conversations harder with clients: "They don't know what they don't know."

Some areas are likely to remain with the CIOs and their peers. Security, for example, might attract C-Suite scrutiny, but is too risky to be left to boardroom whims. We might even see a pendulum swing towards technical executives in 2015 as companies are forced to mature in their use and perspective of technology.