

With Cloud Right, DXC looks to its own transformation and that of customers

Analysts - William Fellows

Publication date: Wednesday, April 6 2022

Introduction

Under the leadership of president and CEO Mike Salvino since 2019, DXC Technology Co. is now midway through a four-year transformation plan to get back to growth. At the same time, it is offering a program of services called Cloud Right to enable customers' cloud transformations. The services combine consulting, assessment, design and implementation on managed public cloud services.

The Take

Cloud Right is a more nuanced approach to cloud transformation than 'cloud first,' which tends to be a blunter lift-and-shift way of migrating to the cloud. By offering a plan that combines more intelligent investment and design choices with holistic management and optimization delivered on a single bill, DXC believes customers can realize better total cost of ownership (TCO) savings with Cloud Right than with lift-and-shift approaches.

Context

In 2017, HPE Enterprise Services and CSC came together to create a global IT services company that was subsequently named DXC Technology. Today, that company is worth roughly \$16 billion in annual revenue. Proceeding from its formation, DXC removed costs from the business, acquired Luxoft, and developed Platform X to maneuver into digital services.

Mike Salvino took over as CEO in September 2019, and sold the US state and local health and human services business unit to Veritas Capital for \$5 billion, unwinding some of its earlier M&A bets that

hadn't paid off. It plans to divest a further set of nonstrategic assets worth some \$500 million within 12 months.

That outlook has weighed on shares, which have shed about two-thirds of their value over the past three years. The discount undoubtedly figured into the unsolicited – and failed – bid that France-based IT services rival Atos launched for DXC in 2021.

Transformation journey

Having shed unwanted assets, DXC has embarked on a four-year transformation journey to get back to growth. Last year's 'stabilization phase' has transitioned to this year's 'foundation phase,' with DXC set to enter the 'acceleration phase' during its next financial year (FY 2023).

The current focus of the foundation phase is employee engagement to attract and retain talent (including a major hiring initiative), the stabilization of year-over-year organic growth, cost optimization (expanding adjusted EBIT margin), and delivering a book-to-bill ratio of over 1.0.

Under the program, revenue decline is slowing – its Q3 organic revenue fell 1.4% to \$4.09 billion compared with the same period in the prior year, when revenue fell 9.7% over the previous year. Net income, meanwhile, fell to \$102 million, compared with \$1.1 billion last year.

Q3 organic revenue in the Global Business Services unit revenue climbed 7% to \$1.94 billion (with growth in its \$545 million analytics and engineering businesses, and improvement in its \$1.26 billion applications business), while Global Infrastructure Services organic revenue declined 8.3% to \$2.14 billion. DXC's other product and services segments, which all declined in the quarter, are business process services (\$116 million), cloud and security (\$471 million), IT outsourcing (\$1.11 billion) and modern workplace (\$561 million).

Cloud Right

A centerpiece of DXC's own modernization is the Cloud Right market approach it uses as the basis of customers' cloud migrations, plus its own rotation to public clouds. Rens Troost is global head of cloud strategy and technology, and leads the Cloud Right initiative. Troost joined DXC with its acquisition of Virtual Clarity in 2019, which became the Cloud Right consulting practice.

Cloud Right is DXC's approach for modernizing, optimizing and integrating clouds and on-premises IT with applications, security and analytics. It says it analyzed the experiences of 500 DXC enterprise customers and contrasted lift-and-shift strategies, which move workloads and applications to the cloud regardless of cost, with those that undertook a Cloud Right approach. It claims using a Cloud Right approach to application and hybrid IT modernization realized an average of 34% TCO improvement, versus a 12% improvement for those undertaking a lift-and-shift approach.

Cloud Right combines planning and testing, and uses a standard framework as a guide. While mainframe modernization and the migration to public clouds (where it makes sense) is a major motion, other cloud venues are also part of the program, which includes optimization, automation, security and orchestration of third-party tools.

Services are delivered on a single bill. Capabilities include managed container services, cloud strategy and migration services, managed multicloud, virtual private cloud services and PaaS for SAP. It takes advantage of native DXC tools such as the Platform X automation and managed services delivery platform (formerly Platform DXC).

DXC claims 27,000 migrations to the public cloud every year, including some 65,000 workloads, and says it has more than 800 managed cloud customers. It claims 650,000 virtual servers under management. DXC also has over 700,000 mainframe MIPS (millions of instructions per second) under

its management. DXC no longer delivers its own cloud services, although it continues to operate datacenters to host outsourced customer deployments. Its key partners are AWS, Azure, GCP and VMware. It claims 7,800 certified cloud professionals on Azure, AWS, GCP and other clouds.

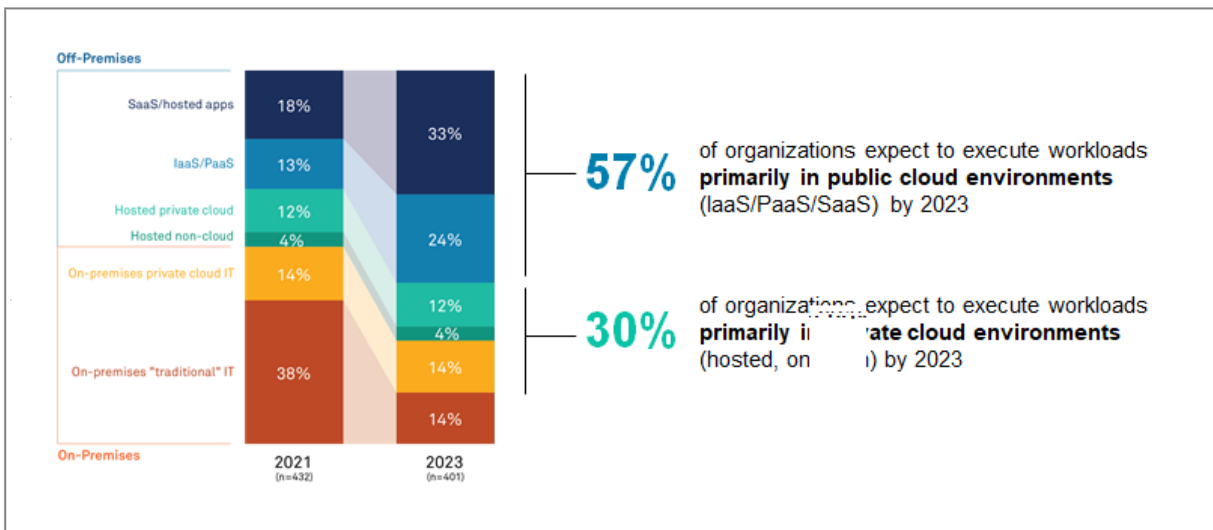
Cloud as the primary venue

Re-platforming to cloud and cloud native is reaching the mainstream of the market, and Cloud Right supports customers' enterprise workloads that are on the move. The aggregated workload-specific responses on execution venues from 451 Research's Voice of the Enterprise survey shows public clouds and hosted environments taking over as the primary environments for workload execution over the next several years (see figure below).

Organizations expect to pivot toward public clouds (SaaS and IaaS) as the primary venue for 57% in workloads in 2023, up from 31% in 2021. This trend, along with overall cloud growth and hybrid/multicloud implementation, should drive demand for the kind of migration, integration and ongoing operational management services provided with Cloud Right.

Concurrent with the growth of the cloud, traditional on-premises IT environments declined from being the primary venue for 38% of workloads today, to 14% in two years. However, private clouds (on-premises and hosted) hold steady at 30%.

Cloud Is Becoming the Primary Venue



Source: 451 Research's Voice of the Enterprise: Cloud, Hosting and Managed Services, Workloads & Key Projects 2021

Q. Which of the following best describes the primary environment used to operate your workloads/applications today?

Q. Which of the following best describes the primary environments in which your organization's workloads/applications will be operated in two years from now?

Base: Respondents with workloads/applications.

Competition

DXC Technology is a pure-play professional services provider in the IoT context, and it competes with consulting-led competitors such as Accenture, Atos, Capgemini, Cognizant, Deloitte, EY, Infosys, HCL and Wipro. Other IT service competitors have a product heritage, such as IBM, Fujitsu and Hitachi

Vantara. The professional services arms of Indian-headquartered manufacturers TCS and Tech Mahindra provide them access to internal engineering expertise. DXC also competes with Genpact and Kyndryl.

SWOT Analysis

Strengths	Weaknesses
The re-platforming to public clouds and hybrid/multicloud implementations should drive demand for the kind of modernization, migration, integration and ongoing operational management services provided by Cloud Right.	DXC is still restructuring to better support its customers, improve retention and position itself more compellingly as a digital services provider and cloud migration partner – but most importantly to return to growth.
Opportunities	Threats
Since its formation in April 2017, DXC has undertaken many transformational changes. Cloud Right is important for customers seeking a migration partner with deep mainframe expertise that is committed to a public cloud services future.	DXC is targeting high-end services in emerging markets – such as cloud modernization, analytics and IoT – to replace the IT outsourcing revenue that has been decimated by the cloud.

Source: 451 Research