



## DIGITAL & TECHNOLOGY SERVICES

# Mainframe Market Shifts: Exploring Trends, Challenges, Growth and Opportunities

Recent market developments make the Mainframe a newly competitive space for a platform that remains a challenge for many companies.

### The Evolving Mainframe Market and Challenges in the IT Landscape

The technology hype machine may be focused on AI, blockchain and living digitally, but the reality for many IT organizations still looks a lot like it has for the past 10-15 years or more. Many of those older, not-quite-as-sexy technologies remain major cost drivers and headaches for a number of firms. The poster child for the ongoing burden of legacy technology decisions must surely be the mainframe.

The overall mainframe market remains huge, at over \$5bn globally in 2022, and expected to growth north of \$6bn by the end of the decade.

Despite the market size, the mainframe space has only gotten more concentrated. As tech giants reorganize to focus on the cloud, they are shedding asset-intensive legacy businesses (data centers, infrastructure outsourcing, etc.). On the software side, a handful of large players continue to grow by acquisition, further narrowing the field. The hardware/software oligopoly, in turn, drives consolidation in the provider space, as only the largest service providers can achieve sufficient scale to counteract the hardware and software suppliers' pricing power. The net result is a fairly fixed number of customers and providers, isolated on a metaphorical "mainframe island" competing fiercely for limited budget resources, akin to a "Hunger Games" scenario.

Meanwhile, mainframe customers have predominantly concentrated on survival strategies. They employ a limited toolkit, primarily centered on workload optimization, to reduce footprints and transition workloads to more cost-effective processors. The bigger, harder goal of charting a course off "mainframe island" continues to be elusive as the perceived costs and risks are still daunting and many long-standing obstacles remain:

- Organizational risk aversion that makes it more cost-effective to maintain existing practices rather than to invest in changes.
- Lack of budget or internal expertise for complex re-platforming and re-factoring.
- Stranded balance sheet costs in assets like facilities, hardware, and software.
- Client contractual prohibitions on shared tenancy and/or offshore data.
- Mainframe workloads (high-volume, backend processing) generally run seamlessly and invisibly, unnoticed by end users, making it a challenge to justify potentially risky changes.

### Seismic Changes and Challenges in the Mainframe Market

Leading providers in the mainframe space have undergone significant change in the past two years, and the full implications are still developing.

The impact of the IBM/Kyndryl split, initiated in Q4 of 2021, continues to unfold. Kyndryl now operates at an “arm’s length” relationship to legacy IBM for hardware and software pricing, eliminating a historical competitive advantage. Atos, another top 5 global mainframe services provider, has executed a similar split with yet unknown implications for customers.

On top of the significant shifts in the provider landscape, the same fundamental structural challenges remain for mainframe customers: hardware and software monopolists, staffing challenges and no clear path to retiring a high-performing but costly platform. Shifting corporate focus to digital strategies and cloud-based solutions also draws resources away from the mainframe platform, exacerbating these challenges.

CLIENTS CALL US WHEN...

- *Facing significant or unpredictable cost hikes at renewal points for mainframe hardware, software and services*
- *Confronting uncertainty about the viability of a mainframe partner*
- *Seeking a path to migrate away from the mainframe entirely*

Solving Mainframe Challenges: A&M's Expertise and Solutions

In a rapidly evolving technological landscape, addressing mainframe challenges requires a blend of strategic insight, technical proficiency and operational excellence. A&M’s Outsourcing Advisory practice stands at the forefront, offering a range of solutions tailored to navigate the complexities of the mainframe environment:

- ✓ Helping clients navigate the shifting mainframe solution landscape
- ✓ Leveraging deep technical expertise within our Digital & Technology Services practice, and charting an attainable, risk mitigated path to a right-sized mainframe footprint
- ✓ Providing market-tested approaches to negotiating, contracting and managing outsourced services
- ✓ Performing comprehensive financial analysis, scenario planning and decision support for mainframe optimization strategies

A&M's Thoughtful Approach to Mainframe Complexities: Exploring Options and Best Practices

Charting a course off “mainframe island” remains a complex proposition that requires a multi-prong approach, all designed to shrink the size of the mainframe to change the economics of retiring it.

A successful approach leverages both technical and commercial solutions to shrink reliance on the platform over time while delivering the mainframe services that are still required in the most cost-effective manner:

Commerical Options	Technical Options
<ul style="list-style-type: none"><li>• <b>Service delivery model:</b> in-house staff vs. outsourcing</li><li>• <b>Commercial model:</b> a la carte hardware, software and services vs. managed services vs. -aaS</li><li>• <b>Location options:</b> Own data center vs. dedicated hosted vs. shared tenancy vs. cloud</li><li>• <b>Service Providers:</b> There are only a handful of major mainframe service providers left, but their size allows for a flexible hardware and software “market” within their user base</li><li>• <b>Re-platforming services:</b> multiple support options exist, from specialist firms to “one stop shop” service providers</li></ul>	<ul style="list-style-type: none"><li>• <b>Re-factoring/re-platforming:</b> Mainframe workloads to modernize platforms, often using specialized tools and automation</li><li>• <b>Mainframe Cloudification:</b> Containerization of mainframe workloads in the cloud</li><li>• <b>Hybrid Mainframe Integration:</b> Designing a hybrid cloud infrastructure strategy that integrates mainframe capabilities</li><li>• <b>Innovative Security Solutions:</b> Creative uses of encryption, jump servers and other technical workarounds to overcome latency, regulatory or data privacy constraints</li><li>• <b>Mainframe Expansion:</b> Extending mainframe use cases to boost the value proposition, e.g., Linux on the mainframe</li></ul>

## A Firm Guide: Navigating Mainframe Disruption and Strategizing for the Future

Today, it is crucial for mainframe customers to acknowledge the market's upheaval and devise a plan to create opportunity amidst the chaos. Rather than just finding ways to survive, there is a real opportunity in the current moment to rethink mainframe strategy and to devise a plan to get off of "mainframe island."

Therefore, take the time to comprehend how these significant market shifts impact your environment and provider portfolio. Work closely with your internal partners to weigh the benefits, costs and risks of maintaining the mainframe against the available alternatives. Revamp your mainframe strategy to align with the new market realities and establish a long-term vision for shrinking your mainframe footprint where possible and delivering any residual mainframe requirement cost-effectively. Recognize that the mainframe platform represents a multi-year "headache" that will not go away, so solving it requires a commitment that extends beyond a single budget cycle. And remember that there are experienced advisors at A&M ready to help every step of the way.

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### ABOUT ALVAREZ & MARSAL

Companies, investors, and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 8,000 people providing services across six continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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