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Business Value Highlights

48%

faster deployment of new servers

39%

faster development life cycle for new applications

2.7 times

more new features released per year

3.7%

CAGR to revenue over five years

20%

total revenue growth over five years

8%

one-time revenue growth

3%

further year-on-year revenue growth

\$206 million

average higher revenue per year per organization

The Business Impact of IT Transformation

Leveraging IT efficiencies and increased agility to deliver new customer experiences and revenue growth

EXECUTIVE SUMMARY

Datacenter improvements have thus far focused on cost reduction and point solutions. Server consolidation, cloud computing, virtualization, and the implementation of flash storage capabilities have all helped reduce server sprawl, along with associated staffing and facilities costs. Converged systems — which combine compute, storage, and networking into a single system — are particularly effective in enabling organizations to reduce operational and staff expenses. These software-defined systems require only limited human intervention. Code imbedded in the software configures hardware and automates many previously manual processes, thereby dramatically reducing instances of human error. Concurrently, these technologies have enabled businesses to make incremental improvements to customer engagement and service delivery processes and strategies.

It's not enough.

In today's highly competitive, always-on business environment, IT must evolve from an enabler of back-office processes into an engine that helps multiply revenue. This evolution, called IT transformation (ITX), requires the widespread modernization and automation of IT platforms and processes, along with the deployment of cutting-edge technologies that can help IT better align its offerings with line-of-business (LOB) needs. ITX is a necessary first step in a full digital transformation strategy for the business.

IDC interviewed organizations about how they are leveraging IT transformation initiatives to better meet the needs of their businesses. Surveyed organizations reported that as the result of their ITX initiatives, their IT teams are better serving their organizations with delivery of timely, functional applications, features, and services. This has resulted in greater collaboration between IT and business teams and helped these organizations win more business and increase revenue by better addressing business opportunities and serving customers.

IDC calculates that study participants will realize revenue gains worth \$206 million per organization per year, representing a five-year CAGR of 3.7% and total revenue growth in five years of 20%, through their ITX.

IDC's research showed that study participants have made their development efforts and IT operations much more responsive to business needs through their ITX initiatives. This has enabled them to improve their competitive positions and capture substantial additional revenue, with IDC identifying three ways that these organizations are realizing revenue gains through IT transformation:

- Reducing the time to market for customer-facing applications and services, thus taking advantage of more business opportunities and winning more business
- Improving the quality of existing applications and services, including increasing employee productivity levels, thereby better serving customers
- Having the capacity and capabilities to create new products, services, and offerings that address market demand

SITUATION OVERVIEW

Many companies that are beginning to understand the revenue and business growth that ITX can generate are implementing transformation efforts. IDC spoke with some of these businesses for this study, and based on their experiences with their ITX initiatives, IDC calculates that these businesses will achieve a 20% revenue increase over five years thanks to their ITX initiatives. They will increase revenue by:

- Speeding time to market for new products and services, hastening return on investment
- Delivering existing services to customers in a more timely fashion, increasing customer satisfaction and loyalty
- Improving existing services and products, thereby attracting new business

These benefits will accrue through ITX capabilities that help companies better compete. Capabilities improve the availability and agility of IT, boost productivity, and enable organizations to expand into new geographic territories. Study participants reported that the average reduction in time to deploy converged infrastructure nodes was 58% and for time to deploy a new virtual machine was 51%.

Scalable architectures help companies better accommodate change and capture business opportunity. These architectures enable IT to easily provision and deploy computing capacity as needed for development and testing functions and for service deployment, including the delivery of new applications. In an always-on business environment, ITX can help reduce instances of unplanned outage — and ensuing revenue loss, customer dissatisfaction, and damage to reputation. Reliable operations coupled with reduced application latency and improved performance help boost employee productivity. In some cases — in law firms and other professional services providers — it enables employees to bill more work. The “available anywhere” nature of cloud computing helps organizations expand their geographic reach — providing products, services, and employee support wherever in the world they choose to expand.

Start by Implementing Hybrid Environments

The capabilities and benefits discussed previously are the end results of ITX. But many businesses still wonder where to start.

The implementation of hybrid IT — or a mix of on-premises IT and cloud computing capabilities — is a good option. In implementing hybrid environments, IT can define an architectural approach, an IT investment strategy, and an IT staffing model that can help increase revenue and propel growth by:

- Modernizing traditional IT workload environments and infrastructures to make strategic use of a broad range of cloud computing environments. (These improve IT agility and scalability while reducing capital outlays. Cloud options include clouds hosted by third parties, including software-as-a-service and infrastructure-as-a-service offerings.)
- Developing a multicloud strategy to expand geographic reach and comply with diverse data sovereignty and governance regulations
- Realigning internal IT responsibilities to match those needed by the hybrid environment
- Rebalancing the IT team’s focus on managing workloads in core datacenters with the need to develop, deploy, and maintain critical IT systems in far-flung locations to support expansion efforts and edge locations

Just as there are architecture options for cloud computing, companies can find various methods to transform on-premises operations. Many IT organizations choose to invest in converged infrastructures, or those that combine network, computing, and storage onto a single system, complete with management capabilities. Converged systems provide a stable, reliable, and operationally efficient platform for business-critical databases and applications

that IT chooses not to run on a public cloud. Converged systems improve the performance of these applications and databases while streamlining infrastructure management and reducing associated facilities costs.

By modernizing and automating infrastructure, IT can reposition its strategy. Rather than provide a back-office support role, IT can become a service-centric business partner intent on driving revenue growth.

STUDY DEMOGRAPHICS

IDC interviewed 16 organizations around the world about the impact of their IT transformation initiatives on their business results. These organizations have an average of almost 10,000 employees (2,500 median) and are generating an average of \$1.61 billion in revenue per year. Interviews were in-depth in nature and covered various topics related to understanding the qualitative and quantitative impact of study participants' ITX initiatives. Interviews reflect the experiences of organizations located in North America, EMEA, and APAC and a cross-section of industry verticals. Table 1 provides firmographic details about these organizations by average, median, and range.

TABLE 1 Demographics of Interviewed Organizations

	Average	Median	Range
Number of employees	9,878	2,500	300–75,000
Number of IT staff	586	130	5–4,800
Number of IT users	9,716	2,438	150–75,000
IT budgets per year	\$124 million	\$17 million	\$1.7 million to \$1.2 billion
Number of business applications	417	100	18–3,000
Revenue per year	\$1.61 billion	\$313.5 million	\$0 billion to \$11 billion
Countries	United States (12 organizations), Germany, Italy, India, and Indonesia		
Industries	Financial services (3 organizations), government, healthcare (3 organizations), higher education (2 organizations), hospitality, IT service provider, legal, logistics, manufacturing, professional services, and retail		

n = 16 Source: IDC, 2017

IT MODERNIZATION INITIATIVES AT INTERVIEWED ORGANIZATIONS

Interviews with study participants covered the impact of their IT modernization programs on IT costs, IT operations, and business results. For purposes of this study, IT modernization initiatives were defined to include threshold adoption of several of the following technologies and solutions: converged/hyperconverged infrastructure, refreshed server environments, flash storage deployment, migrating/deploying applications to a hybrid cloud environment, undertaking data protection and next-generation security initiatives, automated provisioning of IT services, and implementing a DevOps approach to software development efforts.

Table 2 reflects the heterogeneity of the efforts of study participants to modernize their IT operations as they seek to make IT more effective and efficient and enable their lines of business. Of the various technologies and approaches, study participants had uniformly adopted only data protection to at least some extent, but more than half of interviewed organizations have deployed or undertaken each of the other modernization initiatives, reflecting the depth and scale of their IT modernization efforts that provide the basis for IDC's analysis in this study.

TABLE 2 IT Modernization Initiatives Undertaken by Study Participants

	Average	Median	Range
Converged/hyperconverged (% of server environments)	60	6	0–100
Flash storage (% of storage)	17	20	0–100
Hybrid cloud (% of applications)	21	14	0–75
Server refreshes (% of servers refreshed)	40	30	0–100
Data protection (% of IT environment)	87	95	50–100
Next-generation security (% of IT environment)	55	63	0–100
Automated provisioning of IT services (% of employees with access)	19	1	0–100
DevOps (% of total application development teams)	23	10	0–100

n = 16 Source: IDC, 2017

Note: Data shows the relative nature of each IT modernization initiative (average of percentage by organization).

According to study participants, their ITX initiatives are considered strategically important, with nearly all having C-level sponsorship from their IT organizations (CIO/CTO) and sometimes lines of business (including CEOs). Interviewed organizations described objectives for and impact of their ITX initiatives that go to the heart of their efforts to provide digital services to their employees and customers:

- *“We want to make the back end fully automated and leverage the automation not just to become digital but to free the workforce and allow them to work to create revenue for the company We are now much better positioned to meet goals and bring services to market.”*
- *“Our ITX initiatives have allowed our business to flow seamlessly in terms of operations. As our databases continued to grow, we just saw performance being a problem, so we went to all-flash arrays. Now, it’s just so much more seamless for our database teams and the transactions we’re running on these databases.”*

IT TRANSFORMATION AND APPLICATION DEVELOPMENT

The ability of IT organizations to support business operations is evaluated to a significant degree in terms of delivering timely, robust, and highly functional applications and services to users and customers. When IT organizations meet these objectives, they can assume the role of business partner through enablement; on the other hand, they come under scrutiny when they are unable to meet demand from lines of business and customers. Whether IT teams are successful in application development is closely linked to their approaches in terms of IT infrastructure, IT processes, and even team structures.

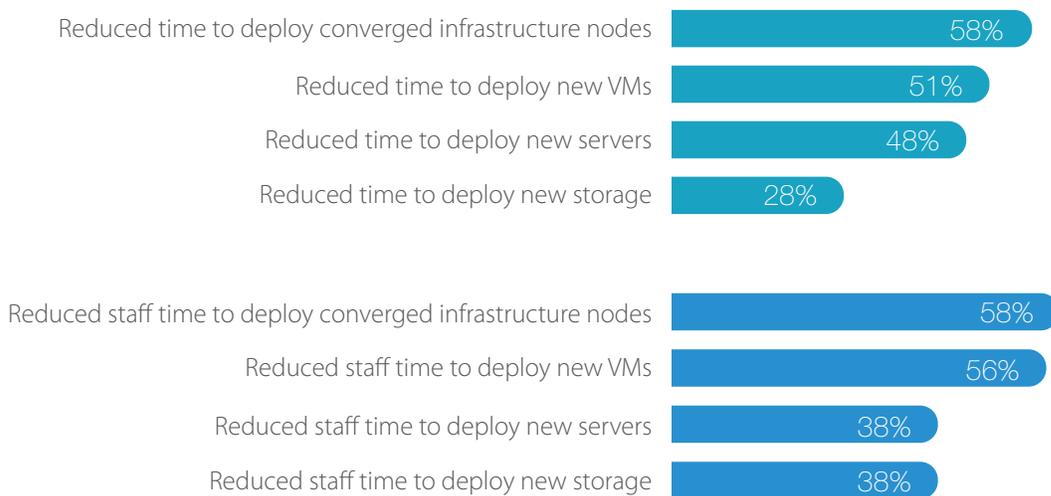
Study participants reported that their ITX initiatives have had a substantially positive impact on their application development teams. They linked ITX initiatives to enhanced IT agility and flexibility, which in turn has helped them improve results in terms of application development. They are releasing new applications and features more often and have compressed development life cycles, even as they improve the quality of applications. Ultimately, this means that they are delivering more value to their organizations.

Dated infrastructure and inefficient processes can slow down application development efforts. IT departments must provide the IT resources required by development teams throughout the development process — including compute, storage, or networking — and

when resources are too slow to be provisioned or simply cannot be provisioned because of resource constraints or siloed structures, then a cost is exerted in terms of their application development efforts.

Study participants attributed substantial gains in IT agility to their ITX initiatives. As shown in Figure 1, they are now able to deliver server, converged infrastructure, VMs, and storage resources much faster and with significantly less staff time, with provisioning of compute resources being around two times faster or more than previously. For application development teams, this means fewer delays and more streamlined processes. One organization that has adopted continuous development processes supported by its ITX initiatives has increased the frequency of release windows by 10 times: *“We’re now able to address business opportunities as they come up. Having a lot of automation and the ability to turn things up or down and be elastic to meet the needs of the business gives us that ability. I feel like we’re constantly more engaged in the business now, as opposed to putting out fires.”*

FIGURE 1 Impact of IT Transformation Initiatives on IT Agility



Source: IDC, 2017 % improvement

In large part because of more agile IT infrastructures and also because of adoption of DevOps approaches and self-service capabilities, study participants have significantly reduced the friction that reduces the effectiveness of their software development efforts. As a result, application development teams are creating much higher value for their organizations. As shown in Table 3, this value manifests itself in increased number of application and new feature releases and faster times to delivery for applications and releases.

At a higher level, more effective application development efforts enabled study participants to remain competitive and improve their competitive positions, which is reflected in the significant revenue gains they attribute to their ITX initiatives (discussed later in this section). One study participant that has reduced its time to market for new applications and services by 40% with its ITX initiatives attributed its ability to remain up to speed in a very competitive market to this improvement.

Study participants provided numerous examples of how their ITX initiatives have made their application development teams more effective and productive:

- **Timely delivery of compute resources.** *“Because of our converged infrastructure, we’re able to deliver VMs in much less time, which helps developers Previously, we had to tell them we didn’t have capacity, which created a lot of slow down.”*
- **More time to focus on the quality of applications and features.** *“If applications are running better in terms of performance, then there are fewer complaints and less time is spent investigating issues. Our developers can then focus on more innovation and issues that matter, as opposed to just troubleshooting things like slowness we can’t do much about, because of bad servers.”*

TABLE 3 Impact of IT Transformation Initiatives on Application Development

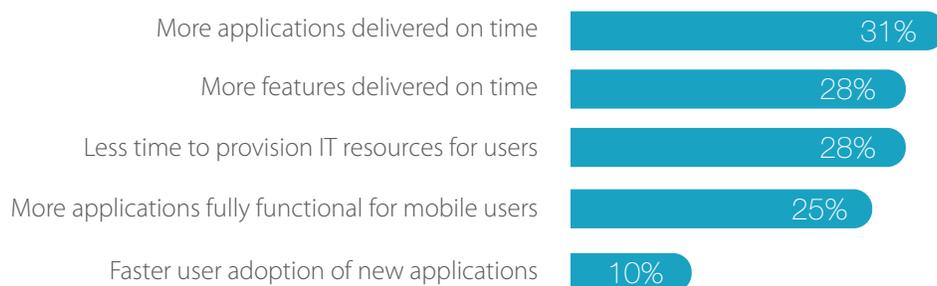
	Before/Without ITX	With ITX	Difference	Change(%)
New applications with new logic				
Number of new applications per year	7.1	8.7	1.6	22
Development life cycle (weeks)	27.4	16.7	10.7	39
New applications with existing logic				
Number of new applications per year	13.6	22.3	8.7	64
Development life cycle (weeks)	23.5	13.2	10.3	44
New application features				
Number of new application features per year	40.8	110.8	70.0	172
Development life cycle (weeks)	7.4	4.6	2.8	38

n = 16 Source: IDC, 2017

The impact of ITX initiatives is equally apparent in terms of supporting users and customers (see Figure 2). By shrinking development life cycles and reducing uncertainty associated with these life cycles, study participants are delivering more applications (31%) and new features (28%) in a timely manner. This means that fewer users are experiencing delays in obtaining requested functionality. It also means that customer-facing services meet the organizations' expectations. Further, the ITX initiatives of study participants are helping them deliver higher-quality and more functional applications and features: For example, 25% more applications have full functionality for mobile users, and users adopt new applications in 10% less time, on average.

These types of metrics reflect the extent to which ITX initiatives are helping IT teams partner with their businesses by delivering what users and customers need. One organization explained how faster development life cycles impact its business: *"We're able to better pursue our business objectives because of faster delivery of applications and are earning around \$4.5 million in additional revenue as a result."* Another study participant linked its ITX efforts to improved end-user experience: *"The impact of our ITX initiatives on application performance has been significant; I think that ITX has helped us increase application performance by 25-30%."*

FIGURE 2 Impact of ITX Initiatives on Application Development Metrics



Source: IDC, 2017 % improvement

IT TRANSFORMATION AS A REVENUE GENERATOR AND MULTIPLIER

Study participants reported significant cost savings and operational efficiencies driven by their efforts to modernize and transform their IT environments (see *Reducing Technical Debt and Optimizing IT Costs with IT Modernization Initiatives*, IDC white paper #US43218017, forthcoming). Critically, though, their ITX initiatives were never just about reducing costs or becoming more efficient, they were also about taking the necessary steps to ensure business

success. Interviewed organizations realized that without the automation of resources and processes and becoming more service centric, their IT operations would create friction for their business operations, rather than enabling them. In particular, their businesses rely on the delivery, availability, and performance of digital applications and services. When their IT departments cannot deliver new features in time due to inefficient development processes, or application performance lags because of old infrastructure, employees are less productive than they can be and organizations find it more challenging to address business opportunities and serve their existing customer bases.

Study participants linked their efforts to transform their IT operations through adoption of technologies such as converged and hyperconverged systems, flash storage, and refreshed servers and approaches and technologies such as self-service provisioning of cloud and IT resources, DevOps, and data protection to improving their ability to respond to business needs and to achieving better business results:

- **Improved agility.** *“Our ITX initiatives have allowed us to be more agile and responsive to changes on the business side of the house in terms of bringing new projects and features online.”*
- **Business continuity.** *“We’ve gone from seven to eight outages that could last multiple days per year to one per year that lasts an hour . . . What starts to happen is that we ship late . . . probably 50% of these would result in a loss of several hundred thousand dollars per event.”*
- **Meeting changing business demand.** *“We’re able to adapt to changes in business needs and never hit a wall with server resources. We have the flexibility to bring in new capacity and just expand . . . We’ve increased revenue by about 10% — we’d been kind of stagnant, so all of the revenue growth is due to ITX, I would say.”*
- **Stronger business basis.** *“Increased automation with our ITX initiatives makes us more adaptable as a company. We are able to provide the backbone system that our business strategy is built on. We no longer worry about when the system will go down. The standard is now reliability, not uncertainty . . . The result has been 25% higher revenue for two of our product lines.”*

For study participants, the result of their ITX initiatives has been to capture significant revenue gains as they have the IT infrastructure and processes in place to better meet business demand. Importantly, these organizations explained that increased revenue is not a one-time jump; they reported an 8% initial increase in revenue attributable to their ITX initiatives, and further growth of 3% year on year, representing a CAGR of 3.7% for their revenue over five years and 20% higher revenue after five years. The result is substantially higher revenue, with IDC putting

the value of additional revenue per organization attributable to their ITX initiatives at \$206 million per year over five years (refer to Table 4).

Study participants described three ways that their ITX initiatives have enabled them to generate higher revenue: being faster to market with applications, products, and services; making improvements to existing products and services; and bringing new products and services to the market.

Increased Revenue: Faster to Market

For surveyed organizations, the ability to deliver products, services, and functionality to users and customers in a timely way is of paramount importance. Like most businesses, they sometimes find themselves with the unique opportunity to be first to market with a particular service or function that addresses latent demand, which can result in significant revenue by being the first to offer it. On a more consistent basis, the ability to deliver in a timely and consistent way to existing customers can hold down customer churn levels and increase customer satisfaction ratings.

For study participants, better addressing business opportunities by being faster to market has brought significant revenue gains — an average of \$39.8 million per year per organization over five years (refer to Table 4). Study participants provided examples of how their ITX initiatives have enabled them to be faster to market with key services and products:

- *“Moving to hybrid cloud is helping us reduce the time to market for our services. We spend less time managing the infrastructure and more time delivering what our customers require. And we are able to remain competitive against our major competitors targeting the same customers.”*
- *“Our ITX initiatives and becoming more cloud focused have helped us to expand in different geographic markets because now we can utilize public cloud services to provide our services. We have to be close to our customers, and that’s how we can increase our revenue.”*

Increased Revenue: Improved Products and Services

Study participants also reported that their ITX initiatives have played a critical role in helping them improve the quality of existing products and services. These organizations sometimes found that their IT operations could not provide requisite levels of flexibility, scalability, and performance. This could lead to suboptimal outcomes, including challenges in growing, friction in development efforts that impeded improvements, and potential customer churn and dissatisfaction.

According to study participants, their ITX initiatives have spurred business growth by making the value proposition of existing products and services more compelling. Surveyed organizations are reaping substantial revenue gains through the positive impact of their ITX initiatives on improving existing products and services; IDC calculates that they will realize \$94.9 million per organization per year over five years of higher revenue (refer to Table 4).

Surveyed organizations provided examples of how their ITX initiatives have enabled these types of better results:

- *“We’ve increased our revenue through our ITX initiatives by being able to integrate with another third-party vendor, which enhanced our products. These types of integrations happen several times a year and help us get existing customers to upgrade.”*
- *“Higher user productivity through our ITX initiatives helps our employees bill more work. I’d say we’ve gotten a one-time jump of about 10% of revenue and then about 5% per year more growth in revenue after that.”*

Increased Revenue: New Products and Services

ITX initiatives are also having a positive impact on study participants’ businesses by enabling these organizations to bring new products or services to the market. Whereas they previously might have lacked IT flexibility or capacity to take the steps needed to shepherd a new product through the development process, their ITX initiatives have freed up IT resources and enabled IT teams to act more flexibly in supporting business efforts. This can be particularly impactful when organizations are growing and they need their IT operations to keep up with their businesses so as to not create friction that could slow their growth or force them to forego potential business opportunities entirely.

The value of being better able to bring new products and services to the market is significant for study participants. IDC calculates that they will achieve revenue gains worth an average of \$71.6 million per year per organization (see Table 4). They provided several examples of business growth that ties back to their ITX initiatives:

- *“We’re able to adapt to changes in the business needs. If the business requires a new server, we can quickly put it up and there’s always lots of horsepower available. We never hit a wall where we’re maxing out servers. So it’s the flexibility to bring in new resources and having the ability to expand.”*

- “Going forward, I think there will be more value from our ITX investment. I think we can hire more people and do more without having to exponentially increase hardware costs. With hyperconverged infrastructure, we can probably bring on another 15-20% of employees and 10-12% of cost savings there, and be able to leverage that hyperconverged infrastructure to continue to add new services that bring in more revenue. I would say . . . probably another 3-5% of higher revenue per year.”

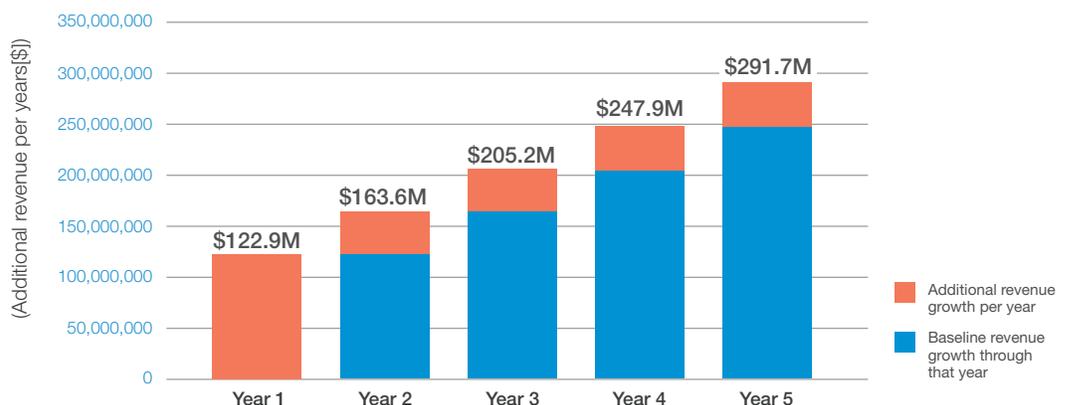
TABLE 4 Total Additional Revenue per Year per Organization

	Per Organization	Per 100 Users	Per Server
Additional revenue — faster to market	\$39.8 million	\$409,400	\$25,600
Additional revenue — improved products/services	\$94.9 million	\$977,000	\$61,100
Additional revenue — new products/services	\$71.6 million	\$736,800	\$46,100
Total additional revenue per year per organization — five years	\$206.3 million	\$2.1 million	\$132,700

n = 16 Source: IDC, 2017

Figure 3 shows that the impact of ITX initiatives on revenue is neither static nor one time. Instead, surveyed organizations reported that they are achieving and will achieve increasing levels of additional revenue as they leverage improved capabilities and performance through their ITX initiatives to drive their business. This occurs in the context of ITX initiatives delivering more efficient and effective development operations, more engaged and productive employees, and greater confidence in IT as a partner to the business. The reward for surveyed organizations is continued growth to revenue, as reflected in Figure 3.

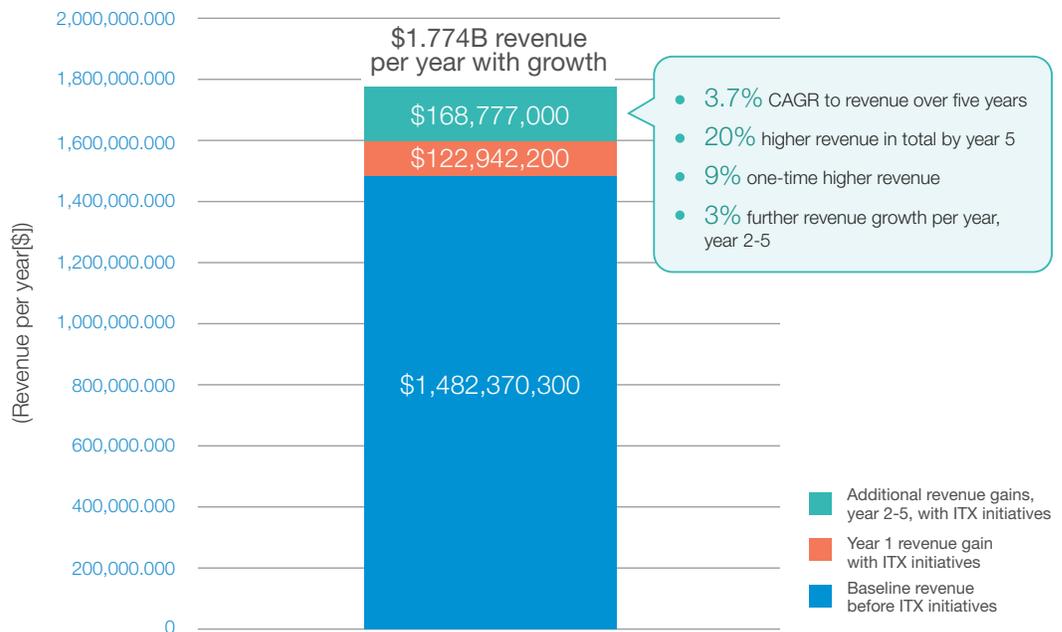
FIGURE 3 Additional Revenue per Year per Organization with ITX Initiatives



Source: IDC, 2017

Overall, IDC’s research shows the significant impact that ITX initiatives can have on business results. Over five years, study participants expect to achieve 20% more in revenue that they relate to their ITX initiatives, representing CAGR to revenue of 3.7% over five years, linking revenue growth to being faster to market with products and services, improving the quality and performance of existing products and services, and having the ability to bring certain new products and services to the market. Figure 4 demonstrates the extent to which ITX initiatives have become nearly inseparable from business prospects at surveyed organizations. Without transforming their IT operations, these organizations would give up significant revenue gains that they are achieving or will achieve by better addressing business opportunities and better serving their customers.

FIGURE 4 Total Revenue Impact of ITX Initiatives per Organization



Source: IDC, 2017

CHALLENGES AND OPPORTUNITIES

Transforming IT into a business enabler can be a complicated process. Many challenges may arise. Funding ranks top among those challenges. Although businesses typically want IT to help provide the types of services that increase revenue and drive growth, finance departments often hesitate to pay for ITX. To obtain the necessary funding, IT organizations should develop business cases outlining the revenue-generating opportunities that ITX can help capture. Conversely, they can develop scenarios depicting how existing datacenters hinder the company's efforts to compete.

As part of the ITX process, IT must also improve communications with line-of-business leaders. IT should work closely with these business professionals in ITX planning stages to ensure that the transformed IT department offers the capabilities needed by business users. Also, as some IT funding now makes its way into the hands of LOB leaders, IT needs to ensure that LOB purchases integrate with IT systems, processes, and security operations.

Finally, companies may need to restructure the IT organization itself. Many administrators of legacy infrastructures lack the skill set needed to manage a transformed, hybrid environment. New skills, and even new employees, may be needed. In addition, as IT increasingly uses third-party services — such as hosted clouds — IT professionals must hone their skills in building and maintaining contract-partner relationships.

CONCLUSION

To help businesses thrive in today's increasingly competitive marketplace, IT must evolve from a resource consumer and enabler of back-office processes into an organization that propels business and supports innovation. ITX is necessary to provide the computing agility and scalability needed to better support employees and customers and to speed time to market for new products and services. The implementation of hybrid cloud computing is often a first step in this process. While ITX can be challenging, organizations that choose to transform their IT divisions typically reap revenue increases — with IDC projecting an average of 20% growth in revenue over five years for the organizations participating in this study — and improve their ability to compete.

APPENDIX

IDC's standard Business Value methodology was utilized for this project. This methodology is based on gathering data from organizations that are pursuing various IT transformation initiatives (refer to Table 2 for the model). Based on interviews with these study participants, IDC measured the impact of these ITX initiatives for these organizations in terms of the revenue gains attributable to their ITX initiatives. IDC projects these values over a five-year period, which is the time basis for the analysis in this study.

Note: All numbers in this document may not be exact due to rounding.

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