Cloud Business Case: A View from the Field

By Paul Lidbetter

Enterprise Architect

Having problems explaining to your executive board why you want to move to cloud computing? Microsoft's Enterprise Strategy practice gives insights into how enterprises are compiling business cases for cloud computing?

Executive summary

If you're anywhere close to enterprise IT, you've probably heard about cloud computing. The Cloud is being presented as the Next Big Thing in aligning IT with business, achieving rapid return on investment and moving capital expenditure to operating expenditure. It may appear to be merely the new outsourcing but it avoids the inflexibly of long contracts and is driving new types of behaviour on behalf of service providers and opportunities for businesses.

Businesses are being driven toward the Cloud because they are at an inflection point where a new approach to IT is being mandated, one that cleaves to business requirements, is highly flexible, very cost-effective and supports rather than blocks tactical and strategic changes to business. Cloud is also being held up as the answer to many traditional IT woes: slow and unresponsive systems; technology as an impediment to mergers and acquisitions (or demergers and spin-out plans); and IT as an expensive and variable source of costs.

Cloud has much to recommend it but how do you go about developing a solid business case for its adoption? This short paper considers some of the options being used by enterprises working with Microsoft's Enterprise Strategy practice.

The Cloud is becoming seen as a disruptive opportunity for IT chiefs and the businesses they serve to gain new capabilities provided as a flexible service. It isn't simply outsourcing by a different name- and the business case is much more than reducing total cost of ownership.

The business case for moving to the Cloud

"What's the business case for moving to cloud computing?" That's the question that is being asked by many CIOs -- and increasingly other C-level executives -- who want to leverage new business opportunities, and create a catalyst for integration and change as well as reduce costs and change the financial model of IT investments. But surely the Cloud is simply outsourcing by a different name -- and surely the business case is simply reduced total cost of ownership?

This may have been the initial perception but the world, and role of IT, is changing. The Cloud is becoming seen as a disruptive opportunity for IT chiefs and the businesses they serve to gain new capabilities provided as a flexible service. In addition, traditional service providers are being challenged to move away from inflexible contracted models.

This short paper, based on experience of working with organisations as they review opportunities and their business cases for the Cloud, looks at some key issues that impact on a business case and the start of a joint IT and business journey to realise value.

Depending on variables such as industry, organisation size and business goals, a business case will have different priorities, but respondents to a March 2010 Sand Hill Group survey, titled 'Leaders In the Cloud' (1), gave business agility as the biggest reason for moving to the Cloud, followed by cost efficiencies and resource effectiveness.

The business case for the Cloud is therefore not only an IT issue, but one that impacts other functional stakeholders as well as alignment to wider business strategies. Indeed, business units can procure services from the Cloud directly, bypassing the IT functions so a joint approach is needed to maintain both effective IT governance and alignment..

Why are you considering the Cloud? In practice, organisations have key questions that push them to review a Cloud option, and timing can also be important. For example:

- As a CIO, are you asked to review an IT strategy that can meet business and IT budget requirements with a growing complexity and risk from of legacy systems and pressure on budgets?
- Is sustainability an issue and performance/utilisation of on-premise datacentres?
- Are projects being delayed due to infrastructure complexity and lack of skills or investment capital?
- Is a refresh cycle approaching where there may be better ways to utilise a decreasing budget?
- Are business managers making demands on IT that require accelerated changes to drive innovation, collaboration, user experience and productivity to meet customer and industry challenges?
- Does the business strategy include mergers, divestments, integration of federated business and IT units, or disaster management?
- Does the business strategy require increasing levels of flexibility and elasticity of service as well as faster continual introduction of new capabilities?

The major drivers for organisations will combine some (or even all) of the following:

- Creating a lower and more manageable cost base with the ability to create a predictable and scalable monthly cost for a service
- Building an improved risk profile with relevant and timely business and IT services that avoid the dangers of ageing legacy solutions, meet user expectations and reduce complexity of IT.
- The desire to make innovation a catalyst for rapid business change and new ways of working
- A need for improved agility and competitiveness including the ability to accelerate business flexibility and elasticity to support merger, acquisition, demerger and spin-off strategies.

Creating a robust business case is always unique to the organisation involved but there are clear themes from experience. For example, is there a strategic fit to the business goals and measures? Is the Cloud solution going to be able to meet the requirements and are there any specific barriers to be addressed and associated impacts/costs? Are the numbers accurate over time for costs, users and other variables, where are the risks and migration costs? How do the costs compare to industry norms? The biggest challenge can be comparing the 'as is' to the 'to be' state or comparing apples and pears.

Comparing apples and pears

To evaluate the potential benefits of a Cloud solution it is necessary to review both current costs and services against what a Cloud service can provide over time, which often is a bit like comparing apples and pears. For example, an organisation may have a messaging system that has a basic 250MB mailbox and calendaring but relies on manual or third-party archiving, email security solutions and ad hoc updates, so comparing this service level to that provided by Microsoft's Office 365 Cloud productivity service will find that the standard service of the latter provides for 25GB mail box plus searchable archive, access/mail security and provision of an evergreen service for example. In addition a Cloud service may provide additional IT capability not currently provided, such as collaboration and unified communications, the benefits of which need to be established even though there are no current costs in the 'as is' situation.

How to compare? It is advisable to use a five-year period, mapping the organisational costs for people, third-party software, support, licensing, security, datacentre charges and refresh costs to establish a realistic cost per user or mailbox and capital avoidance. Then that should be compared with the Office 365 solution, together with migration and costs with associated cash flow.

However, additional service capabilities of Office 365 are not factored in unless the organisation includes these within the refresh cost avoidance investment to provide the same level of service on premise. Indeed if the comparison is for example with the Office 365 suite, then the organisation is also gaining collaboration and communication services which it does not have currently and may not be able to afford in the short- to medium-term. The benefit of this is not cost reduction but an accelerated set of capabilities and lower capital investment. The same argument goes for creating common services across global business units and associated refresh costs, cultural issues and cost transparency.

To develop both comparison costs per user and a view of the financial model for ROI calculations, the migration costs and other investments need to be factored in to the model along with cost of capital. Typically, the migration costs will have two main components. Firstly a service provider charge, perhaps per mailbox or user to migrate current data, and secondly, the on-premise costs for the organisation associated with remedial work for directory consolidation, access management, coexistence and synchronisation.

By creating a five-year financial model the variables can be assessed with regards to phasing of migration, decommissioning, refresh avoidance, required volume of users and required services per user group to develop a number of scenarios. Such an approach provides a clear view of the sensitivity of the business case to investment phasing, but also factors in the timing of business needs.

Timing and effect on business case and benefit realisation

'The faster the better' sums up the approach to maximising benefits for IT and the business based on the accelerated adoption of new services and minimised legacy costs through accelerated de-commissioning of required on-premise solutions and third-party support.

However, planning the delivery of benefits provides the basis for a realisation plan that can be agreed on, and leveraged by, stakeholders when associated processes of preparation, migration, training, adoption, value measures and other supporting programmes are factored in.

Summary

All organisations are different but experience suggests that there are common themes that result in a successful evaluation to adopt (or not) Cloud-based solutions which are:

- Establish and test strategic fit Is this a tactical or longer term strategic change versus willingness to change?
- Define key drivers and objectives What is the Cloud investment expected to deliver, from integration of services to specific capabilities. Are there gaps and non-aligned stakeholder expectations and technical challenges that will affect the business case?
- Timing Is this the right time for a Cloud investment based on investment cycles, business needs and levels of sponsorship?
- Change Are you clear on what needs to change to enable the programme and also to ensure new ways of working are adopted based on new and/or enhanced services that will deliver value?
- Pilot and test The Cloud provides scalability so test and evaluate to reduce risks and establish tangible benefits for the realisation plan and business case.
- Create a realisation plan Factor in timelines for migration, adoption and introduction of new services as well as de-commissioning and alignment with other investments/milestones

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About the author

Paul Lidbetter is Enterprise Architect at Microsoft Services, working within the UK Enterprise Strategy practice covering all industry sectors with a focus on strategic planning and business alignment/ value realisation, cloud strategy and emerging business model development.
He also works in collaboration with partners, consortiums and academic institutes on achieving value, innovation and sustainability.
Before his 14 years in consulting he spent 20 years in industry working in pure research, product development, innovation process improvement, sales and marketing and senior management positions.

Next Steps

the journey to the Cloud is more than a TCO story or short-term tactical discussion. More and more, it involves both IT and business stakeholders in decisions that affect the provision of capabilities to meet current and business needs in a flexible, transparent and elastic service that contributes to achieving business goals.

To help you establish strategic alignment and business case options for your journey to the Cloud, the Microsoft Enterprise Strategy practice can provide an engagement based on Microsoft's experience of working with customers and providing online services.

Such an engagement can review and deliver strategic, realisation and high-level architectural plans as may be required and a financial business case designed to accelerate and support effective decision making and alignment of stakeholder requirements.

The engagement can be structured to meet your needs and is aimed at reducing both risk and timelines for your journey to the Cloud and delivery of change and value, by also linking to other aligned services such as architectural and migration proven practice and guidance to maintain your journey to the Cloud..

For further information, visit

www.microsoft.com/services/strategy

References:

http://sandhill.com/research/reports.php?id=1