



## Are Cloud Managed Services The Right Financial Choice for Your Business?

A Stratecast Executive Brief Sponsored by IBM

As businesses hurdle into the digital era, technology is no longer the sole domain of the IT organisation, Executives and staff from across the business are exerting influence over IT budgets and purchases to ensure they have the tools to do their jobs, thus requiring greater interaction and collaboration between IT and business units than ever before,

Nowhere is this strategic collaboration more important than in the relationship between the chief information officer (CIO) and the chief financial officer (CFO), Both roles are evolving in similar ways, from stewards of business assets to strategists and drivers of business goals,



The CIO role is undergoing a transition from protecting and managing technology resources to leading the company's digital strategy, To support the evolution, the CIO's organisation is shifting from a "do-it-yourself" approach to that of a service broker, anticipating and meeting business technology needs from a range of delivery models, Cloud services-including cloud-based managed services from expert providers-are an important part of the new IT model.

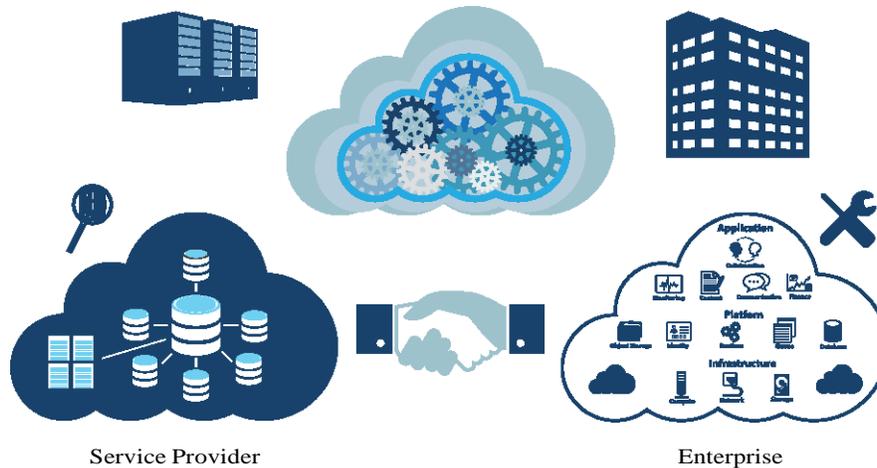
For its part, the CFO is augmenting its traditional roles as steward of corporate assets and manager of financial operations, with additional roles as business strategist (aligning financial investments with business goals) and catalyst for change (driving business initiatives),

**With the common goal of ensuring technology investments are optimal to the business, the CFO can be a valuable partner to the CIO in helping to assess options.**

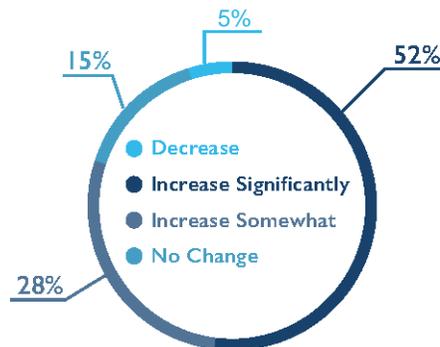
In this brief, we look at 'cloud managed services' from the CFO perspective, We examine the finance-related factors associated with the decision to engage an expert partner to deliver cloud-based services, versus an in-house approach, We present the business value associated with managed services, along with tips for selecting the right managed services provider,

## WHAT ARE CLOUD MANAGED SERVICES?

Managed cloud solutions represent a **partnership** between the enterprise and the service provider, in which the provider contributes cloud technology, infrastructure and expertise and the enterprise retains control and oversight of application performance. The provider's cloud managed services may extend throughout the cloud stack, incorporating automation and orchestration platforms as well as proactive monitoring to optimally manage the cloud infrastructure and applications on behalf of the enterprise.



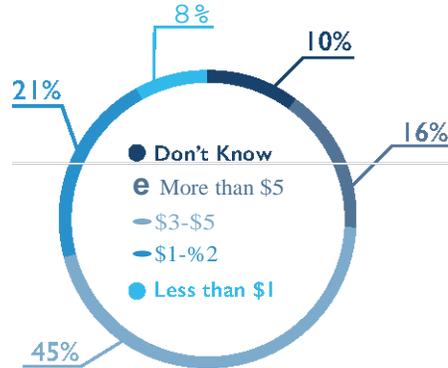
How will your company's use of managed cloud services change in next two years?



By subscribing to the right cloud managed services, rather than building and managing services in-house, enterprises realise several benefits:

- Minimise capital investment in IT infrastructure and the need to build out data centre facilities
- Eliminate the need to hire or train specialised IT staff for each application and system.
- Ensure consistent, predictable application performance
- Protect data with security measures that might not be affordable in the private data centre
- Align costs with usage, avoiding over-provisioning for peak times
- Manage against service level agreements (SLAs) that ensure you will get the outcomes you need.

For every US\$1 spent on Infrastructure as a Service (IaaS), how much does your company spend on managing the services?

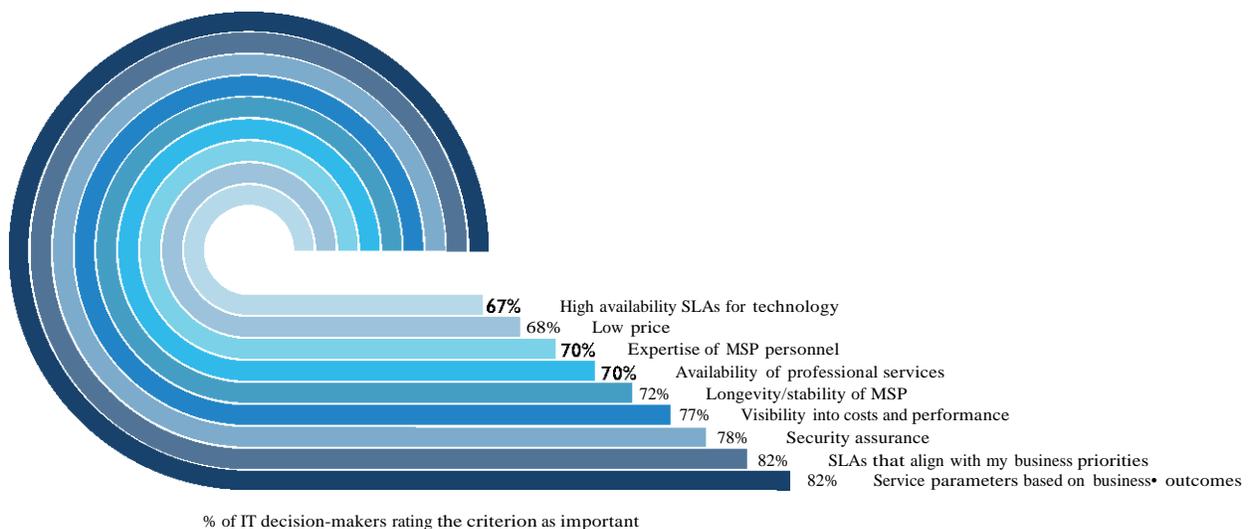


## PERSPECTIVES ON CLOUD MANAGED SERVICES: CIO

There are no shortcuts for the IT organisation. Facing accelerating demands to incorporate new technology and greater urgency to optimise application performance and costs, the CIO is increasingly turning to cloud-based managed services from third-party experts to help run the business. According to a Stratacast survey of IT decision-makers, 35 percent of enterprises currently use managed cloud services, with another 36 percent planning to add them in the next two years. Also the reliance is growing: Of those that use managed cloud services, 52 percent expect to significantly increase their usage in the next two years. Only five percent expect to see their usage decline.

When it comes to selecting a cloud managed services provider, business goals (not IT-specific goals) top the list. 82 percent of IT decision-makers cite 'service parameters based on business outcomes' and 'SLAs that align with my business priorities,' as important criteria.

### Criteria for choosing a Cloud Managed Services Provider (MSP)



Source: Stratacast 2015 Cloud User Survey

## CONSIDERING COSTS AND TCO

---

Interestingly, on the list of criteria, 'low price' ranks near the bottom in importance. However, that does not mean that CIOs ignore costs. On the contrary, the CIO is more likely to focus on Total Cost of Ownership (TCO)-calculating not just topline costs for a managed services subscription, but the costs that are offset by the decision. In the past few years, CIOs that have adopted cloud services as an easy way to reduce the IT budget have been shocked by the out-of-pocket costs for managing the services on their own. Calculating in total costs, including labour and management software, most businesses surveyed by Stratecast spend more than US\$3 for every US\$1 in Infrastructure as a Service-tripling their total cloud spend.

Thus, in assessing TCO for managed cloud services, the CIO will consider costs that are avoided or deferred with a managed services subscription, including capital costs such as IT infrastructure, software licenses and even data centre buildout; as well as any operating costs that may be moved out of the business, perhaps maintenance contracts, training, or labour.

In addition, the TCO assessment should include positive business value gained from working with an expert managed services provider.

**For example: The cloud service provider's availability SLAs can translate into greater employee productivity (calculated as decreased cost/work unit) and even greater revenue (ecommerce sales/visit or hour). Speed to market can translate to proportional increases in revenue or customer retention. Decreased time spent on maintenance can translate to increased time spent on innovation, at greater value to the business.**

In considering the full TCO, many businesses determine that managed services are highly cost-effective, yielding value that far exceeds the topline costs.

## PERSPECTIVES ON CLOUD MANAGED SERVICES: CFO

---

While the CFO also has a deep interest in business value, it comes from a slightly different perspective. In fact, the CFO wears two hats when it comes to business technology.

First, the CFO organisation is a user of technology. Like all other company workers, employees in the finance department use technology tools in their business functions—for example, specialised accounting and financial software, data analytics and general business applications. As such, they have a large stake in how the software is delivered. They will draw on personal experience in assessing the value of managed services in terms of application availability, speed of updates, reporting ease and cost.

Second, as steward of company assets and owner of financial operations for the business, the CFO also looks at technology investments at a high level. The CFO will consider whether managed cloud services align with the company's goals for utilising the capital versus operating budget, as well as how the investment might impact line-items reported to the government or shareholders in financial filings (for example, any impact on revenue, earnings, depreciation and taxes).

Coming from a different perspective, the CFO approaches the managed services decision a little differently from the CIO. In fact, the CFO thinks about a number of things that the CIO may not consider, as follows:

CONSIDERATION	CFO PERSPECTIVE	HOW CLOUD-MANAGED SERVICES CAN HELP
Granular reporting 	Needs accurate visibility into investments and revenue, at a business unit level	Cloud services make it easier to track and allocate IT costs
Flexible investments 	It's not about saving money; it's about how the money is invested	Operating expenses (Opex)-based budget avoids capital planning and expenditure (capex) constraints and accounting complexity
Workforce impact 	Considers full costs of hiring/firing/maintaining a workforce, including compliance with labor laws	Services offer workforce flexibility to support business agility
Financial compliance & risk management (RM) 	Legally and personally responsible for complying with financial reporting and data protection regulations	MSP partner can support compliance needs-and may share liability
Reporting to investors & owners 	Sensitive to how business tactics (closing locations or adding/downsizing staff) impacts share price and customer confidence	Cloud services enable agile business and encourage innovation (succeed and fail fast) away from the spotlight

## TALKING ABOUT CLOUD MANAGED SERVICES WITH THE CFO: FOCUS ON BUSINESS VALUE

Whether you are in the CIO or CFO organisation, the best investment is the one that will deliver maximum value to the business, while supporting business goals. Factors such as ‘speed to market,’ lost-opportunity costs, employee productivity and workforce flexibility all add to business value-and can often be calculated into your TCO for managed services.

As you assess the business value for Cloud Managed Services, consider the benefits to both the CFO and CIO organisations.

	CLOUD-MANAGED SERVICES DELIVER:	CFO BENEFITS FROM:	CIO BENEFITS FROM:
	<b>Business agility-</b> Deploy and remove resources as needed	Faster business results, more flexible workforce	Flexible IT staffing, focus on innovation rather than maintenance
	<b>Budget flexibility-</b> Use Opex instead of Capex	No capital investment, fewer accounting and reporting tasks	Opex budgets are less tightly controlled and more available
	<b>Security-</b> Choose a MSP that is a security expert, responsible for physical and data security	Minimise vulnerability of sensitive financial and personally identifiable information; improve compliance profile	Access to security experts and ongoing monitoring without having to hire staff
	<b>Availability-</b> Ensure the availability SLAs and backup & recovery services meet your needs	Critical financial tools & software are available as needed; no lost data; improved productivity	Assurance that infrastructure will scale without manual intervention and apps and data will failover as needed.
	<b>Performance -</b> Rely on MSP to optimise workloads to deliver needed performance levels	Transactions, reports and queries face limited delay; increase productivity.	Few on-staff specialists needed for routine patching, updates, refreshes, etc. Provide performance assurances to internal line of business (LoB) clients

## FUTURE OUTLOOK: WHAT WILL YOUR ORGANISATION LOOK LIKE IN FIVE YEARS?

You will hire and promote IT employees more for their problem-solving and business skills, than their hardware or software certifications.

LoB employees will order and deploy their own applications from a customised business portal curated by IT

- All employees will be data analysts, with shared access to tools that provide insight on every aspect of the business
- The CFO, CIO and other business leaders will manage the business based on granular operational data, including costs and return on a project or department level
- Your business will do what it does best- serve customers in your industry- and rely on partners to support you with the tools and services to make it happen.

*Are you ready for the future?*

## CHECKLIST FOR CHOOSING A CLOUD MANAGED SERVICES PROVIDER THAT MEETS THE NEEDS OF BOTH CFO AND CIO

---



- Superb cloud infrastructure (global cloud centres, global network, IT infrastructure)
- Library of infrastructure and application services
- Standards-based automated processes Information Technology Infrastructure Library (ITIL)
- Flexible infrastructure options (private cloud, shared cloud)
- Stringent SLAs
- Market leadership in security
- Application-specific expertise
- Track record of enterprise data centre and cloud management.

## THE LAST WORD

---

Facing escalating demand for agility and speed in technology deployments, more IT organisations are turning to cloud services managed by expert partners. But how can the expenditure be justified to corporate financial watchdogs? It may be that the concern is unwarranted. CFOs and CIOs approach decisions from different perspectives, but share a mutual goal of ensuring technology investments are optimal for the business. By focusing on the business value derived from cloud managed services, the CFO-CIO partnership may yield the conclusion that cloud managed services are the right decision to drive business success.

*Lynda Stadtmueller*

Vice President (VP) -Cloud

Services Stratecast | Frost &

Sullivan | stadtmuelle

r@stratecast.com

# FROST & SULLIVAN

Auckland

Bahrain

Bangkok

Beijing

Bengaluru

Buenos Aires

Cape Town

Chennai

Dammam

Delhi

Detroit

Dubai

Frankfurt

Herzliya

Houston

Irvine

Malaysia/johor Bahru

Istanbul

Jakarta

Kolkata

Kotte Colombo

Kuala Lumpur

London

Manhattan

Miami

Milan

Moscow

Mountain View

Mumbai

Oxford

Paris

Pune

Rockville Centre

San Antonio

Sao Paulo

Seoul

Shanghai

Shenzhen

Singapore

Sydney

Taipei

Tokyo

Toronto

Valbonne

Warsaw

## SILICON VALLEY

331 E. Evelyn Ave., Suite 100

Mountain View, CA 94041

Tel 650.475.4500

Fax 650.475.1570

## SAN ANTONIO

7550 West Interstate 10,

Suite 400

San Antonio, TX 78229

Tel 210.348.1000

Fax 210.348.1003

## LONDON

4 Grosvenor Gardens

London SW1W 0DH

Tel +44 (0)20 7343 8383

Fax +44 (0)20 7730 3343

877.GoFrost

myfrost@frost.com

www.frost.com

Frost & Sullivan, the Growth Partnership Company, works in collaboration with clients to leverage visionary innovation that addresses the global challenges and related growth opportunities that will make or break today's market participants. For more than 50 years, we have been developing growth strategies for the Global 1000, emerging businesses, the public sector and the investment community. Is your organisation prepared for the next profound wave of industry convergence, disruptive technologies, increasing competitive intensity, Mega Trends, breakthrough best practices, changing customer dynamics and emerging economies?

For information regarding permission, write:

331 E. Evelyn A