



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

Talk to Your CFO

An Executive Brief Sponsored by IBM

2017 UPDATE

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INTRODUCTION

Collaboration is Key

As businesses hurtle into the digital era, technology is no longer the sole domain of the IT organization. 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 organization 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.

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

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 for 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.

Benefits of Cloud Managed Services

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

- Minimize capital investment in IT infrastructure and the need to build out data center facilities
- Eliminate the need to hire or train specialized 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 center

- Align costs with usage, avoiding over-provisioning for peak times
- Manage against service level agreements that ensure you will get the outcomes you need

PERSPECTIVES ON CLOUD MANAGED SERVICES: CIO

There are no shortcuts for the IT organization. Facing accelerating demands to incorporate new technology and greater urgency to optimize 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 Stratecast survey of IT decision-makers, 32% of enterprises currently use managed cloud services, with another 36% planning to add them in the next two years. And the reliance is growing: Of those that use managed cloud services, 80% expect to increase their usage in the next two years. Only 2% 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. 85% of IT decision-makers cite “service parameters based on business outcomes,” while 84% cite “Easy-to-use management and reporting portal,” as important criteria.

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

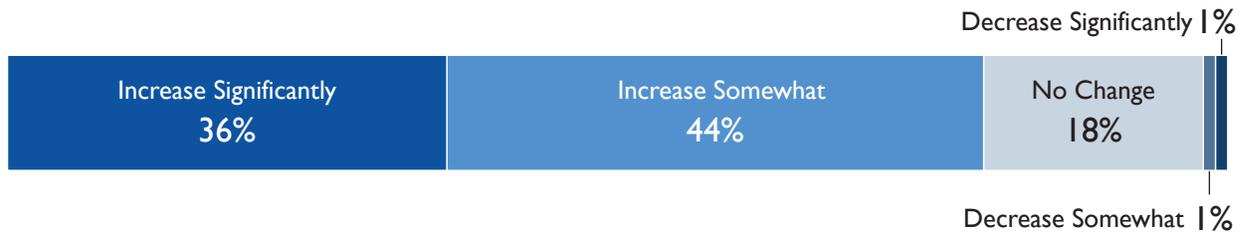
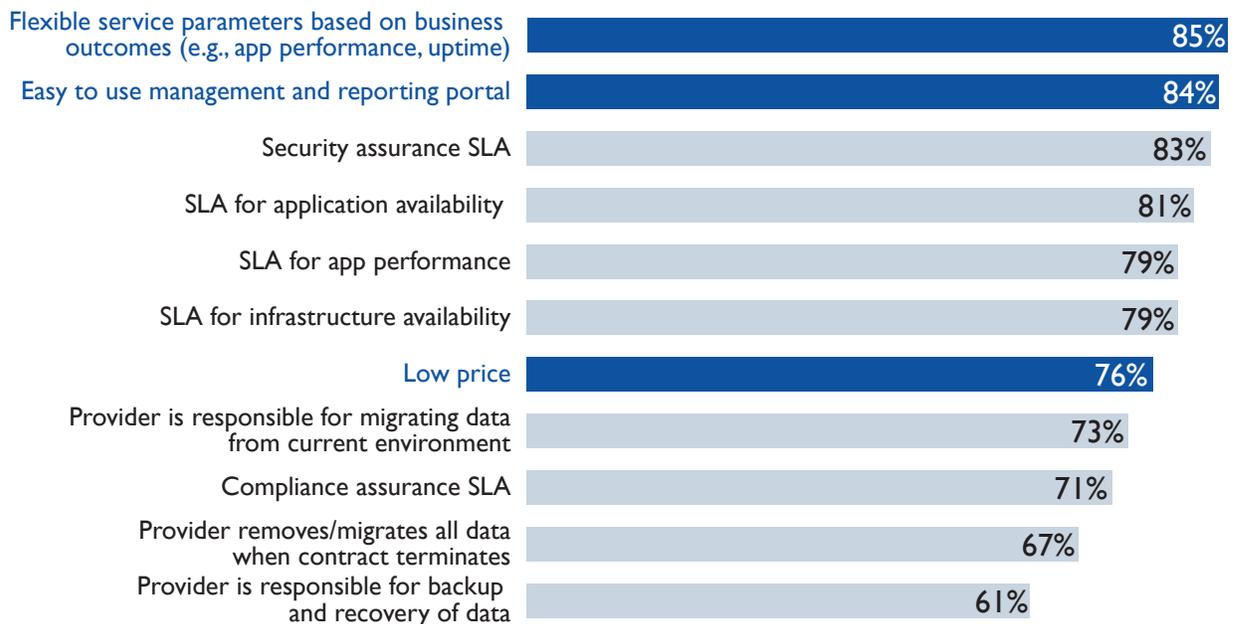


Exhibit 1: Criteria for Choosing a Cloud Managed Services Provider (MSP)

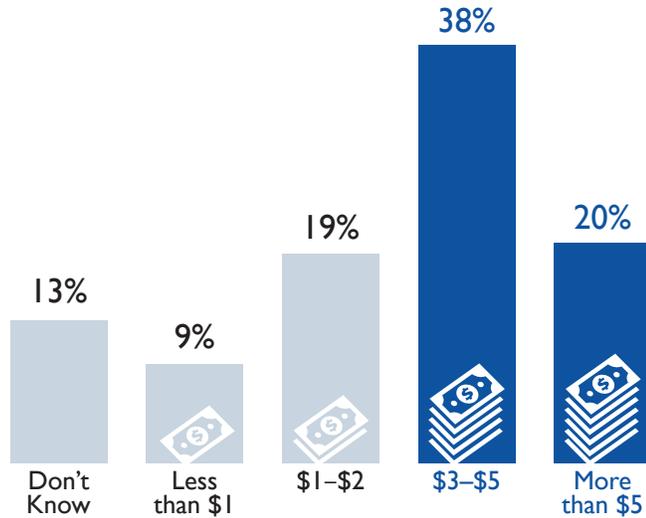
Source: Stratecast 2017 Cloud User Survey



Considering Costs and TCO

Interestingly, on the list of criteria, “low price” ranks lower 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—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 labor and management software, most businesses surveyed by Stratecast spend more than \$3 for every \$1 in Infrastructure as a Service—tripling their total cloud spend.

For every \$1 spent on IaaS, how much does your company spend managing it?



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 center buildout; as well as any operating costs that may be moved out of the business, perhaps maintenance contracts, training, or labor.

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

Two Hats

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 organization is a user of technology. Like all other employees, employees in the finance department use technology tools in their business functions—for example, specialized 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 utilizing 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:

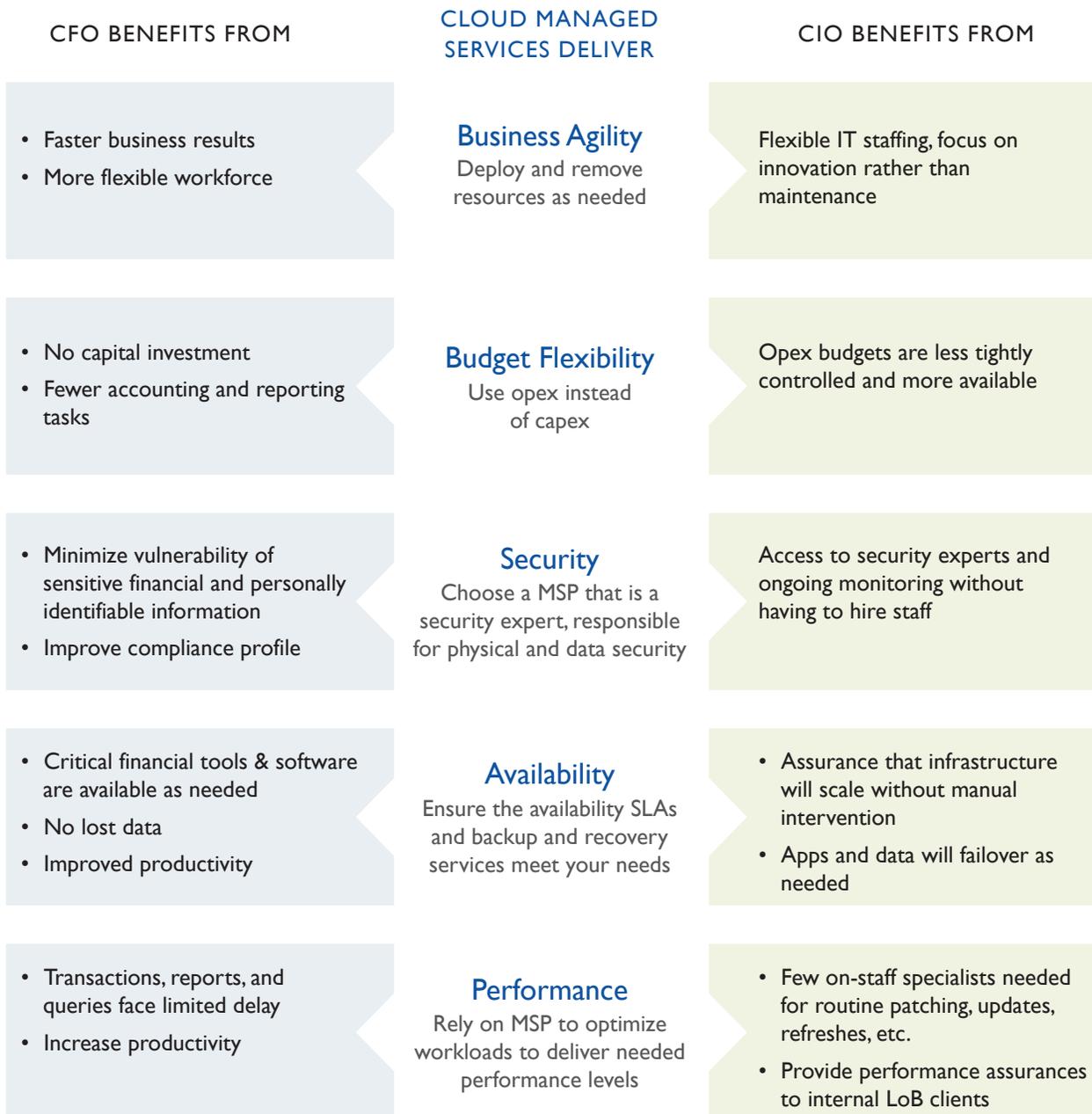
CONSIDERATION	CFO PERSPECTIVE	HOW CLOUD MANAGED SERVICES CAN HELP
 Granular Reporting	Needs accurate visibility into investments and revenue, at a business unit level	Cloud services make it easier to track and allocate IT costs
 Flexible Investments	It's not about saving money; it's about how the money is invested	Opex-based budget avoids 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 and Risk Management	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 and Owners	Sensitive to how business tactics (like closing locations or adding/downsizing staff) can impact share price and customer confidence	Cloud service enable agile business and encourage innovation (succeed and fail fast) away from the spotlight

TALKING ABOUT CLOUD MANAGED SERVICES WITH THE CFO

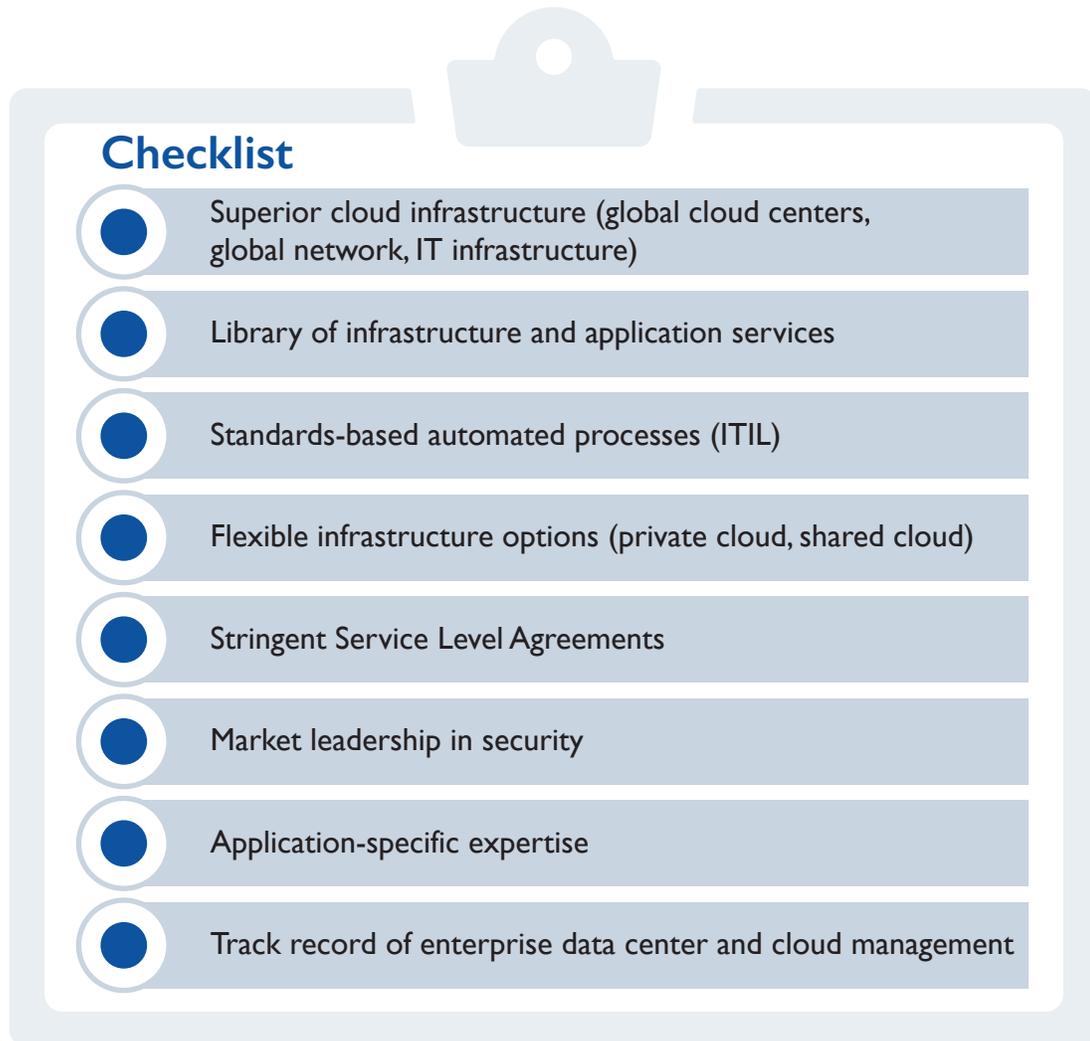
Focus on Business Value

Whether you are in the CIO or CFO organization, 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 Total Cost of Ownership for managed services.

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



Choose a Cloud Managed Services provider that meets the needs of both CFO and CIO:



THE LAST WORD

Facing escalating demand for agility and speed in technology deployments, more IT organizations 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.

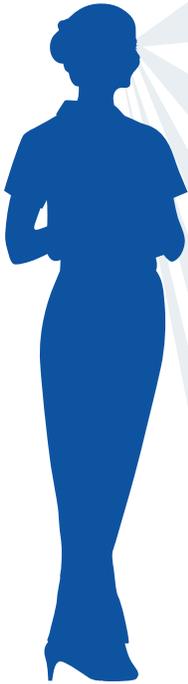
Lynda Stadtmueller
Vice President—Cloud Services
Stratecast | Frost & Sullivan
lstadtmueller@stratecast.com

Karyn Price
Senior Industry Analyst—Cloud Services
Frost & Sullivan
karyn.price@frost.com



FUTURE OUTLOOK

What will your organization 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.

Line of Business employees will **order and deploy their own applications** from a customized 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?

ABOUT STRATECAST

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NEXT STEPS 

For more information, please visit our
IBM Cloud Managed Services web page



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SILICON VALLEY

3211 Scott Blvd
Santa Clara, CA 95054
Tel 650.475.4500
Fax 650.475.1571

SAN ANTONIO

7550 West Interstate 10,
Suite 400
San Antonio, TX 78229
Tel 210.348.1000
Fax 210.348.1003

LONDON

Floor 3 - Building 5,
Chiswick Business Park,
566 Chiswick High Road,
London W4 5YF
Tel +44 (0)20 8996 8500
Fax +44 (0)20 8994 1389

877.GoFrost
myfrost@frost.com
www.frost.com

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