Business case for Cloud adoption

Extracting business value from the Cloud

Helping CIOs decide which Cloud solutions are valuable, evaluate the benefits - both IT and business - and build a business case for Cloud adoption are tasks that require a rigorous approach, and a holistic framework in order to unlock the maximum business value.
Introduction

Most CIOs are already aware of some of the advantages of the Cloud. However, they do not always have a clear idea on how to carry out the transformation to Cloud computing in a structured way. Cloud solutions are often adopted in an ad hoc, tactical manner, resulting in a more complex and fragmented IT landscape, and increased IT costs.

Yet, Cloud undeniably has significant potential for value creation if a sound Cloud strategy encompassing all factors has been designed beforehand. This Whitepaper presents a framework to help decide which Cloud solutions are relevant and make financial and business sense.

Adopting a business case-driven approach

In order to unlock the real value of Cloud solutions, a holistic and transformational approach must be undertaken. A few foundational questions must be answered before embarking on that journey:

- What are the benefits – both IT and business?
- How to decide which Cloud offering works and fits the best?
- What are the costs involved, both short and long term?
- What methodology should be used to migrate to the Cloud?

In order to create a holistic, coherent roadmap, Canopy Consulting advocates a business case-driven approach. The main components of this framework are presented in Figure 1.

Figure 1 - A Canopy business case-driven approach to unlock the potential of Cloud

- **Understand 'as-is' environment**: It is important to analyse the current state of IT and business interaction to capture the true picture of the IT landscape, highlighting the complexities, interdependencies, business-critical issues and other technical aspects.
- **Quantify cost/investments and strategic opportunities**: Appropriate tools (e.g. Canopy’s IP tools on Cloud workloads, TCO and ROI) should be used to identify the cost benefits and strategic fit. Detailed analysis on the workloads will help in delivering the business case.
- **Evaluate and select potential Cloud alternatives**: An holistic framework should be applied for developing well defined KPIs for selecting the Cloud workloads. IT should be capable enough to deliver a strong selection process for the entire IT landscape, including the infrastructure, platform and applications.
- **Calculate the Cloud ROI**: The benefits from reduced IT costs based on the TCO for providing the current service should be accurately projected. It is imperative to identify investments in deploying the solution and accurately calculating the pay back period.
Step 1 – Understand the As-Is environment

The complexity of the IT landscape is often seen by CIOs as one of the greatest inhibitors to Cloud adoption. Although one of the promises of Cloud-based solutions is a simplification of the IT landscape, a good understanding of the existing systems is one of the keys to a successful transformation roadmap. This understanding is structured around four equally important pillars:

- Underlying technology
- Total cost for providing a service
- Governance and organisation
- Risk management

Technologies should not be a limiting factor when considering shifting a workload to the Cloud. Indeed, moving to the Cloud is about using and combining standardised components. Therefore, even technologies that have not been designed to be Cloud-compliant can be either replaced by standard, off-the-shelf offerings, or can be migrated. As a consequence, though technological choices made years ago can have an impact on the ease of transforming the existing IT to a Cloud-based system, it should not be regarded as the major criterion for not starting the transformation.

A dedicated Whitepaper by Canopy is available on the importance of governance and risk management as enablers of Cloud; consequently, they will not be discussed here.

Calculating the total cost of ownership (TCO) of services delivered to the end-users is always a difficult exercise. Shared services, shared resources, cross-domain capabilities are difficult to track, and allocating their cost to a service delivered to the end-user can prove extremely tricky. It is thus important to collect as detailed and accurate data on the current IT costs and risks as possible to calculate the TCO of those end-user services. For each of those services, costs should be split into the categories presented in Figure 2.

This level of cost detail is usually not available. Getting a clear understanding of the total IT costs, including hidden costs, can be a time-consuming task, and spending that extra time is usually not worth the effort as the extra information will not drastically change the numbers. Consequently, we advocate working with proxies when the data are either not available, not reliable enough, or when collecting accurate data would consume too much time (if at all possible).

Even for organisations that have a good understanding of their IT costs, being able to trace precisely how each penny spent on IT contributes to the value creation of the company can be a daunting task. Yet, this metric should be the guiding principle behind every single investment decision. Canopy believes that clarifying the linkage between IT expenditures and business value creation is critical to a successful Cloud adoption.

Moving from a ‘black hole’ to a value-creating business unit

Tracking precisely how IT investments translate into value creation for the company is no small endeavor. CIOs are more and more unable to cope with the complexity of their growing IT systems, as well as with the development of shadow IT, making cost tracking a big challenge. The end result is that the whole IT department is often regarded as a ‘black hole’ that gets fed money to satiate its ever-increasing hunger, and out of which nobody knows how to extract value. An extreme conclusion of this logic could be that IT does not create value for the company, so why should the company invest in IT? The most straightforward answer would be to reduce the IT budget to zero and reinvest the money into projects that generate directly measurable benefits to the company. Obviously, no one would seriously consider that option. However, how to turn the IT department into a value-creating business unit is still a very relevant question. Cloud is a fantastic means to enable this transformation.
Step 2 – Quantify cost, investments and strategic opportunities

It is quite straightforward to identify the immediate, direct benefits Cloud can bring to the IT department (more flexible and faster provisioning of IT resources, better control over infrastructure expenditures, globally cheaper resources, etc.). Yet these benefits do not resonate with the business users: they will hardly see a difference between a hosted email server and a Cloud-based one. CEOs rarely get excited about virtualisation or IaaS.

As a consequence, when a company decides to shift its IT landscape to the Cloud, different types of benefits need to be considered; while direct benefits are the easiest to come by for the IT department, the indirect benefits (see non-exhaustive list below) are the ones any CIO should emphasise in the business cases:

- Resolution of pain points in existing business processes (e.g. global access to information, elimination of regional variances and redundancies, reduced risk of legal penalties and lawsuits, etc.)
- Simplified, standardised, and streamlined business processes; increased automation
- Easier and more transparent valuation of the company for M&As and divestments
- Faster response to business changes
- Simplified and more standardised application landscape.

Indirect benefits are usually significantly higher than direct ones. For instance, a fully integrated CRM/contract management system can generate savings of up to 15% of the total sales cost, as well as boost employee productivity by close to 50%.

Although adopting Cloud solutions can offer benefits on three different levels, the business users will only perceive value creation from the last two:

- Cloud as a utility lowers IT costs and increases IT agility through elastic computing resources and pay-per-use models
- Cloud as a process transformation tool improves integration and collaboration by leveraging common assets
- Cloud also brings benefits and opportunities for improving business agility:
  - Innovation in products/services and operational processes
  - Faster time-to-market for new products/services
  - Productivity of business employees
- Cloud allows for creating new business models and ecosystems through linking, sharing, and combining capabilities among business units and partner companies.

Step 3 – Evaluate and select potential Cloud alternatives

As stated above, undertaking a Cloud transformation represents an excellent means to address some of the inefficiencies and pain points in the existing business processes. This is consequently a journey that must be undertaken jointly with the business stakeholders, and should not be under the sole responsibility of the CIO. This joint venture should combine the understanding of the business requirements with the new capabilities offered by Cloud-like technologies.

Finding the right Cloud offering for a specific business process relies on a combination of three factors:

- The nature of the business process (core or support)
- The contribution of said business process to the creation of value for the company (non-value-adding, enabling value creation, or directly contributing to creating value)
- The level of sensitivity of the data used in the business process.

Those three items are used to give guidelines to determine the best Cloud fit for a given service:

- The first two will determine the Cloud option (IaaS, PaaS, or SaaS)
- The third one will define the deployment model (private or public).

Additionally, an integrated roadmap that includes all Cloud initiatives, enabling governance and organisation changes, should be developed.
Defining the best Cloud solution and deployment model

Processes that are not directly linked to creating value for the company should, by default, be as standardised as possible; therefore, making SaaS a potentially interesting model. Consequently, for support processes (such as HR or finance), SaaS solutions are usually a good fit. A lot of companies have developed, over time, bespoke solutions for those support processes, under the somewhat valid assumption that those tailor-made systems were delivering a more adequate service than off-the-shelf offerings. As true as this might sound, it is hardly relevant anymore when the IT budget needs to decrease by over 10% year on year. The IT budget would best be invested in services that directly support the growth of the company or that can have a significant impact on its top line.

Figure 3 presents a high-level guideline that can be used to determine which Cloud options can be considered.

Data sensitivity, data privacy, regulatory/compliance aspects and access management have an impact on the Cloud deployment model (See Figure 4). While public and hybrid deployment models usually generate higher savings than private Cloud, they must be carefully assessed against the sensitivity of the processed data.

For instance, while some services supporting back office processes are not directly contributing to value creation, data losses or outages could have a significant impact on the company’s capacity to do business (the billing system, albeit not business critical, might have a significant impact on the treasury of the company).

The special case of services that creates a competitive advantage

A more moderate stance must be taken for services that create direct, tangible value to the company. These applications enable the core business and allow the company to innovate and differentiate itself from the competition. Replacing these applications by standardised SaaS components may be dangerous to the company’s competitive position and may not generate the expected savings. In this context, it may make sense not to replace the existing application with a standardised solution. Several other options are available.

Figure 5 presents six examples of the Cloud selection framework.

Figure 3 - Cloud offering - potential options

<table>
<thead>
<tr>
<th>Core process</th>
<th>Support process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-value-adding process</td>
<td>SaaS</td>
</tr>
<tr>
<td>Value enabling process</td>
<td>SaaS, PaaS</td>
</tr>
<tr>
<td>Value-creating process</td>
<td>PaaS, IaaS, None</td>
</tr>
</tbody>
</table>

Figure 4 - Deployment model

<table>
<thead>
<tr>
<th>Data sensitivity</th>
<th>Public</th>
<th>Hybrid</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data privacy</td>
<td>✓</td>
<td>?</td>
<td>✓</td>
</tr>
<tr>
<td>Regulatory and compliance</td>
<td>?</td>
<td>?</td>
<td>✓</td>
</tr>
<tr>
<td>Access management</td>
<td>?</td>
<td>✓</td>
<td>✓</td>
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</table>

Figure 5 - Each Cloud selection should fit the target IT and regulatory landscape, and ensure maximum value creation
**Step 4 – Calculate the Cloud ROI**

ROI is still one of the most commonly used indicators when it comes to making the decision to validate a business case. While not 100% relevant, it has the advantage of being one of the simplest indicators to calculate and interpret.

Calculating an ROI, though, requires that the TCO for providing the current service is accurate (see Step 1). This baseline will be used to evaluate the IT potential savings.

Then, the required investments must be estimated (taking into account categories that are usually largely underestimated, like change management costs, data migration and synchronisation).

Last but not least, the business benefits must be estimated (reduction in the number of FTEs required to process the task, efficiency gains, etc.).

Figure 6 summarises those three steps.

**Figure 6 – ROI is considered as a key factor on whether to implement the Cloud solutions**

| Project the benefits from reduced IT costs | These benefits include cost savings from hardware, software, maintenance, and IT support, as well as benefits from increased user productivity obtained |
| Identify investments in deploying the solution | This includes the cost of the Cloud solution, development, implementation services, and support costs |
| Project the costs and potential savings | Project the costs and potential savings over a fixed period, and calculate the ROI and payback period for the deployed solution |

**Conclusion**

Transforming IT to leverage the Cloud requires thorough planning and a well-documented and pragmatic roadmap. It also represents a fantastic opportunity for CIOs to come back to the business table in a much stronger position (see our Whitepaper on the impact of the Cloud on the CIO and the IT organisation). In order to unlock maximum value, the Cloud transformation roadmap must be aligned with the business strategy of the company and this is probably where the greatest challenge lies.

The Canopy Consulting business case-driven approach enables our clients to move to the Cloud in a systematic and business-oriented way to create the maximum value for the business stakeholders. The approach described here has been successfully used for clients with IT budgets ranging from less than €50M to more than €800M.
About Canopy Cloud
Canopy www.canopy-Cloud.com is a one-stop Cloud shop for enterprises. It provides strategic consultancy, development, migration and test environments, secure on- and off-premise private Cloud implementation and access to a growing eco-system of business solutions and processes through a SaaS Enterprise Application Store. Canopy is an independent company, founded by Atos, EMC and VMware. Headquartered in London, Canopy is global in scope, with consultancy teams operating across Europe, North America and Asia Pacific. Canopy Consulting is a trusted Cloud computing advisor to leading private and public sector organisations around the world. Staffed almost exclusively with professionals trained at tier one strategic advisory firms, we focus on helping senior executives achieve business objectives by leveraging Cloud technologies.

About the Authors
Loïc Lavoué is a Partner at Canopy Cloud Consulting. Prior to joining Canopy, Loïc has worked for consultancy firms, and system integrators. He has designed numerous transformation roadmaps, and has successfully managed very large transformation programs. He holds an MBA from Sorbonne Graduate Business School, and an MSc from Chimie ParisTech. loic.lavoue@canopy-Cloud.com
+33 6 50 020 401

Nitin Arora is an Engagement Manager at Canopy Cloud Consulting and an expert in the field of strategy development. Prior to joining Canopy, Nitin worked at Booz & Company, and Google. Nitin holds an MBA from IESE Business School. nitin.arora@canopy-Cloud.com
+44 7972 858 293

Ahmed Mitwalli is the Managing Partner at Canopy Cloud Consulting. Prior to Canopy, he was with McKinsey & Company for 12 years where he was a Partner and a leader in the Business Technology Office. He has a PhD in Electrical Engineering and Computer Science from MIT, and is a holder of five US technology patents. ahmed.mitwalli@canopy-Cloud.com
+1 917 982 5435

Canopy Contributors
Jeremy Brann
Yevgen Bolyukh
Bharat Madan