

The Real Truth About Cloud, SaaS, What To Do With Your Money

**Daryl Plummer,
MVP, Chief of Research, and Chief Gartner Fellow**

Gartner Webinar

6 Jan 2010

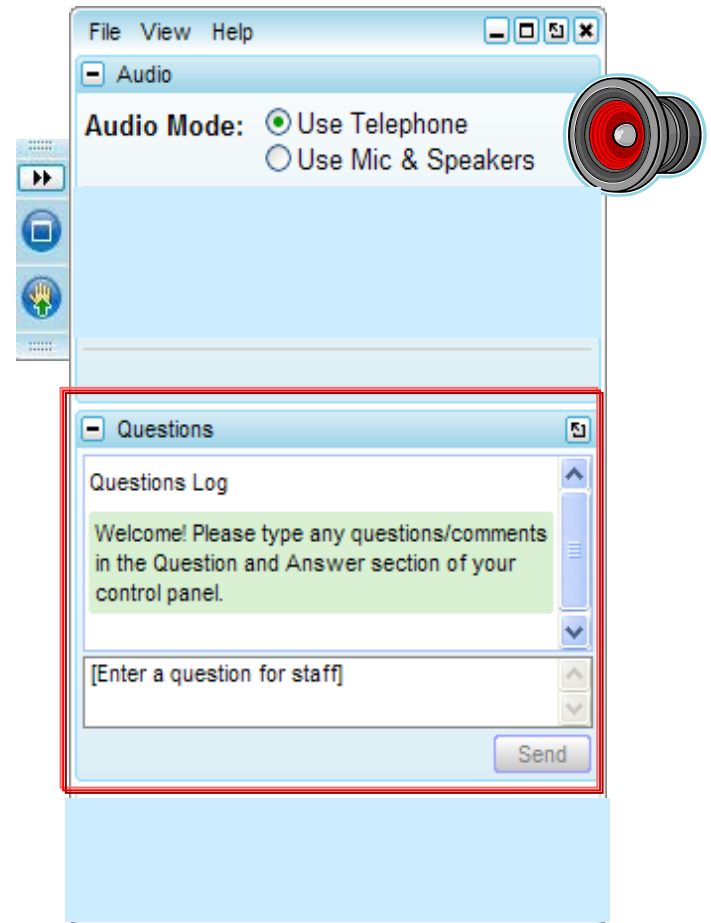
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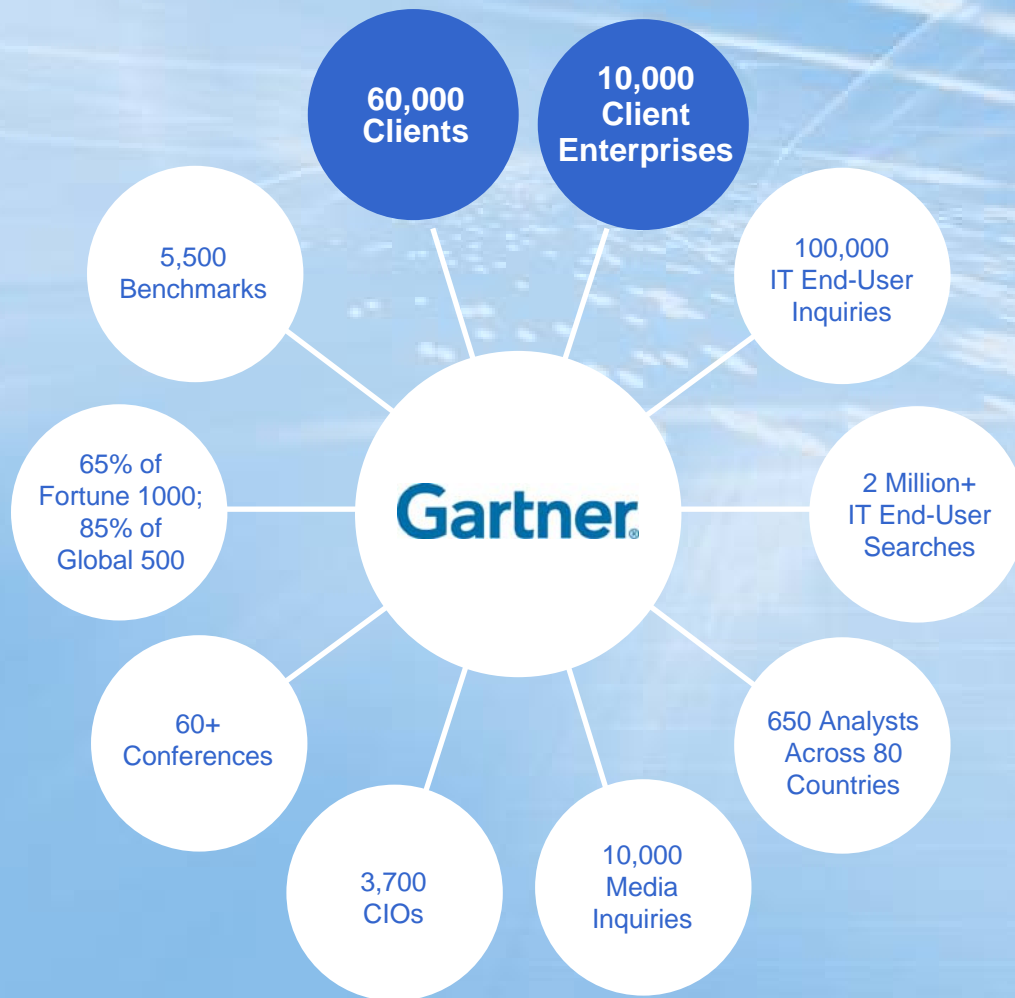
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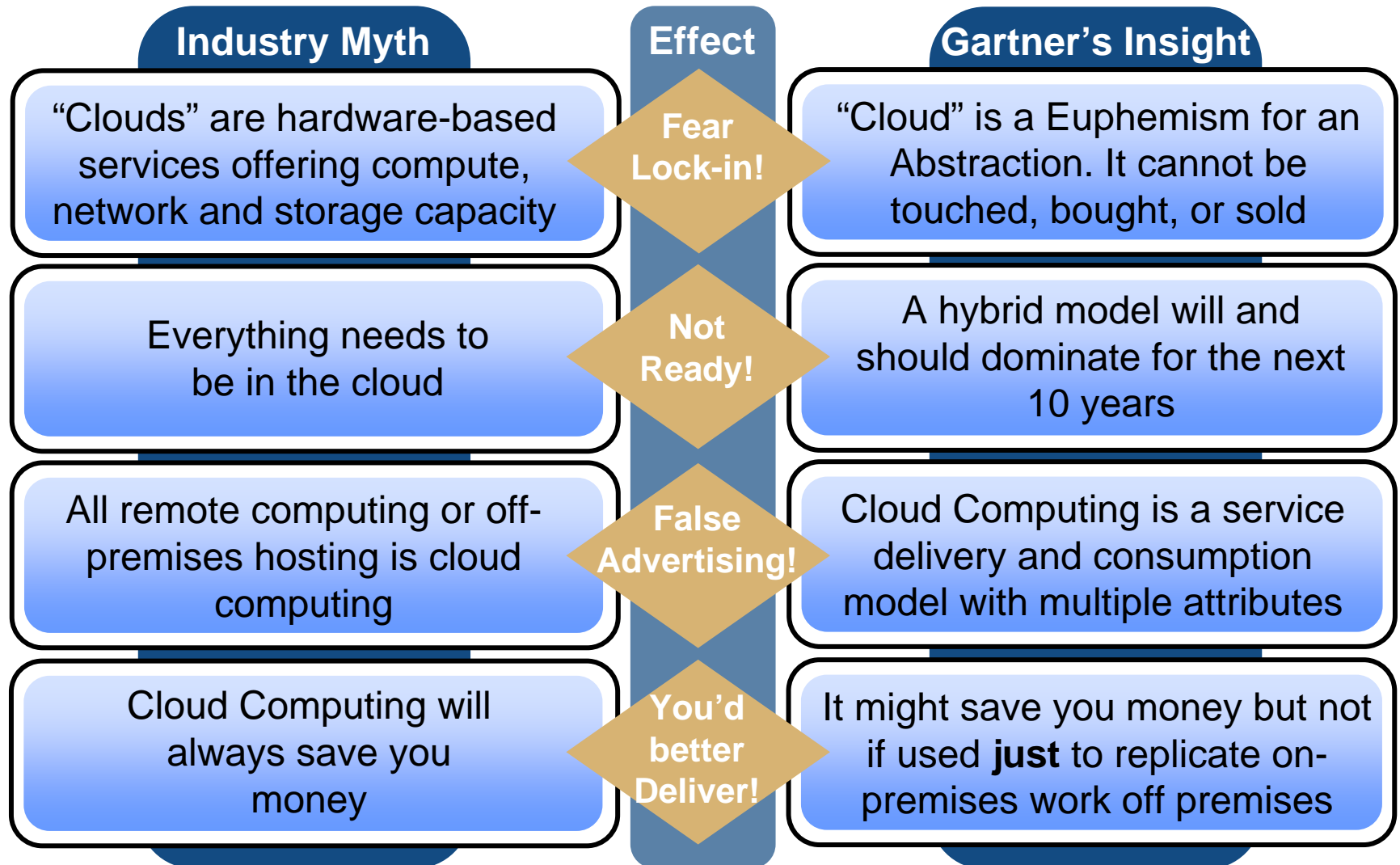
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Conclusion

Cloud computing represents a fundamental change in the relationship between those who use solutions based on technology and those who provide them

The result will reshape strategies from “budget” to “business” for both providers and consumers

Keystone Myths for Cloud Computing: Going Against Commonly *Misunderstood* Depictions



Gartner's Definition of Cloud Computing & the Critical Attributes of Cloud Services

Gartner defines cloud computing as "*a style of computing where scalable and elastic IT-related capabilities are provided 'as a service' to external customers using Internet Technologies*".

5 Attributes that support outcomes

1

Service Based

Consumer concerns are abstracted from provider concerns through service interfaces

2

Scalable & Elastic

Services scale on-demand to add or remove resources as needed.

3

Shared

Services share a pool of resources to build economies of scale.

4

Metered By Use

Services are tracked with usage metrics to enable multiple payment models.

5

Internet Technologies

Services are delivered through use of Internet Identifiers, Formats, and Protocols.

Software as a Service: What Exactly Is It?

**Software as a service (SaaS) —
Also known as "on demand":**

- **An application owned, delivered and managed remotely by one or more providers**
- **Where the provider delivers an application based on a single set of common code and data definitions, which are consumed in a *one-to-many* model by all contracted customers at any time**
- **On a pay-for-use basis or as a subscription based on use metrics**

Upsides and Downsides of SaaS

Upside

- Fits in an operational budget
- Optimized for core functionality you really need, not bells and whistles that you might need
- Limited platform "heterogeneity"
- Limited infrastructure overhead and management
- Lower TCO in the medium term, however, long term is questionable
- Faster implementations
- Potential for increased innovation

Downside

- Potential for subscriber-ware
- No asset value/cost management
- Possible governance issues of application portfolio
- Release management dictated by the provider
- Third-party application tools limited
- Vendor management (including oversight of operational management)
- Security concerns
- Longer-term TCO uncertainties
- OP2OD (on-premise to on-demand) integration

Poll Question

Question: Which phrase most accurately describes where you are in your cloud adoption?

- 1 – Just beginning with little understanding?
- 2 – Trying to get started with real world experiments?
- 3 – Actually consuming or deploying a cloud service?
- 4 – Transforming your business through using the cloud?

Please select the one that best fits.

Shifting the Way Money is budgeted and Spent Changes the Way we do Business

Unless you are these guys...



- Comparably Low Capital Expense Costs
- Optimized Operating Expenses
- Massive Global Resource Base

But...

Shifting Capital Expense money to Operating Expense Budgets Leads to 3 Transformative Opportunities with Cloud computing.



...You are probably like the rest of us



- Unknown or High Capital Expense Costs
- Locked into 3 year amortization Cycles
- Inflexibility in budget Changes

Cloud Services Lead to Transformative Opportunity #1: Price/Value

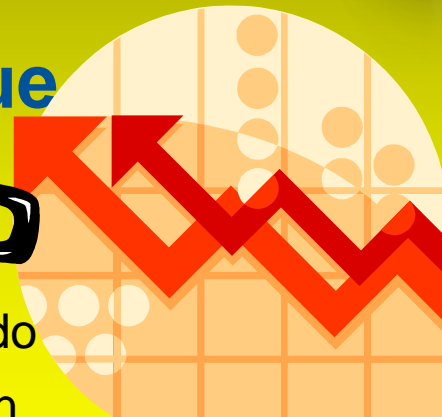
Disconnect Price from Cost

- Customers pay for parts
- Customers trained to care about technology
- Budget Recycling
- Customers stop IT from making sensible decisions



Reconnect Price To Value

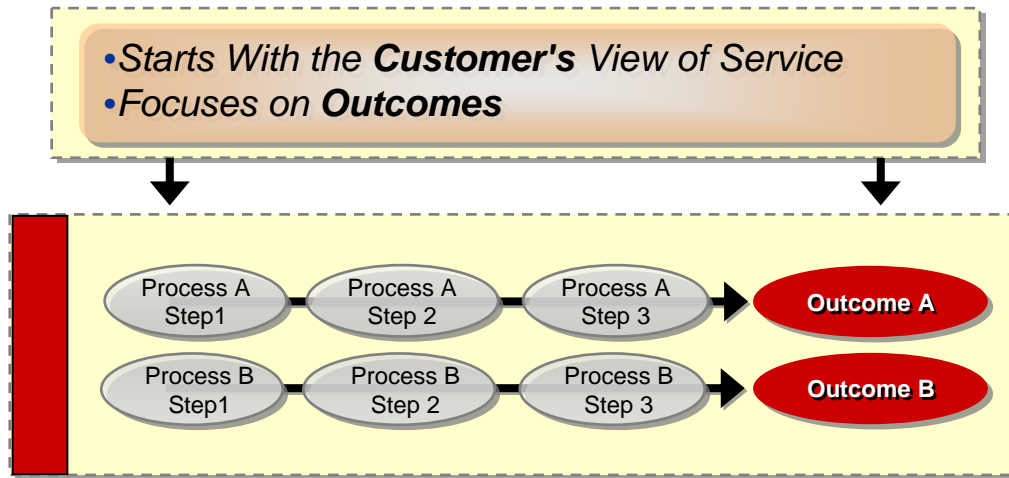
- Customers pay for what they need to do
- Customers trained to evaluate prices in terms of outcomes
- Providers are free to spend whatever makes sense



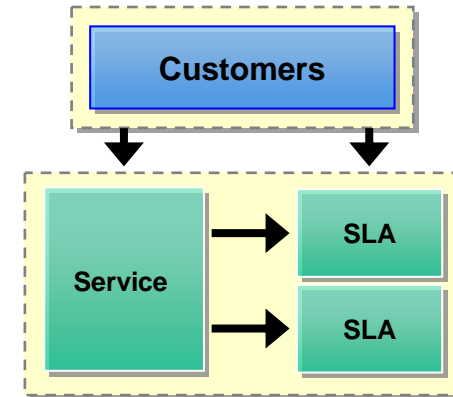
- Providers balance the “margin” between price and cost.

Focus on Outcomes with Cloud-based Sourcing

1. Performance Metrics



2. Service Level Agreements



3. Business Metrics

Demand Management	Market Responsiveness	Sales Effectiveness	Product Development Effectiveness
Supply Management	Customer Responsiveness	Supplier Effectiveness	Operational Efficiency
Support Services	Human Resources Responsiveness	Information Technology Responsiveness	Finance & Regulatory Responsiveness

Gartner Business Value Model

4. Financial Metrics

<i>Income Statement (\$ million)</i>	
Revenue	\$1,000
Less: Cost of Goods Sold	500
Gross Profit	500
Less Operating Expenses:	
Sales	200
Administrative	200
Net Income	\$100

Shared Resources Leads To Transformative Opportunity #2: Diversification

Technology Models

- Shared services
- Standardized business processes
- Server consolidation
- App. consolidation
- Instance consolidation
- Web site consolidation
- Content consolidation



Rationalization

Consolidation

Elimination

Diversification

Relationship Models

- Service Strategy
- Relationship Management
- Performance Review
- Interaction Focus
- Staff Interaction

Relationship and Governance Model

Builds Confidence is Multiple Providers

	Efficiency	Enhancement	Transformation
Service Strategy	Service receiver dictates SLAs	Service receiver dictates business rules; joint strategy	Joint effort to establish business objectives and dev. strategy
Relationship Management	Operations mgmt.	Business mgmt. and relationship manager	Executive oversight and business mgmt. and relationship manager
Performance Review	Annual benchmarking of SLAs	Customized review cycle (quarterly or by project milestone or deliverable)	Continuous joint review; predefined success criteria
Interaction Focus	Primarily contract	Mix of contract and relationship	Relationship dominates
Staff Interaction	Contract teams	Business process teams	Specific taskforce and executive oversight

“Pay Only for What you Need” Leads to Transformative Opportunity #3: Agility

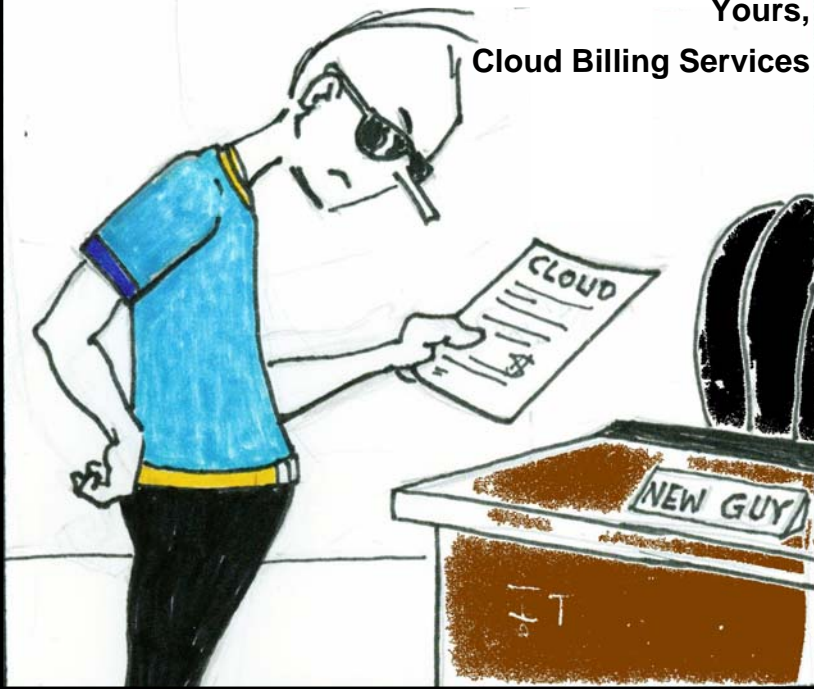
G-Men

D. Plummer

Dear Cloud Customer

You have exceeded your expected usage plan. Substantial taxes, fees, and data transfer rates now apply. Just add us to your bank account and make this easier.

Yours,
Cloud Billing Services



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“Pay as you go” can be liberating

- Start paying when you want
- Stop paying when you need to
- Pay for what you need, not what you have
- Handle unpredictable demand

Beware On-Demand Overspending

- Budget specialists don't like uncertainty
- Learn from mobile phone plans
- Can you cap your own usage?
- Who will track it?
- Is it even possible to cap it at the risk of halting business progress?

Sorry, you can't send out that invoice because you overused your minutes allocation!



Trust Changes Things: The Two-Year Tipping Point

Within two years of contract signature, the majority of outsourcing performance issues are the result of an imbalance of trust and control between the internal and external service providers.

Source: Gartner Sourcing Analyst



Risks of a Cloud Model: What Scares An Enterprise About Cloud Computing?

General Off-Premise Concerns

- ❖ Service availability, capacity and performance guarantees
- ❖ Provider security, privacy and disaster recovery policies and procedures (e.g., privileged user access)
- ❖ Service metrics, reporting and analysis
- ❖ Support e-discovery & investigations
- ❖ data ownership, recovery and migration
- ❖ Integration with on-premise systems
- ❖ Commitment requirements
 - ❖ Terms, minimum use
- ❖ Setup, training and integration fees
- ❖ Difficult to customization
- ❖ Difficulty changing providers
- ❖ Governance of sourcing process

Additional Cloud Computing Concerns

- ❖ Data/Process location and isolation
- ❖ Regulatory Requirements
- ❖ Data ownership & portability
- ❖ No transparency to provider operations
- ❖ No Redundancy
- ❖ Uncertain Remediation of Failures
- ❖ Integration and process integrity across the cloud
- ❖ Hidden supply chain impact (subcontracting by provider)
- ❖ Immaturity of vendors & standards
- ❖ App. Dev. Skills & models
- ❖ Licensing issues
- ❖ Unproven financial model
- ❖ Use vs. asset ownership

...So Governing Interactions Is Essential

Providers Will And Do Limit Their Responsibility

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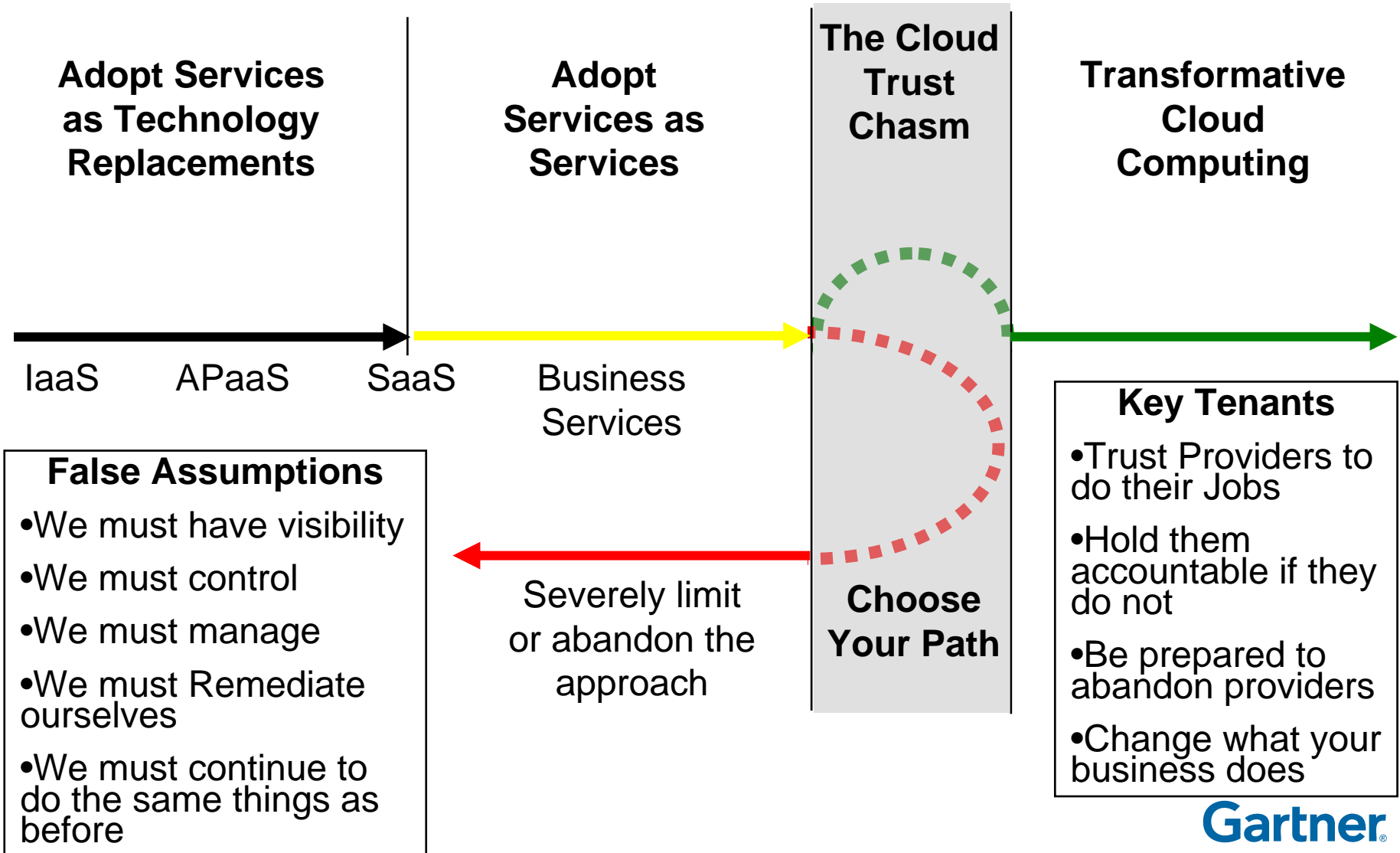
from section 14 part b- http://www.google.com/apps/intl/en/terms/user_terms.html

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from <http://aws.amazon.com/s3-sla/>

Save Money through Building Trust, or...

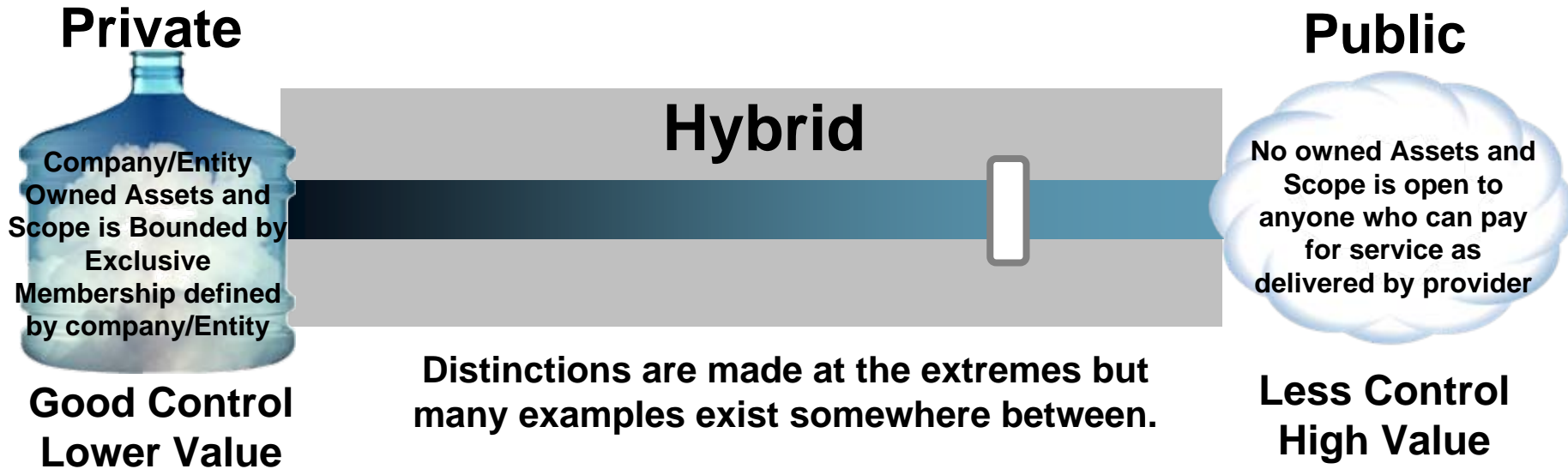


Relationship Basics: Six Ways to Build Trust

- **Focus:** What is the business objective of the relationship?
- **Fit:** What are the benefits, values and risks?
- **Fulfillment:** What are the desired outcomes and expectations?
- **Function:** How will the relationship be implemented and partners managed?
- **Financial:** How will the relationship develop goals and be measured?
- **Future:** How will the relationship evolve, and how will relationship strategies change?

- 
- **Avoiding IT**
 - **IT as Broker**
 - **Cloud Engineering**
 - **Insurance**
 - **Value-Add**
 - **Trust management**
 - **Coordination**

The Enterprise Response: The Public to Private Cloud Services Spectrum



Pros

- More Control
- Less Latency
- More Secure
- Learning Environment
- Shift “Price/Cost” to “Price/Value”

Cons

- Continued Asset Ownership
- Reduced Economies of Scale
- Reduced Sharing
- Reduced Flexibility
- CapEx Dominated

Poll Question

Question: What type of help with Cloud Services will you need in 2010?

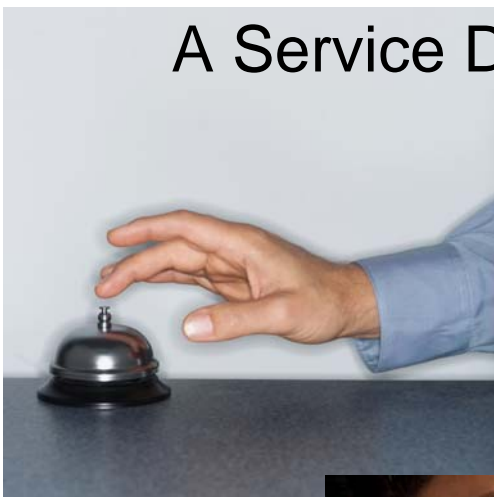
- 1 – Hosting – A Company to host services in public or a community private scenario
- 2 – Building – Training or Professional Services to Help build cloud services
- 3 – Brokering – A third party to back up data or customize services

Please select all that are appropriate

Cloud Services Brokerage: Sooner or Later, We all need help to build Trust

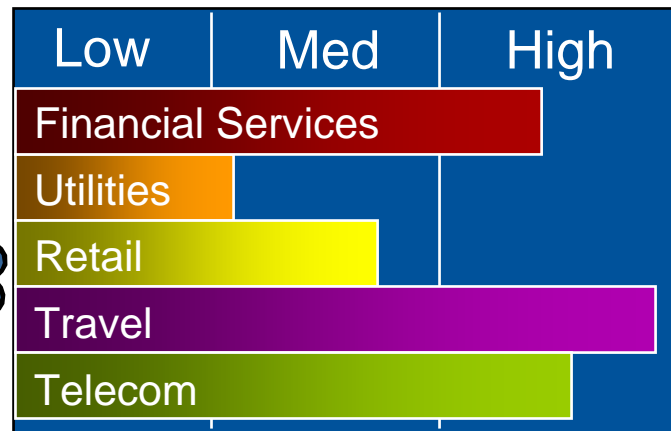
A Service Delivery/Consumption Model Requires Brokerage

- Banks intermediate Mortgages
- Insurance Companies Intermediate Policies
- Discounters aggregate supply chains
- Expedia Aggregates Reservations



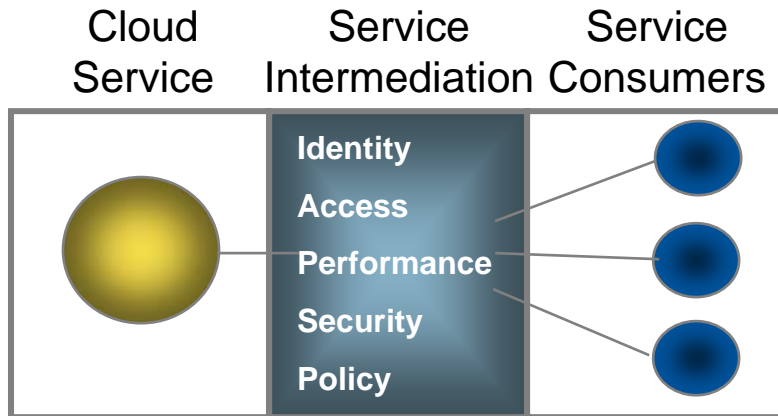
Brokerage is part of our lives!

- Carriers Aggregate telecom services
- System Integrators Customize apps
- B2B Companies Broker Messages



Cloud Service Brokerages: A Huge Opportunity

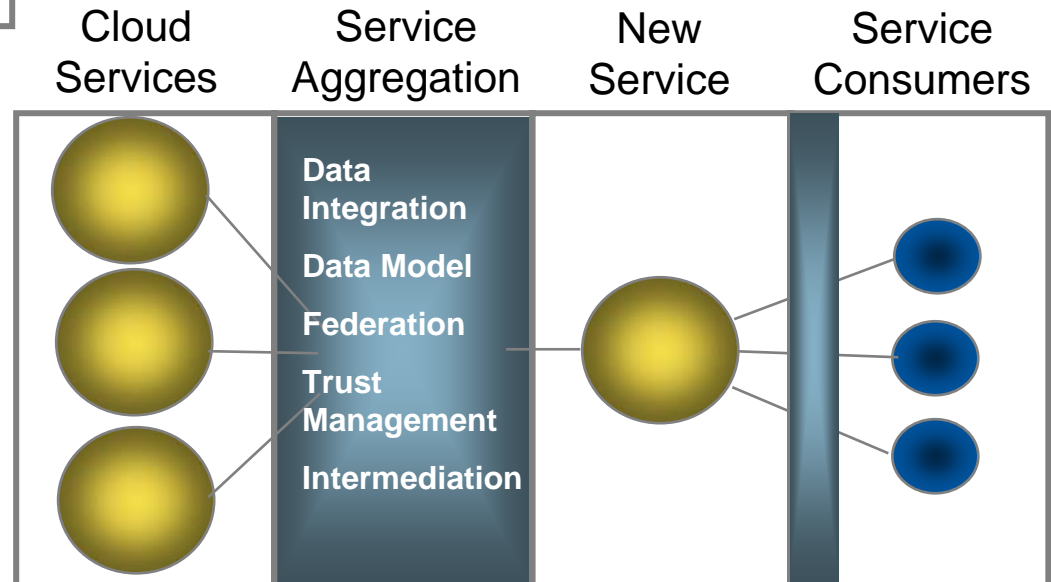
Type 1: Cloud Service Intermediation (e.g. – Sonoa Software)



Brokerages will have the opportunity to consolidate services and become a new generation of value-added resellers and packaged service providers.

A brokerage is a service business that adds value to other services on behalf of service consumers.

Type 2: Cloud Service Aggregation (e.g. Grand Central)



Dawn of the Living Dead Marketplaces: Building Cloud Relationships

Learning from Sister Markets

•How will you find The Right Service Providers?

•How will you know if you can trust them?

•What will help you determine what type of brokerage is best?

•How will you identify the right brokerages?

•Who will host the Services you outsource to the cloud?



What Kind of Scenarios are Being Used For Cloud Computing?

•Prototyping/Proof of Concept

A

-Try before you buy

•Web Application Serving

B

-Unpredictable workloads

•E-Mail

C

-Peripheral Processing

•Collaboration

D

-Avoid Cost

•Application Appliances

E

-Large interactive customer base

-Avoid Redesign

•SaaS

F

-Rapid Provisioning

-Huge Economies of Scale

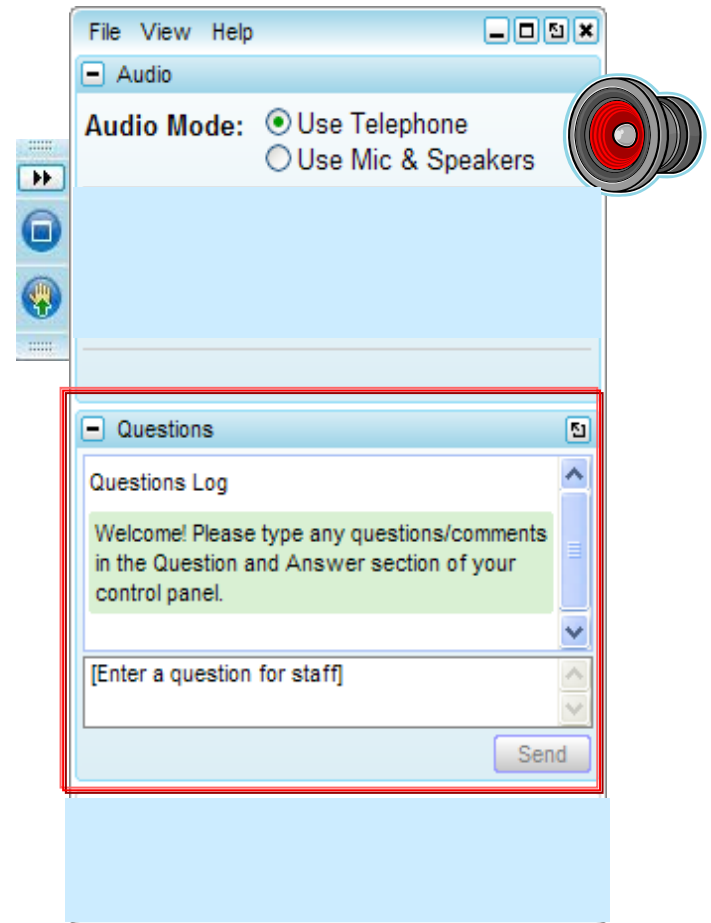
Recommended Reading

- ✓ **Cloud Computing: Defining and Describing an Emerging Phenomenon – D. Plummer**
- ✓ **Five Refining Attributes of Public and Private Cloud Computing – D. Plummer**
- ✓ **After the Next Big Thing: The Consequences of a Cloud Computing Scenario – J. Fenn**
- ✓ **Using the Right Words Will Ease Cloud Computing Confusion – D. Plummer**
- ✓ **Three Types of Cloud Brokerages Will Enhance Cloud Services – D. Plummer**
- ✓ **Three Levels of Elasticity for Cloud Computing Expand Provider Options – D. Plummer**

Thanks for participating!

Do you have any questions?

- If you haven't done so already, please type your questions into the Questions pane.
- We will answer as many of your questions as time permits.



Looking to reduce your IT costs? Gartner can take the cost out of IT in four ways

The screenshot shows a Gartner website page with a blue header. The main title is 'IT and The Economy' with a subtitle 'Cost Optimization'. A featured video section shows Kurt Potter, Research Director, discussing the 'Four Levels of Cost Optimization'. Below this, there are several article snippets under 'Cost Optimization Spotlight' and 'Actions You Can Take Now'. The 'Actions You Can Take Now' section lists four key actions: 1. Get the best pricing and terms, 2. Identify opportunities to reduce IT costs, 3. Implement cost-saving technologies, and 4. Restructure, improve processes, innovate. A sidebar on the right contains sections for 'Join the Dialogue', 'Stay Connected', 'Stay Up To Date', and 'Set up Email Alerts'.

IT and The Economy
Cost Optimization

FEATURED VIDEO
Four Levels of Cost Optimization
Kurt Potter, Research Director

Research Director Kurt Potter discusses the use of Gartner's Four Levels of Cost Optimization framework as a planning and communication structure.

Cost Optimization Spotlight

Method to the Madness: Applying a Methodological Approach to Cost Optimization
Cost optimization typically proceeds without methodological guidance. Our research develops a methodologically sound set of guidelines, frameworks, and intervention strategies to redefine and recharge the critical art of cost optimization.

Cost Optimization Fundamentals

Cost Cutting in IT: When to Use Zero-Based Budgeting
Ken McGee

It's Time to Prepare for a Return to Business Growth
Ken McGee | Mark Raskino

Key Issues for Cost Optimization, 2009
Kurt Potter

Proceeding from BewaretoWorries: Why Your IT Vendor is in Financial Difficulty
Debra Logan

CEO Concerns 2009: Dealing With the Downturn
Jorge Lopez | Mark Raskino

Actions You Can Take Now

- 1 Get the best pricing and terms**
Gartner ensures you get the best value from your IT purchases. Gartner analysts and consultants review thousands of vendor contracts and proposals each year.
[Read More](#)
- 2 Identify opportunities to reduce IT costs**
Leveraging proprietary data, Gartner shows you exactly where your spend is high relative to best-in-class peers.
[Read More](#)
- 3 Implement cost-saving technologies**
Gartner ensures your success in implementing priority technology initiatives in conjunction with the business.
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- 4 Restructure, improve processes, innovate**
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Webinars

How to Modernize IT While on a Budget
13 May 2009

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Stay Connected

Gartner analyst Lydia Leong: "Enterprise class" cloud [http://blogs.gartner.com/lydia_leong/](#) [View all](#)

Gartner: Org's must monitor IT service providers' actions to increase their flexibility and avoid bankruptcy [http://www.gartner.com/](#) [View all](#)

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- Identify major cost-saving opportunities
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15 July 2009

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