Global Digest

IT Cloud Services
Background

CASME Round Table meetings on the procurement of IT cloud services were held in Birmingham, San Francisco, Shanghai, Singapore and Sydney during a period from February to November 2015. Between seven and ten companies were represented at each event. The following main topics were discussed:

- Strategy
- Usage and cost savings
- Suppliers and options
- Important contractual and risk clauses
- Ongoing management.

This Digest provides the key points, good practices and insight into future trends identified by delegates around the world. Full notes from each meeting are available on the subscriber-only CASME Resource Centre.

Content Summary

Strategy

- Effective implementation requires a defined strategy based on how the cloud can deliver services that minimise downtime and eliminate low value processes, instead of seeking functional outcomes and capability as the end results.

- Mainly used in regulated sectors, private clouds allow companies to control the location of data and install firewalls and security. Other sectors use the public cloud, which is regarded as secure but not controllable. It is important to understand the availability of services across the markets in which the company operates, accounting for regulations concerning cross-border data movements.

- Cloud services models include: software, infrastructure, and platform ‘as a service’ (SaaS, IaaS, PaaS). SaaS is a subscription model that does not require the client to purchase licences and IaaS provides network and storage capacity. Adopting IaaS enables companies to use the provider’s data storage instead of maintaining their own data centres or local area networks (LANs). For IaaS, separate negotiations need to be undertaken with the hosting providers; this requires a distinction between local storage, and what is handled by the infrastructure provider and the hosting providers. Companies’ experience in PaaS is currently limited.

- IT teams should be asked to provide diagrams and technical specifications before finalising the documentation for service standards within tender documents. Suppliers should provide a written proof of concept (POC) for approval to demonstrate understanding of requirements.

Usage and cost savings

- Companies need to establish whether they are actually contracting for SaaS or a licence. Licence cost is based on the number of users, whereas SaaS cost is based upon the software usage typically measured by the data consumed or stored; therefore, costs increase if usage is higher than expected.

- Pay-as-you-go (PAYG) models enable costs to be allocated and charged back to internal business units. However, PAYG incurs currency risks when cloud services are procured and delivered by regional IT departments.

- Metrics used to measure usage requirements for corporate cloud services include the number of users, data component levels, security or protection methods, level of customisation, the volume of resources consumed and the speed of the network and applications.

- Moving from traditional agreements to cloud based ‘as a service’ models results in cost saving opportunities in areas such as software licences, service centers and IT suppliers, fewer resources and less hardware.

Suppliers and options

- Criteria for supplier selection includes low network latency, location of data storage, security, uptime, accessibility to markets, global reach, scalability, dashboard capabilities and cost structure.
Larger service providers are developing into single source industry leaders by increasing their in-house resources and partnering with or acquiring smaller niche suppliers. Versatile IT cloud services via a single platform are offered but this is further limiting the options in the market.

Cloud service contract terms are shorter than most, and with a competitive market in which companies can switch suppliers easily, customers have some negotiation power, although suppliers are in a better bargaining position. An accurate baseline should be determined, achieved by analysing the cost of managing IT services in-house versus cloud services, giving consideration to the cost per user, the cost of transitioning from one platform to the other, or from one supplier to another. Small and niche suppliers are using their capacity for flexibility to gain business by filling gaps through customisation or developing add-ons.

Suppliers are assertive in their negotiation style; therefore the balance of power and the level of competition have to be carefully considered. Renewing a contract near the end of the suppliers’ financial period, either quarter end or year end, may result in larger discounts if sales targets need to be met. Sourcing system licences from low cost countries rather than purchasing them within the country in which the organisation’s headquarters is based can intensify competition even when sourcing from the same supplier.

Resellers are worth considering for cloud services to achieve better overall pricing, but the focus should not only be on costs. Increasing the term of a master service agreement (MSA) with providers from three to five years with pre-negotiated tiered rates for licences is also effective.

**Important contractual and risk clauses**

- Considerations for cloud services contracts include geographic jurisdiction, the right to audit to ensure supplier stability, security requirements and provision for force majeure events, data ownership, back-up, storage and access, data deletion or recovery after termination and the required format, intellectual property (IP) rights, reimbursement of costs in the event of contract breach, prompt response and correction when services fail. An exit strategy should be included in contracts, as the cost for retrieving data can be substantial. It is important to be able to switch to another service provider in the event of supplier failure.

- The right to perform penetration testing is included in cloud contracts. The tests are performed by the client organisation or third parties by attempting to hack into the cloud to ensure that no data leaks are possible.

- Inclusive IP considerations in a SaaS contracts are no longer valid. SaaS now involves the purchase of a standard product that is not customised and any third party IP is part of the product and cannot be attributed to any particular customer. For the same reasons, placing the software code in escrow no longer applies to SaaS.

- Security systems should be in place to monitor information leaving the company’s network and block any that may breach confidentiality. Software can monitor the applications being used across the organisation, which helps to address claims by suppliers regarding their right to ownership of any data stored in their clouds.

- Government regulations in Russia and Australia prohibit companies from storing data on networks outside of these countries. To accommodate these laws, agreements can be signed with local suppliers in addition to the global supplier. In China, regulations are in place limiting the data being sent from company sites based in China to other countries, and foreign-owned cloud services have a much smaller bandwidth for data flow. This can be by-passed by using local suppliers to host China-based information within China, with a pipeline out to offices outside the country.

- In China, Russia and the European Union, specific laws have been enacted concerning data security and how data is managed at a company level. Classification of how and who authenticates data in different countries is an increasing liability for companies. For example, in France, all data storage, access and monitoring must be geographically located and physically conducted within the country.

**Ongoing management**

- In the SaaS model, the ability to receive upgrades with no implementation time or cost is a significant advantage. The end-user benefits from the latest software, while companies reduce the overhead costs associated with outdated software. Updates and upgrades can disrupt the company’s operations; contracts should state that advance notice must be given to the company’s IT department to test and approve the changes before being implemented across the organisation.
Suppliers tend to charge for software upgrades and software maintenance fees interchangeably and Procurement must closely monitor fee structures during negotiations.

- KPIs used for IT cloud contracts include core count, central processing unit (CPU) count, random access memory (RAM) and storage. The number of required cores needs to be established. Some companies clearly explain to suppliers what they wish to host and the suppliers state the level to which they can perform. Cloud services are benchmarked by comparing factors such as costs, maintenance complexity, accessibility to data, and customer satisfaction.

**Future Trends**

- A possible solution to reducing the cost of a variable user base is to place the company’s whole IT platform in the cloud via PaaS and SaaS.
- Companies that have a mature IT cloud service strategy are now demanding a ‘business process as a service’ to enable the company to make more use of data stored in the cloud.
- Cloud services companies are expanding their offerings to become sole source providers.
- Internal databases may be recycled and the space reused, rather than paying for extra.

**Resource Centre Links**

To access the full notes for each meeting, log in to the CASME Resource Centre and click on the following links:

- Birmingham
- San Francisco
- Shanghai
- Singapore
- Sydney.
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