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Moving to the Cloud?

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Organizations of all sizes continue to consider Cloud services as an alternative IT infrastructure largely driven by the imperative to reduce costs. Be they small companies considering cookie-cutter offerings from the likes of Amazon or Microsoft or major corporations with large in-house IT staffs evaluating mixed and hybrid Cloud offers, many such efforts lack a clear focus on benefits versus risks which are always company specific.

However, in the end when the comparisons and recommendations are made while they are often framed in CapEx (own-it) expenditures versus OpEx language, it is often without fully appreciating how that framing affects the lens of corporate management in judging things. Commonly by middle management CapEx and OpEx are thought to be just names for buckets from which the cash flow comes and it's the same cash in either case be it OpEx or CapEx.

Viewed from on high in the corporation OpEx normally trumps CapEx.

If costs were identical for own-it vs. Cloud, OpEx is far more desirable from a corporate management view. This is for a number of reasons including the impact that large and bursty CapEx by IT projects can have on continuity of the overall cash position. And one of the things that makes the Cloud appealing to corporate management is that moving costs from CapEx to OpEx smoothes the expenditures over time.

For this short note let me cite the option-value of the Cloud alternative as the one that should be kept in mind. Simplifying in terms of a given server for example, with CapEx we are talking about a sunk cost (e.g. the purchase of servers as a capital cost.) Subject to details of the contract with the cloud provider cloud costs (OpEx) can be terminated far sooner if needed than a three year commit equivalent to the depreciation on the purchase approach. This ability to not tie up corporate cash is a powerful flexibility. Extended to whole datacenter builds versus Cloud providers and you can get a sense of why the Cloud is so attractive to corporate management.

These points serve as a reminder to remember the corporate prejudice on CapEx versus OpEx. Corporate management is likely to view CapEx dollars as “more expensive” and certainly as more risky. And the financial desirability can cloud (pun intended) the view of corporate who are infinitely less likely in any case to be aware of the implementation risks than IT or middle management.

Corporate management will tend to take the high view driven by their understanding of the cost comparisons. If cost is allowed to drive the decision without proper awareness of other important considerations the risks can be huge. This is especially the case as Cloud substance and functionality while evolving rapidly continues to lag the promise, which is always forward looking.

Hence it becomes vital that in working up the evaluation of Cloud alternatives that IT management focus on the considerations across at minimum there and with an eye to triggers of functionality over time. Those are the factors that can trump the cost considerations or validate even more the value of a cloud move.

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These considerations, briefly stated:

Considerations of the 1st degree: When it comes to considering these moves to an external or hybrid cloud model for example the technical and IT folks should work their way through such things as degree of acceptable latency for an application class, security and privacy risks, downtime risks for a model that in many cases today has some strange uptime provisions & untested SLA agreements, drill downs on self-service management, integration with on-premise systems etc. etc. Coming to terms with these kind of issues is sine que non . Who cares what further analysis says about cloud cost and flexibility advantages if your customer database might be naked to the world.

Considerations of the 2nd degree: Then in there will be the consideration of other issues often thought of as the business issues: cloud vendor stability/longevity, vendor transparency, ease of auditability, time to market speed for rollouts, self service ease, corporate compliance and governance policies, cross state or nation-state compliance, etc. etc.

Considerations of 3rd degree: Only then, do we come to an honest attempt by most to do a cost comparison between the cloud and your own datacenter. A lot of the early silliness in these comparisons is history. People now don't try to get away with taking the purchase price of a blade or 1U server extended over 3 years of depreciation and comparing it to the cost per month from Microsoft or Amazon.

Folks now remember to include on the own-it side direct/indirect costs: e.g. power costs, cost of physical floor space or volume & amortized costs of operational personnel, networking infrastructure and storage. Some also at least making an attempt to account for some corporate overhead for owning the datacenter and its contents (e.g. purchasing, accounting and even HR).

Then there is also the potential hairball issue of server utilization. Depending on the terms and conditions of the cloud vendor agreement, typical in-house server utilization percentages of 15%-25% can skew things strongly to the advantage of the cloud vendor with terms based on usage.

Being blunt, evaluation of moving to the Cloud in part or in full is often beyond the best-intentioned ability of an organization to do an un-clouded evaluation. The self interest of departments combined with frankly the lack of technical knowledge of senior management most often drive a non-optimal decision unless included in the process is an outside third party which has both deep understanding of IT and corporate management.

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Allawos & Company is a comprehensive global business-consulting firm tuned to enable organizations identify and exploit opportunities through creative engagement built on a foundation of decades of senior management experience.

Whether in corporate development, strategic planning, alliances, market development, diplomatic engagement or manufacturing optimization, our team is focused on client-specific value creation.

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