Global Digest

Cloud Services

Background

CASME held Cloud Services RoundTable meetings in Asia, Australasia, EMEA and North America. The following main topics were discussed:

- [Business strategies
- Cloud services options
- Sourcing strategies
- Negotiations
- Considerations for success
- Future trends.

This Digest provides the key points, good practices and insights into future trends identified by CASME members at the RoundTable meetings held around the world.

Business Strategies

The use of cloud services within organisations is continually increasing and has become a mainstream method for obtaining IT services due to the benefits that can be achieved, which include:

- Reducing capital expenditure (CapEx)
- Upscaling IT infrastructure without being limited by the challenges associated with on-site services, such as the cost of IT hardware, maintenance, and data centre facilities
- Accessing improved products and innovative IT solutions and services to modernise operations and advance business development
- Assigning the management of upgrades and compliance to the service provider, enabling internal personnel to focus on core business activities
- Increasing process and operational efficiencies
- Enhancing the user and customer experiences
- Optimising service providers' global capabilities to increase compliance with legal, regulatory and cyber security requirements.

The main business objectives that are considered when developing cloud services strategies include data security, service stability, global consistency, compatibility with the applications that are being used, and reduced costs through volume leverage.

Strategy development

The cloud services strategy is typically developed by the chief information officer (CIO). Procurement supports and influences the strategy by:

- Communicating directly with the CIO to gain an understanding the IT strategy and ensure that it aligns with the requirements of the business
- Engaging with the stakeholders in order to:
  - Determine their requirements and objectives
  - Identify the business processes that can be moved to the cloud
  - Forecast consumption levels
  - Discuss the impact of changes
  - Perform risk assessment and mitigation activities
  - Exchange regular updates and feedback
  - Review pricing and contracts
  - Obtain agreement to key contractual clauses
  - Provide guidance regarding the negotiation strategy and process
  - Develop transition plans
- Aligning the category strategy with the objectives of the stakeholders and the organisation, and conducting annual category planning meetings with the stakeholders
- Providing market intelligence to identify trends, suppliers, pricing, and the types of services available that are relevant to the organisation
- Considering the existing data centres and the systems and software that will be migrated to the cloud Applying 'agile' and 'sprint' procurement methodologies to demonstrate the timely delivery of results
- Assessing the alignment of the suppliers' capabilities and their business and service delivery models with the organisation's requirements.

Cloud Services Options

- IT strategies may be based on a 'cloud-first' or 'cloud only' approach, using single or multiple cloud platforms, or a combination of cloud services and internal infrastructure and data storage.
- The cloud services models that are being applied include using:

  - Internal data centres (IDCs)
  - Colocation data centres
  - Customer data platforms (CDPs)
  - Consumer-related applications
  - Domain name systems (DNSs)
  - Dynamic host configuration protocol (DHCP)
  - Internet protocol address management (IPAM)
  - A combination of DNS, DHCP and IPAM (DDI)
  - Infrastructure as a service (IaaS), typically for networks, servers, data storage and virtualisation
  - Platform as a service (PaaS) for adding runtime, middleware and operating systems to web-based services
  - Software as a service (SaaS) for all web-based services, including software operated either by the software providers or the cloud services providers on a pay-per-use licence basis.

- The key cloud services providers that are being used include: [Amazon Web Services (AWS)](), [Google Cloud](), [IBM Cloud](), [Microsoft Azure](), [SAP](), [Salesforce](), and [Workday]().
- Many organisations are using a combination of public and private clouds. Data storage is typically managed in a private cloud environment to ensure compliance with corporate policies and regulatory requirements. In addition to cost, the decision to use a public or private cloud environment is based on factors such as the:

  - Criticality of security
  - Portability of services and licences between cloud platforms
  - Availability of services in different regions
  - Ability to co-ordinate a multi-platform strategy, or manage different cloud services within a single platform, either by an in-house team or a managed services provider (MSP)
  - Need to apply separate cloud services strategies for business operations and product development
  - Consistency of standards within the service providers' supply chains.

- The cost of data storage can be reduced by only storing 12 months' worth of data, standardising the processes for accessing data and educating the users, applying native applications, and adopting the best practices recommended by the cloud services providers.

Sourcing Strategies

- Cloud services may be contracted through MSPs or IT operations and maintenance services providers, to benefit from improved commercial terms, as well as to obtain online configuration and daily operations and maintenance services.
- A single-source or a multi-source strategy may be applied to optimise cost savings and innovation.
- A single-source strategy tends to involve long-term contracts with volume and/or spend commitments, and discussions between the senior executives of the client and supplier companies.
- The benefits of a single-source strategy include obtaining dedicated resources, collaborating and co-investing with the supplier, enabling integration of cloud services into the organisation's IT strategy, and avoiding the cost of switching suppliers.
- The disadvantages of a single-source strategy include reliance on a single supplier, increasing the supplier's bargaining power, and potential loss of control over the supplier's service delivery and sourcing strategies.
- The benefits of a multi-source strategy include achieving cost savings, cost avoidance, the flexibility to adjust services, and the ability to include small and specialist service providers in the supply base to access innovation.
- The disadvantages of a multi-source strategy include challenges in tracking services to specific service providers and the inability to optimise volume discounts.
- Migrating between cloud services providers can be expensive when multiple cloud-based applications and functionalities are being used.
- Small, start-up and diverse supplier companies may be used for obtaining specialist and/or customised solutions, or as a back-up for low-risk technological requirements, such as videoconferencing.

Proof of concept and value

- Proof of concept or value (POC or POV) trials may be conducted during the final supplier selection processes following requests for proposals (RFPs); usually with no charge to the client company unless customisation is required.
- POC testing is conducted to determine the feasibility, suitability and effectiveness of the cloud services the providers are offering, as well as to enable the users to trial new cloud-based applications, test processes and specifications, and provide feedback.
- The results of the trials are presented to the CIO and the stakeholders during the decision-making process, but the acceptance of POC or POV services is not a commitment to contract the service providers.

Negotiations

- Global cloud services providers have a significant amount of leverage in negotiations, especially regarding pricing. The factors that stimulate the suppliers to offer competitive pricing include:
  - The timing of the negotiations
  - The total amount of spend involved
  - Agreeing to long-term contracts
  - Committing to specific amounts of volume and the application of tiered pricing and discounts based on forecasted volume
  - The inclusion in contracts of a benchmarking clause, capped price increases, and year-on-year cost reductions by a specified percentage
  - Negotiating a most favoured nation (MFN) agreement
  - Communicating the competition to the suppliers and the willingness to consider alternative options
  - Allowing the suppliers to name the company as one of their clients
  - Involving senior executives in pre-negotiation discussions or to finalise contract negotiations
  - Technical and strategic alignment between the client and supplier companies, and the potential for establishing a partnership
  - The service provider being a 'first mover' in the introduction of new technology.
- Good practices for negotiating cloud services contracts include:
  - Identifying changes in business conditions and stakeholder requirements that may increase volume and negotiation leverage
  - For service providers that request up-front payments, determining whether it is a buyers' or sellers' market, and whether the payment is a pass-through cost for the service provider's financial investment in implementation
  - Analysing the usage of every service, to exclude underused services and negotiate for key services.

Pricing models

- When considering pricing models, Procurement should focus on the core services to be provided, obtain comparable quotes and initially avoid bundled pricing for new cloud-based services; then after the service has been implemented and the pricing structure can be clearly understood, develop bundled cost models according to business requirements.
- For existing services, a cost model based on usage can be negotiated with volume-based discounts, as well as added-value services.
- Remuneration can be based on a concurrent licencing model with payment for a maximum number of users for an agreed period.
- Consumption-based pricing is suitable for new and ongoing services that are routinely used and for which consumption can be accurately forecasted.
- Consumption-based pricing models can be managed by obtaining access to quality data, monitoring usage levels for accurate forecasting, negotiating tiered pricing and periodic price reviews, and segmenting prices to differentiate between high- and low-priority services.

Considerations for Success

Contracts

- Cloud services contracts are aligned with IT best practices and governance policies, to minimise risk and support changing requirements during the contract term. The clauses that are being applied in cloud services contracts address:
    - Termination
    - Penalties
    - Each service within a bundled agreement
    - The option to change the volume commitment
    - Transition requirements
    - Commitment from the supplier to establish interoperability of the service
    - Insurance requirements
    - Liability and indemnity
    - Acceptance testing
    - Remedial action plans for performance failure
    - Pricing details for tiered pricing structures, rate caps, and pre-negotiated rates for additional services
    - Benchmarking
    - Right of first refusal
    - Service portability.
- The major global service providers may insist on their master contracts being applied. In this situation, Procurement can mitigate risk by limiting the thresholds within contracts and involving Legal in reviewing the contracts.
- The benefits of using suppliers' master contracts include expediting the agreement, implementing contracts that contain a high level of technical detail, and increasing stakeholder satisfaction with Procurement's service quality.

Internal policies

- The internal policies that are being applied to address the risks associated with cloud services include the:
    - Mandatory use of only pre-approved software and suppliers only
    - Obtaining a minimum number of quotes or bids for contracts that exceed a defined spend threshold
    - Maintaining internal IT knowledge and capabilities.

Benchmarking

- Procurement obtains benchmarking data by analysing existing contracts against the contracts that are being offered by new service providers, and from external sources such as:
    - Accenture, CASME, Forrester, Gartner, Data#3, and EUIT
    - Consultancies such as McKinsey & Company and PwC
    - The benchmarking and analytical tools provided by Google and Microsoft within their services.
- Customised reports based on specific procurement requirements may be requested from some third parties; or live analysis services may be obtained for benchmarking large cloud services contracts. The benchmarking reports provided by third parties may only be used as guidance if they contain no new insights.

Demand management

Demand is being managed by the:

- Budget holders using IT management solutions to increase efficiencies in data management and storage
- Business units providing budget reporting and Procurement managing their requirements
- Use of cloud-based software asset management solutions.

Platforms such as CloudHealth by VMWare may be used for analysing, forecasting and optimising cloud usage, and to switch applications on and off according to usage.

Future Trends

- Procurement's ability to increase its negotiation leverage will be limited by factors such as cloud services providers:
  - o Consolidating and expanding the scope and global reach of their services to increase revenue
  - o Changing their pricing structures according to consumption volumes
  - o Changing their business strategies to increase demand for cloud services by using freeware to gain access to a mass user market.
- Organisations are not expected to be early adopters of new cloud computing technology, such as edge computing, due to the associated high risks and the limited number of suppliers providing the services.
- Improved portability and interoperability will simplify the processes for moving data and applications between cloud services providers, and enhance the smooth transition between services.
- The containerisation of cloud applications will increase portability, as well as competition between providers. IBM has developed cloud analytics tools that can be used to manage multi-cloud locations and automatically move data and applications between clouds to optimise costs.

Resource Centre Links

The following are links to the full meeting reports for each region:

- Asia
- Australasia
- EMEA
- North America

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