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Procurement of Public Cloud:
Not just blue sky thinking
IT Sourcing and Transformation
Community of Practice
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The new normal

Public Cloud adoption is no longer a choice but a necessity for organisations. Driven by lower costs, agility, scalability and innovation, organisations have shifted away from the uncertainty of Cloud adoption towards a 'Cloud first' mentality.

Based on a Deloitte CIO survey, more than half of the respondents already have Cloud guidelines and strategy in place, with the majority of them planning to move from minimal workloads today to significant workloads over the next three to five years.

Despite the multiple benefits, when it comes to procurement, a 'Cloud first' approach needs to be appropriately planned and executed. The pricing models of Public Cloud solutions, for both vendors and clients, are underpinned by multi-tenant shared infrastructure and services, combined with standardised service delivery models, architectures and commercial terms.

This has dramatically turned the tables in the contractual landscape, with vendors setting the anchor point for negotiations by defining a catalogue and portfolio of solutions and services that organisations can choose from.

This Point of View explores the challenges that procurement functions in organisations will be grappling with as they seek to embrace the many benefits of Public Cloud, but adopt it in a way that maintains control and balances risk.

Traversing the challenges

The tipping of procurement power needn't just favour Cloud vendors – it is up to Procurement departments to re-establish themselves in a Cloud centric landscape. Here is how:

Challenge 1 – Are you ready to go?

Assessing an organisation's readiness across disciplines such as architecture, security and compliance, change and cost is critical to successful selection, implementation and benefits realisation of Public Cloud.

Public presence apps (e.g. email, calendars, collaboration platforms etc.) can be relatively easily integrated into the Public Cloud, however, more complex applications present a bigger challenge in terms of functionality, integration and access. Security is often an area that is scrutinised and could ultimately become a burden to Public Cloud adoption, despite most established Public cloud providers having well-implemented security strategies in place.

Migration from incumbent outsourcing contracts and well-factored resource planning can often be underestimated, resulting in costly business cases. Change in the way organisations are operating is not always appropriately managed – not just after the migration has been completed, but during the entire process, with people often being unprepared to adopt the Public Cloud solution and adapt to their role that might have shifted to new demand.

How should I take this forward?

Before adopting a Public Cloud setup, identify and evaluate which applications are simple and less risky to be migrated and which ones are better off in an on premise system. Be ready, willing, and able to put a contingency strategy in place before deciding to go Public Cloud. Understand how exactly your workloads and operational processes will benefit from Public Cloud and whether it is more cost effective than maintaining a Private Cloud system. Understand how your retained organisation will be impacted, provide them with support (e.g. training, upskilling) and evaluate what additional talent you will need. Include the additional cost into the business case. Seek the expertise of an IT partner that could help you select and develop the solutions from cloud management, to post-migration support.

Challenge 2 – Is your business case Cloud ready?

The business case for cloud will naturally be predicated on the ability to shift existing applications to cloud. Although vendors will advertise 'cloud factories' to facilitate this process, this is only half of the solution, with the other half needing to be provided by the client. When Public Cloud is offered as part of a wider managed outsourced solution, then vendors will seek contractual safeguards and place strong support obligations on the client, whilst assuming an aggressive migration approach as part of most contracts.

The required internal support is likely to come in the form of application architects who can work with the vendor to re-platform the applications, and project managers who can manage the process and client commitments according to the contractual plans. Whilst the latter can usually be found   relatively easily either internally or in the contractor/ consultant market, architects with the requisite knowledge will often have limited capacity. Regardless of internal accounting practices costing internal resources, taking these individuals out from day-to-day roles is likely to require some backfill – which usually means turning to the external market.

In terms of migration assumptions, vendors are reliant on the data they are given and will use this to make estimates on the complexity of migration, therefore determining migration plans and finally, the business case itself. As the vendor will be pushing for the sale, these are usually going to gravitate towards the optimistic side to ensure a favourable business case. Failure from a client organisation to keep pace will usually result in the vendor seeking commercial relief.

How should I take this forward?

As basic as it sounds, having a clear and deep understanding of transformation obligations is essential. This means understanding what resource commitments are required, and realistically determining whether the organisation can provide this support, both from a skills and capacity perspective. Work with potential vendors to clarify any limitations/constraints and re-adjust the business case to reflect a more realistic result. Furthermore, do not ignore the costs of internally supporting the transformation activities, whether these are for backfill, internal costs or for supporting consulting firms. Other 'surprise' costs include upgrading and aligning operating systems, database upgrades as well as UAT. These costs are likely to be material and whilst they are unlikely to completely torpedo a business case, the process of requesting an increase in budget to pay for these resources later could be problematic. Finally, during the contracting phase for the transformation, make sure you validate and test the assumptions the vendor is making, and ideally eliminate them completely. One of the biggest causes of vendor cost increases is delays to the transformation as the business partners become uncomfortable with the associated downtime. Get this planned and well-communicated, and don't let a vendor's weak due diligence on the ease of application migration become your problem by providing unconditional relief if migration milestones are not met.

Challenge 3 – RFPs: Do you still need them?

The technicalities of multi-tenant Public Cloud solutions can be configured but not fundamentally changed. Using as a baseline the overly prescriptive¬ Request for Proposals (RFPs) of traditional outsourcing services would endanger requirements to contradict the service model, potentially show a fundamental lack of understanding of the Public Cloud principles and, as a consequence, limit provider responses. But of course that doesn't mean they have fulfilled their life, they just need a refocus.

The Public Cloud market is characterised by constant change, with both large and niche Public Cloud providers emerging on a day-to-day basis. This new dynamic has generated the need to have a deep understanding of the Public Cloud model and to be up-to-date with the vendor market, offerings and associated commercial models.

Procurement processes are now 'quicker' and in conjunction with the standardisation of technical solutions and T&Cs, new opportunities arise. Procurement teams now have the capacity to shift their role from 'transactional and supportive' to 'advisory and strategic'. This new dynamic can equip the procurement function to become a trusted partner to the IT and business stakeholders throughout a Public Cloud sourcing exercise.

How should I take this forward?

Public Cloud RFPs need to be less lengthy and descriptive than their on premise counterparts. Agree and set your critical business requirements upfront (e.g. regulatory, security, data residency etc.) and use these to drive the sourcing exercise. Focus on the vendor engagement and due diligence. Synchronise and prepare the IT and business departments to fully embrace Public Cloud and be ready to refine, adjust, or even compromise their requirements to match the provider's technical offerings. Conduct rigorous vendor market and offering research to identify a wide portfolio of solutions and products that might meet your needs.

Challenge 4 – When a free sample isn't free

Data transfers across applications, number of end-users, integrations with other Public Cloud and on premise solutions, and legacy system compatibility are only a few things that increase the complexity of procurement and implementation of Public Cloud solutions. Untested and impulsive purchases could result in costly, legally uncompliant and technically incompatible migrations.

Despite the multitude of vendors offering free-of-charge 'Proofs of Concept', running them requires a financial and resource investment from organisations who will need to supplement the vendor contractors, and specialist consultancies or systems integrator (SI).

Furthermore, free PoCs rarely come unconstrained, meaning that a part of the organisation should be involved in reviewing terms and understanding liabilities. There will be inevitable conflict between the technical teams desperate to play and tinker with the new technology, and the procurement and control functions. Additionally, as vendors work to recoup investment, free PoCs would pressurise vendors further into securing the deal. As such, it is critical to think about how to structure the PoC to avoid prejudicing the final vendor selection.

How should I take this forward?

The value of a PoC should not be understated but nor should the investment required to oversee one. Drive the process to test that on a technical and process level the solution integrates to your existing organisation's IT ecosystem, particularly in areas such as data migration and integrations. As such, it can immediately prove capability with minimal infrastructure investment. For simple PoCs, request from the Public Cloud providers to invest their resources for the duration of the PoC, and agree upfront the resource needs, timescales and integrations to be tested. Clarify exactly what additional in-house capabilities they are expecting from you to provide and be prepared that you might need to supplement your team with external contractors, specialist consultancies or SI, to support and drive certain activities (e.g. code development, business analysis, configuration, testing etc.). However, for complex or lengthy PoCs, consider paying vendors to supplement your team in order to capture the support required to make the PoC worthwhile. The old adage of 'you get what you pay for' still rings true.

Challenge 5 – Know your worth and ask for it

Public Cloud providers rely on demand resource allocation but their commercial model does not always respond to on demand contract negotiations.

Quite often we see IT organisations trying to determine a Public Cloud technical solution and putting procurement under pressure to negotiate these features. This not only contradicts the service model but results in losing focus and ultimately missing out on areas such as pricing and service levels where the vendors are often more flexible.

Depending on the size and scale of the organisation and opportunity, Public Cloud providers can be more open to negotiating some elements of the offering and commercials, in order to secure business.

How should I take this forward?

Expect that technical capability is difficult to negotiate, but do determine what leverage you have before commencing your negotiation, particularly around pricing, service levels and regulatory requirements. Utilise your due diligence to understand the provider's position in the market (e.g. plans for expansion to specific geographies, industries). Request from the provider to meet your service levels, but be prepared to pay more if you want to guarantee better performance. Ensure your requirements are defined in a way the vendors understand e.g. a regulation might be meaningful to your organisation but the vendor may not fully understand the law or its implications. Understand that Public Cloud providers are very sensitive to market public relations and branding, so becoming a potential reference client could be a key lever during your negotiations. Finally remember if you are after a highly tailored technical environment, then public cloud is probably not for you – look at Private Cloud options instead.

Challenge 6 – Get in. Get on. But be prepared to get out

Purchasing a Public Cloud solution (and particularly SaaS and PaaS) means buying into a vendor's unique and proprietary user interface, non-standard APIs, system calls and databases. To take full advantage of a system, organisations need to configure those specifications to varying degrees, often without factoring the complexity and cost of exiting a Public Cloud solution.

In traditional on premise outsourcing agreements, key clauses on exit support, knowledge transfer, intellectual property ownership and asset ownership can be defined and negotiated up to an acceptable degree by both parties.

On the other hand, Public Cloud stricter T&Cs do not always include meaningful exit provisions, leaving organisations exposed if they grow dissatisfied with the service.

Vendors typically commit to keep their client data for 30-60 days from termination date and can provide data extracts in a number of different formats, which may need to be altered for compatibility before they are moved onto the new Public Cloud solution. The data and applications will need to be extracted and transformed before they are ready to be loaded onto a new system. Without the associated exit support from the vendor or in-house experts to conduct these activities, organisations may need to have to pay extra to the providers or seek external consultancy support for complex data migrations.

How should I take this forward?

Conversations about exit need to be held and agreed upfront. Before entering an agreement, be conscious of the proprietary elements of the solution and clarify whether you can take advantage of the proprietary specifications, particularly for SaaS. Weigh the advantages of using provider-specific capabilities against the vendor's vulnerability and investigate whether there is widely available talent, skillset and resources who are capable to use the provider's proprietary programming languages and APIs. Estimate the exit cost, and build it into your business case. Ask the vendor directly how they facilitate customer data out of their repository, their extract formats, their charging mechanisms for exit activities and termination, and what migration tools they are using. Build this assessment into your vendor evaluation criteria.

Challenge 7 – Vendor T&Cs: Take them or leave them

Traditional bespoke outsourcing agreements for on premise solutions driven by the buyer have been replaced with vendor controlled, standardised and industrialised contractual Terms and Conditions, suitable to support the fundamentals of the Public Cloud: multi-tenant service models. Thousands of organisations are now sharing the same Public Cloud services and infrastructure, and contracting has been simplified and anchored around the vendor's preferences; hence, Public Cloud commoditised solutions are offered at lower costs.

Simplifying the contractual terms has resulted in providers having significantly stricter terms and commercial guidelines, especially in areas such as limitations of liability, security, data residency and protection, and local regulations. Additionally, there is a significant variation across vendor offerings and their appetite to negotiate their position; this can range from an online 'click-through' agreement to a fully tailored contract. Procurement teams should not just be aware of this new dynamic but actively educate themselves of the market offerings.

How should I take this forward?

Since Public Cloud contracts cannot be customised to the same degree as their on premise counterparts, figure out what really matters and be prepared to 'let go'. Instead invest the time to determine the provider with the best fit. Look beyond the solution interface, demonstration and marketing. Particularly for smaller vendors, conduct additional due diligence, investigate the bidders' viability by requesting information for cash position, request client references and speak to other organisations that deployed the solution. Following the down selection, it is worth investing in a Proof of Concept to prove capability which will drive the decision-making for vendor awarding whilst the procurement and legal teams are running the commercial and contract negotiations in parallel.

Challenge 8 – Cloud – Control = Risk

'Pay-as-you-Consume' commercial models, in conjunction with the wider availability and ease of purchasing Public Cloud solutions, often propagate 'shadow IT' and unstructured purchasing patterns, by departments outside of IT.

SaaS providers tend to have license-based models which, although can be simply calculated and tracked, are not always centrally owned and controlled, often allowing different teams to scale up new instances. IaaS/PaaS commercial models are typically based on more complicated billing formulas (e.g. cost per resource unit, CPU, workload etc.) making it more complex to estimate and control.

IT departments do not always have adequate demand management mechanisms to cater for variable volumes and levels of consumption beyond what has been agreed in the signed contract. Particularly in cases where decisions are owned by business departments, there is a risk of unconstrained spend and volume increases or decreases.

How should I take this forward?

Build a dedicated Public Cloud vendor management team capable to centrally control subscriptions, understand commercial models, and be able to manage diverse multi-vendor bases and a large portfolio of partners. Strengthen your internal IT demand management processes, integrate them with your vendor management and procurement teams and processes, and provide a greater emphasis on showback and chargeback to help you evolve IT consumption behaviours whilst aligning with the Public Cloud consumption service models. Invest in market available cloud optimisation software, to drive visibility of subscription redundancies in your organisation and view data on purchases made by each department. Utilise your vendor's portals and calculators to better understand more complex commercial models and whether they are providing value for money. With visibility into critical data, vendor managers can develop processes at each level to assist departmental leaders so that employees can purchase without red tape. Again remember that Public Cloud is not the only cloud platform, and that Private Clouds can sometimes be a more credible scenario.

Key activities – Public Cloud versus on premise

The following figure outlines the commonalities of and differences between the typical activities that need to be conducted across the outsourcing lifecycle for on premise and Public Cloud solutions:

Figure 1: Public Cloud vs. on premise: Key sourcing activities based on Deloitte OAS methodology
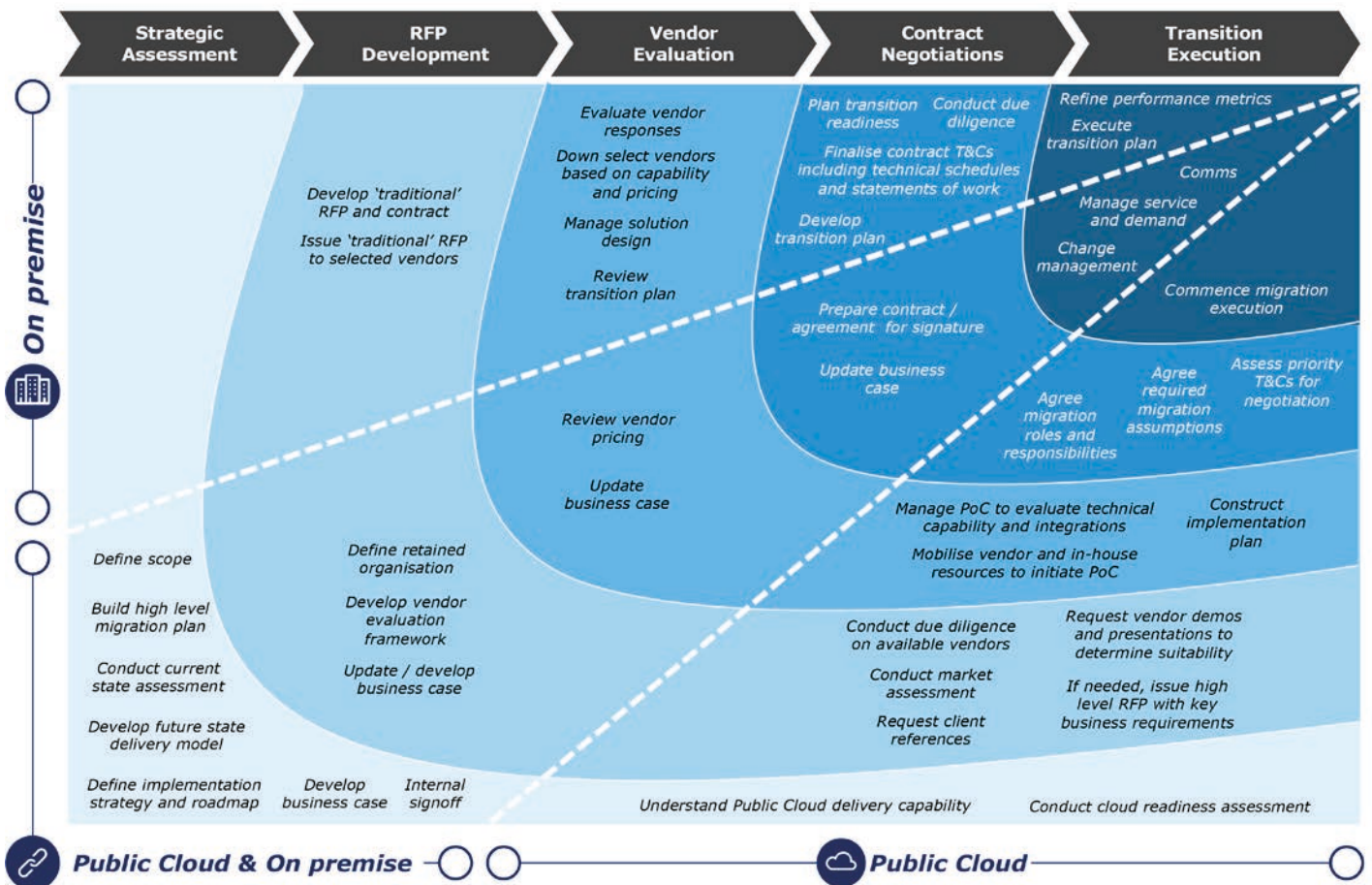
Sunshine through the Clouds

The procurement of Public Cloud solutions should answer the question 'how do I ensure Public Cloud can deliver the value my organisation expects'.

We believe that the challenges in strategically and systematically procuring Cloud solutions are not insurmountable. When executed correctly, the process can be structured to deliver additional benefits beyond those simply offered by the technical solution, and can turn the role of the procurement team to a value-adding rather than a risk management control function.

With the wider Public Cloud adoption, the procurement function's role must evolve from 'transactional facilitator' and seek the re-establishment of its priorities with key focus to deliver business benefits, actively participate in digital and strategic initiatives, improve internal stakeholder experience, measure value beyond cost savings and segment the stakeholder community to find the right service level mix.

Nevertheless, for this shift to be successfully executed, readiness and different thought processes will be required, whilst retaining enough vendor management control to guarantee that Public Cloud solutions meet the needs of the business throughout the contractual term.

For the procurement teams grappling with these challenges, the sun is coming out from behind the clouds.

About Deloitte

Deloitte is a trusted advisor to its clients. Deloitte's IT Sourcing and Transformation Community of Practice helps clients at every stage across their outsourcing lifecycle, from outsourcing strategy through procurement and transition, to steady-state operation and vendor management. We are a market leader in sourcing advisory, helping our clients execute these decisions effectively, select the right supplier, maximise the commercial and operational benefits and minimise risks and timescales.

With our breadth of capability, tools and methods as well as deep technical skills in IT infrastructure, applications and service management, we have supported complex IT sourcing programmes. We can draw on expertise in areas as diverse as TUPE, asset valuation, deal financing, business case development, retained organisation design, commercial negotiation and SLA development.

Deloitte has an outstanding track record, advising organisations at all stages of the IT sourcing lifecycle ranging in value from a few £m to £1.5bn. Our IT Sourcing and Transformation team comprises of over 100 practitioners across the firm, supported by strong presence across the globe with more than 65,000 practitioners serving within 100 countries.

Gartner

Ranked #1 globally in consulting based on revenue and strong positive vendor rating by Gartner 2016

ALM

Global leader in business transformation consulting by Forrester Research INC globally in Next-Generation Sourcing Strategy Consulting by ALM Intelligence (Formerly Kennedy) 2015
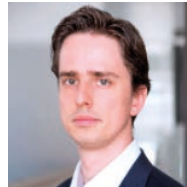
IAOP
INTERNATIONAL ASSOCIATION OF
OUTSOURCING PROFESSIONALS

CLOUD
INDUSTRY
FORUM

Key contacts

Yousif Al-Adhami
Partner
yoaladhami@deloitte.ch

Fabrizio Napolitano
Partner
fnapolitano@deloitte.ch

Sean Pepper
Partner
sapepper@deloitte.co.uk

Miles Underwood
Director
mileunderwood@deloitte.ch

Haris Gritsopoulou
Manager
hgritsopoulou@deloitte.co.uk

Deloitte.