The Path to Value in the Cloud: Business Value

Where the Value Lies

Widespread migration into the cloud is taking businesses in a different direction than they might have expected just a few years ago. What started as a race for efficiency has shifted to a drive toward growth, innovation, and collaboration. Cost and scalability remain important goals of cloud investment, but companies are focused increasingly on the strategic value of ubiquitous data access, pervasive mobility, and seamless integration of processes and systems.

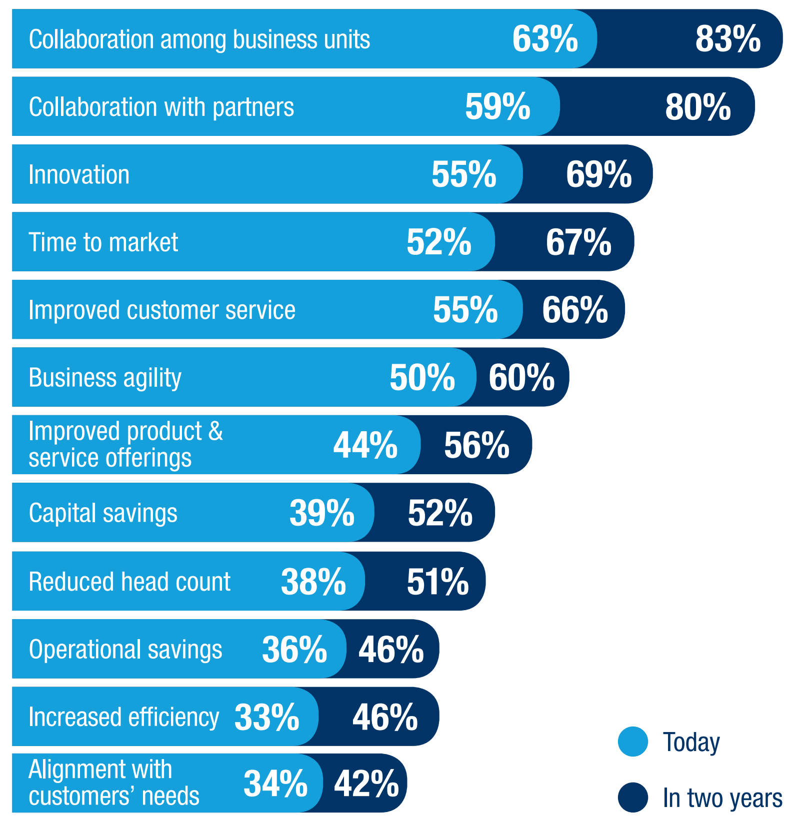
> "Cloud computing lets us devote time and energy to the strategic things that really matter."
>
> Dave Edminster, Director of IT at Naropa University

Our survey of 350 business and technology executives across the United States highlights the areas where companies are realizing value from cloud projects, and where they expect to see opportunities in the future. As organizations grow more comfortable in the cloud, they understand it as a way to address big-picture concerns such as technology change, industry consolidation, economic uncertainty, and increased global competition. Over half (53%) of respondents say cloud will be critical to their innovation strategy in two years and will enable them to move into new geographic markets (57%). Meanwhile, first-generation cloud benefits like increased operational efficiency and operational savings, while still important, rate lower as primary goals of cloud investments. "Cloud computing lets us devote time and energy to the strategic things that really matter," says Dave Edminster, Director of Information Technology at Naropa University in Boulder, Colorado.

Many companies are seeing payoffs already in key areas including organizational speed and time to market, increased collaboration across and beyond the enterprise, and ramped-up innovation and customer service. Those respondents with relatively mature cloud strategies (see our upcoming paper and infographic, "Trailblazers on the path to value") tend to report higher profitability than their peers and expect greater revenue growth in the next two years. Yet even these Trailblazers still have far to go in terms of quantifying returns and measuring their successes.

Benefits from the cloud

% who say cloud and managed services provide them with the following benefits



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Speed thrills

Identifying and measuring value delivered by cloud and managed services—and assessing the success of cloud strategies—requires a well-developed process. But not every company has the performance metrics in place to quantify cloud results. Just 43% of our survey respondents say they have defined metrics for key performance indicators (KPI), and even fewer (40%) say they have defined metrics for return on investment (ROI).

But while many companies lack these core metrics, they often measure success in other ways—especially in faster time to production, which topped our survey results as an indicator of success in the cloud. "The time and effort required to update systems and migrate data in a virtual environment versus a physical environment is simpler by an order of magnitude," says Charles Zieres, Vice President of Technology at Preferred Hotel Group. "We no longer have to worry about the limits of our internal datacenters." Better uptime and response time are benefits that pay off across industries, says Jack Whitley, Senior Vice President for E-Commerce at North Carolina specialty retailer Replacements, Ltd. "I don't think there is any business where reliability and speed do not make a difference."

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Jack Whitley
Senior VP for E-Commerce at Replacements, Ltd

In addition to time to production (71%), many respondents also quantify success in the cloud in terms of bottom-line results (53%) and easier testing and development (53%); fewer use measurements such as top-line results (36%) or employee use and collaboration (26%), despite saying they see collaboration among business units as a top benefit of cloud today and in two years.

Case Study: Global efficiency at Preferred Hotel Group

As a provider of strategic IT and marketing services to nearly 1,000 independent hotels and resorts in 85 countries, Preferred Hotel Group helps small players compete in a global industry. "We essentially bring the expertise of a franchise or a brand to an independent hotel," says Charles Zieres, the company's Vice President of Technology. This means handling e-commerce functions, overseeing quality standards, working with online travel agencies, and developing branded websites for properties. The company, which was founded in 1968 and has more than 40 offices and 250 employees globally, relies on the cloud to drive business value for its far-flung clients.

Over the last few years, Preferred Hotel Group has moved a growing array of resources into the cloud. The transition from a physical IT infrastructure improved uptime, enabled faster time to market, and ultimately contributed to a more responsive IT operation. This, in turn, has driven improvements in customer service. "In the past, setting up servers to host a website could take six weeks from procurement to deployment," says Mr. Zieres. "The process has been knocked down to a day."

Faster time to production also has improved the company's internal procedures. Preferred Hotel Group, which handles more than 2 million transactions per year, used to need about six weeks to run comprehensive performance reports on the properties it supports; today it uses cloud-based analytics to generate reports in as little as two days, saving time and energy that can be devoted to more strategic efforts.

Even more importantly, Mr. Zieres says, the integrated cloud network allows the company to determine and allocate costs across its client base far more precisely than before. "We can tie profit and other metrics to specific KPIs in a way that wasn't possible with a physical IT environment," he says.

Focus on results

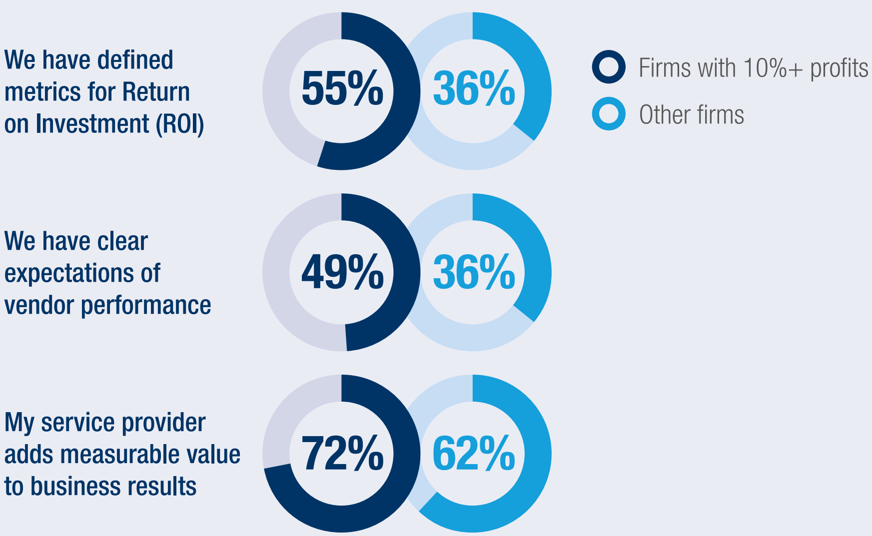
Our survey shows a correlation between effective cloud management and strong financial performance. Respondents from companies with profit margins over 10% are more likely to have metrics in place for measuring KPI and ROI—and more likely to say they their service provider adds measurable value to business results (nearly three-quarters say so, compared with just 44% of companies with flat or negative profit margins).

This tendency to ascribe value to the relationship with their service provider may be due in part to having more defined processes for making cloud decisions. Over half (55%) of companies with higher profit margins have defined metrics for ROI, compared with just 33% of the least-profitable companies (those with flat or negative margins).

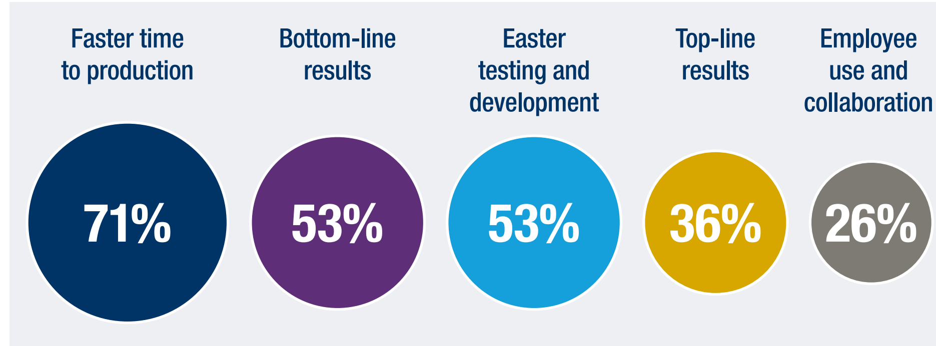
Higher-profit firms have firmer performance metrics in place, but they fall in line with other companies in saying that faster time to production is the most important measure of success in the cloud. And while they are more likely to say their service provider is adding value, their less-profitable peers are just as likely to say cloud is improving innovation, time to market, and collaboration.

Measuring value from service providers

% who agree with the following statements



Quantifying success in the cloud



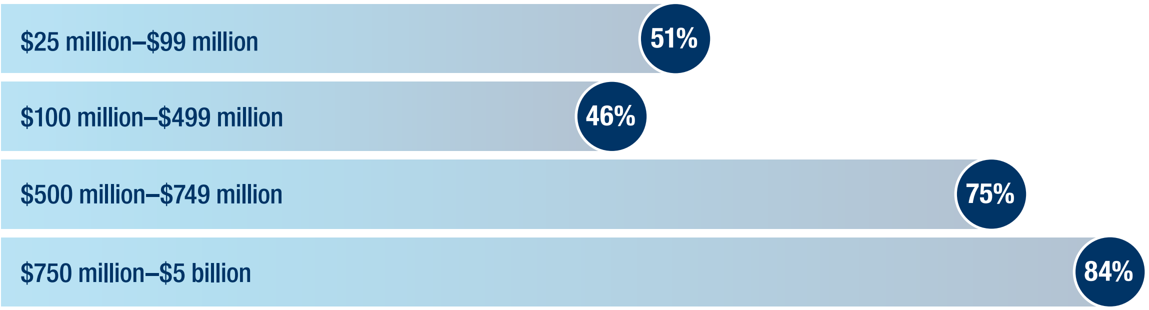
At Preferred Hotel Group (see case study), technology adoption increasingly revolves around one fundamental issue: driving business results. “We’re not so concerned with how many quad processors and how much RAM is inside the servers,” says Charles Zieres, the company’s Vice President of Technology. Instead, the company considers the strategic information the technology provides in support of business transformation. “We’re interested in delivering critical information to the right people at the right time. Information is what allows the business to achieve results.”

Value from service providers

Vendor selection is a critical element of extracting value from the cloud, but many companies struggle to make decisions about cloud providers or set expectations with their vendors—despite their high expectations for cloud performance over the next two years. In fact, just 38% say they have clear expectations of vendor performance, and over two-thirds have not identified a partner to help guide cloud decisions. Despite this lack of clarity on what the role of the service provider should be, nearly two thirds (63%) say their service provider adds measurable value to business results, with higher-revenue companies more likely to say so.

Value from service providers

% who agree with the following statement
"My service provider adds measurable value to business results"



All of this suggests that some companies are leaving value on the table. Setting expectations and establishing clear performance metrics could significantly increase the payoff they see from cloud and managed services, and also help determine which qualities are most important to them (see our upcoming paper and infographic, "Cloud security and service.")

Conclusion

Cloud and managed services are strategic levers for achieving superior business results. Businesses are already seeing benefits in terms of time to market, innovation, and collaboration—and they expect these benefits to increase over the next two years as they move more data and applications into the cloud.

While most firms are quantifying success by faster time to production, many do not have metrics in place to measure KPI and ROI, nor have they set clear expectations for vendor performance. Companies that develop a cloud strategy—which includes understanding options, identifying opportunities, and setting expectations for managed services providers—are poised for greater performance and profits, and will see more of the business value that cloud offers.

About the research

This think piece is part of a large-scale research program built on a national survey of 350 business and technology executives and a series of executive interviews. To view our briefing paper and interactive infographic, visit our **project landing page**. For more project news, check out **cloudvaluepath.com**.

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