Building the Strategic Cloud

Cloud computing is increasingly at the center of business strategy. Growth and innovation have replaced cost savings and efficiency as prime goals of cloud investment, and both adoption and impact are expanding rapidly as companies seek to improve communication and collaboration, drive innovation, and speed time to market.

At Randolph Hospital in Asheboro, NC, the cloud focus has shifted beyond basic cost savings and process improvements.

Our study of 350 business and technology executives from diverse industries across the United States found broad agreement that the cloud creates competitive advantage. Nearly three-quarters of survey respondents expect the cloud to be a significant part of their long-range vision, with a fast-growing impact on areas including engineering and development, operations, management and board-level tasks, human resources, finance, and marketing.

Realizing these strategic gains and justifying these investments requires companies to define a clear path to value in the cloud. Yet most organizations lack a coherent approach to the transition. Just over one-fifth of respondents have no strategy for migrating data and applications into the cloud, and less than half have defined metrics for Key Performance Indicators (43%) and Return on Investment (40%). Only 57% of large firms have performed a cloud readiness assessment, and a mere 30% of small companies have embarked on this crucial task, suggesting that technology is moving faster than management.

With proper planning and execution, though, the cloud delivers strategic value. "Most organizations should see cloud computing as a broad array of new possibilities," says Gartner analyst Thomas J. Bittman—especially those opportunities "that can truly help the enterprise innovate and grow."

Creating competitive advantage

Cloud computing is increasingly essential in the era of data-driven business, and its rapid growth is powering some big-picture goals. Over half of respondents say it will be critical to innovation strategy in the next two years, with sharp rises expected in areas like supporting business-model transformation and geographic expansion over the same time span.

At Randolph Hospital, a 145-bed primary healthcare provider in Asheboro, NC, the cloud focus has shifted beyond basic cost savings and process improvements. Kevin Buchanan, director of IT infrastructure at the facility, has spent considerable time identifying the areas where clouds make a strategic difference. On his list of newer priorities: "How we can transfer or reduce risk, adopt the best disaster-recovery and business-continuity approach, and create a business model that allows us to scale on demand." Also important: electronic health records management. Critical factors for Mr. Buchanan include turnkey capabilities, higher IT availability than he can provide internally, and clear risk boundaries revolving around "a service-level agreement that meets the organization's exact needs."

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One big cloud benefit is collaboration, both inside and outside the firewall. And the rewards there are expected to multiply fast. Nearly two-thirds of respondents describe collaboration among business units as a key benefit today, a figure that grows to 83% in two years. Collaboration with business partners, meanwhile, is of great importance to 59% of respondents today, with 80% saying it will be vital within two years. Executives at large enterprises (up to $5 billion in sales) view these benefits as even more important: 88% say that collaboration will provide key benefits two years from now.

The cloud is also seen as a way to improve product and service offerings, speed time to market, increase agility, boost customer service, and align more closely with partner and customer needs. As a core element of the new business framework that also touches on mobility, social media, and big data, cloud has become essential to execution on strategic goals.

Benefits of cloud and managed services

● Today   ● In two years

Collaboration among business units — 63% — 83%

Collaboration with business partners — 59% — 80%
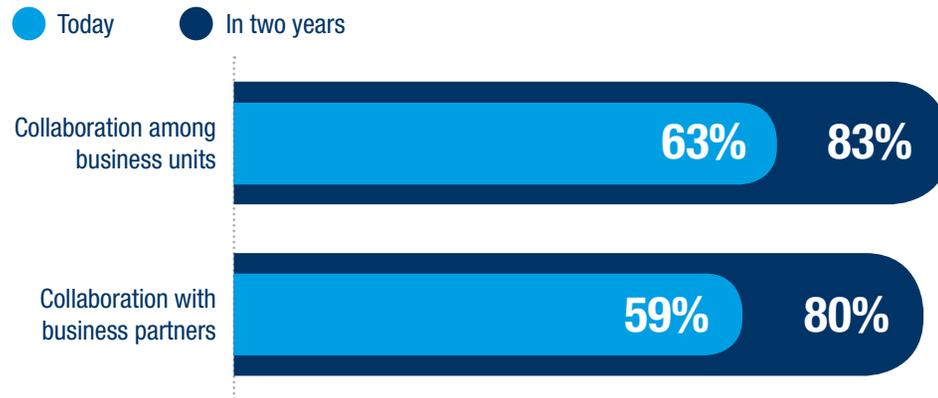
Naropa University's cloud curriculum

Like many organizations, Naropa University embarked on its path into the cloud with a focus on controlling costs and increasing efficiency. What the small, liberal arts school in Boulder, CO, learned along the way is that a well-planned approach to the basics leads to more strategic uses for the cloud.

One important early step was a comparison between total cost of ownership for a data center vs. hosted infrastructure and applications, which pointed clearly in the direction of cloud services. "We realized that a data center overhaul would take between six and 12 months and devour staff time and resources," says Dave Edminster, director of information technology. On the other hand, "We could switch to a cloud-based approach and make the transition fairly seamlessly and without any outages."

As Naropa moved computing resources into the cloud, Mr. Edminster and other administrators spent considerable time identifying relevant metrics to track the performance and value of cloud investments. Key indicators include uptime, network availability, and comparative costs. This approach turned out to be helpful in guiding the school toward more strategic applications—for example, allowing IT to understand how to better accommodate a bring-your-own-device (BYOD) approach to mobility.
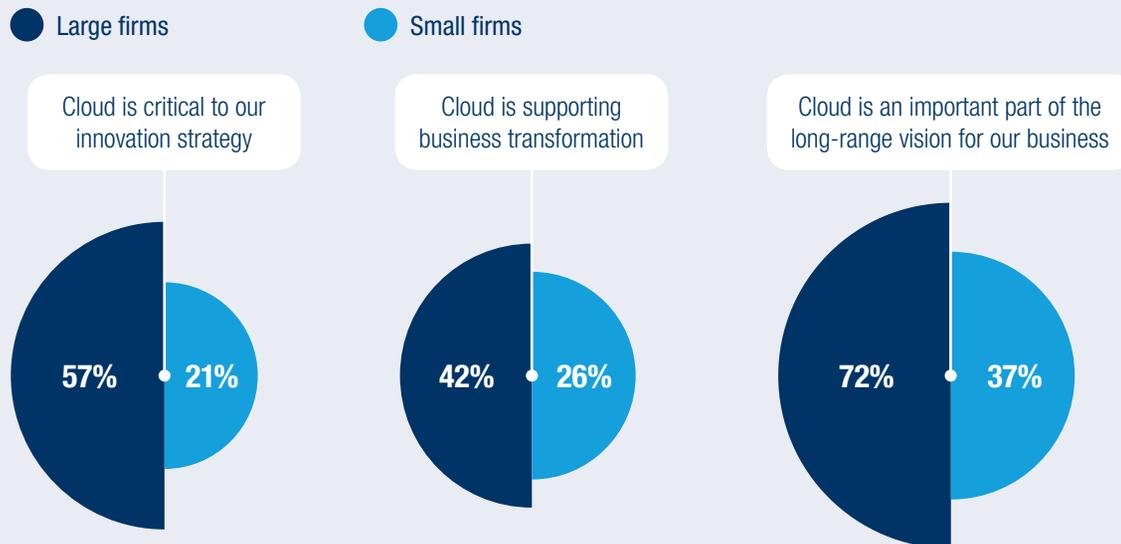
The focus on detail and performance allows Naropa to identify strategic sweet spots for cloud services, which currently include a cloud-based ERP system and are expected to reach 60%–80% of all IT at Naropa within a decade. Along the way, cloud will support the college's expansion plans. Says Mr. Edminster, "As far as IT supporting that growth, the hosted solutions are great from a scalability perspective."

The Adoption Gap

Smaller firms are a natural constituency for cloud services, because clouds give them access to computing resources they otherwise cannot afford or manage under traditional purchase models. Yet these companies tend to lag their larger peers on the path to value in the cloud. In fact, size is a strong predictor of how an organization views strategic issues relating to the cloud.

While over half (57%) of respondents at the larger organizations in our survey ($750 million–$5 billion in revenue) view cloud as critical to innovation strategy, just 21% of firms with less than $100 million in sales do so. Likewise, 42% of larger companies say their cloud initiatives currently support business transformation, compared with 26% at small organizations; 72% of large firms say cloud is an important part of the long-range vision of the business, but only 37% at small firms say so. And companies with under $500 million in revenues are more likely to say they have no formal processes in place to manage quality.

When it comes to mapping the road ahead, the gaps become chasms. Only about 2% of the largest firms lack a migration plan for the cloud, a number that tops 40% among the smallest companies. In some ways, the lopsided progress report makes sense—larger firms have more resources available for strategic planning and IT in general. Yet those same factors argue for small companies to up their game. While their peers struggle to adapt to the rapid pace of digital innovation and the best use of cloud computing, the ones that crack the code will have a meaningful competitive advantage over their rivals.

● Large firms   ● Small firms

Cloud is critical to our innovation strategy — 57% / 21%

Cloud is supporting business transformation — 42% / 26%

Cloud is an important part of the long-range vision for our business — 72% / 37%

Cloud-driven transformation

Progress into the cloud is advancing quickly but varies across the business landscape. More than one-fifth of survey respondents have achieved full functionality through cloud and managed services, while just over one-third have achieved partial functionality, one-fifth have projects in development, and 14% have projects planned but not yet in the deployment process. Overall, the larger the organization the further along it tends to be in building out a cloud strategy and infrastructure. And the rollout is happening across a broad range of business functions at a rapid but uneven pace.

As these different functional areas move to the cloud, the role of IT and the way companies operate are changing as well, forcing line-of-business and technology executives to work together in new ways. This involves everything from high-level planning to procurement, integration, and security. And not only does cloud change the traditional model for business and IT, it alters the power structure within organizations. That trend is accelerating: today, 36% of respondents say the cloud is pushing control of IT to line-of-business users, a figure projected to reach 53% in two years—a growth rate of 47%.

So how best to get strategic value from cloud migration? A rapid-innovation model requires a change in mindset, away from a risk-averse model that concentrates power in the hands of traditional decision-makers, primarily CFOs (who drive 27% of cloud decisions), CTOs (24%), CIOs (21%), and COOs (15%). Remarkably, line-of-business leaders currently pull the strings on only 2% of cloud decisions. While any of these leaders can and should have the green light to initiate cloud services, the process must take place within an overarching framework of agile decision-making at the point of business—one that includes a holistic understanding of enterprise requirements.

71%

say cloud will be an important part of the long-range vision for their business in two years

53%

say cloud will be critical to their innovation strategy

57%

say cloud will enable them to move to new geographic markets

Mapping the path to value

Despite the rapid adoption and strategic importance of clouds, planning and decision-making for them often lacks a coherent roadmap. Part of the problem is that many enterprise leaders do not possess a clear understanding of cloud options, including public, private, and hybrid options; over half of respondents acknowledge this confusion. Another hitch: many organizations have not established clear expectations around vendor performance (38%) or identified a partner to help guide cloud decisions (33%), and while 69% indicated that they have no clear migration plan in place. While larger organizations tend to rely on a centralized group or committee, either at headquarters or at a regional or local level—something that is generally considered a best practice—smaller firms are more likely to rely on decisions from an individual at headquarters.

Measuring progress remains an issue. Companies with higher profit margins are ahead of their peers; 55% have defined metrics for ROI, compared with only 40% of the total and 33% of the least-profitable companies. More-profitable firms are likely to view clouds as key strategic tools for achieving innovation and business-model transformation. However, these leaders still have a way to go—only 58% say they have a strategic plan in place.

Ultimately, companies need to do more detailed review and analysis, develop migration plans and performance metrics, introduce better governance models, and ensure that stringent security measures are in place. In many cases, business leaders recognize these challenges but they either do not know how to achieve them or have not built a framework for tracking them. Data security concerns are by far the biggest limiting factor for migration strategy, but respondents cite a host of other perceived problems, including platform compatibility (52%), privacy (51%), cost (49%), and workforce and preparedness skills (48%), along with several others.

Conclusion

The cloud is having a transformative impact on many businesses. It is changing the way companies operate, internally and with partners and customers, and helping them reach strategic goals for growth and innovation. Substantial investment over the next two years will further solidify cloud's central role, but success involves much more than smart IT planning. There also must be some serious thinking about the rest of the business. The best way to make cloud strategic is to have a cloud strategy.

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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