Everest Group

Emerging Enterprise Cloud Adoption Paths

The Journey is the Destination

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Introduction

To date, the market conversation around enterprises and the cloud has been one-sided. While there's been lots of discussion of vendor strategies, product launches, acquisitions, and who's winning and losing, there's been little on where, how, and why CIOs and enterprises are adopting cloud, and what they're doing to make cloud services a practical reality in their organizations.

At first blush, cloud adoption at the enterprise level doesn't appear to be following the traditional technology adoption maturity model. In fact, significant confusion exists among both CIOs and cloud service providers (CSPs) around what's really happening in the enterprise market, which we define as organizations with at least US$2 billion in revenue.

Following are some of the reasons why understanding enterprise cloud adoption is more difficult than it first appears:

- The cloud is many different things – user communities, decision-makers, and migration dynamics differ widely by cloud service. Public cloud Software-as-a-Service (SaaS), Platform-as-a-Service (PaaS) and Infrastructure-as-a-Service (IaaS) services, as well as on-premise and hosted private cloud models, all have different adoption profiles and patterns. Thus, trying to aggregate across these into an overall cloud adoption model is a difficult, if not pointless, exercise.

- Decision making has diffused – with the help of user-friendly, self-serve models, business users are consuming an increasingly large percentage of their organizations' IT spend, with some predicting that within three years up to 25 percent of traditional enterprise IT budget will flow through users. As a result, IT has poor visibility into where cloud adoption has often been the greatest – within business units (BUs) and by individuals.

- Not all early adopters are created equal – some see cloud services as just another tool in the toolkit, while others see them as the primary driving force for IT transformation. If we take IaaS as an example, a "revolutionary" early adopter may look at moving all of its new data center capacity to hybrid/public cloud IaaS models, but a more incremental, "evolutionary" early adopter might only migrate a subset of its test/development environments. Although many would consider both to be enterprise early adopters, their adoption scope and scale is far different, making maturity frameworks difficult with enterprise cloud.

- The pace of change is unprecedented – due to leverage of open source software and the availability of cloud services themselves, the pace of change and innovation is accelerating faster than past disruptive technology waves such as client-server and even the Internet. In fact, some organizations are significantly accelerating or changing their cloud uptake even within a three to six month time frame.

- It's still very early on – while SaaS is further along, enterprise adoption is still in the very early innings for PaaS and IaaS. Amazon and Rackspace, the two

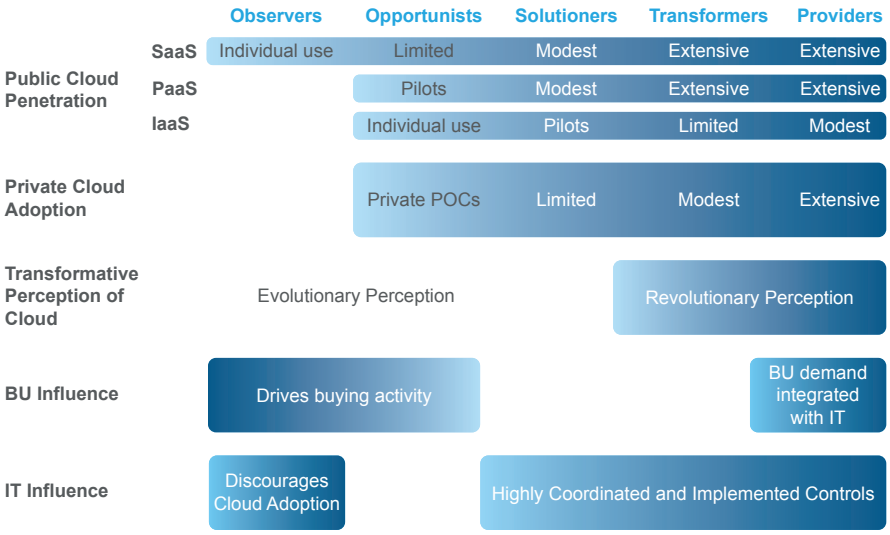
clear leaders in public cloud IaaS, will together generate approximately US$1-1.5 billion in revenue from these services in 2012. By all estimates, only about 25 percent of this revenue will be driven by enterprise customers. If you compare this US$250-375 million in enterprise PaaS/IaaS spend with the over US$2.5 trillion spent by enterprises on IT hardware, software, and services, it's clear the game has just begun for PaaS and SaaS.

Despite all this, our recent interviews and meetings with over 50 CIOs and IT executives at Global 2000 organizations have demonstrated that a set of enterprise paths are beginning to emerge.

Rather than following a traditional technology adoption maturity model, these paths are characterized by variations on the following dimensions:

- Public Cloud Penetration – the degree to which the enterprise has adopted or is implementing public cloud services, including SaaS, PaaS, and IaaS.
- Private Cloud Adoption – the extent to which the enterprise has adopted or is implementing private (on-premise and hosted) clouds.
- Cloud Attitudes – the degree to which cloud is perceived by executives (IT and business) as an evolutionary versus a revolutionary or transformative technology.
- Primary Buyers – the extent to which cloud services buying activity has been driven at the individual, departmental/functional, business unit, or enterprise level.
- IT Influence – the degree of coordination, control, and influence exerted by IT on cloud services adoption.

Based on these dimensions, following are the five emerging paths we are seeing within our Global 2000 and Fortune 500 client base:



Observers

"We'll get there when we're ready"

These are enterprises in which cloud remains a low overall priority due to perceived security, compliance, or operational risks, or to perceived constraints from existing IT outsourcing (ITO) agreements. While IT executives in these organizations recognize the agility, flexibility, and cost benefits of cloud models, they do not feel a compelling business or IT need exists to begin migration today. Rather than proactive exploration, they instead feel comfortable reactively waiting for an adoption event or trigger, such as:

- Refresh cycles for servers or other hardware
- Data center capacity expansion
- Enterprise software upgrade cycles
- End-of-term for current infrastructure outsourcing contracts
- Deployment of cloud technologies by competitors or peers

Outside of a handful of small-scale SaaS deployments, CIOs in Observer organizations have actively discouraged or prevented the adoption of cloud services to date.

Opportunists

"Let a thousand flowers bloom"

In these enterprises, adoption is primarily driven on an opportunistic basis at the individual or departmental level. Adoption is most frequently characterized by BU or functional adoption of SaaS applications and collaboration tools, and potentially some direct usage of IaaS for customer and market-facing websites. The primary driver for adoption has been the desire to experiment with new models or acquire new business capabilities.

The IT groups in these organizations largely believe that although valuable, cloud services are evolutionary and just another tool in the toolkit. Like business users, they are opportunistically testing or deploying public or private cloud technologies on a case-by-case basis. CIOs (intentionally or not) in Opportunist organizations are enabling users to experiment and innovate with relatively little involvement or constraint. There is little, if any, centralized management or governance.

Solutioners

"Capture the low-hanging fruit"

These are enterprises that are leveraging a more systematic approach to cloud migration by identifying, prioritizing, and deploying cloud for use cases particularly well-suited for public or private cloud delivery models. In these organizations, both IT and BUs (sometimes collaboratively) are pursuing a programmatic approach to migration.

The focus is not on developing a comprehensive strategy across the entire application or workload portfolio but rather on identifying "low-hanging fruit" for use cases that can deliver immediate, demonstrable impact. Business users are focused primarily on SaaS and Business Process-as-a-Service (BPaaS) solutions that enhance capability and flexibility, while IT users are looking at opportunities to leverage IaaS to improve data center economics with use cases that don't require deep cloud architectural and technical skills. In some instances, IT is taking advantage of CSPs that have begun to offer solutions or services targeted at specific use cases, including:

- Web applications
- Test/development environments
- Disaster recovery/backup and archival

In these organizations, although IT believes that cloud technologies will in fact be transformative, it is focusing its efforts due to limited internal skill sets or service immaturity. IT is collaboratively working with business users to help prioritize, but not necessarily constrain the adoption of SaaS. Cloud governance and application integration are starting to emerge as issues but are largely unaddressed, or addressed on a point solution basis.

Transformers

"Drive fundamental IT transformation and modernization"

Enterprises following this path are leveraging cloud technologies to drive wide-scale IT transformation or modernization programs across their complete application and workload portfolio. CIOs in these enterprises are seen as change agents seeking to transform the responsiveness and delivery capabilities of their IT organizations, and in many cases are also pursuing related initiatives around mobility.

These enterprises are following a systematic approach to identify the most appropriate, cost-effective delivery model across their portfolios and in many instances are also going through an application rationalization process. They are typically undergoing a full assessment considering technical, business, and market readiness criteria for each major workload or workload type. They are considering the full range of potential cloud services options, and in some cases are even considering the complete outsourcing of data center assets.

CIOs on this path also are working to understand and assess the governance, management, and integration implications of cloud migration and actively designing solutions to support their next generation IT organization.

Providers

"Build our own internal Amazon AWS"

These are large enterprises seeking to leverage private cloud platforms and technologies to create internal cloud service marketplaces. They are seeking not just to transform their IT infrastructure but also their IT business models. In

conjunction with private cloud deployments, they are also implementing (or expanding) their use of cloud service catalogs and chargeback models. Interestingly, they also are facing some of the same go-to-market challenges as public cloud service providers, especially around understanding:

- Key internal user segments and corresponding offer design
- Pricing strategies for incenting user adoption and standardization
- Required delivery, enablement, support services, and operational models

While on the surface it may appear that this is just implementation of traditional IT service management (ITSM) models, the difference is that IT is now facing real competition from external CSPs for the budget dollars of their BU customers. CIOs are still allowing business users to directly procure cloud services for a defined set of application types or workloads, but for other performance or compliance sensitive workloads, they may require internal services usage.

Over time, these paths are surely going to change and evolve. And it's important to note that no one path is better than another or more appropriate for a given enterprise.

Implications

While in some enterprises these cloud adoption paths are intentional, our experience shows that in many they are not. But the fact is, they must be. Each path requires a unique set of explicit CIO decisions and choices to drive desired levels of adoption and ensure success. Specifically, it is critical that CIOs and their staffs be able to answer the following questions:

- What adoption path are we currently following, and is it the right strategy and approach for our organization?
- Have we effectively communicated our vision for cloud within IT and across the enterprise? Do our key stakeholders understand where we're going?
- Is our IT organization correctly designed and architected for the end-state that our migration path is leading us to? What will our next generation IT organization and governance model look like?
- What cultural barriers will we likely encounter as we pursue our adoption path? What steps can we take to ensure that our culture doesn't "eat our strategy for breakfast"?
- Do we have the right mix of cloud skills to successfully follow the path we're pursuing? If not, what's our strategy for acquiring them?

Cloud does share one major similarity with other disruptive enterprise IT waves. The technology issues will likely be far easier to address than the organizational and cultural disruptions that cloud will drive. CIOs are well advised to get, and stay, ahead of the curve.

About Everest Group

Everest Group is an advisor to business leaders on the next generation of global services with a worldwide reputation for helping Global 1000 firms dramatically improve their performance by optimizing their back- and middle-office business services. With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of global services in their pursuits to balance short-term needs with long-term goals. Through its practical consulting, original research and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies and management approaches. Established in 1991, Everest Group serves users of global services, providers of services, country organizations and private equity firms, in six continents across all industry categories. For more information, please visit www.everestgrp.com and research.everestgrp.com.

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