

longview

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CASE STUDY



WELCOME

In this special **Case Study** edition of *Longview Longhaus* are pleased to present an article written by client CIO, Scott Stewart from Wilson HTM. Scott's article on cloud computing adoption presents a pragmatic peer approach for CIOs embarking on the path to cloud adoption. We'll see you in the market, on LTV or next month in *Longview*.



Editorial

The concept and implementation of cloud computing will elude most organisations in 2010 as many seek to move beyond the desktop as the corporate flagship service, align service desks to remote users, and re-engineer applications from the ground up for ubiquitous delivery.

Each of these undertakings will require some serious revision of asset and financial strategies within all ICT organisations. This transformation will require many of Australia and New Zealand's large enterprises to finally turn to ITILv3 and its new service economics, strategy, and portfolio modules which through 2008-09 saw limited adoption.

Although many vendors experienced increasing service desk technologies sales in 2008-09, *Longhaus* believe that this will not only continue, but increase in 2010. Organisations will come to the realisation that they require both increased adoption of CMDB technologies and wider ITIL maturity assessments to map ICT assets to business services before reconfiguring and driving new cloud based ICT capabilities.

Organisations unprepared to make these minimal strategic investments will find themselves at a significant competitive lag in 2-3 years when cloud service demand will increase. However, the absence of public cloud and ITILv3 linked initiatives from the traditional CMDB vendors including HP, CA, IBM Tivoli, BMC, and Symantec highlights the potential lack of service management features within today's private cloud computing offerings. As a key element of this trend,

organisations will require a deeper knowledge and access to solutions that provide asset management, maintenance, and service desk systems in order to:

- Deliver ICT and ICT-enabled business services across large multi-site organisations;
- Extend cross-servicing or shared servicing arrangements;
- Reduce overall costs and become more adaptive;
- Develop internal plans associated with consolidation or centralisation;
- Establish service management process benchmarks for measurement of performance;
- Seek an independent view of their strategies and plans; and
- Compare their operations, beyond ITIL maturity, to industry norms.

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Whether driven by government mandates, private mergers and acquisitions, selective sourcing and procurement strategies, or industry wide trends including Green ICT which highlight mass migration to real-time or virtualised infrastructure, when it comes to technology large enterprises must reinvent the way they consume IT services. That means overcoming the daily struggle with identification, costing, contextualisation and mapping of business-aligned IT services to base-infrastructure in the face of these constant market and technical changes.

CLOUD EXPOSES THE TRUE COST OF IT

by **Scott Stewart**, *CIO Wilson HTM*

If they haven't already done so, it won't be long before most CIOs will be undertaking analysis of the potential financial benefits to their organisations of adopting a cloud computing strategy. You might think the discussion on cloud will focus on security and performance, but from first-hand experience the discussion will very quickly focus on the financials and the total cost of ownership.

When I went through this process the executive nearly fell off their chairs with the end results of our analysis of the promised financial and organisational benefits. So no doubt the word is going to spread and more organisations will be drawn to the cloud so be ready; it is coming your way! And my advice is that you be prepared with the answer to the

most fundamental of all questions "what is the true cost of our IT today?"

Now don't be surprised if it is a little trickier to establish than you first thought. When we selected our preferred cloud vendor the first thing they did was send in their CFO. Now you might have expected an army of other specialists and technologists to arrive but they knew from experience that the first focus of attention had to be discovering and agreeing the current true cost of IT. Once you know this figure, it is your baseline on which you can not only build your business case, but you can also set and agree cost saving targets for your vendor to achieve. It is all about establishing the baseline of current costs and developing measures and a scorecard for monitoring the success of your cloud strategy as it unfolds.

CIOs WOULD ALREADY KNOW THE COST OF THEIR IT, WOULDN'T THEY?

Most of the cloud vendors I talk to know exactly what their pricing model is and what they will charge for their cloud offering, but it is not surprising that many CIOs they deal with don't have the same comprehensive grasp of what their IT is costing the organisation. Before you can have any sensible discussion on whether cloud computing is a viable option for your organisation you just have to start crunching the numbers.

Most good cloud vendors that offer infrastructure, desktop or storage "as-a-service" offerings will charge you an initial set up cost and then an ongoing basis of "Per User Per Month" (PUPM). One benefit of the cloud over your internal IT is that there is far more transparency and visibility of the costs. So to support your decision making process you will need to discover what your current PUPM cost is today. For us it was a startling discovery and became a big driver for adopting an aggressive cloud strategy.

ISN'T THE TRUE COST OF ICT ACTUALLY WHAT MY IT BUDGET IS?

If you have an accounting system that loves to allocate costs across the entire organisation then you need to extend your focus beyond your own IT department budget and work out the total enterprise spend for ICT. This sounds very basic and straightforward but it might surprise you just how much ICT spend is out there in your organisation of which you are not aware. If the total outgoings for ICT spend is not in your IT department P&L then you need to do

the analysis and capture all the costs.

Getting a list of vendors and payments from your accounts payable system will reveal if your organisation is doing business with any IT vendors of which you may not have had visibility. You may discover that the cost of some services in your budget is only the residual amount after some of the costs have been allocated out to other business units.

HOW DO I DISCOVER MY TRUE COST OF IT?

It is necessary to obtain the full supplier list and the outgoing payments and identify which costs for services and products fall into the category of ICT. If you can you should go back two or three years to capture any prepayments, including maintenance agreements covering a three year period that require a single upfront payment. Split these costs into two columns: 1) Costs that will be impacted by the cloud strategy and, 2) costs that won't be impacted by the cloud strategy and therefore will remain.

You will need to add items such as staff and on-costs (in our case the staff were going to the cloud vendor also), depreciation and asset write-offs as these may be impacted by the cloud strategy, especially if the plan is to transfer these assets to the cloud vendors. Once you have the full list of all ICT costs from across your business you can total the columns, divide it by the number of staff and divide that number by twelve to obtain your PUPM baseline cost.

ALSO INCLUDE CAPEX THAT YOU NO LONGER NEED TO SPEND

Looming for us were some big ticket Capex costs for replacing equipment that was approaching end-of-life. We found that these costs were well avoided by implementing our new cloud strategy. We included this in our analysis but as a separate line item of "Things we no longer have to buy" so as not to inflate the baseline costs. An example of

this would be the extra life that you might get out of your desktop fleet by moving to a virtual desktop-as-a-service model. Another aspect of 'savings' for us was the avoidance of purchasing the sophisticated network monitoring and diagnosing tools that were on our list of long overdue items we needed to purchase.

CONSIDER THE COST/BENEFITS OF A VENDOR MANAGING YOUR COMMODITY IT

A good business will always be prepared to look beyond costs and consider the value-add of moving to a cloud vendor especially with flexibility, economies of scale, scaling up or down with business activity and just in time response to business growth initiatives. More than ever CIOs need to become financially savvy and balance sheet aware and to be ready for the oncoming discussions around cloud. CIOs

should start their analysis by uncovering the true cost of their enterprise wide ICT.

Scott Stewart is the CIO of investment group Wilson HTM. An extended interview with Scott can be viewed on LTV's The Advisor at <http://www.longhaus.tv/advisor/110-advisor-video-5.html>

PROGRAMMING ON LTV

SERIES 2, 2010

Be sure to visit www.longhaus.tv for the latest series programming from The Adviser and Prosumer.AU. You will see and hear from some of the industry's leading and innovative leaders as well as receive insights into the core technology research and analysis that our customers have come to expect.

In Series 2 LTV addresses the massive upswing in application activity in the global market for large to enterprise organisations while for our mid-market clients we discuss the themes of identity, asset and telephony management. The following interviews will be publicly available on LTV during May to July 2010:

- Loretta Bayliss, Managing Director, Prescience
- Cameron Tuesley, Managing Director, Integral
- Cuneyt Uysal, Product Manager, OpenText
- Ted Bray, Vice President, RightNow
- Greg Stone, Chief Technology Officer, Microsoft Australia
- David Hodges, Managing Director, Smartpath

- Brent Paddon, Chief Executive Officer, Over the Wire
- Graham Williamson, Chief Executive Officer, Internet Commerce Australia
- James Norwood, Senior Vice President, Epicore

From late May 2010 Longhaus TV's the Research Channel will be locked down as a subscriber-only service. It will continue to be accessible by all AAA subscribers as well as offer per user pricing for sole access to the LTV portal.

The Research Channel provides coverage and insights into Longhaus' position on the relative strengths, merits and strategic weaknesses of the ICT vendors supplying products and services in the Australian and near-shore region. It is a must for all technology influencers and procurement managers seeking third-party positions to support significant technology advisory decisions.

All inquiries for appearances on LTV should be directed to bernie.hogan@longhaus.com.

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