

# The Business Case for Cloud

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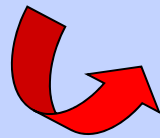
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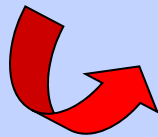
## Grosvenor Consultancy Services

has assisted >200 organisations improve the value they can secure from IT (& other services) and from their suppliers

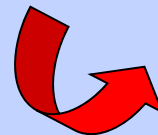
1989 Financing



Support arrangements



Outsourcing/Off-shoring/Cloud



Value Management

## Topics

- What do we mean by “Cloud”?
- What benefits does Cloud offer and for whom?
- How have the underlying economics changed?
- Which management practices need to change?
- How are business cases affected?
- Factoring in risks

## Technologies

- Mobile and Social Networks
  - Virtualisation and Identity Access Management
  - Collaboration and Workflow Management
  - Document and Content Management, BI
  - Cloud:
    - IaaS
    - PaaS
    - SaaS
    - BPaaS
- } { - Standardised  
- Pay per use  
- Self service                      etc, etc

## Cloud Benefits

- Access from anywhere using “any” device over the Internet
- Off-premises, green & industrial strength datacentres
- Faster implementation of point off-the-shelf solutions with less effort
- Switch from capex to opex
- Reduced spend commitment, allows try & buy

## What has changed?

- Greater reliance on the Internet
  - Availability
  - Speed
  - Security
- Datacentre economies of scale for infrastructure
- The main suppliers & plethora of others
- Where data is located & applicable laws
- Speed of implementation

## What has remained the same?

- Business dependence on IT services
- The need to go to the market & do due diligence on prospective suppliers
- The need to justify IT expenditure
- The need for high quality contracts
- The need to manage suppliers
- The need for service management, particularly problem and change management; subscription management
- The need to realise business benefits

## Traditional outsourcing typified by:

- Transferring staff
- Transferring assets
- Supplier has key management roles
- Longer term contracts
- High expenditures
- Comprehensive service level agreements
- Desire to create “partnership”
- Certain roles kept in-house
  - Strategy (business & IT)
  - Specifying requirements
  - Supplier selection & management
  - Setting standards
  - Security (& safety)

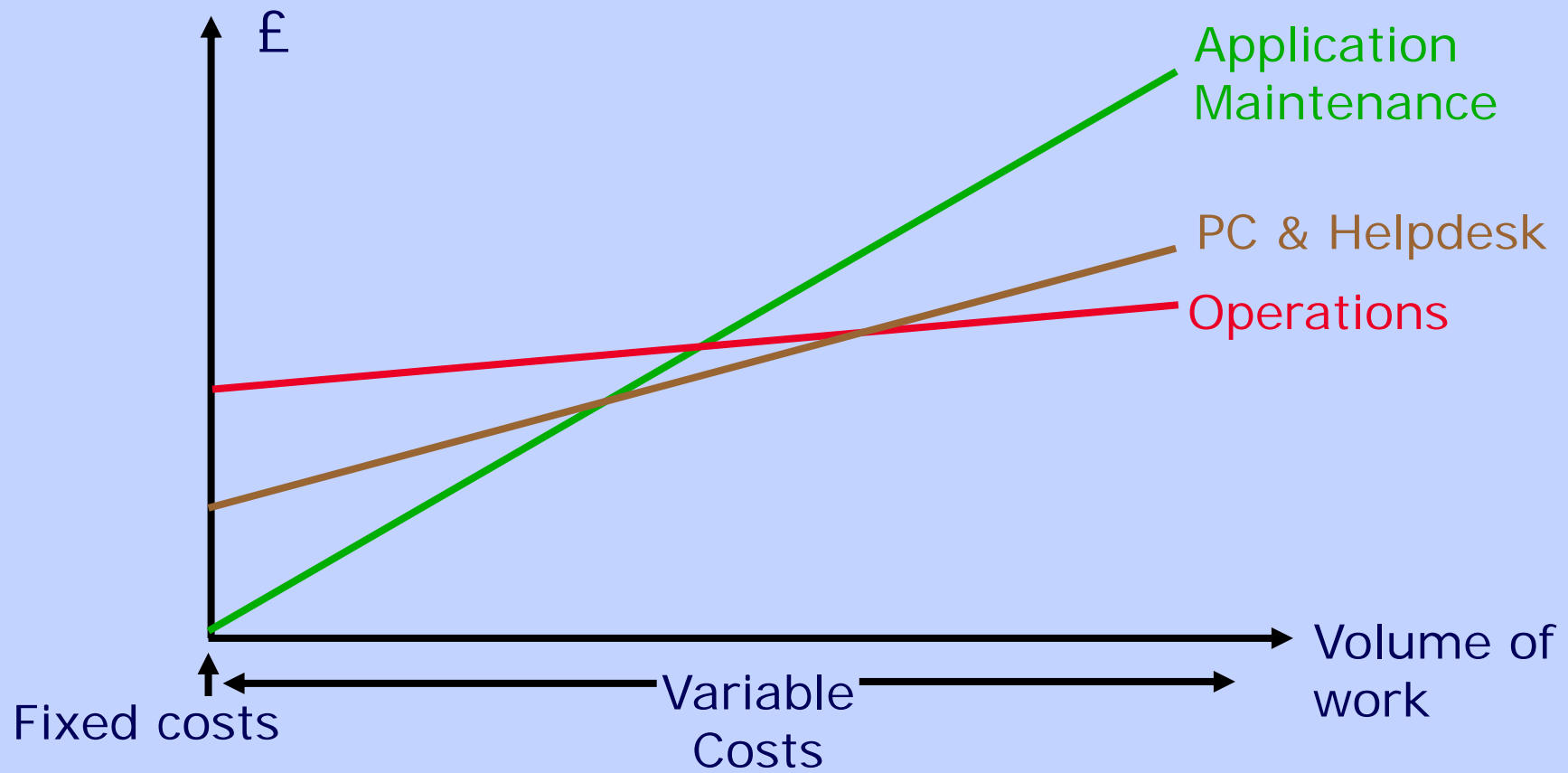
## Cloud typified by:

- ~~Transferring staff~~
- ~~Transferring assets~~
- Supplier has ~~key management~~ roles
- ~~Longer~~ short term contracts
- ~~High expenditures~~ Subscription based
- ~~Comprehensive~~ Minimal service level agreements
- ~~Desire to create "partnership"~~ Utility
- Certain roles kept in-house
  - Strategy (business & IT)
  - Specifying requirements
  - Supplier selection & management
  - Setting standards
  - Security (& safety)

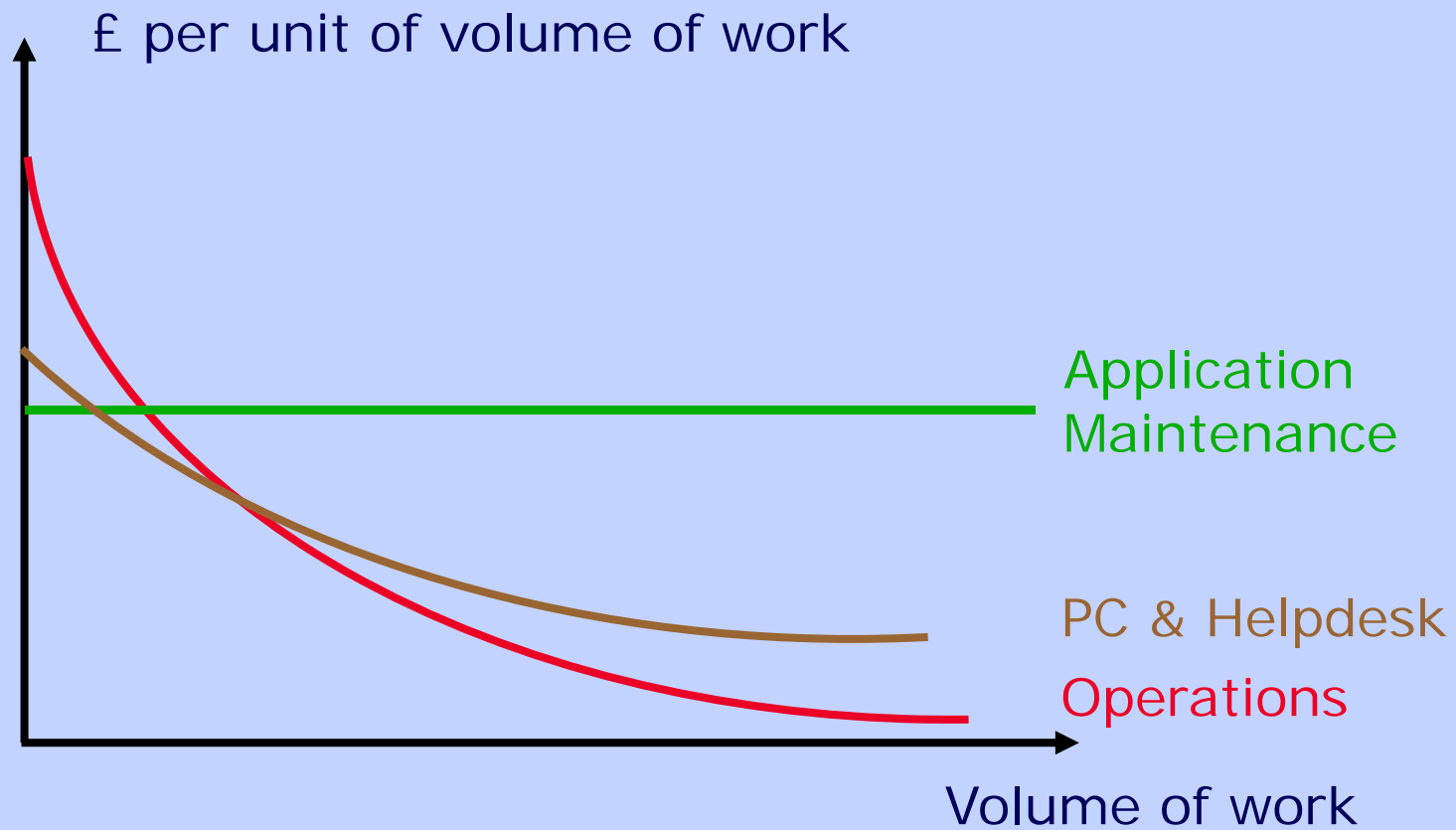
## Effect on costs

- Procurement ↑
- Contracting ↑
- Transition/implementation ↑
- Supplier management ↑
- Service management ↑?
- Service provision ↓?
- Benefits realisation ←
- Exit ?

# Quantity - cost relationship



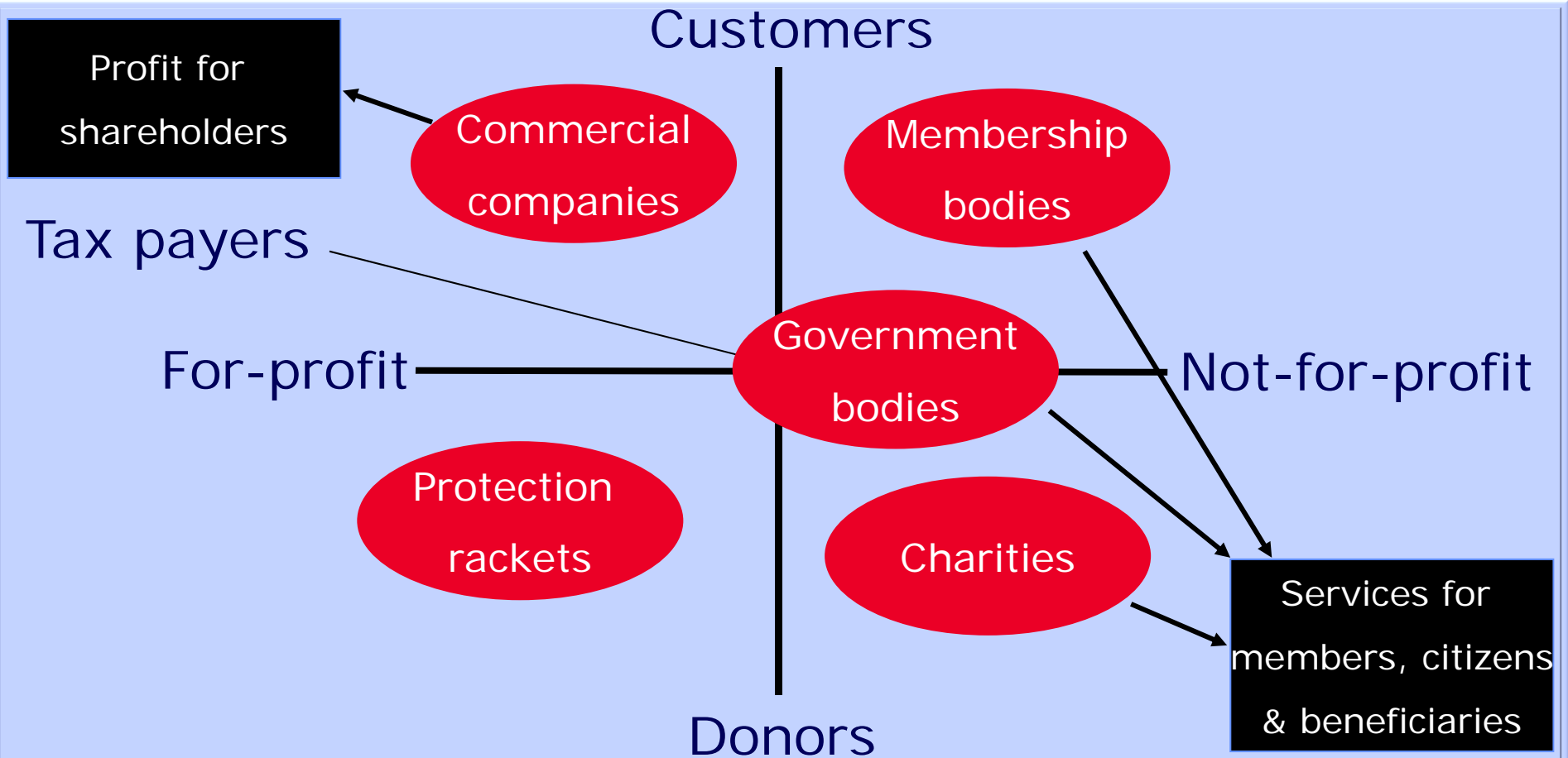
## Unit costs – economies of scale



## Effect on management practices

- Strategy formulation & decision making
- Service design & provision
- Procurement & contracting
- Human Resources
- Service Reporting & Management
- Supplier & Subscription Management
- Financial Management – budgets & business cases
- Benefits realisation & whose money are we spending?

# The purposes of enterprises

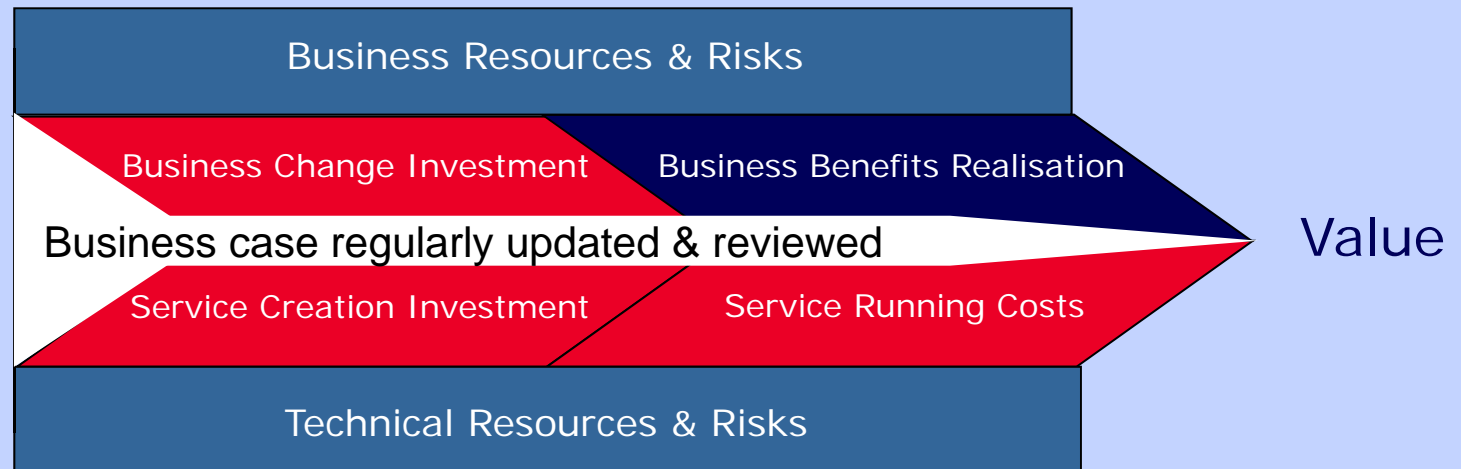


## Converting investments into additional value



## The journey to value

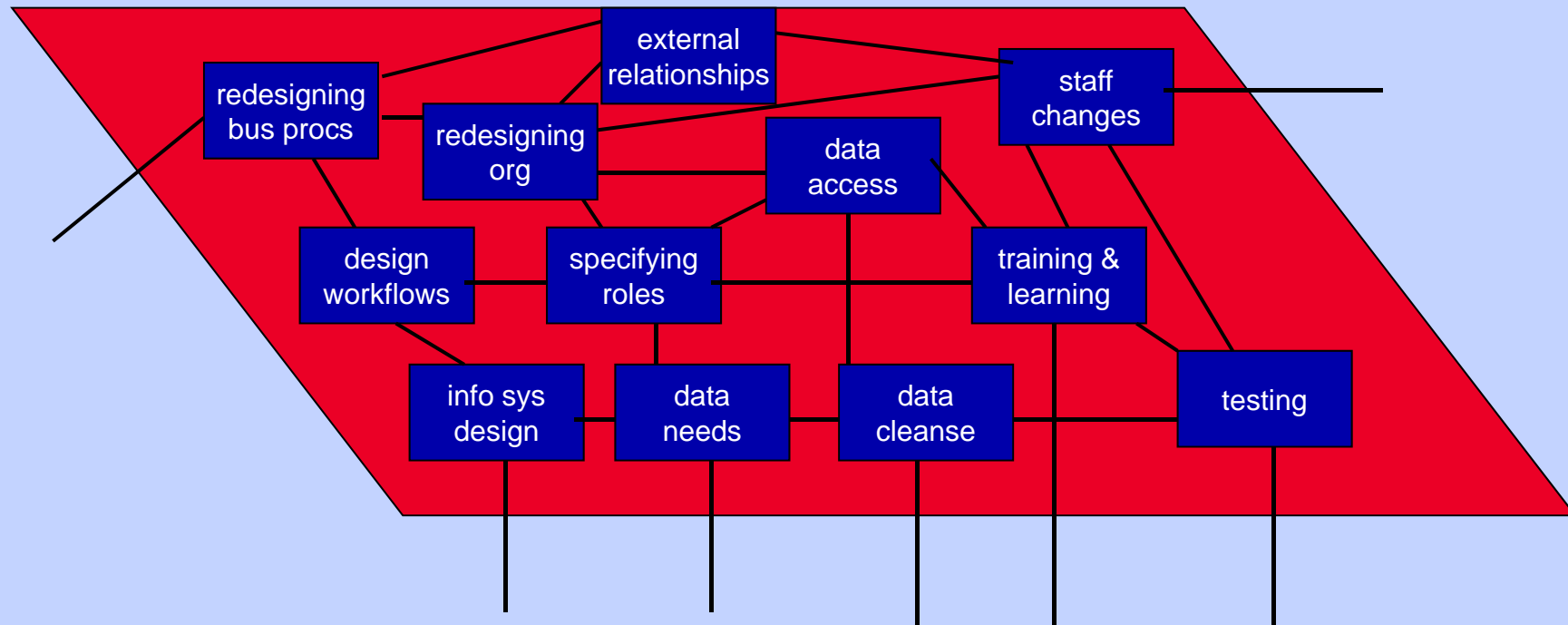
Vision



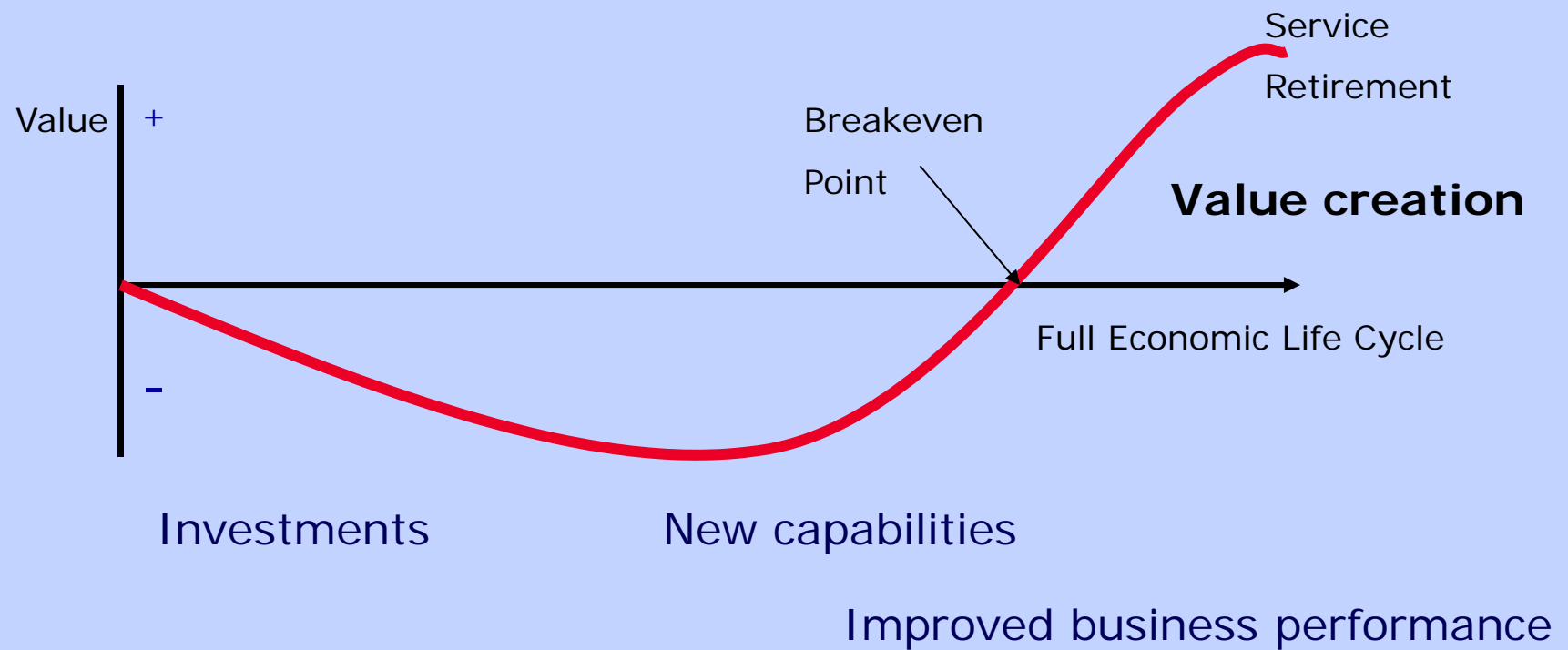
 : Expenditures

Who should prepare business cases?

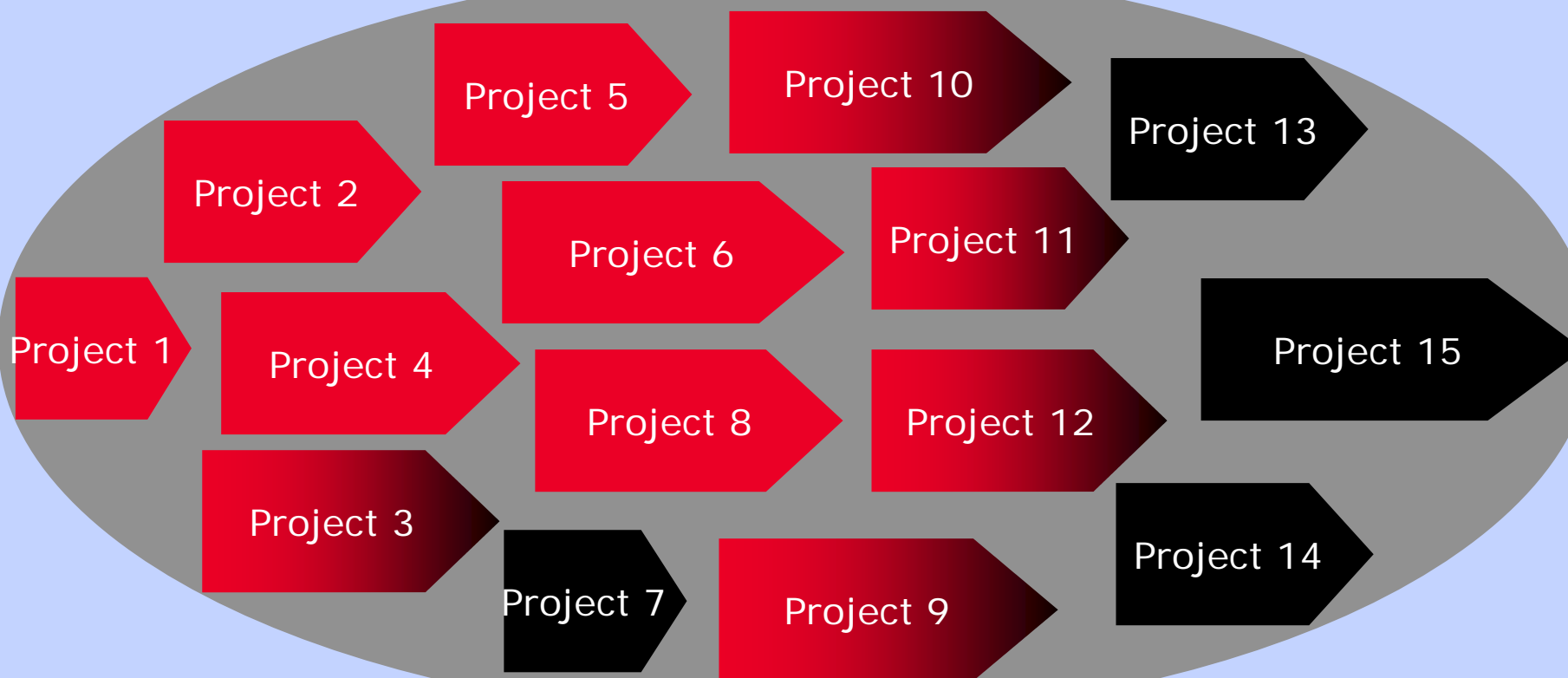
# Business Change Investment



## The journey to value



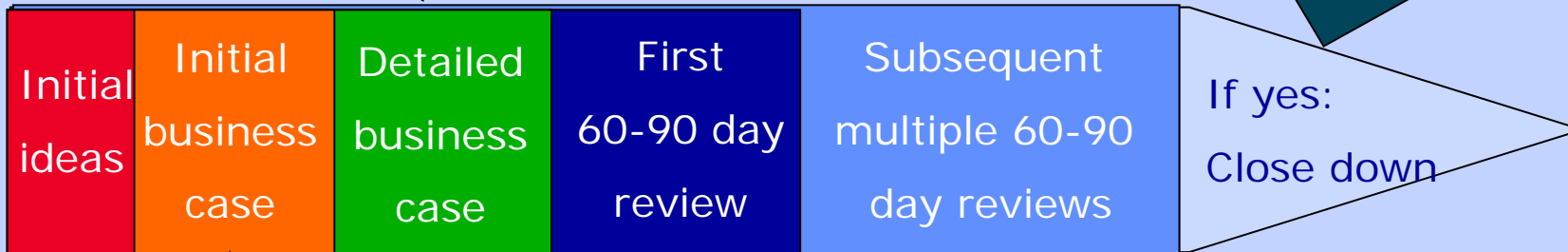
## Investment programmes



# Manage investments up to value creation

Is this worth investing in?

Have we maximised the value to beneficiaries?



Are these worth further detailed investigation?

Update business case & ask: should we continue to invest, change or stop?

## Coping with uncertainty

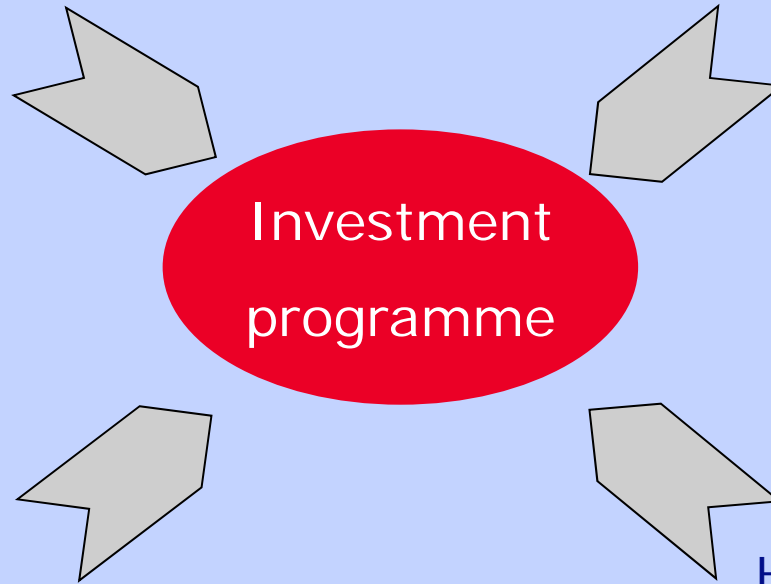
Risks inherent in  
the programme

Risks in the  
environment

Investment  
programme

Business change  
risks much greater  
than cost of money

How express  
consistently across  
different programmes?



## Looking at risks realistically

$$\text{ROI} = \frac{\text{Benefits} - \text{Costs}}{\text{Costs}} = \frac{112 - 100}{100} = 12\%$$

But suppose: 25% overspend, only 80% of benefits & 1 year late, what do benefits (B) then have to be to get 12%?

$$\text{ROI} = \frac{B \times 0.8 / 1.12 - 125}{125} = 12\%$$

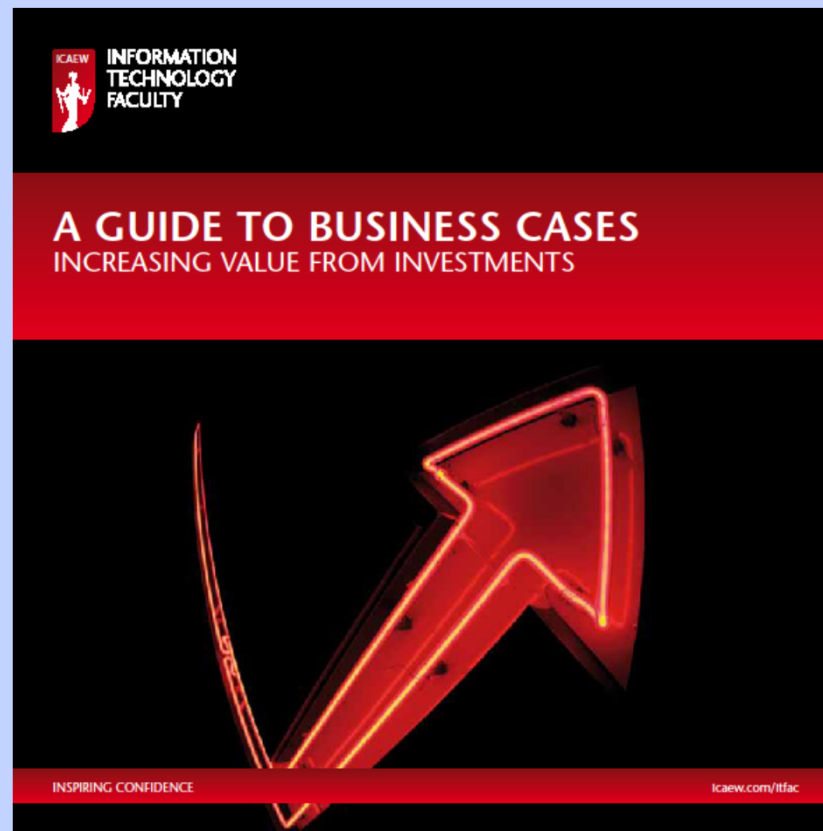
Solving for B gives B = 196 !!!!!!!!!!!!!!!!!!!!!!!

Risks are much more significant than discount rates

## The solution

- Improve business cases so that they describe investment programmes & the value to be created
- Business cases must be updated & reviewed throughout the life of each investment programme
- Manage those investment programmes until sustainable additional value is being created
- See ICAEW Business Case Guide June 2010

# ICAEW Business Case Guide June 2010



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