database
TRENDS AND APPLICATIONS

Increasing Technology Cost Accountability: Is the Cloud Obstructing your View?

By Louis Takacs - Posted Jan 11, 2012

The argument that "everyone is doing it and you should too" holds no value for strategic decision-making in IT. Yet critical thinking often goes by the wayside when a hot, new trend catches on and it seems like the masses are following along. Cloud computing is certainly in vogue - most industry analysts are bullish on cloud computing adoption and anticipate enterprise spending to increase - but organizations need to steer clear of falling into the trap that moving to the cloud always delivers cost savings.

While it may seem like every company is embracing software, infrastructure and platform as a service (SaaS, IaaS and PaaS) offerings, it's important to understand the total cost of ownership of all cloud-based solutions and be able to analyze their true benefits, because the perception of cost savings may disappoint in the end. That's because IT infrastructures are highly fixed costs, and even when migrating to the cloud, organizations still need to contend with labor, overhead and vendor management that impact the total cost of ownership of cloud solutions.

Moving to the cloud without the ability to shed the fixed cost business model for internally provisioned technology can actually result in a significant increase in IT expenses. The cloud parallels the journey of voice over Internet Protocol (VoIP) technology when it was first introduced more than a decade ago. With VoIP, the challenge - even 10 years later - is that it is not a cost-effective alternative if the enterprise is unable to replace their existing voice network infrastructure. As such, VoIP and its appearance of cost savings didn't deliver on expectations or get fully adopted for years - often until the voice network infrastructure reached its end of life and needed to be refreshed.

Cloud computing is following the same scenario. If organizations cannot replace existing infrastructure, a cloud solution will not deliver on its intended value. However, a lack of visibility into IT investments and consumption data may prohibit organizations from accurately gauging if cloud computing is the right alternative for them.

With many organizations storing information in silos or disparate systems, this makes it challenging to evaluate and understand the total cost of ownership of IT products and services. By not having visibility into the details and costs of technology, it's impossible to accurately compare the cost of cloud solutions to those provided internally.

As the cloud continues to gain momentum, IT leaders need the ability to articulate the true financial impact of the cloud in contrast to the organization's current infrastructure and demonstrate the value of technology solutions. Using a technology financial management solution that centralizes IT financial information and provides details into the value and cost drivers associated with all technology investments helps organizations recognize opportunities for saving and accurately evaluate if cloud computing is the most advantageous solution.

The Need for Accurate Technology Consumption Data

When considering cloud computing, organizations need the ability to perform an in-depth financial analysis/ROI on internally provided IT services to determine the solution that makes the most business sense - whether that's a cloud-based offering, a solution that is internally developed or a hybrid of both. Organizations that don't have complete cost accountability for their internal IT environment and clear visibility into how services and applications are being consumed by individual business units cannot effectively measure cost savings, control costs, uncover savings opportunities or gain efficiencies.

Getting a complete and accurate view of existing IT products and services and understanding how business users/units are consuming IT services is essential. Not having this visibility can impact profitability and prohibit

organizations from effectively optimizing, much less reducing costs. For example, an organization may contract for 5,000 hosted email boxes, but if all of them are not in use, they may be paying more for an under-utilized asset. While the cloud offers the benefit of variability, without a clear view of consumption patterns it is hard to understand if companies are using what they are paying for and make the connection between costs and actual use.

Forward-thinking companies are turning to automated technology financial management solutions to eliminate data silos within internal IT teams, uncover hidden costs and identify cost optimizing opportunities while at the same time effectively communicating the value of IT to the entire organization. Delivered as a software as a service solution, technology financial management capabilities provide organizations with a centralized line of sight into all internal and external technology investments. It also provides macro- and micro-level details of actual consumption to provide visibility into the total cost of technology, enabling organizations to make fact-based decisions when weighing alternative solutions.

Having increased visibility and accountability supports more dynamic forward-facing budgeting, forecasting and planning, enabling business users to understand if cloud computing offers the best option. By having information at their fingertips, business leaders can make strategic and informed decisions based on actual technology utilization data. It also enables them to determine their business requirements, calculate an accurate return on investment and ensure that the IT organization's priorities are in complete alignment with corporate business goals.

Taking a Best-Practices Approach to Technology Financial Management

Organizations that take a best-practices approach to technology financial management are able to use business intelligence to effectively measure, manage and optimize their technology investments and articulate the true financial impact of the cloud in contrast to their current infrastructure. An efficient, scalable web-based production system that also provides business intelligence to both IT management and the consumers of IT services increases visibility into IT services and associated costs. This enables organizations to make more informed business decisions and determine if alternative solutions deliver greater value.

Insight into the details and costs of IT investments can also shed light on redundancies in technologies, applications and services. This ensures organizations do not keep or add unnecessary costs to its existing technology deployments and IT spending.

As businesses consider migrating more of their internal technology to external cloud computing providers, having clear, concise and robust metrics around the value of IT services enables organizations to establish a cohesive business strategy. Understanding the details of IT investments and consumption patterns, organizations can take full advantage of cloud services that augment and enhance internal technology delivery mechanisms at optimized costs.

Movement to the cloud can also increase the number of vendors organizations rely on for their technology infrastructure. Part of a best-practices approach to technology financial management requires effective management of vendor contracts and service level agreements. With an automated system, organizations can ensure service-level agreements (SLAs), software licenses and vendor contracts are up-to-date, accurate and aligned with business requirements.

Proper governance of the organization's technology infrastructure and operations is also part of an optimal approach to technology financial management. Back to the scenario mentioned earlier, using an automated solution can help organizations determine if they're using what they are paying for or define appropriate measurements for a service level agreement.

What-if analyses, planning, budgeting and forecasting processes also improve with access to robust business intelligence. Organizations can use data-driven insights to effectively plan for current and future IT expenditures, ensuring they realize cost savings, optimize business processes and improve control of cloud computing investments.

As more organizations consider moving technology services to the cloud, understanding internal consumption, demand and the true costs associated with migrating outside of their own IT organization can ensure they invest in technology that delivers the greatest value to the business. While the cloud can obstruct the view of the total cost of ownership of technology solutions, taking a best-practices approach to technology financial management can help organizations think through the implications of moving to the cloud. By taking a disciplined approach to evaluating and managing alternative solutions regardless of whether it comes from an internal or external provider, organizations can weigh the benefits and investments of technology delivery mechanisms and optimize the delivery of technology to meet

business goals.

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