The ROI for adopting cloud

Evaluating the business benefits of adoption

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Executive summary

Based on the 2012 findings of Claranet's annual survey into cloud infrastructure adoption and attitudes towards cloud services, this intelligence paper reports on how businesses are measuring their return on investment (ROI) when they look to adopt cloud services.

Conducted in November 2012, the research engaged 250 senior IT decision-makers across a range of small and medium-sized businesses, enterprises and public sector organisations.

With the continued adoption of cloud computing within organisations of all sizes – to the extent that a clear majority of enterprises are using some form of cloud service – this paper gauges respondents' attitudes towards the return on investment (ROI) of cloud adoption.

The survey considers the importance of ROI calculations in securing internal agreement for a move to cloud-based IT services, how and in which areas of operations ROI was calculated, and the accuracy of ROI predictions. Respondents were also asked which single area of business (from cost-savings to staff productivity to improved business performance) they regarded as the most important factor for adopting cloud services.

Not surprisingly, the research found that ROI continues to be one of the most important considerations when putting forward the case for adopting cloud services, with a fifth of existing end-users saying that return on investment was the main way of convincing internal decision-makers to support cloud adoption. At the same time, it is interesting to note that more than a quarter of those surveyed said that ROI was either of minor importance, or of no importance at all to the decision-making process.

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Significantly, 79 per cent of respondents said that ROI calculations, while a helpful factor in determining the benefits of cloud adoption, did not give the full picture.

Those organisations that did calculate ROI were asked which business areas they measured – a large proportion (84 per cent) cited cost-savings to the IT department, the traditional argument for cloud adoption. It is interesting to note however, that around half of respondents said that they measure other benefits of adopting cloud services aside from reduced IT costs. Improved business performance, responding to future business demands, and user productivity were all cited as factors used to calculate ROI of cloud adoption.

This theme – where cost-savings are merely one consideration among many – is reinforced by responses to the question of which single business factor was the most important driver for cloud adoption. Cost-savings in IT was cited by a third (36 per cent) of respondents, while better business performance and improved employee productivity were identified by 25 per cent and 17 per cent respectively.

This is the focus of this white paper: that the majority of end-users accept that return on investment, while a major rationale for making the migration to the cloud, is only one consideration among many.

These findings do, however, raise an important question that is relevant both for end-users and the cloud industry itself. Since the other factors cited by respondents (better performance, increased productivity and the flexibility to respond to changing business demands) can all potentially be measured in terms of a "return on investment", the industry needs to ensure that it can clearly demonstrate the benefits of cloud services to help support decision-making.

This white paper aims to shed some light on where the industry currently stands on the ROI for cloud adoption, and where it can potentially make progress in the near future.

Methodology and sampling

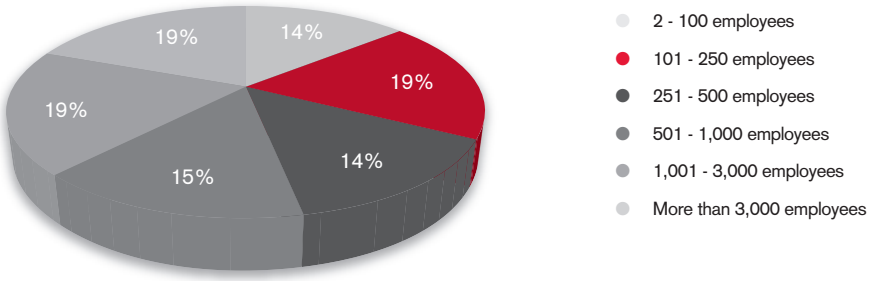
In November 2012, Vanson Bourne conducted research on behalf of Claranet to determine cloud adoption trends and understanding amongst end-users in the UK.

The research engaged 250 senior IT and business decision-makers across a range of small to medium-sized businesses (SMBs), enterprises and public sector organisations.

Of the 250 respondents, 22 per cent came from the financial services sector; 12 per cent from the media, leisure and entertainment sector; 22 per cent from retail, distribution and transport firms; 24 per cent from public sector organisations; and 20 per cent from other commercial sectors.

In terms of organisational size, 14 per cent of respondents came from organisations with between two and 100 employees; 19 per cent with 101-250 employees; 14 per cent with 251-500 staff; 15 per cent with 501-1,000; 19 per cent with 1,001-3,000 employees; and a further 19 per cent with more than 3,000 people working at the organisation.

How many employees work in your organisation?



Based on the findings of this research, this white paper reports on how businesses are measuring return on investment (ROI) when they look to adopt cloud services.

This white paper reports on measuring return on investment (ROI) when businesses look to adopt cloud

1. Importance of ROI for cloud adoption

Key findings:

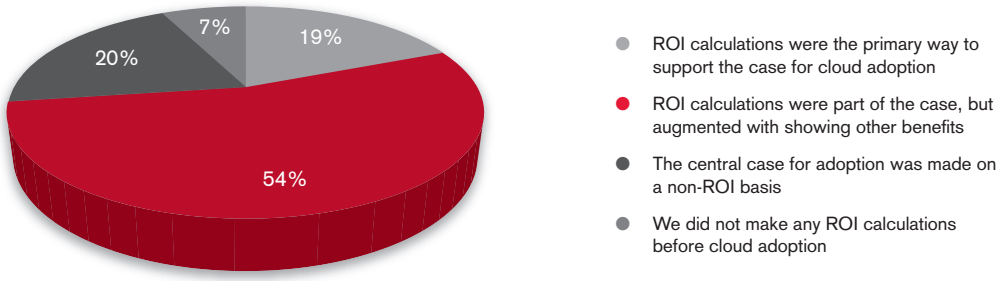
- Less than 20 per cent of respondents say ROI calculations are the primary way to support the case for cloud adoption.
- The majority use some form of ROI when making the case for cloud, but only alongside other business benefits.
- More than a quarter consider ROI either of little or no importance.

The research found that although a clear majority of users (54 per cent) considered return on investment to be part of the case for cloud adoption, these respondents only used ROI in combination with other benefits when securing internal agreement to adopt cloud services.

These respondents only used ROI in combination with other benefits when securing internal agreement to adopt cloud

Interestingly, less than a fifth (19 per cent) of those surveyed said that ROI was the primary way to support the case for migrating to a cloud service – significantly less than the combined proportion of those who said that ROI was either not central to their business case (20 per cent), or not important at all (7 per cent).

Were ROI calculations important in securing internal agreement to adopt cloud?



Although it seems surprising that more than a quarter said that ROI calculations were of minor importance, or no importance at all, this may indicate users who were testing a cloud service, where ROI would not be a major factor.

It is interesting to compare these findings with recent research from the Cloud Industry Forum, which found that the primary motivation for moving to the cloud was to reduce operational costs. However, Claranet's findings show that most end-users believe that ROI, in terms of cost-savings, should only form part of the case for cloud adoption, alongside other business benefits; and that only 19 per cent made ROI the primary argument for migration.

This raises the question of whether businesses are measuring the ROI of these other benefits and if so, whether these calculations are being included in the overall figures for the return on investment of cloud adoption. Improved employee productivity and the ability to delay capital expenditure in IT, for example, can both deliver measurable cost-savings to a business.

If organisations see ROI as being discrete from these other benefits, then it suggests that a significant proportion of organisations are defining return on investment in its narrowest sense – as the amount of money that IT departmental budgets would save by adopting cloud.

If this is the case, it represents a major missed opportunity for users and the cloud industry, as discussed later in this paper.

2. Calculating the ROI for cloud adoption

Key findings:

- Reducing IT costs identified as main factor when considering ROI of adoption.
- Half of respondents calculated ROI on improved business/staff performance.
- Only a third assessed migration costs when calculating ROI.

Those respondents who said that they calculated the ROI of cloud adoption (76 per cent of the total) were asked which business factors they examined when assessing the return on investment.

The majority of respondents (84 per cent) cited cost-savings to the IT department as one of the key considerations that they took into account when calculating ROI. This compares to around half (49 per cent) who took improved employee productivity into account, while a similar proportion considered future IT demands and improved overall business performance (each 55 per cent) in their ROI calculations.

What areas did you examine to calculate the ROI for cloud adoption?

Asked of respondents whose ROI calculations were important for securing internal agreement to adopt cloud	Total
Cost-savings to the IT department	84%
Improvements to business performance	55%
Predicted future demands in IT provision	55%
Existing in-house IT infrastructure	51%
End-user productivity/performance	49%
Costs associated with the migration to a cloud-based solution	34%
Other (please specify)	1%

These statistics seem to support the trend identified earlier, that a significant proportion of organisations are judging the ROI of cloud adoption by cost-savings made to IT budgets; while other factors that are equally beneficial for businesses adopting cloud services are not considered by nearly half of all organisations that attempt to calculate the ROI.

Also significant is the finding that only a third (34 per cent) of organisations are including the costs involved in migrating from in-house IT to a cloud-based service in their calculations. Respondents seem to assume that migration is always a low-risk, cost-free procedure, while the reality seems to indicate that even the smoothest migration of IT functions to the cloud will result in at least some planned downtime. This finding raises another question: if 84 per cent examine cost-savings in the IT department, yet only a third calculate the likely cost of migration, it suggests either that organisations do not see migration as cost borne by the IT department or that they are not factoring in migration costs at all.

A significant proportion of organisations are judging the ROI of cloud adoption by cost-savings

3. Main drivers of cloud adoption

Key findings:

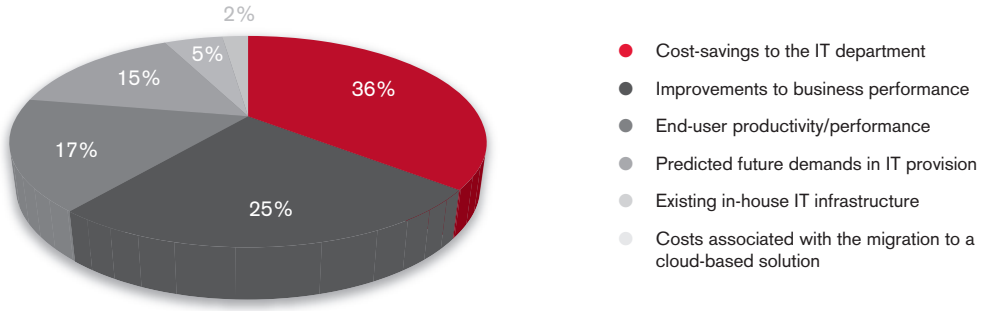
- Reducing IT costs is the single most important driver for moving to cloud.
- One in four say better business performance is also a key driver.
- Improved productivity and scalability for growth also cited by a significant proportion of respondents.

When asked to identify the single most important factor in the business case for adopting cloud computing, the most popular response was "cost-savings to the IT department". While this was identified by just over a third of respondents (36 per cent), it is not an overwhelming majority.

A quarter of those polled (25 per cent) identified better business performance as the main driver for cloud adoption, while significant numbers said that employee productivity (17 per cent) and the expected future demands of IT (15 per cent) were the most important considerations.

These results seem to show that reduced IT procurement and management costs are not the primary reason for moving into the cloud

Which of these areas was the most important driver for adopting cloud?



The results indicate that while cost-savings are regarded as the most important reason for moving to the cloud, many organisations see the most important benefit for cloud adoption as lying elsewhere.

These results tally with earlier research from Claranet and other industry bodies, showing that reduced IT procurement and management costs are not the primary reason for moving into the cloud.

The research points to the fact that while there are a wide range of reasons for adopting cloud other than cost-savings alone, it is more likely that organisations will calculate ROI on IT costs rather than measure other business benefits.

4. Accuracy of ROI calculations

Key findings:

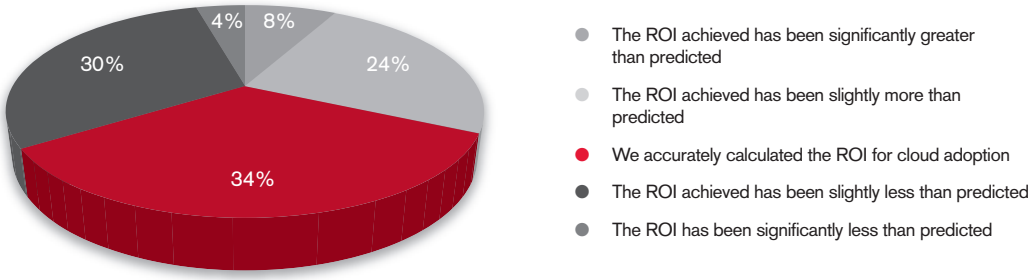
- Where return on investment is calculated, it is usually predicted accurately.
- Only four per cent of those calculating ROI experienced significantly lower ROI than predicted.

According to the findings, users of cloud services seem to achieve similar levels of ROI to those that they predict before adoption.

Just over a third (34 per cent) of those respondents who had measured the actual ROI of cloud adoption said that their calculations had been accurate. Just under a quarter (24 per cent) reported that they had slightly exceeded their ROI calculations, with a similar proportion (30 per cent) saying it had been slightly lower than expected. In total, 88 per cent of those measuring ROI reported figures that were accurate, or very close to their predicted calculations.

Of the total number of respondents who had estimated their expected ROI, more than a quarter (28 per cent) said that it was too early to calculate the actual ROI achieved.

Were your ROI calculations an accurate reflection of the reality after cloud adoption?
(Asked of respondents who calculated ROI before cloud adoption)



These results seem to indicate that where ROI is calculated, it is being done with a degree of accuracy. It therefore seems reasonable that a wider measurement of the overall benefits of adoption will also yield accurate metrics that show the true cost-benefits of cloud to the wider business.

5. Overall benefits of ROI calculations

Key findings:

- Four in five respondents say ROI calculations do not give a complete picture of the benefits of adopting cloud.
- Only one in ten think that ROI is an effective way to calculate the benefits of adoption.

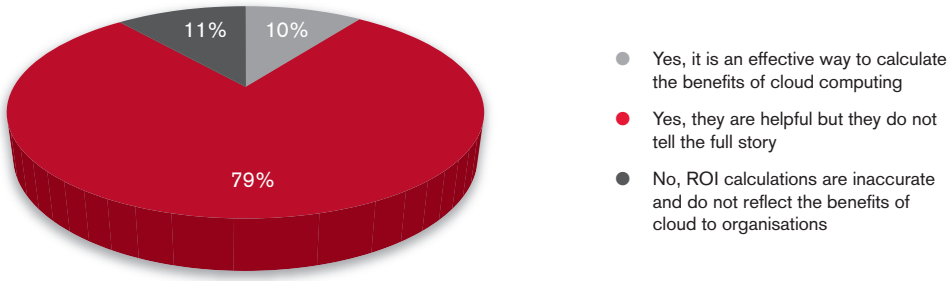
79 per cent said ROI calculations do not give the complete picture of the benefits of cloud adoption

The final question regarding the return on investment for adopting cloud asked respondents whether they thought ROI calculations adequately described the benefits of cloud adoption.

Only 10 per cent said that ROI was an effective way to calculate the benefits, while 11 per cent said that ROI calculations were inaccurate and did not reflect the benefits of cloud services to organisations.

The remaining proportion (79 per cent) said that although ROI calculations were helpful, they did not give a complete picture of the benefits of adopting cloud services.

Do ROI calculations adequately describe the benefits of cloud adoption?



These figures closely match the responses from Section 1 *(see page 5)*, which found that 73 per cent used ROI calculations as either the primary, or one of the main ways to convince internal decision-makers to make the move to cloud technology.

Conclusion

The findings from Claranet's research on cloud adoption show a clear and widespread appreciation of the importance, to a greater or lesser degree, of calculating and measuring the ROI of adopting cloud computing.

Such calculations were used by 93 per cent of all organisations that had moved into the cloud, although a fifth said that ROI did not make up the central case for adoption. The research found that the ROI of cloud adoption is most often measured by the cost-savings made by the IT department. Of organisations that calculated ROI before migration, less than half measured areas such as improvements to business performance, predicted demands on IT provision, and improved employee productivity.

At the same time, each of these additional business benefits are mentioned by significant proportions of respondents as key reasons for migrating to the cloud. Combined together (64 per cent), they outweigh cost-savings alone (36 per cent).

When three quarters (73 per cent) of respondents say that ROI is only a factor in their decision-making process, and four fifths say ROI does not tell the full story of the benefits of cloud computing, it raises the question of what other benefits they are considering.

Return on investment can be measured by many metrics other than a simple analysis of IT cost reductions. Employee productivity and business efficiency, for example, can certainly be measured; and the 2012 research shows that some organisations do take these factors into account when measuring the ROI of cloud adoption.

The results from Claranet's research strongly suggest that organisations need to take an holistic view of the true benefits of cloud adoption to their overall business. Predicting the likely return on investment is not only a means by which to decide whether to migrate elements of business IT into the cloud, it is also key to ensuring that purchasers and end-users are getting value for money from their suppliers, that they have been sold the right technologies for their particular business needs, and that it is having the desired effect upon their business operations. All these can be measured.

The challenge for the cloud industry in 2013 is to widen the scope and ambition of ROI calculations among end-users, and to promote the advantages of cloud and the wider business benefits to the whole organisation.

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About Claranet

Claranet is a managed services provider with experience in providing managed IT infrastructure services since 1996. We provide network and hosting services for our customers, enabling them to focus on their core business and not on day-to-day IT management. The Claranet Group comprises 16 offices, 19 data centres, and over 700 staff.

Our international MPLS core network enables high service levels across 6 European countries. We operate 24-hour network operating centres covering all countries. Claranet is carrier neutral, and has a proven track record for delivering services.

Claranet's client base ranges from SMEs to well-known corporate clients, including Airbus, Channel 5, Amnesty International, the De Vere Group and The Football Association. Claranet is ISO9001 and PCI-DSS accredited, part of the Catalyst (OGC) and ITIL Frameworks schemes, and has VMware Enterprise Partner and Microsoft Gold Certified Partner status.

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