Moving from On Premise to the Cloud – the Importance of Partnership
Executive Summary

The move away from on premise systems to cloud computing appears inexorable, with research organisations predicting a wholesale transition to the new model over the next decade. For IT providers, from Independent Software Vendors (ISVs) to consultancies and pure hardware providers, this shift in approach to the acquisition of technology, from hardware to software and services, represents a major upheaval — and challenge.

For those organisations that get the new business model right, there is a massive opportunity. With the right cloud based service offering, organisations can generate greater, more stable income from the same customer base. There is a chance to significantly reduce costs as a result of removing an entire tier of IT support, enabling the organisation to focus exclusively on the core business. Furthermore, organisations can leverage the additional resources offered by data centres, such as replication and 24x7 support, to offer added value services to the installed base.

But there is no room for mistakes. Getting the move to the cloud wrong, by opting for a data centre that fails to deliver the required performance; choosing the wrong pricing model or funding plan; or simply failing to adequately incentivise the sales force, will cause huge business pain.

This is a major shift in business model — and it represents a significant business risk. So just how can IT organisations locate the right partner to ensure the move to the cloud is successful?

This paper outlines the key issues facing organisations, from infrastructure to business model; demonstrates the potential pitfalls and opportunities', and highlights the essential components of a strong cloud computing partnership.

The Cloud Imperative

According to leading research organisation Gartner, by 2012, 20 percent of businesses will own no IT assets. This shift is being driven by several, inter-related trends including virtualisation, cloud-enabled services and growing numbers of employees running personal desktop systems on corporate networks.

Certainly, the speed with which organisations are embracing cloud-based service delivery is being driven by the economic situation. From the huge reduction in capital expenditure costs, to the downsizing of in-house IT personnel and the ability to attain a fixed monthly IT bill, organisations are keen to embrace the financial benefits offered by the cloud.

This shift away from the ownership and support of hardware and software in-house to third parties will have a significant impact on the business model of the majority of IT companies. From Independent Software Vendors (ISVs) to pure hardware providers and consultancies, everything from pricing models to sales strategies is going to have to change dramatically.

Making the transition from on premise to cloud model is financially tough. Organisations are used to receiving significant, regular cash injections supplemented by incremental revenue from upgrades and support services. Under a cloud based rental model, there are no more big cash sums. In contrast, however, the revenue stream is far more predictable — as long as customers are happy with the quality and reliability of the service.
For the IT provider, a white label cloud computing solution offers a fantastic opportunity to increase revenues. Once a customer has signed up to cloud based services, they are likely to remain longer – assuming the quality of service is good. Offering a lower cost to serve than the on premise model, with each successive year the profit per customer will increase significantly.

However, underpinning this profit must be an exceptional service. Therefore it is essential that these organisations ascertain just how effectively core products and services can be delivered via the cloud; and find a hosting partner that can offer the quality and reliability of services required to ensure customer needs are never compromised.

Without reliable and robust technical performance, the strength of the business model, commitment of staff or willingness of the installed base, will be irrelevant.

Cloud computing will without doubt become the primary method of IT delivery to organisations large and small. And while some customers may opt to ‘dip a toe’ in the market to assess the pros and cons, IT companies cannot afford the same luxury.

This is the biggest change in business model since the inception of the industry: get it wrong, by partnering with the wrong data centre, choosing the wrong pricing model or failing to incentivise the sales team correctly, and organisations will rapidly face business failure.

Making the Move

So just how can IT organisations looking to move the business model into the cloud minimise the risk and maximise opportunity? Obviously risk reduction requires an in depth understanding of the challenges associated with this new approach – but, understandably, few ISVs, consultancies or hardware providers have any real insight into the diverse issues that a move to the cloud can provoke.

So what needs to be considered?

- Infrastructure: Performance, security, reliability, comms and replication all determine the quality of solution that can be offered to customers
- Business Model:
  - Pricing – per customer, per transaction – a huge range of options, getting it right is critical
  - Sales – incentivising and training the sales team is essential
  - Marketing – educating and convincing the customer base
- Support:
  - Streamline business – as customers move into the cloud and reduce the internal infrastructure, what support services are now required? Is it more cost effective to outsource all but core application support to a hosted provider?
  - Assess the added value opportunities – can a hosted provider offer white label services such as 24x7 support or business continuity?
Infrastructure

Attaining the right infrastructure to host a customer’s systems is, obviously, a priority. Whether the business is an ISV looking to host its core portfolio of applications or a traditional hardware provider looking to offer customers a cloud-based alternative to hardware purchase, the quality, reliability and security of the hosted solution is critical.

And, given the vast number of organisations offering data centre services this should be a simple decision — shouldn’t it? In fact, the pitfalls associated with data centre services are significant.

A ‘white label’ cloud computing solution enables ISVs to offer customers access to a technology infrastructure that a FTSE 100 company would aspire to achieve, taking the organisation into a far broader competitive marketplace. But in a market that ranges from basic hosting providers offering nothing more than rack space to fully managed solutions complete with in-depth business consultancy, choosing the right provider is complex.

From data centre location to disaster recovery strategies and connectivity concerns, knowing the right questions to ask a potential provider is key to ensuring the correct long-term decision.

Understanding data centres: Data centre costs vary hugely, so it is important to understand rack space/connectivity costs. In Docklands, rack space cost is high but connectivity is widely available at competitive rates. Alternative locations may offer less expensive rack space but more limited connectivity options, which may prove to be more expensive and which may limit key resilience requirements, such as storage area network (SAN) replication between data centres.

But don’t get tied in to a specific location. If opting for an internet service provider (ISP) managed data centre beware being tied to a specific IP address range — it is expensive and complex to provision a new range of addresses if the customer wants to move. ISVs that opt for ‘carrier-free’ data centres that support connectivity from a variety of Telcos will have a more flexible business model.

Also check out the technology in use. Despite the virtualisation hype, the majority of current centres are still based on physical solutions. This means that any upgrades will need planning and are expensive. Virtual technology enables providers to offer upgrades overnight, as required, which is critical for ISVs wanting a solution which can flexibly scale up in line with customer demand. Also look for providers that can migrate customers between data centres, without interruption, as required.

Security, resilience and back up: Data centres offer far greater levels of data security than on-premise systems — buildings are well ventilated, fire proof and secured with leading edge technology. Look for ISO 270001 data security standard accreditation and providers willing for an ISV to undertake penetration tests.

When it comes to back-up, look for a secure, flexible solution to meet customer needs — from four to five day rolling backup, financial data retention for several months, or access to Word documents deleted up to a year ago.

Another benefit of the virtualised data centre is that the provider can mirror just data to a secondary site rather than replicating the entire environment — and this should be demonstrated through regular Disaster Recovery rehearsals.

Be wary of inter-ISP agreements that can mean connectivity purchased from different providers actually come from one source, undermining resilience. Look for a provider with ‘RIPE’ accreditation to demonstrate IP Address and connectivity independence.
Contractual limitations: One of the biggest problems that organisations have encountered so far is signing up to services – both comms and data centre – that rapidly prove to be inadequate.

In a bid to attain low-cost leased lines, some organisations are signing up to three year contracts, only to discover the bandwidth limitations result in service interruption and an inability to deliver data replication. It is important to understand requirements up front and to ensure expansion can be built in without demanding a significant additional investment.

Check out the opportunities to upgrade and make enhancements in the data centre. With the right contract, and a virtualised data centre, organisations can rapidly scale up each and every aspect of the infrastructure as required to meet customer demands.

Data Centres may have to fund significant capital to host certain customers and as such often require long term contracts with no cancellation possible within the initial period. Companies need to clearly understand the small print when it comes to term and cancellation.

Application performance: For any ISV the performance of the application in the data centre is critical. It is important to talk with the data centre provider up front, discussing any existing performance issues in the on premise model, for example. An experienced partner, with expertise in building networks and tailoring software for cloud computing, will transform application performance.

Also look for a ‘free’ performance test before signing up to a deal to ensure that the connectivity on offer is good. Opting for a ‘one stop shop’ will avoid the ever present risk of data centre and comms provider passing the buck between them.

Business Model

Achieving a successful transition from on premise to cloud computing will rest heavily on the creation of the right business model. Sales staff need to be incentivised to sell the cloud offering over the traditional on premise solution; while organisations need also to understand the best pricing model for a specific market. With so much to consider, there is a very real need to leverage the experience of an organisation that has already made the move to the cloud.

And a fundamental component of the business model is the ability to manage the changing income stream as the organisation moves from an intermittent injection of large capital sums to a smaller, but regular monthly rental income.

Finance: In the medium term, successful ISVs will achieve greater annual revenue. But to achieve a smooth transition, during the five to seven years it will probably take to move the entire customer base across to the cloud, organisations need to ensure a sound business plan and correct funding. There are different funding options available – a strong partner should work with the business to consider the options and fine tune financial requirements. The partner can also support discussions surrounding income recognition and cash management to ensure the business plan is sound.

Pricing: For those organisations that have already moved to a rental model, the pricing structure has probably already been optimised. However, for the rest, the diverse options can be bewildering. Working closely with an experienced provider of cloud computing solutions enables an ISV to create a strong pricing model – whether it is per user, per transaction or some other market specific measure.

Pricing also needs to take into account a number of components which include infrastructure cost, comms cost, research and development and support. Organisations need to assess whether to bundle implementation and training costs into the rental fee or to charge this separately up front. Again, discussions with a partner that has already been through this process and is successfully delivering cloud based solutions will aid the creation of the right model.
Sales incentive: With the growing adoption of cloud computing, best practice is beginning to be disseminated across the industry. An important component has proved to be achieving the right sales incentives. Any sales team facing the loss of the large commission associated with traditional on premise sales is likely to resist the shift towards the cloud unless the new reward scheme is correctly designed.

Organisations can also use the sales incentive as a form of business control – with those wanting to make 100% of new sales in the cloud offering a higher incentive to the ISV opting for a business model with a slower transition process.

Marketing: Organisations need to embark upon a strong marketing strategy to ensure the customer base understands the benefits cloud computing can offer. Some partners will support this process with marketing materials – such as website content, sales collateral and even white papers and opinion articles.

Legal Support: Getting the right contract and Service Level Agreements (SLA) in place is essential if organisations are to maximise profit and minimise the risk of moving to the cloud. By providing standard contract and Service Level Agreement frameworks, a partner can reduce the cost and time associated with lawyers.

Support

The shift to the cloud has significant support implications for ISVs and customers alike. ISVs will be offering customers performance related SLAs, with significant financial penalties for failure, which will demand highly responsive support services. And with the move to the cloud, each customer organisation’s internal IT infrastructure will be significantly reduced, with most companies consolidating to desktop equipment, from laptops to printers and scanners.

It is therefore essential to work out up front what skills will be required to deliver support services to the customer. Is it financially viable to retain an internal support team and help desk or are there cost and performance benefits to be gained from leveraging white label support services offered by the hosting provider – if these are on offer?

The cloud computing model enables a hosted provider to support greater numbers of end users with a far smaller team. But the range of support options on offer from providers differs significantly. And whilst ISVs may opt to retain support services in house whilst the majority of customers are still on premise, as the user base gradually migrates to the cloud, it will become financially far more compelling to outsource, streamlining the support operation and reducing non-core expertise. Can a hosted provider offer that gradual evolution towards outsourcing by supporting both on premise and the cloud based customer base?

So what are the options?

Core systems: At a basic level a hosted provider will install and support core infrastructure, including operating system and virtualisation technologies. This will leave the ISV delivering generic application support as well as its own core vertical market solution.

Applications: At the next level, the provider can also deliver a range of generic applications such as Microsoft Office and SQL Server on behalf of the ISV, leaving the ISV to focus exclusively on the core solution, maximising vertical market experience and expertise.

Voice: With customer organisations increasingly considering IT/telephony convergence, ISVs should also look for a hosted provider that can offer Voice over IP support as part of the service offering to broaden customer appeal.

The components of the support service can also vary significantly. At the highest level, a hosted provider can deliver all technical support, including on site physical device set up, such as printer and scanning configuration, as well as desktop and laptop support.
Critically, these services can also be made available to those customers that still retain the on premise model. This level of service would enable an ISV to outsource its entire internal helpdesk and support, enabling organisations to divest non core skills such as Microsoft Exchange support.

Under this model, customer first line calls come to the hosted provider – under the ISV name as a white label service if required. Infrastructure problems are resolved, whilst any application problems are logged and bounced straight on to the ISV for resolution. A traditional break/fix service also enables ISVs to use the hosted provider to deliver on site equipment support where required.

Alternatively, an ISV can retain the first line support, managing basic application and desktop issues, only escalating infrastructure issues direct to the hosted provider for second line support.

It is also worth considering the potential value to the business of selling added value support services – such as 24x7 first line support which is actually provided by the hosting provider. The ISV can manage first line support during normal working hours (9am to 5.30pm), at which point the help desk is automatically transferred to the ISV to deliver 24x7x365 cover. During this time, first line application problems can be typically handled via Frequently Asked Questions (FAQs) and a menu system. Serious issues can be escalated to the ISV for resolution.

**Professional Services:** In addition to essential support services, ISVs need to consider the implications of the move to the cloud for customers. Issues such as network and communications requirements, virtualisation and server consolidation and advice on migrating from on premise to the cloud should be core components of the support service offered by a hosting provider.

In addition, the ISV can leverage the data centre to data centre replication provided by the hosting partner to offer customers business continuity and disaster recovery services. These can be supported by professional services providing advice on business continuity risks and requirements from the hosting partner.

**Reporting & Alert Services**

It is vital that the hosting partner offers a proactive support service that encompasses detailed reporting and analysis of resources consumed; problems that have occurred; and problems that it has prevented; along with detailed recommendations for support requirements going forward.

**Reporting and alerts should include:**

- Remote monitoring of server utilisation, bandwidth usage, ISP connections and links to remote offices.
- Web server and website monitoring with instant alerts via SMS, e-mail, and phone when the website becomes unavailable or web page errors occur.
- Email system monitoring to verify both incoming and outgoing email performance.
- Application monitoring for complex web based applications to determine performance.
- Network monitoring to ensure consistency of performance and raise awareness of evolving requirements based on transaction volume.
- Intrusion detection to raise alerts of attempts at security breach.
- Load balancing to maximise server performance.
- Capacity management to ensure capacity continues to meet business requirements and enable proactive action to be taken to increase resources as required.

This information should be used to both proactively alert customers of any problems and plan for system expansion to ensure continuity of performance across every aspect of the infrastructure.
Value of Partnership

So just how much difference can the choice of partner make to the success of the cloud computing strategy?

Infrastructure Choice

Cloud Computing Centre works with Tier 3+ data centres in the UK to deliver the levels of reliability and security demanded by blue chip organisations and government departments.

Organisations have access to two types of hosted solution – dedicated and shared.

- Under the dedicated model, the equipment within the data centre is limited to a specific organisation. Whilst providing access to high quality equipment, this is an expensive route to market, since organisations cannot maximise economy of scale, and will typically demand a significant price premium.
- The shared model, in contrast, will see a number organisations sharing a high speed, resilient infrastructure that could simply not be afforded under any other model. Ultra fast servers, ultra high speed SANS and big Internet connections enable organisations to offer customers unprecedented performance, reliability and security.

Under either model, organisations can access all the benefits of cloud computing, with cpu, disk and RAM all available to be scaled up or down on demand. And for those that are still wary about the likely performance of applications in the cloud, Cloud Computing Centre offers a ‘proof of concept’ or ‘try before you buy’ option:

Business Support

Working closely with a partner can be key to defining and refining the business and pricing model. But the relationship should not end there: what can a partner do to help an ISV make that first sale?

Cloud Computing Centre offers sales training to ensure the team understands the cloud computing model, and will support sales activity with access to marketing material. More critically, it will work proactively with ISVs on joint sales activity, combining the two sales forces to provide customers with both an ISV’s vertical market knowledge and also experience and insight into the benefits associated with deploying applications over the cloud.

Easing the Transition

Cloud Computing Centre can help ISVs make the transition between on premise and the cloud. As customers begin to move to the cloud, an ISV can outsource more of the support requirement, streamlining operations, reducing costs and increasing the focus on core activity.

Adding Value

Cloud Computing Centre offers a highly flexible, tailored range of support services that enable ISVs to streamline internal operations and offer customers a range of added value services from disaster recovery and business continuity to 24x7 support.
Conclusion

Moving to the cloud is undoubtedly an essential consideration for any IT provider looking to build a robust, long term business model. But it is not a decision to be made lightly. It is complicated, and rife with opportunities for mistake – from business model to infrastructure requirements. While there are numerous organisations offering data centre services, simply purchasing access to cheap server farms and leased lines does not represent a viable cloud computing strategy.

Without the right infrastructure in place, a move to cloud based application delivery will fail before it starts. Organisations have got to understand the new requirements for both data centre performance and communications if increasingly stringent SLAs are to be met. But they also need to ensure that the contract is flexible, that the hosted service provider has the virtualised infrastructure that can enable the rapid addition of new customers or expansion of existing customer demands. The essence of cloud’s customer appeal is the flexible model: it is therefore essential that the data centre can support that flexibility without demanding massive additional cost.

But technical infrastructure is just part of the challenge. Making the application perform well in the cloud is also imperative; but so is the business model. Understanding how best to price the application, develop a cloud based contract and create a relevant and deliverable SLA are fundamental requirements of the new approach to solution delivery. Given the very real financial challenges that ISVs will incur during the on premise to cloud transition, it is essential to get the business model right from day one.

And this should also include the way support services are delivered. Don't just consider the new support arrangements on offer for cloud based customers. If a hosted provider can offer a range of flexible support services, why not look to outsource first or second line support for all customers? This approach will enable ISVs to cut costs by streamlining operations and cutting non core expertise; and it will also open up the opportunity for added value service revenue, such as business continuity, to the new cloud centric customer base.

Of course all this work and planning will be worthless if the organisation cannot encourage customers to make the move to the cloud. Working with a partner keen to embark upon joint sales and marketing activity could make all the difference; combining vertical market knowledge with a hosted partner’s expertise in data centres, virtualisation and communications will be key in providing customers with confidence in the new cloud based offering.

Make no mistake, this is a major shift in technology, business model and attitude. Any IT organisation that is encouraging customers to relinquish in house resource and expertise by handing over systems to a third party is demanding a strong commitment and a huge degree of trust. From winning the first customer to getting the right pricing and sustaining excellent performance, choosing the right hosting partner is essential.

There is no leeway for getting this wrong, in this market, few businesses will be able to recover. Get it right, and ISVs will transform revenue stream, build stronger customer relationships and create a far more sustainable long term business model.