

# Increase Use of Managed, Hosted and Cloud Services to Boost Business Success

---

An Issue Paper



**savvisdirect**<sup>SM</sup>

 **CenturyLink**<sup>®</sup>

# Increase Use of Managed, Hosted, and Cloud Services to Boost Business Success

---

By John Burke  
Principal Research Analyst, Nemertes Research

---

## Executive Summary

*Organizations of all sizes are turning to managed, hosted, and cloud services to counter resource limits. That shift is paying off: making more use of managed, hosted, and cloud services makes IT more successful, whether measured by self-reported success against company-specific metrics, or by productivity, or by IT efficiency. Organizations of any size should be evaluating cloud-based solutions for infrastructure, application platforms, and applications, whenever they are considering deploying any system or service. They should seek out cloud service providers that have multiply redundant network connections, highly resilient infrastructures, easy and unified customer access portals, and well-integrated service portfolios, all brought together under meaningful SLAs and a proactive management umbrella.*

---

## Success and Cloud Services

Use of cloud services is high and climbing: for example, nearly three-quarters of organizations use cloud-based Software as a Service solutions (SaaS) to provide enterprise applications. More than 25% of companies will be using servers and/or storage in the cloud—Infrastructure as a Service (IaaS)—in 2013.

At the same time, fully 70% of organizations report flat or declining IT staff headcount.

Given steadily increasing demand for IT services, many IT organizations will shift even more work to the cloud or some other form of managed services to compensate for a lack of staff resources.\*

The reason why companies shift work to managed, hosted or cloud (MHC) services is simple: doing so makes them more successful. Those saying yes, they

---

\* All statistics drawn from Nemertes Research's 2012 Enterprise Technology Benchmark created via in depth interviews with IT leaders in 200 companies ranging in size from fewer than 20 staff to more than 300,000, spanning 16 industries, and with nearly 50% having some non-U.S. presence.

are shifting more work to MHC report themselves to be nearly 10% more successful in hitting their companies' defined success metrics for IT than those saying no, they are not shifting more to MHC. (Please see Figure 1.)

### IT Success vs. Whether Moving to Managed/Hosted/Cloud



**Figure 1: IT Success Higher For Those Using More MHC to Counter Resource Limits**

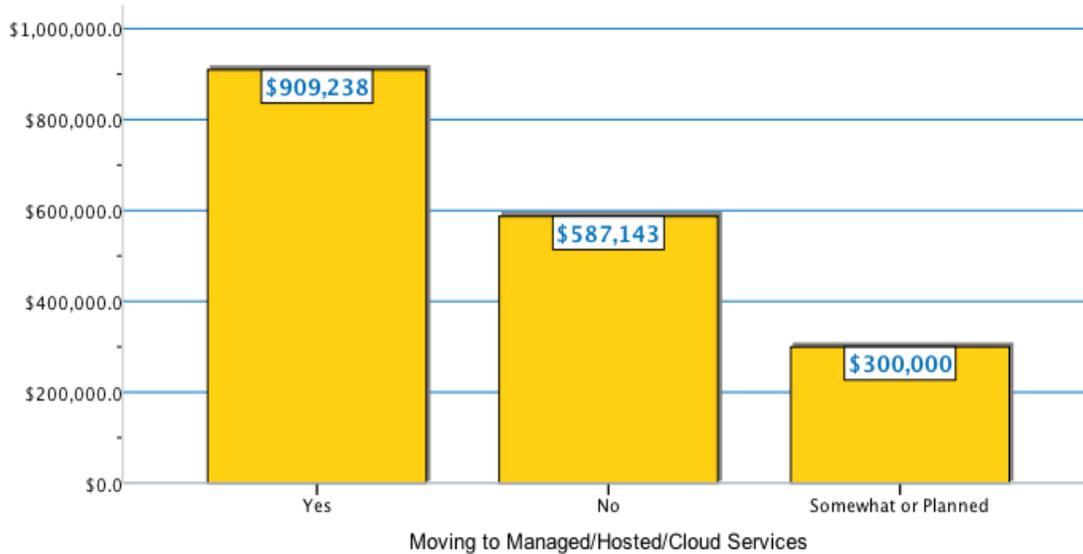
Nemertes also looks at two objective metrics of success: productivity (revenue per employee overall) and IT efficiency (revenue per IT employee). Increasing use of MHC is a success strategy when measured either by productivity or by IT efficiency. (Please see Figures 3 and 4.)

Of course, success for IT builds on success for IT staff. Getting not just more done but more interesting and valuable things done without adding staff should be IT's goal, and using MHC can help IT achieve it. The shift to cloud services can thus have very positive benefits for individuals as they learn to work within this newer paradigm for service delivery, one leaning more heavily on selective outsourcing of services. The shift can itself create opportunities: "We're posting a job right now for someone to broker cloud services—a new and different job," says an IT manager at a state university. More often, IT staff can finally take on more strategic tasks and projects after pushing operational details they formerly dealt with out to service providers.

### Why Cloud Services?

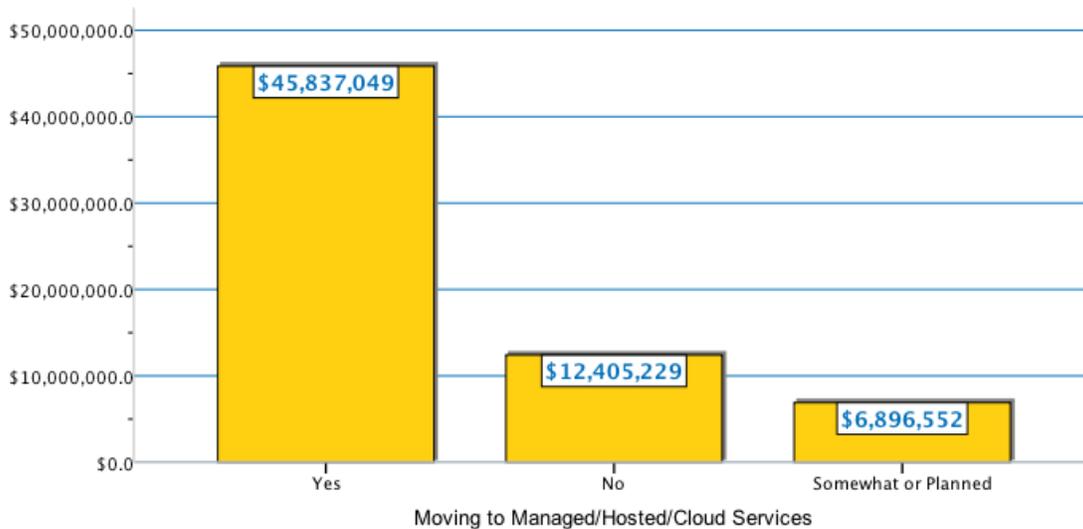
Organizations pick cloud services for a few primary reasons: to reduce or restructure costs, to leverage scale, and to accelerate innovation.

### Revenue per Employee by Moving to Managed/Hosted/Cloud Services



**Figure 2: Productivity Higher for Those Using More MHC to Counter Resource Limitations**

### Revenue per IT Employee by Moving to Managed/Hosted/Cloud Services



**Figure 3: IT Efficiency Higher for Those Moving to More MHC to Counter Resource Limitations**

**Reducing Costs.** In some cases, a cloud solution is simply cheaper, especially for smaller companies that do not have as many users across whom to spread the costs of acquisition, deployment, and ongoing maintenance and management of an in-house solution. For example, consider a 20-person company seeking a mobile device management (MDM) solution for staff mobile phones. An

MDM platform may cost \$10,000 to acquire, implement, and operate for the first year, and \$1,000 a year for support thereafter, plus staff time to manage and maintain. In contrast, an enterprise-grade MDM solution delivered as SaaS might cost that company \$1,200 per year, less than a third the cost over three years. The same ratio might obtain for buying and running the servers to support a content management solution vs. running them as virtual servers in a cloud environment. Moreover, the cloud service provider (CSP) in either case can also provide a level of power, cooling, and connectivity redundancy far in excess of what the company can provide for itself.

In other cases, a company may want to shift costs from capital to operational budgets, or avoid adding staff. The majority of IT departments are expecting flat or declining budgets in the coming year, and only 30% of departments say they will be adding staff in 2013. Most departments say they only get new staff when there is a merger or acquisition, or if a completely new technology service area is created. However, everyone has more to do this year than last. Using an MHC solution can both shift capital to operational costs and allow IT maximum advantage with the staff it has or will retain.

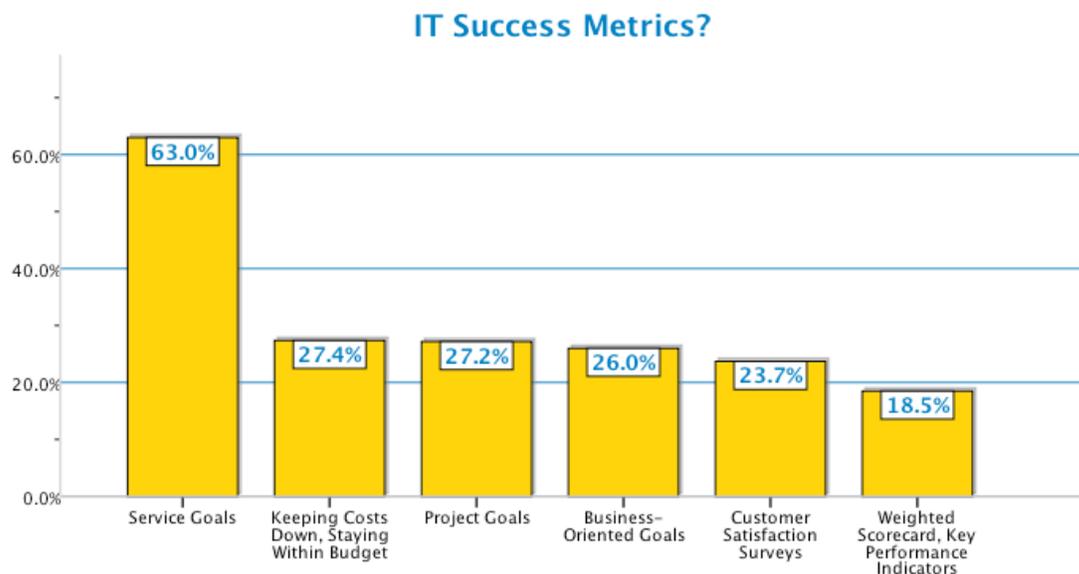
**Leveraging Scale.** As suggested above, one thing a cloud or other managed solution can offer is the advantages of the service provider's enterprise-grade solution without the investment in enterprise-size staff and enterprise-grade infrastructure. The small or midsize business gets the network operations staff of a high-end data center, and the server, storage, network, power, cooling, and connectivity built into high-end data centers. As importantly, cloud lets companies dive into complex systems without the need to develop the same level of expertise and operational maturity they would need to implement and maintain such systems themselves. Whether the focus is on operating systems, on middleware such as databases and application servers, or on applications, shifting the burden of deep systems expertise and delicate tuning and management to a provider lets the smaller organization focus its efforts on business logic and use cases.

**Accelerating Innovation.** By lowering the barriers to entry in use of new services, cloud lets organizations of any size try out new solutions more frequently and more rapidly. For example, being able to try out a new email solution without having to acquire, provision for, install, and populate it in-house means being able to try it out the same day you decide to. Being able to do this with several services successively improves the chance of finding the best solution. Similarly, being able to try out new programming languages against a database back end is easier if the environment already supports them and the programmer can just start playing, rather than first having to negotiate for installation of the tools and supporting integration.

“It's not just spending less, but also enabling pursuit of market opportunities more easily,” says the VP in IT at a very large financial services company. “We always want to increase investment in innovation, and this is one form of savings: the cost of innovation will be lower compared to doing it internally.”

## What Success Means

Most IT departments do not get judged on the basis of simple measures such as productivity and IT efficiency. Almost two-thirds of IT organizations, whether they consist of two people or two thousand, are judged first and foremost on whether they are meeting their service goals. Other metrics come into play as well, in varying mixes for each organization, including: keeping within budget, meeting project schedules, hitting targets for transactions processed or the like, and maintaining a high level of customer satisfaction. (Please see Figure 4.) Hitting service goals gets progressively more challenging, especially for small and midsize businesses, as staffing stagnates but user needs and expectations continue to be shaped and guided by always-on, always speedy cloud-based technologies. The shift to MHC services is a potent strategy for meeting this challenge.



**Figure 4: How IT Department Success is Judged**

## Conclusions and Recommendations: Picking a Solution

In pursuit of cost controls, leverage on new challenges, and acceleration of IT services innovation, organizations of all sizes are turning to managed, hosted, and cloud services and that shift is paying off: making more use of MHC services makes IT more successful, whether measured by self reported success against company-specific metrics, or in terms of productivity and IT efficiency.

Organizations of any size should be evaluating cloud-based solutions, whether for infrastructure, application platforms, or applications, whenever they are considering deploying any new system or service or updating an existing one. To best ensure that a CSP that can truly provide all the advantages it ought to means that one should select a CSP that is:

- Well connected. It should have (or provide services out of) data centers with not just multiple connections to carriers, but multiple connections to multiple carriers in order to provide the optimum not just in reliability but also performance.
- Well architected for resilience. A CSP needs to be running or running in data centers that have redundant power and cooling systems, battery backup and backup generators and lots of fuel. As we saw during Hurricane Sandy, many data centers with enough generator fuel to last through their power outages never went down and continued providing services throughout the aftermath.
- Flexible. You should be able to achieve the level of privacy and segregation of your workloads and data from others that you require, ranging from basic public cloud shared tenancy of everything to a completely private cloud that shares no infrastructure with anyone (basically, traditional hosted infrastructure with a cloud interface for you).
- Well architected for you as a customer. There should be a single point of contact for your role as a customer, and all billing for use and services should be transparently integrated so that you can always see what you have used and what you are paying. There should also be a range of help options available to you, ranging from Web help libraries without human assistance to full concierge services that provide individually focused high-touch assistance.
- Well architected to work as a unit. If the CSP offers multiple kinds of service –IaaS, PaaS, SaaS–they should be able to work together seamlessly and easily, via pre-built integrations and connectors or simple, open APIs internal staff and developers can use to tie things together to fit.
- Offering meaningful SLAs and proactive management. In buying services, one wants SLAs that make sense in terms of one’s ability to use the systems and accomplish the work of one’s own organization with them, not in terms of the CSPs component, server or network availability. Along with that, the CSP should be reaching out proactively when a performance problem is going to affect a customer. Nemertes has seen proactive communication and clear, well-defined SLAs as cornerstones of stable customer/CSP relationships (assuming, always, adequate delivery of services).

---

**About Nemertes Research:** Nemertes Research is a research-advisory and strategic-consulting firm that specializes in analyzing and quantifying the business value of emerging technologies. You can learn more about Nemertes Research at our Website, [www.nemertes.com](http://www.nemertes.com), or contact us directly at [research@nemertes.com](mailto:research@nemertes.com).