Real experts.
Real data.
Real savings.

SmartSpend™ Bulletin

8 Questions to Ask When Your Vendor Wants You to Move to the Cloud

Legacy IT vendors are on a mission to move customers to the cloud. The opportunity for buyers to get a great deal is strong – but so is the opportunity to get railroaded into business terms that aren't optimized. Customers need to fully understand the cost implications – and savings opportunities – of getting on board with an incumbent's cloud journey.

As legacy IT vendors migrate to cloud-first business strategies, enterprises are facing enormous pressure from those vendors to move from their on-premise solutions to the vendors' cloud offerings. Providers like Microsoft, SAP and Oracle are doubling down on their cloud investments, and incentivizing their sales and account management teams accordingly.

The pressure faced by customers is a clear reflection of the pressure these vendors face from shareholders and investors. The cloud is valued more highly than legacy models and the transition to a cloud-first business is not an easy one. The revenue gains aren't immediate, and the accounting implications aren't very straightforward (some vendors are stumbling in this area). Keeping shareholder faith and protecting financial performance requires vendors to demonstrate strong cloud migration trends across their customer base.

These factors have made the cloud sourcing environment harder to navigate. On one hand, there's never been a better time to move to the cloud with legacy IT vendors. There are good deals to be had for customers that know which levers to work during the negotiation process. On the other hand, the promise of a great deal now can create cost blind spots over the long term of the customer's cloud investment.

CLOUD COST BLIND SPOTS – WHAT TO ASK BEFORE YOU MIGRATE

Most enterprises today have multiple cloud initiatives under consideration, including migration to offerings of their incumbent legacy IT vendors. In these cases, there are numerous relationship dynamics at play. These vendors are deeply ingrained into IT operations and have intimate knowledge of a customer's requirements. With years or decades of relationship-building behind them, they're often viewed as a trusted partner rather than a supplier. While they may be tasked with moving one part of the customer footprint to the cloud, they're also responsible for maintaining the customer's on-premise loyalty in other areas of the IT ecosystem. A cloud deal may lead to concessions for on-premise solutions or vice versa – making it that much easier to enter a cloud migration with blinders on, and increasing long-term cost risks.

Companies need to **have a precise understanding of how a cloud migration will impact costs** across their IT estate in multiple business, contractual and technical scenarios. **Asking the right questions up front will eliminate cost and contractual surprises down the road**.

If you're migrating to the cloud with an incumbent, neutralize some of your cost risks by asking the following questions:

- What contract term duration works best for my business? Cloud contracting is rapidly evolving. Historically, contracts for on-premise solutions have had a contract term ranging from one to three years. A standard contract term has yet to be established for cloud. It varies from vendor to vendor. However, many vendors are pushing for shorter terms – and there are good reasons to consider them on both sides of the table. Many enterprises are wary of the vendor lock-in rampant in on-premise IT. For vendors, a shorter term gives them the opportunity to increase pricing as their solutions gain market share. Companies need to run multiple contract scenarios to weigh the benefits of locking in at a low cost now for a longer term versus the flexibility of a short-term deal. No matter what term length you decide upon, put renewal price escalation caps in place.
- What is the right base count to jump into the cloud with? Volume discounts still apply in the cloud. The more users or usage a company has, the cheaper the cost per unit will be. For that reason, many companies overestimate their usage needs and oversubscribe or overprovision. It's important that companies understand their true usage needs and select a conservative base count that eliminates headroom.
- What are the scaling costs moving forward? You've established a conservative base count, but what happens as your business grows or contracts? Those companies that have locked in low pricing may find they're not able to grandfather in pricing should they grow or shrink usage counts. One way to avoid this issue is to consider tiered pricing for a shorter contract term. Another option is variable pricing, which is based on actual usage versus anticipated units (note: variable pricing isn't yet standard across all vendors in all facets of the cloud, but this may change as more customers advocate for it).

  Companies should also get rid of minimum purchase clauses that prevent the business from reducing the number of users in the event of downsizing. For example, a company may need 5,000 users while the economy is strong – then cut its user base to 1,000 as a result of divestiture. Without a clause that protects its right to reduce the number of users, usage and/or functionality, the business can easily be locked into inflexible spending. On the flip side, companies should require vendors to specify their ability to ramp up new users/usage quickly – and what it will cost. This must be specified in the contract, not just in sales talk.
- How will the features and functionality compare in the cloud? What about the customizations and integration already invested in my on-premise solution(s)? Vendors may be eager to push you to the cloud version of their offerings, but that doesn't mean you'll get the same features and functionality. This is especially true

Beware – haste equals risk. Before customers migrate to the cloud with an incumbent, they need to understand the numerous hidden costs and risks.

if you've invested in on-premise customizations or special integration across your IT ecosystem. Companies need to work with their vendors to determine if necessary customizations and integrations will be supported in the cloud, and the associated cost implications.

- How will a migration to the cloud impact my traditional IT service providers? Many enterprises rely on managed service providers and/or IT outsourcing providers to handle facets of their IT operations. It's important for companies to assess whether a cloud migration will impact the cost and performance of these relationships. Integration, service level agreements, security, indemnification and other legal terms are gray areas that may be affected.

  Data ownership is another point of concern. Many companies migrate to the cloud assuming the data migration and ownership costs will be incurred by the vendor. That's not always the case and, depending on the vendor and your network of IT service providers, this can add another cost and complexity layer to the cloud migration process. Companies need to establish data ownership up front in the sourcing process. This includes who owns the data, as well as the data migration procedures and costs.

- Will migration to the cloud drive other IT costs higher? When deployed across an enterprise IT environment, XaaS solutions typically require access to core IT assets (often on-premise) within the business. This access – sometimes referred to as "indirect access" or "third-party access" – often requires additional licenses to be purchased from other vendors in your ecosystem. While some vendors are clear on when additional licenses are required, others aren't. For example, Oracle has been known to charge customers for every server running VMware, regardless of whether the server is actually running Oracle's database.

  Another concern is the contractual obligations associated with the incumbent on-premise solution. Migrating to Microsoft's Office 365 may seem like a no-brainer, but what happens if you still have a year left on the data center that hosts the 200 Exchange Servers that support your current Office environment? In this instance, companies need to creatively explore options to ensure they're not doubling up on costs as they migrate to the cloud – such as working with Microsoft and the colocation facility to move the existing agreement term up, or finding ways to redeploy those assets.

  These are just two examples of why companies need to have a clear understanding of the contractual and cost obligations at the intersections of cloud and on-premise throughout the IT ecosystem.

- How will my discounts and incentives compare in the cloud? On-premise and cloud discounts are not an apples-to-apples comparison. Those discounts and concessions that sweetened the pot for an on-premise offering may not be applicable given the nuances of the cloud. To protect (and increase) these incentives, companies need to be creative in the negotiation process.

  First, companies should demand strong discounts for their initial migration to the cloud. They should also have a strategy in place for protecting these discounts at renewal time. This requires having access to competitive pricing and benchmark data well before the renewal event occurs. And if you will be continuing to use some on-premise solutions from a vendor, be sure to take this opportunity to improve the pricing, discounts and terms of remaining on-premise purchases and renewals. It's best to look at your whole investment with that vendor.

- Will I have sufficient data transition assistance? At some point, you may switch cloud vendors. It's not enough to own and transfer your data. Your current vendor will need to support this transition by helping you migrate data fully intact. This means going beyond a basic data transfer. It includes porting the data's rules, relationships, queries, reports and so forth into the new system. Unless you want to incur the costs of rebuilding your data structure, companies need to specify their data transition needs up front in their cloud agreement and clearly specify the vendor's responsibilities.

ACHIEVING TRUE COST TRANSPARENCY IN THE CLOUD

The market forces driving enterprises further into the cloud are numerous – and one powerful factor is the pressure being applied by legacy IT vendors. These trusted partners are desperate to get their most loyal customers on board with their cloud-first business strategies, and to demonstrate to shareholders that cloud revenues are rising quickly.

Armed with the right leverage, companies can get an optimal deal on cloud offerings while enjoying the benefits of working with an incumbent vendor. But, in order for that goal to be achieved, several factors need to be taken into account including purchase price, contract term, future price protection, flexibility, ancillary costs and risks. Asking the right questions up front will eliminate cost and contractual surprises down the road, and help you get a truly good deal.

ABOUT NPI

NPI is an IT procurement advisory and intelligence company that helps businesses identify and eliminate overspending on IT purchases. We deliver transaction-level price benchmark analysis, license optimization advice and vendor-specific negotiation intel that enables IT buying teams to drive measurable savings. NPI analyzes billions of dollars in spend each year for clients spanning all industries that invest heavily in IT. NPI also offers software license audit and telecom carrier agreement optimization services. For more information, visit www.npifinancial.com.

NPI Headquarters
3340 Peachtree Road NE
Suite 1280
Atlanta GA 30326

T 404-591-7500
F 404-591-7501
E info@npifinancial.com

NPI Real experts. Real data. Real savings.