Buying Into the Cloud

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This paper is part of a series developed by IDC to educate organizations on the cloud opportunity and provide guidance on how to succeed in the cloud marketplace.

Cloud Usage Today and Tomorrow

Many IT managers, owners, and CIOs are embracing the benefits of cloud IT. Cloud has now reached critical mass in the consciousness of small and medium-sized businesses (SMBs), whether they are acquiring new software-as-a-service (SaaS) capabilities or making infrastructure upgrades via infrastructure as a service (IaaS). Among companies of all sizes, 50% are currently using at least one public SaaS offering, with a further 20% planning to implement public SaaS within the next year. Platform as a service (PaaS) and IaaS are less deployed today, but those areas are seeing substantial interest and growth (see Figure 1).

FIGURE 1

Current and Future Cloud Plans

<table>
<thead>
<tr>
<th></th>
<th>% Not currently interested</th>
<th>% Evaluating, but have no firm plans</th>
<th>% Have firm plans to implement within 12 months</th>
<th>% Currently using</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public SaaS</td>
<td>10%</td>
<td>90%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Public PaaS</td>
<td>10%</td>
<td>90%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Public IaaS</td>
<td>10%</td>
<td>90%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

n = 3,463

Source: IDC’s CloudView Survey, 2014
Currently, 42.1% of the average IT budget is allocated to cloud, both public and private (see Figure 2). That number is expected to grow to 56.4% two years from now, representing a growth rate of 34%. Clearly, cloud is a very important component of IT spending and will become even more of a standard budget line item in the future.

**FIGURE 2**

IT and Cloud Budget Distribution Over Time

<table>
<thead>
<tr>
<th>Today</th>
<th>In 24 months</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External cloud:</strong> 31.4%</td>
<td><strong>External cloud:</strong> 40.8% (29.8% growth)</td>
</tr>
<tr>
<td><strong>Provider site:</strong> 52.9%</td>
<td><strong>Provider site:</strong> 56.8% (7.5% growth)</td>
</tr>
<tr>
<td><strong>Customer site:</strong> 47.1%</td>
<td><strong>Customer site:</strong> 43.2%</td>
</tr>
<tr>
<td><strong>Traditional outsourced (e.g., application management):</strong> 21.5%</td>
<td><strong>Traditional in-house:</strong> 27.5%</td>
</tr>
<tr>
<td><strong>Public cloud:</strong> 19.5%</td>
<td><strong>In-house private cloud:</strong> 15.7%</td>
</tr>
<tr>
<td><strong>Virtual private cloud:</strong> 5.5%</td>
<td><strong>Dedicated private cloud:</strong> 12.0%</td>
</tr>
<tr>
<td><strong>Dedicated private cloud:</strong> 6.5%</td>
<td><strong>Public cloud:</strong> 17.9%</td>
</tr>
</tbody>
</table>

*Noncloud: 57.9%  Cloud: 42.1%  Noncloud: 43.6%  Cloud: 56.4% (34% growth)*

n = 2,378 worldwide IT respondents
Source: IDC’s CloudView Survey, 2014
Why Move to the Cloud?

There are some very sound economic reasons for adopting cloud solutions as well as some compelling practical considerations and strategic opportunities. Figure 3 shows the top 5 reasons for moving to the cloud, based on the percentage of respondents who agreed or strongly agreed with the statement.

FIGURE 3

Top 5 Reasons for Moving to the Cloud

- Get access to the newest functionality faster
- Improve resource utilization
- Give business units more direct control over sourcing their own IT solutions
- Improve IT staff productivity
- Reduce the total size of IT budget

n = 3,463
Source: IDC's CloudView Survey; 2014

While a few years ago the reasons to buy a hosted or cloud solution centered around the lower cost or the ability to pay by subscription, those reasons have evolved. Today it's more about getting things done than saving a few pennies. The following is a brief explanation of the top reasons for cloud adoption today:

- Cloud provides companies with the opportunity to get access to new functionality faster than they could if they purchased or upgraded on-premise software. Further, it affords smaller companies the ability to economically acquire "enterprise level" solutions. This can be at the core of a competitive response — to be able to get to market sooner, reach a wider customer base, or enhance the capabilities of products and services.

- Cloud services can optimize back-office functions like accounts receivable management because they can automate collaboration across physical locations very effectively. For example, one company told IDC that simply moving from desktop Excel to Office 365 made the annual budgeting process much less painful.
Line-of-business decision makers are taking more and more interest in technology choices, and their expectations are colored by their experience with mobile applications and consumer applications delivered via the Web. The availability of enterprise-ready cloud solutions reduces the risk of placing more IT decision-making power in the hands of those who use the applications on a day-to-day basis and improves the perception of IT’s responsiveness to business needs.

If a company’s IT resources are stretched thin, IT staff can choose to transfer lower-value tasks to a cloud services provider (e.g., “keeping the lights on”) and transfer line items on the IT budget from capital expense to operating expense, with a positive impact on IT budget efficiency. Cloud also streamlines solution sourcing by removing the lead time needed to acquire and prepare the necessary infrastructure.

It is important to note that cloud is a linchpin in the era of the 3rd Platform — the new wave of technology reality that has emerged over the past five years supported by the key pillars of cloud, mobility, big data, and social business. Cloud works hand in hand with mobility to capture and store mobile payments or enable staff in the field via mobile applications. Cloud facilitates the collection and analysis of big data and supports the type of pervasive collaboration that unleashes the power of social business solutions.

Cloud Adoption Strategies

As shown in Figure 4, cloud is squarely in the mix for most companies when deciding how to spend money on new IT services. Almost 60% of companies consider cloud in conjunction with on-premise options, and almost 30% look to cloud options first. This means that if you are not already evaluating cloud suitability for your new IT requirements, you are way behind what your competitors are doing.

**FIGURE 4**

<table>
<thead>
<tr>
<th>Considering cloud last</th>
<th>Considering cloud also</th>
<th>Considering cloud first</th>
</tr>
</thead>
<tbody>
<tr>
<td>14%</td>
<td>28%</td>
<td>58%</td>
</tr>
</tbody>
</table>

n = 3,463

Source: IDC’s CloudView Survey, 2014
Once cloud is part of the equation, cloud adoption can be characterized in five stages:

1. **Ad hoc**: Focusing on pilots and activities driven by individual needs
2. **Opportunistic**: Driven by the needs of individual working groups
3. **Repeatable**: Consistent effort to reuse best practices and resources across multiple groups
4. **Managed**: Widespread use of cloud supported by proactive business and IT leadership
5. **Optimized**: A broadly implemented cloud-first strategy that clearly drives business innovation

Figure 5 shows where companies place themselves with respect to their cloud involvement. The bottom line is that almost 50% of companies are currently operating at the managed or optimized level, and that number is expected to rise to about 60% within the next two years. This means that most companies are well on their way to successfully incorporating cloud into their core technology strategy. It is important to consider where your organization is on this continuum and where you would like it to be when planning your cloud strategy and tactics as it will guide your path forward and influence your technology selection and management policies and procedures.

**FIGURE 5**

**Current and Future Cloud Strategy**

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n = 3,463

Source: IDC's CloudView Survey, 2014
Essential Guidance

IDC believes the next 20 years or so of business innovation will be based on 3rd Platform technologies because literally millions of high-value, industry-transforming solutions and services will be built on this new platform.

- There is no denying that cloud is here to stay, and all indications are that the sooner you start to incorporate cloud into your technology portfolio, the better. The fact is your competitors are getting the message, and there is competitive risk at stake.
- Because the hallmarks of cloud are flexibility and agility, cloud can be relatively low risk to try out. The “pay as you play” cloud subscription model means there is little financial investment to get started. All this adds up to low barrier to entry.

Many solution providers are skilled in helping you get on board with cloud. Those offering cloud technologies have been doing so on average for more than three years and have the experience and best practices to make cloud a success.