Business Cloud: The State of Play Shifts Rapidly

Fresh Insights Into Cloud Adoption Trends
Introduction

The Cloud has come a long way in a few short years. As a long-time proponent of the advantages of Cloud adoption, Capgemini has been aware that attitudes about the Cloud have been shifting by degrees — within the IT industry of course, but more interestingly with our clients.

Not so long ago, businesses waited for someone — generally in IT — to make a one-off, “should we or shouldn’t we?” decision about whether to take the Cloud route. Now, we are starting to see the business (rather than purely IT) engaged and sometimes even driving the decision-making process, considering the Cloud for specific requirements and adopting a pragmatic approach to the realities of Cloud.

With this strong conviction that perspectives were changing more rapidly than ever, we wanted to validate our observations and provide fresh insights on the areas that really matter to the business.

Our robust survey has been carried out for us by independent research company Coleman Parkes Research. Our findings are based on data from 460 detailed interviews with executives at a variety of enterprises (most with over 10,000 employees) from key sectors and from selected geographic regions. IT executives and line-of-business decision-makers were represented about equally in our sample to give a balanced view.

We hope you find these new insights into Cloud adoption trends interesting and a useful benchmark for your own business.

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Business Cloud: The State of Play Shifts Rapidly
Executive Summary

The Cloud has been portrayed as the next big IT trend: A “pay-as-you-go” environment – a way of extending or replacing IT capacity without the capital investment in, for example, infrastructure or larger operational teams.

Over the last few years, the Cloud appears to have evolved from a rather nebulous concept to a set of highly practical solutions for today’s complex IT landscape with ever-growing requirements on the IT department from the business.

But we wanted to establish that this was indeed the situation with the users of the Cloud: Who was leading on Cloud, what were the drivers, how was it being managed? Capgemini conducted quantitative research to explore whether this impression of pragmatic adoption indeed represented a real and more general change in our key marketplaces.

From the interviews with 460 business and IT executives from around the world, we conclude that perspectives are indeed shifting quickly and that Cloud is now much more firmly embedded within the business way of working.

From the study data collected, these key findings stand out:

- Cloud decisions are being made more and more by business managers (45%) rather than, or as well as, by IT (46%). We may be reaching a tipping point where the business takes control.
- Firms are increasingly taking a careful, step-by-step progression to Cloud maturity, rather than making an all-or-nothing decision – and potentially getting delayed by unavoidable obstacles. Looking at the Cloud adoption roadmap, over 80% of respondents rated themselves as “maturing” or “close to maturity.”
- New applications and business initiatives are hitting the Cloud first, with many “edge” solutions going straight to the new platform, almost as a default; 78% reported that new applications were their focus for migration. Legacy systems are mostly being left where they are for the time being.
- IT and the business are aligned on the importance of cost reduction as a Cloud driver. Cost was ranked highest on the lists of both business and IT drivers (52% and 51%).
- Cloud is now owned right across the business. A broad range of functions are now perceived to be involved in encouraging the use of Cloud – from the Board to Legal, in addition to IT.

In this report, we examine the evidence for these trends in more detail, and highlight some key differences among geographies and business sectors. We also put forward recommendations for organizations in their migration to the Cloud.
Key Findings

Responsibility for deciding Cloud strategy lies with business units in 45% of cases, and with IT departments only just ahead with 46%.
Business is increasingly “calling the shots” for Cloud adoption

Just a few years ago, our hands-on experience and discussions with clients clearly showed that the impetus was coming almost exclusively from the IT function. However, from the data collected, it is clear that in many organizations surveyed it is now the business that is increasingly taking the lead when it comes to Cloud adoption.

A first example of this shift is that more than three-quarters of businesses in our survey already have a Cloud adoption strategy in place (Figure 1) – and an impressive 93% of North America respondents. By contrast, 35% of companies in Asia Pacific have yet to focus on this aspect of their IT landscape in a concerted way.

Developing a clear Cloud strategy is, in our view, a positive demonstration of growing Cloud maturity. However, what is probably more interesting is that among those businesses that confirmed they have a strategy, responsibility for deciding it lies with business units in 45% of cases, and with IT departments only just ahead with 46% (Figure 2). At this stage in Cloud’s adoption, less than one organization in 10 entrusts the decision-making to a third party.

Not unsurprisingly, the results varied somewhat by region. South America (Brazil), for example, could be deemed to be ahead of the curve with about half the companies surveyed reporting that the business was making the decisions.
compared with only 42% where they were made by IT. This difference may reflect the highly dynamic business environment in this region. Also the Cloud is often associated with new processes and business initiatives that tend to be owned by the business, rather than legacy systems, traditionally the domain of IT. Many of the organizations in this region are young and so rely less on legacy applications.

This trend for the business to make Cloud decisions is something that we had expected to happen over time, but we had not predicted such a fast rate of change. Why should this be? One likely explanation is that, after much obfuscation and hype in the early adoption phase, the benefits of Cloud, such as the ability to move costs from capex to opex and increased speed-to-market, are now well understood — and not just by the technology visionaries and promoters, but by those in the lines of business.

As a result, our data indicated that business leaders are keen to drive adoption forward, particularly given current cost pressures and the need to explore new business ideas quickly. As Figure 3 shows, requirements — like “reduced cost” and “time-to-market” — were identified as drivers for moving to the Cloud much more frequently than technical factors like “scalability” and “capability modernization.”

In light of current economic pressures in most of the markets surveyed, it was assumed that business leaders were attracted to Cloud for its cost-saving potential; however, we wanted to test to what extent this assumption was valid. The findings were conclusive. Almost 90% of respondents overall agreed that their Cloud uptake was being driven by the economic climate (Figure 4), with only an eight point spread separating regions. From a sector perspective, the spread was much wider, from 92% of telecommunications/media companies agreeing, to only 68% in manufacturing/automotive, a sector that generally has a rather conservative attitude to Cloud adoption.

These findings about decision-making suggest that we are probably reaching a tipping point at which the business will dominate Cloud decisions in most organizations. Although some people in the business might feel they can adopt Cloud solutions without the help of the IT department, the reality is that IT involvement is crucial.

Our view is that IT’s value-adding role is best served as an expert enabler of the most appropriate Cloud adoption for the business as a whole. A typical example of IT leadership would be the complex decision about which type of cloud to use — public, private or hybrid. IT also needs to ensure that Cloud becomes a viable platform — one that enables the business — but also aligns and integrates with other IT activities without disruption. This is the job of the IT department, and one that it alone has the expertise to do.

An incremental approach has enabled increasing Cloud maturity

Most executives we interviewed were enthusiastic about Cloud — or perhaps we should say they felt a strong compulsion to use it, given that 88% said the economic climate was driving them towards the Cloud. Even so, we found that companies are proceeding with caution. Most are putting specific areas or applications into the Cloud as and when they feel the need, rather than taking a “big-bang” approach.

This step-by-step approach is demonstrated by our continuum of Cloud maturity (Figure 5). The majority categorized themselves as “maturing,” which we defined as being “between 51% and 70% of the way toward full Cloud adoption.” Fewer than one in five considered themselves to be “close to maturity,” which was defined as “having fully adopted the Cloud across the business” and only 5% were just embarking on the Cloud ladder.
Figure 2. Who makes decisions about Cloud?

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<thead>
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</table>

NAM: North America  EMEA: Europe, Middle East and Africa  APAC: Asia Pacific  SAM: South America

Figure 3. What are the business drivers behind moving to the Cloud?

- Reduced cost: 52%
- Reduced time to market: 41%
- Operational efficiencies: 39%
- Free up data center space: 38%
- Avoid operational expenses, preserve capital: 34%
- Improved customer demand: 33%
- Improved customer interaction: 32%
- Leverage existing investments: 27%
- Provide access to all consumers, all devices: 23%
- Increased business agility: 19%
- Support scalability requirements cost effectively: 16%
- Increased e-commerce capabilities: 7%
- Deliver new capabilities/modernization: 5%

Note: Multiple responses allowed
Figure 4. Is the current economic climate driving Cloud uptake? (Percentage answering “yes,” by region and sector)

88% Agree

Total

87% NAM
86% EMEA
94% APAC
87% SAM

90% Retail
86% Financial Services
91% Energy/Utilities
90% Public
68% Manufacturing/Automotive
92% Telecommunications/Media

NAM: North America
EMEA: Europe, Middle East and Africa
APAC: Asia Pacific
SAM: South America

Figure 5: How mature are you in terms of Cloud adoption?
As might be expected, North America, which we would classify as the most mature “IT economy,” has the highest proportion of companies that are close to Cloud maturity. South America has the highest concentration of companies at the “embarking” stage, a reflection of its large number of relatively young but fast-growing businesses (Figure 6).

When asked about the choice between private, public or hybrid Cloud solutions, respondents indicated a clear preference for private. This reflects long-held concerns about security and data sovereignty that continue to influence decisions. Forty percent of executives cited off-premise and partner-hosted private Cloud solutions, and an additional 26% cited on-premise private Cloud solutions. Just 19% said their organization preferred a public Cloud approach.
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Another aspect of this step-by-step adoption is the use of multiple Cloud vendors. We found that 72% of respondents are working, or planning to work, with more than one vendor. This surprised us initially because we had expected that companies would prefer to entrust their Cloud activities to a single trusted vendor — to reduce complexity and lines of control. But in practice, however, we often see companies adopting a seemingly more piecemeal approach, in which vendors that specialize in relevant applications are chosen to support the needs of a specific department or function, such as Sales and Marketing.

As this approach also applies to the infrastructural aspects of the Cloud, this gives rise to the challenge of managing a group of specialist suppliers. A way of dealing with a rapidly evolving network of Cloud providers and solutions is to adopt a Cloud “orchestration” approach. This will mitigate the risk of the increasing complexity and ensure that nothing stands in the way of reaping the benefits of the Cloud.

The progressive approach to putting applications into the Cloud is also likely to be a function of trust. Only 56% of organizations said they trusted the Cloud with their data (Figure 7), so companies are bound to be cautious about running certain types of applications in the Cloud.

Although a lack of trust may still be slowing down the speed of Cloud adoption for some organizations, the step-by-step approach to migration is on the whole serving companies well.

In the current economic climate, they appear to be cherry-picking the areas where they can get Cloud benefits — like cost reduction and flexibility — most easily, and equally importantly, with the least risk.

Looking ahead, the pace of adoption could well accelerate as businesses start to expect these same benefits right across the systems landscape, and as they become more comfortable and confident with the Cloud.

Cloud is clearly the default for new applications

Investigating how Cloud solutions are being applied, more than three-quarters of respondents said their Cloud activity...
Examining regional and industry differences in trust

The North American market – relatively mature in terms of general IT adoption – indicated higher levels of trust in the Cloud at 62%, while only 42% of South American companies showed the same level of confidence, as depicted in Figure 7. There were also some striking differences between industries. In retail, where transaction data has a very high value to the enterprise, only 40% expressed trust, compared with 59% in public and 75% of telecommunications and media companies.

We also asked whether “people go with what they know and trust.” A positive response was taken as indicating conservatism and possible concerns about security. Some 52% agreed overall, but for manufacturing/automotive, the figure was 76%, suggesting that firms in this sector are particularly risk-averse, which might explain their relatively slow pace of Cloud adoption.

NOTE - all companies would argue that data has a high value - so modifications help clarify the difference with retail.
78% of respondents said their Cloud activity is focused on new, as opposed to legacy, applications.
is focused on new, as opposed to legacy, applications (Figure 8). Even more — 83% — said they were using the Cloud to develop new applications as well as running them in the Cloud.

In South America, with its relatively small number of legacy solutions, 92% said they are focusing their adoption on new applications. Among sectors, 84% of retail respondents reported their Cloud activity was concentrated on new applications, a reflection of this sector’s highly competitive environment and its need to get products to market fast.

In addition to core processes, most organizations also have developed new, innovative processes that are at the edge of the business, rather than in its core, and which are critical to growth. These new processes are almost invariably owned by the business rather than IT, and the business is likely to evaluate the Cloud as the ideal platform to develop, test and launch applications to the market as quickly as possible. Based on this data and our work with clients, our observation is that Cloud has become the default in some organizations for hosting new applications. This aligns to our earlier finding that noted that the business is increasingly making Cloud-related decisions.

In our view, it makes sense to focus on new and critical parts of the business that need rapid rollout and maximum flexibility and scalability. It is, of course, also more straightforward to implement new processes than to migrate processes that are encumbered by legacy technology and data. And it is also easier to realize Cloud benefits with applications that have been specifically designed to work in that environment. Legacy systems are mostly being left where they are for the time being.

As with the business drivers, reducing costs was the most frequently cited by around half of respondents. But close behind was shifting costs from capex to opex, and rapid scalability came a close third. Although we called these “IT drivers,” we believe they are well understood and appreciated by business leaders today.

From a sector perspective, retail organizations are more likely than average to cite reduced costs as a key driver for moving to the Cloud, probably because of the cost-competitive nature of their marketplace. On the other hand, moving from capex to opex is more of an issue for those in manufacturing/automotive and energy/utilities, no doubt a reflection of the capital-intensive nature of these industries.

For financial services organizations, the most important IT driver for the move to the Cloud is the ability to scale IT up or down rapidly. This is no surprise given this sector’s drive for increased business agility and faster response to market and regulatory changes, in order to maintain profits and focus on customer needs.

Figure 9: What is the key IT driver for the move to Cloud? (Top four responses)

- **Driving down costs**: 51%
- **Moving from capex to opex**: 50%
- **Ability to scale IT needs up or down rapidly**: 48%
- **Improved service to internal customers**: 37%

*Base = All companies with a Cloud strategy*
Cloud is now owned right across the business

We have established that Cloud is no longer the sole preserve of the IT function – in terms of decision-making. Was this change to be reflected in the organizational function that was driving Cloud adoption? Only two years ago, experience would have indicated that the overwhelming answer was “IT” as being the key functional driver but, in our 2012 survey, IT was named by just 32% of respondents.

Not far behind, some 29% mentioned the Board, with Operations and the Chief Security Officer also getting frequent mentions (Figure 10). Clearly, Cloud is is no longer perceived as an IT-owned technology, but in a relatively short timeframe, its effectiveness as an enabling platform has been recognized and has percolated throughout the business.

One reason why business decision-makers are playing an increasing role in the move to the Cloud is revealed in Figure 11, which looks at the specific triggers or events which have precipitated the move to the Cloud. What emerges is very much focused on external client markets. New markets or territories, applications and product lines are seen as the most important factors for a move to the Cloud, and these are all — at least initially — the concern of the business rather than of IT.

The growing emphasis on Cloud is also reflected in investment. Our survey found that enterprises are looking to invest 25% more on Cloud activities next year compared to now — 28% more in the case of those in North America.

Although business decision-makers have emerged as a driving force behind Cloud adoption, it is clear that IT still has an essential and central role to play in overseeing and enabling the process. As Figure 12 shows, fears of security breaches and issues with data sovereignty continue to be seen as significant impediments to Cloud adoption.

Again, IT has a clear expert role to play, to mitigate these risks and provide confidence to the business, so the full Cloud benefits can be realized. These same concerns also help to explain why most businesses are currently pursuing both public and private Cloud strategies, and spreading their perceived risk among multiple Cloud vendors.

Until now, we have seen many firms’ Cloud activities paralyzed by real or assumed problems with security, privacy, data sovereignty, robustness and manageability. These concerns have kept some organizations from moving forward, even when the business side is encouraging the use of Cloud, because its benefits are now well understood. While these concerns still exist, they are considered to have less impact on the innovative activities that take place at the edge of the business. These activities therefore offer a natural opportunity to end the paralysis and start using Cloud.

Figure 10: Which functions are encouraging the move to Cloud?

<table>
<thead>
<tr>
<th>IT</th>
<th>Board</th>
<th>Operations</th>
<th>Chief Security Officer (CSO)</th>
<th>HR</th>
<th>CMO</th>
<th>Legal</th>
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<td>21</td>
<td>20</td>
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<td>9</td>
<td>7</td>
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</table>

Note: Multiple responses allowed
Figure 11: What industry events/triggers will cause organizations to opt for the Cloud?

- Emerging markets and territories: 42%
- A new application: 33%
- New product lines: 12%
- A rapid move out of recession: 9%
- A Y2K type event: 2%

Figure 12: What are the top impediments preventing Cloud uptake?

- Fear of security breaches: 41%
- Issues with data sovereignty: 35%
- Lack of integration: 33%
- Lack of a clear Cloud strategy: 30%
- Lack of agility in the business: 30%
- Finding the right partner: 27%
- Cost concerns: 27%
- Lack of trust: 26%
- Commitment to one partner: 26%
- Confusion over which Cloud approach to take: 23%
- Meeting regulation and governance needs: 18%
- Lack of storage/security back-up: 16%
- No Cloud DC in our region/country: 4%
- Other: 2%

Note: Multiple responses allowed
Recommendations

From a CIO perspective, the trend towards greater business ownership of a so-called IT platform may at first glance appear to be challenging. But we believe that Cloud still represents an opportunity for IT to demonstrate expertise and management skills in orchestrating and enabling the most applicable Cloud strategy.

We outline some brief recommendations:

- In our opinion, organizations have a clear opportunity to take advantage of the business side’s increasing ownership of Cloud initiatives to speed up Cloud adoption and truly embed it within the organizational entity as an accepted way of working.

- CIOs need to be aware of the shifting power balance regarding Cloud, and to establish the most appropriate role in this new dynamic. IT departments have a vital role to play in ensuring that the business as a whole, and not just individual business units, gets the most out of Cloud. They are uniquely positioned to ensure that Cloud initiatives can be integrated with the rest of the IT facilities, and that these initiatives meet the organization’s requirements for IT governance and compliance.

- Undoubtedly, the business will continue to look to the CIO to make well-informed technical and architectural decisions, such as whether legacy systems should run on a private, public or hybrid Cloud and which platform and solution vendors to standardize on. So CIOs and their departments also need to take a well-orchestrated approach to the Cloud landscape – bringing together all the constituents into a cohesive and mutually supporting whole, and dealing with the most important inhibitors. This approach will ensure that the potential risk of increased complexity does not stand in the way of reaping the benefits of the Cloud. IT must ensure that the Cloud makes business life simpler, and does not add managerial challenges.

- It is therefore essential that IT and business leaders establish or maintain an ongoing dialogue around Cloud to ensure that the organization realizes the full benefits, as migration moves ahead. This is no longer “just” a better alignment between both sides, but acknowledging that business change and evolving technology have already become inseparable.
Conclusion

Cloud hype used to be well ahead of the reality. But now as reality catches up with the hype, the state of play is shifting, as evidenced by the key findings highlighted in this report. The most significant, in our opinion, is that the Cloud has moved from a platform managed by IT to a way of working that the business as a whole values and wants to use for important new initiatives.

These changes that are happening within the business provide fresh insights into Cloud adoption. That the business, rather than IT, is increasingly driving Cloud adoption reflects the fact that Cloud solutions offer a flexible and extremely cost-effective way to launch innovative activities that will allow expansion into new areas.

Looking forward, we believe that Cloud is now fundamentally driving the future of business and technology fusion – a phenomenon we call Business Cloud. No business change can occur without the appropriate enabling technology, and it is Cloud that is putting the power of information technology closer to the business than ever before.

It is clear that Cloud brings key qualities that are not only relevant to technology provisioning, but also strongly influence the way organizations think about setting up and running their business. Indeed it creates new, high expectations on the demand side, but it equally transforms the way services and solutions are delivered on the supply side. This is why we view Cloud not as a separate topic, but as a ubiquitous design principle that infuses the entire business in all dimensions.

In the end, whatever the solution, it’s about the business benefiting from the Cloud, not about the Cloud itself. It is simply Business Cloud.
Appendix:
About the Survey

Sample – by region and sector

The Capgemini “Business Cloud” study comprised 460 detailed telephone-based interviews with executives at enterprises (most with over 10,000 employees) in selected countries in key regions. An equal selection of IT and business decision-makers were included to provide a broad-based and balanced Cloud perspective.

Organizations in the following regions and countries were included:

• North America (NAM): US
• Europe, Middle East and Africa (EMEA): UK, Germany, France, Netherlands, Sweden
• Asia Pacific (APAC): India and China
• South America (SAM): Brazil

The survey targeted specific vertical sectors: retail, financial services, energy/utilities, public, manufacturing/automotive and telecommunications/media.

Data collection

Data collection took place during June and July 2012 with the program designed and undertaken by independent research company Coleman Parkes Research. Structured questions were posed to those taking part in order to elicit current thinking on Cloud.
Appendix: About the Survey

Figure A1: Regional breakdown of responses

NAM: North America  EMEA: Europe, Middle East and Africa  APAC: Asia Pacific  SAM: South America

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Figure A2: Sector breakdown of responses

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Total: 460
For more information about our Business Cloud study, or the way in which our Cloud Orchestration services can optimize the benefit of Cloud for your business, please contact:

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Chief Technology Officer  
Continental Europe  
ron.tolido@capgemini.com

About Capgemini

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