



# BENEFITS AND CHALLENGES OF CLOUD

## PART 1

What challenges and opportunities does cloud present for IT service management?

Cloud presents both challenges and opportunities to IT organizations, businesses, customers and consumers.

A current shortfall in best practice for the design, development, operation, management and improvement of cloud-based services may be seen as challenge for some within the industry. This is especially true for hybrid IT environments.

However, as this article points out previous investments in IT management structures and best practices such as ITIL, DevOps and Agile can be capitalized on and provide a solid foundation for managing cloud-based services and hybrid IT environments.

Opportunities include a new way of providing IT and business services without the ownership and cost of setting-up, managing and maintaining backend infrastructure and underlying technologies. In effect, cloud allows an IT organization to effectively outsource some or all of its IT 'factory-floor'.



This requires the IT organization to be less focused on lower-level IT activities and more focused on designing, delivering and managing quality services which utilize cloud computing and deliver benefits to their customers and consumers.

The table outlines common benefits and challenges in adopting and using cloud.

## **Leverages new technologies**

**Benefit** Cloud service providers are leveraging the latest in technology and IT platforms. By using cloud computing services the IT organization and the business will have access to the latest in IT technology, without the associated costs of ownership, maintenance and upgrading.

**Challenge** Although the low-level management activities associated with supporting the IT infrastructure will remain with the cloud service providers, the IT organization will need to understand and work with these latest technologies. This requires investment in training and upskilling.

Legacy IT systems and mainframes may not be as easy to interface into cloud environments. Therefore, legacy costs will remain. Cloud costs add additional spend.



## Finance (CAPEX vs OPEX)

**Benefit** Cloud computing lowers the need for upfront CAPEX requirements. Instead costs are paid for on a utility basis, i.e. pay-per-use model.

**Challenge** Are the organization's current procurement rules and culture set-up to approve and finance fluctuating costs, i.e. pay-per-use over fixed price services?

Where will the OPEX come from?

Will there be enough OPEX monthly to pay for cloud services?

Are our receivables variable, affecting available OPEX?

Have we spending controls in place to manage and actively reduce variable cloud OPEX costs?

Will an increase in cloud OPEX costs affect our EBITA?

Some cloud providers actually bill in advance, and sometime yearly in advance, based on estimated cloud consumption. This is common practice under larger Enterprise Agreements.



However, it is not exactly the utility pay-per-use model expected for cloud services. Ask your cloud provider in advance to understand the charging method and frequency and if advance estimated payments are required.

If you do not pay the monthly cloud subscriptions, some cloud providers disable your access quickly. Others, larger public provider, now provide more flexibility but may reduce services and functions if the subscriptions are not paid.

Think about this regarding email and file access and how your business will be affected if you are unable to use these services fully.

## **Ability to scale quickly and reduce IT overcapacity**

### **Benefit**

Cloud can be enabled to scale on-demand, or extremely quickly to meet sudden changes in demand for IT compute services.

Demand for cloud / IT / SaaS services can be matched exactly to the required capacity. Very useful for a new product launch, processing large volumes of data, increased web traffic etc.



This reduces the cost of scaling IT to meet only occasional spikes in demand.

### **Challenge**

Traditional change management approval times can eliminate the ability of IT to scale cloud services quickly and when needed.

Scaling quickly can incur additional and unexpected costs putting a strain on OPEX and cashflow. Identifying the right balance of pre-approving cloud change is required against the cost associated with those changes.

Having increased and scaled your cloud use, incurring additional costs, not rolling back to the previous levels of cloud consumption will keep cloud costs high when they don't need to be.

Adopting ITIL / DevOps / Agile approaches to standard change models for scaling cloud is a recommended approach, providing flexibility to the change process.



## Reduces IT ownership

**Benefit** Cloud computing reduces the need to own certain elements of IT including hardware, infrastructure and IT backend systems.

**Challenge** In moving to cloud computing under an OPEX model IT assets are no longer purchased by the organization.

Are current GAAP and financial guidelines allowing the business to treat all cloud service costs as CAPEX costs, or have they to be treated as expenses, or a mix of both?

Does cloud OPEX costs affect how IT assets are depreciated in the balance sheet?

This is likely to cause some financial officers some concern.

Check your local accounting practices for how best to deal with cloud costs.

This is part of a series of articles on the benefits and challenges of cloud.

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