

WHITE PAPER

IDC and TELUS Enterprise Cloud Study, 2013: Capitalizing on Cloud's Window of Opportunity for Business Value

Sponsored by: TELUS

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EXECUTIVE SUMMARY

The 2013 IDC and TELUS Enterprise Cloud Study found that Canadian businesses are focused on improving customer service as well as driving additional productivity and cost saving improvements. Technology and the evolving role of the IT department are key to meeting these goals. The second annual study of 250 business and IT leaders from large Canadian organizations established that IT leaders are leveraging a portfolio of sourcing options that includes hosting and cloud to drive significant and incremental value to the business. The study also found cloud users consider themselves to be more progressive and significantly more profitable than their peers. It is therefore no surprise cloud has been the fastest growing technology over the past two years. IDC expects cloud will quickly become a conventional technology and estimates that in Canada cloud services will grow by one-third over the next two years and surpass C\$1 billion by 2014. IDC believes there remains a short window of opportunity for Canadian businesses to become knowledgeable about, plan for, and expand their portfolio sourcing strategy to include cloud and maximize its competitive advantage.

Cloud users consider themselves to be more progressive and significantly more profitable than their peers

Additional insights from this year's cloud study include:

- ☑ 55% of larger Canadian businesses already leverage third-party hosting services while almost a third (31%) of organizations are combining cloud and hosting services
- ☑ Cloud is viewed as a natural progression of IT sourcing options
- ☑ Hosting and cloud services both provide incremental and complementary benefits to the organization
- ☑ The majority of organizations that adopted public cloud services were able to overcome data security, compliance, and data residency concerns

Lack of knowledge and concerns around data governance, particularly in organizations that lack experience with public cloud services, continue to inhibit the growth of public cloud computing. However, those that have adopted cloud services reported that they have been able to overcome perceived data governance challenges successfully and are realizing clear benefits. Cloud providers are playing a big role here as solutions are typically built to a higher degree of performance and resiliency than can be achieved by most companies implementing internally. Businesses also realize that in today's heightened climate of cyber attacks, security

and privacy, data governance policies, and tiering of data based on sensitivity is a must.

IDC recommends firms that are using mostly internal IT services should assess what is not core to their business and can be externally delivered. They need to quickly improve their knowledge of third-party services and consider these as they move forward. Over half of the organizations using only traditional hosting services are considering cloud as their primary sourcing method for new IT deployments. IDC recommends that these firms identify workloads suited to the cloud, understand the cloud provider landscape and continue to develop best practices around the management of third-party services. Those already leveraging cloud services have already realized significant benefits and should focus on developing a closer working relationship between IT and business to ensure that IT is a strategic enabler of business objectives. For all organizations, IDC recommends that companies adjust quickly to take advantage of the incremental and competitive benefits cloud provides.

INTRODUCTION

IT is providing more value to Canadian businesses than ever before. During the past decade, the IT department shed its reputation as being unable to deliver on time and on budget, primarily as a result of the 2008–2009 recession. During this period, leading companies moved to a lower-cost IT framework that was better aligned with business activity and revenues. Many of these organizations have developed a holistic approach to third-party services in which more traditional hosting services are combined with cloud to meet financial constraints and achieve IT agility. By shifting certain non-core activities and focusing on managing the delivery of services, the role of IT has changed significantly. Third-party services typically offer "pay for usage" or "pay for performance" models, so that the cost of IT becomes better aligned with the requirements and goals of the company, allowing business and IT to become more closely linked.

The promise of IT becoming a strategic enabler and even stronger contributor to the business can be seen in the results of the second annual IDC and TELUS Enterprise Cloud study. In-depth telephone interviews with 250 senior business and IT leaders from large Canadian enterprises were conducted in early 2013. The study focused on business priorities and the use and adoption of hosting and cloud delivery models. In 2013, improving customer service is the number one priority of Canadian businesses. Specifically, 23% said providing a better customer experience was their key objective, a sentiment that is prevalent in both the commercial and public sectors. In contrast, our 2012 study revealed that customer service ranked number four with only 10% saying it was their main focus. Many companies have embraced a "customer first" focus in an effort to reduce new customer acquisition costs in highly competitive market landscapes. They are using technologies such as analytics and cloud-based CRM solutions to better understand their markets and improve retention as well as the acquisition and sales processes.

In 2013, providing better customer service, improving productivity, driving cost efficiencies and attracting & retaining skilled workers are the top 4 Canadian business priorities.

Top 2013 Canadian business priorities also include:

#2: Productivity improvements (15%)

#3: Driving cost efficiencies (13%)

#4: Attracting and retaining a skilled workforce (12 %)

Technology and third-party services can support each of these priorities, for instance by enabling mobile workforces to better attract and retain employees or by helping organizations shift towards a usage-based cost model and improve efficiency.

Creative approaches and openness to diversifying how IT is delivered is critical to achieving these goals, and fortunately there have been improvements with respect to adoption of and openness toward new technologies over the past year. Canadian enterprises give themselves a B+ compared to a C last year on adopting new technologies and a C, up from a D+ in 2012, on their willingness to embrace new service delivery options. The 2013 IDC and TELUS Enterprise Cloud Study found that 76% of organizations use third-party services, with almost a third using both hosting and cloud offerings to realize significant benefits.

Canadian enterprises give themselves a B+ compared to a C last year on adopting new technologies

THE PROGRESSION OF MANAGED SERVICES TO CLOUD

The role of IT has made tremendous strides in Canadian business, and IT leaders continue to push the envelope in order to provide business with more options and drive additional benefits. These IT leaders realize that gaining value from IT does not require them to run a datacentre or code their own software. Many CIOs have decided these activities are not core to their business and have turned to managed service providers to help deliver certain services.

Managed service providers with core competencies in managing large scale IT services are responsible for technology investments and accountable for operations. For example, with managed hosting, the vendor not only provides the required infrastructure and systems, but also the security and 24x7 operation to ensure maximum uptime, availability, and resiliency. Using vendors such as hosting providers has become a norm in today's business world and provides significant benefits across a range of attributes. When asked to compare against IT delivered internally, respondents indicated that hosting services provide the following top four incremental benefits (percentage of respondents):

1. Up to date technology and functionality (76%)
2. Easier to source IT resources, skills and capabilities (74%)
3. Enable the business to be more agile (72%)
4. Financial benefits (70%)

Third-party services such as managed hosting provide companies flexibility, access to resources and scale they would not otherwise have. As Canadian businesses have become more experienced with managed services, they have looked to the cloud to drive additional benefits.

The 2013 IDC and TELUS Enterprise Cloud Study primarily focused on software (SaaS) and IT infrastructure (IaaS) delivered as a service, over the Internet. The study differentiated between two primary categories of cloud, the first being public, which is a shared platform for either SaaS or IaaS. The other is private cloud, which refers to infrastructure that is restricted to a single organization. Cloud isn't anything really new or unproven. Cloud is built on technologies such as virtualization, enabled through automation, delivered from purpose built datacentres and accessible through advanced IP communication networks. These same platforms have helped create a strong and vibrant server and storage hosting market here in Canada.

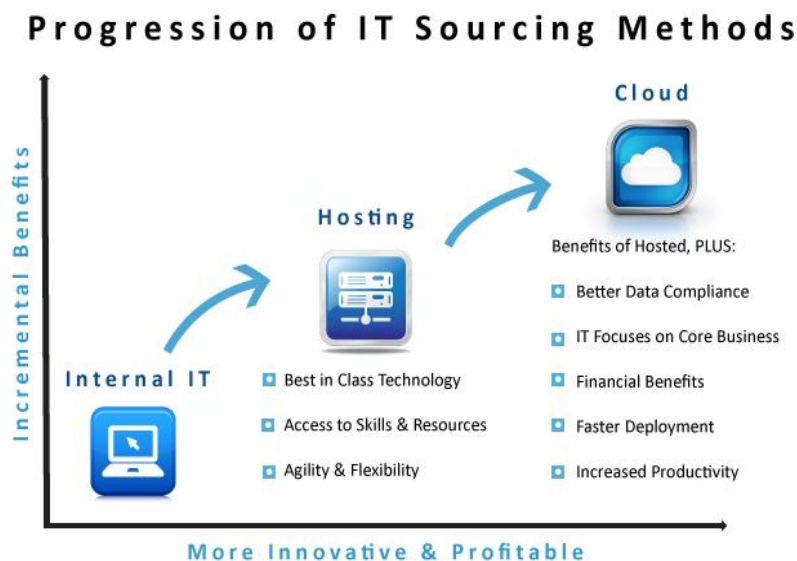
Over the past 12 months, we have seen an increase in the use of public, private-hosted and private on-premises variants of cloud to the point where 21%, 23%, and 27% of the study's respondents use these delivery models, respectively. As it is adopted and lessons are learned, cloud has begun to broaden its appeal.

Like other delivery models, cloud adoption is following a cycle. We have seen this evolution with other technologies such as the Internet, virtualization, and offshoring. In this case, the progression begins with basic or managed hosting, such as colocation services in which the user leverages a provider's facilities, space, and power to house their own equipment and retains the majority of the support function. The study revealed that organizations then advance to cloud solutions, typically beginning with SaaS followed by infrastructure-based solutions.

According to the study, 68% of respondents that use hosting services see cloud as the next progression in their sourcing strategy that includes a combination of third-party services and internally delivered IT. Thirty percent of these organizations have already adopted public cloud solutions.

68% of respondents that use hosting services see cloud as the next progression in their sourcing strategy

FIGURE 1



Source: 2013 IDC and TELUS Enterprise Cloud Study, May 2013

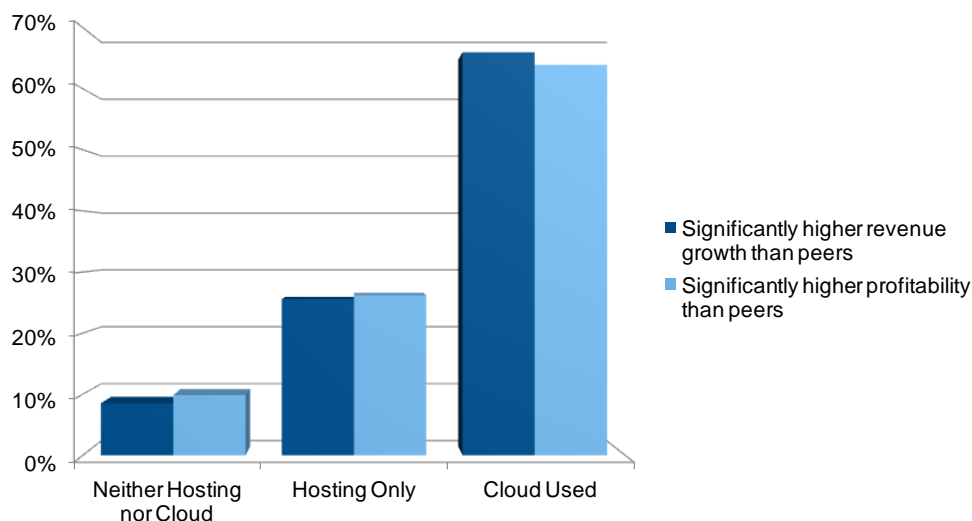
Canadian businesses that view cloud as a progression in IT services typically have a "cloud-first" mentality. This is not to say these organizations are moving everything to the cloud. Leading organizations are integrating cloud into decisions about software, systems and better ways of doing business. These firms have shifted from asking "why cloud?" to "how and where can we use it best?" Our study showed that companies that share this "cloud-first" mindset are 25% more likely to view themselves to be more innovative and progressive than their peers. These firms were also open to new technologies. Cloud users consider themselves leaders in their markets — 66% and 64% believe that they significantly outperform their competition in terms of revenue growth and profitability, respectively (see Figure 2). This is significantly higher than enterprises that use only external hosting services and those that don't use any external services.

Cloud users consider themselves leaders in their markets

FIGURE 2

Cloud Users See Themselves as High Performers

Q. Please indicate whether you believe your organization's revenue growth/profitability is higher than your peers/competitors in your industry/sector.



Source: 2013 IDC and TELUS Enterprise Cloud Study, May 2013

While our study findings do not conclude that cloud directly leads to high performance, it is clear that successful Canadian companies are using a portfolio of IT delivery models and adopting cloud computing in increased frequency. For these firms, IT is no longer solely tactical but has realized its value as strategic to the business.

PUBLIC CLOUD PERCEPTIONS, CHALLENGES AND BENEFITS

Perceptions and Challenges

Last year's study found that there was a lack of knowledge around cloud and a perception that cloud is risky and problematic from an implementation and management perspective. Similarly, this year's study found non-public cloud users' greatest data concerns are still security (31% of respondents) and compliance (23%) and that 63% of organizations believe they do not know enough about public cloud to make informed decisions on where or how to use it. However, IDC believes that there has been an improvement in the market's understanding of cloud offerings, particularly with line-of-business respondents. In our study last year, we observed that many of these participants were unable to answer many questions about their use of cloud services due to limited knowledge and understanding about the cloud in general.

In addition to differences between business and IT, the 2013 IDC and TELUS Enterprise Cloud Study found a great divide between the attitudes of users and non-users of public cloud. Those with experience reported that it is easy to use and integrate with existing technologies (76% of respondents). Additionally, 73% of public cloud users reported that cloud was meeting their financial expectations and over half of organizations surveyed were able to address service level and data residency issues. These findings suggest that the concerns of those that have not adopted about ease of use, integration, security, and data residency may be unfounded.

73% of public cloud users reported that cloud was meeting their financial expectations

Data Security and Compliance

Security and compliance have long been the primary criticisms of public cloud. In what is one of the most interesting findings of this year's study, the majority of users said they were able to easily overcome these challenges and that cloud was a catalyst for improving data compliance (59% of respondents), security (56%), and overall governance. Just a year ago, the difficulty of managing compliance and security was the primary reason identified for the slow adoption of cloud. What happened over the past 12 months?

Canadian companies for the most part are approaching cloud computing in a methodical, strategic manner. As a reflection of the maturity of IT as a whole, companies are looking internally, improving processes, formalizing roles and responsibilities prior to contracting out to third parties. Leading CIOs have put in place plans to make information accessible while tiering security based on the sensitivity of the data.

IDC believes issues such as compliance and security are a two-way street and require the cooperation of both buyer and vendor. Cloud solutions, for example, are typically built to a higher level of performance and security than can be achieved internally. In today's climate, there is a heightened awareness of the risk and potential impact of cyber attacks, data breaches and ineffective security.

IDC believes issues such as compliance and security are a two-way street

Data governance plans typically cover whether information resides onsite or offsite, hosted or is delivered through cloud — private or public — and whether data should reside in Canada. For example, cloud has already taken hold at high-tech startups that are using it for all parts of their business. Other industries such as finance and the public sector rely on traditional IT to run their core systems but are quickly leveraging public cloud to develop applications and test systems in a fraction of the time and cost compared to the old way of doing things. And Canadian retailers are using cloud as a cost-effective backup and recovery platform that dramatically reduces the risk of lost revenue or brand damage due to downtime, resulting in a significant competitive advantage.

Canadians continue to have concerns about public cloud computing, the U.S. Patriot Act, and the potential for the U.S. Government to access confidential and personal data. While there is diligence required when implementing cloud or any other technology, the study demonstrated that most Canadian businesses are meeting the challenges and benefiting from a portfolio sourcing strategy that includes cloud.

Incremental Benefits of Third-Party Services

The 2013 IDC and TELUS Enterprise Cloud Study found that cloud is providing Canadian businesses with incremental and complementary benefits over hosting services. The most frequently identified incremental benefits of cloud over the hosting benefits presented earlier are compared in Table 1.

TABLE 1

Incremental Benefits of Hosting and Cloud

Q. Do you think that services delivered by a hoster provide incremental benefits over those provided by your own?

Q. Do you think that cloud services provide incremental benefits over hosted services in any of the following areas?

Top Incremental Benefits of Hosting over Internal IT	Top Incremental Benefits of Cloud over Hosting
1. Up to date technology and functionality (76%)	1. Better data compliance (73%)
2. Easier to source IT resources, skills and capabilities (74%)	2. Allows IT to focus on supporting the core business (73%)
3. Enable the business to be more agile (72%)	3. Allows us to reduce capital expenditures (72%)

Source: 2013 IDC and TELUS Enterprise Cloud Study, May 2013

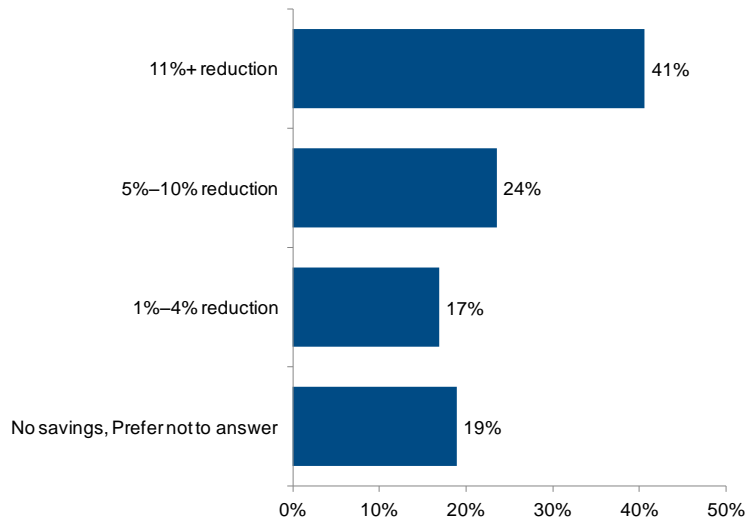
In another interesting result, the study found that reducing capital expenditures ranked third and cost savings ranked only seventh as a cloud benefit. Let's be clear — companies are saving money with cloud. Our study found that 81% of Canadian businesses reported lowering the cost of IT due to cloud, and of those realizing savings, half are saving more than 10%. Yet while cost savings are table stakes in today's IT world, the primary benefits of cloud are being found in what according to last year's IDC and TELUS Enterprise Cloud Study is the most unlikely of places — improved data governance.

81% of Canadian businesses reported lowering the cost of IT due to cloud

FIGURE 3

Cloud Cost Savings as Reported by IT Leaders

Q. By how much has your organization reduced total IT spending as a result of adopting cloud solutions?



Source: 2013 IDC and TELUS Enterprise Cloud Study, May 2013

FUTURE OUTLOOK

Over the past decade, technology has become more integrated with the business to the point where for many companies it is not possible to separate the two. Cloud and other sourcing options provide a cost-effective platform that will contribute to better performance and profitability that will directly support organizations' priorities of improving customer service, increasing productivity, managing costs and attracting talent. Over the next four years, IDC Canada projects that hosting will grow by 9.6% while cloud will expand by 25.1%, compared to a growth rate of 3.5% for the rest of the Canadian IT market.

The 2013 study clearly demonstrates that Canadian businesses will increasingly leverage a portfolio of delivery models and shift IT infrastructure to the cloud. Cloud is viewed as a natural progression in IT sourcing options, and although there are still some concerns around risk and security, Canadian organizations are becoming more knowledgeable about, and are increasingly leveraging cloud computing as part of their IT sourcing mix. Most of those that have adopted cloud services have been able to successfully overcome perceived challenges, are realizing clear benefits and believe that they are outperforming their competitors.

In reviewing the findings from the study and the work we do with technology decision makers, IDC provides the following three recommendations based on the current level of third-party service adoption:

1. **Companies that are mostly internally supporting IT** — Organizations that are only or mostly insourced need to think about what is core to their business and

what can be more effectively delivered by third-party providers. The study showed that 55% of these organizations are already considering hosting and other services as part their business moving forward, which is promising. This is a critical next step in the alignment of their IT services with business objectives. Only about one-third are considering transitioning some of their workloads to cloud services. Given that many of these firms are behind the market in adopting third-party services, it is recommended that they consider expanding their portfolios to include hosting and/or cloud in order to maintain competitiveness. They should assess whether cloud can play a role in developing or acquiring new software and as an infrastructure solution where they need to scale rapidly or have short-term needs.

2. **Companies that are currently using only hosting services** — The majority (60%) of businesses using hosting services are looking to expand the number of hosted or cloud provisioned workloads. Fifty-eight percent are moving towards fully sourcing applications and infrastructure from third parties and 52% stated that they would use cloud as their primary sourcing method for all new IT deployments. IDC recommends that these organizations continue to invest time in developing a roadmap for the cloud. Businesses need to identify the workloads that can be moved to the cloud, assess the cloud provider landscape to determine which providers are qualified to meet their needs, and continue to develop best practices around the management of third-party services.
3. **Companies using cloud already** — The 2013 IDC and TELUS Enterprise Cloud study shows that cloud users are adding value to the business and believe they are outperforming the competition. The majority of these organizations are looking to fully sourcing applications and infrastructure from third parties and are planning to use cloud as their primary sourcing method for all new IT deployments. IDC's research also demonstrates that line of business and executive management are more involved in technology and IT decisions than ever before. IDC recommends that CIOs and other IT leaders reach further out to the business to work together to help identify solutions and delivery models, whether internal or external, traditional or cloud based, to meet their requirements.

For all organizations, IDC recommends that companies scale quickly to take advantage of the speed, agility, and access to capabilities that cloud provides. IDC believes a window of opportunity exists for Canadian businesses. Now is the time to develop expertise with and leverage delivery models such as hosting and cloud to realize a competitive advantage.

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