



Why Should CFOs Care About the Cloud?
Because IT Sees it Differently

Special Research Reprint
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Title **Why Should CFOs Care About the Cloud?**

Summary Finance organizations tend to have a peripheral or even tenuous relationship with Cloud Computing, from software as a service (SaaS) to IT infrastructure services to business outsourcing. Finance is rarely involved directly in Cloud acquisition, though it should be; and CFOs are rarely involved directly in Cloud management, though they also should be.

In this *Strategic Perspective*, we look at key differences between how Finance and IT executives perceive and approach Cloud Computing, how these differences can cause problems for Finance, and how Finance executives and groups can address the differences.

So What? While some Finance groups are directly involved and help to direct and manage Cloud adoption within their organizations and enterprises, at this point they are in the minority. As today's typical expense-line instances of Cloud IT usage grow to operational line items, the costs are likely to have soared well beyond expectations and budget allocations.

The situation will get worse as more on-premise IT becomes integrated with Cloud environments. Left unmanaged by Finance, IT and provider management costs will skyrocket, and cost savings envisioned for Cloud use will be more than offset by management cost increases.

Perspective Industry research in general, and Saugatuck research in particular, has documented and profiled the continuing disconnects between Finance and IT organizations for years. We realize that there are important and critical differences in the responsibilities, functions and operations of each group that keep them separate in many ways.

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The author invites your comments and inquires on this *Strategic Perspective*.

Please contact Bruce Guptill at Bruce.Guptill@saugatech.com or call 1.203.454.3900

The core challenge is that Finance and IT organizations are not built, staffed, or managed to see things in similar ways. And we need look no further than the differences between how Finance and IT executives perceive Cloud Computing, especially Cloud-based infrastructure services, to understand this.

Let's use Saugatuck's established research on Cloud infrastructure services to develop some relevant examples. Figure 1 below illustrates the IT-oriented benefits that both Finance and IT executives expect from Cloud infrastructure solutions (Saugatuck first examined how user organizations perceive these benefits in *Research Alert* RA-641, "[IT Executives Not Aligned with Non-IT on Cloud Solution Benefits](#)," published 17 Sept., 2009). For this *Strategic Perspective*, we look specifically at Finance versus IT.

The color codes are part of Saugatuck's HeatMap analysis. **Red** indicates the highest, strongest, "hottest" position; **Blue** indicates the lowest, weakest or "coldest" position.

A quick look at the numbers and the color codes shows us several examples as to where Finance executives and IT executives see things very differently when it comes to the Cloud. *And this alone shows us why*

CFOs need to care about Cloud Computing: Because their expectations differ significantly from those of the organization typically tasked with managing Cloud – the IT organization.

Figure 1: Same Team, Different Players: IT and Finance View on Cloud Infrastructure Benefits

| From the list below, please select the top 3 business benefits that you expect Cloud Infrastructure solutions will provide to IT | IT | Finance & Operations |
|--|-----|----------------------|
| Reduce IT infrastructure costs | 40% | 47% |
| Reduce IT management and support costs | 30% | 41% |
| Reduce capital investment (CAPEX) | 52% | 35% |
| Simplify systems management | 24% | 25% |
| Improve service levels | 12% | 25% |
| Convert fixed IT costs to variable costs | 25% | 25% |
| Access next-generation technology | 18% | 22% |
| Speed implementation of new projects | 33% | 20% |
| Relieve capacity issues | 22% | 19% |
| Facilitate change in business operations | 13% | 17% |
| Access highly professional technical staff | 4% | 7% |
| Access to certified, regulatory-compliant providers | 12% | 6% |

Source: Saugatuck Technology Inc., 2009 global Cloud Infrastructure survey; n = 670

Example: Reduce IT infrastructure costs. Finance executives view the Cloud as a low-cost alternative to existing IT, especially infrastructure “boxes” such as servers and storage. IT executives are far more likely to understand that the Cloud today seldom reduces existing IT costs, because it seldom removes or replaces sunk costs and existing assets, and in some cases it can add to the costs of managing IT. Instead, while Cloud infrastructure services today can be used to reduce the costs of some specific IT infrastructure operation, they are most widely used to reduce the costs of acquiring and utilizing new or additional capabilities.

Example: Reduce CapEx. We can see from the number and color differences that the reduction of CapEx is much more likely to be seen as a benefit of Cloud infrastructure services by IT executives. They see Cloud as a means to reduce CapEx for new capabilities, as an alternative to servers and other CPUs that would otherwise have to be purchased or leased. Saugatuck research indicates that Finance executives view CapEx issues in a broader context and choice in terms of how the company wants to allocate resources.

Example: Reduce IT management and support costs. IT executives with experience related to new or emerging information technologies understand that such things are almost guaranteed to increase management costs overall. Saugatuck research suggests that many Finance executives see Cloud IT, including Cloud infrastructure services, as a means to offload a significant amount of IT management, using the

**Note 1:
What, Exactly, is Cloud IT?**

“In Saugatuck’s view, all aspects of user IT and business operations are rapidly melding into an inextricably interwoven, and inter-dependent, series of capabilities that are delivered and used as one or more services via one or more networks. Core business tasks and operations have become software or service-based functions. Outsourced services delivered via Cloud today include simple IT solutions, business functions, and entire departments, from applications to databases to management. We no longer see easily-definable boundaries between IT and business; just as we will soon see the disappearance of boundaries between traditional (on-premise) and Cloud-based business and IT.”

- from Saugatuck Strategic Research Report SSR-706, [“Lead, Follow, and Get Out of the Way: A Working Model for Cloud IT through 2014.”](#) published 25 Feb. 2010.



Cloud provider(s) to manage more and more over time. The reality, as usual, is much more likely to be somewhere between IT and Finance expectations. It's extremely unlikely that significant IT management will be sourced to Cloud providers in the near future; it is also extremely unlikely that Cloud IT will add massively to overall IT management costs (if adequately managed).

Example: Improve service levels. To IT executives, the increased demand for support and management of a variety of Cloud instances implies less ability for them to deliver the same or better levels of service. But at the same time, Finance executives clearly expect Cloud infrastructure services in particular to help improve IT service levels to the organization or enterprise. Miscommunication or disconnects on service level expectations is sure to reduce satisfaction and to increase stress between the parties involved.

Example: Speed implementation of new projects. IT executives tend to see Cloud, especially Cloud-based infrastructure services, as a means to speed implementation (and therefore the business benefits) of new IT projects. Finance doesn't see this to the same extent, typically because IT has not done an optimal job in most organizations of providing clarity and insight to other departments regarding the scope, timing and cost of project implementation.

On top of these differences is the continuing reality that Cloud use within most organizations increasingly "flies under the radar." For most IT users, the presence and use of Cloud-based solutions is less and less apparent, as Cloud providers improve their ability to blend with traditional operations and ways of working (and as internal IT groups get better at meshing Cloud solutions with traditional systems). Therefore, the effects of Cloud IT on organizational costs (good and bad) often don't get noticed until the next budgeting cycle, or the one beyond that.

In this manner, even the good effects of Cloud (e.g., reduction of IT acquisition costs, or reduction of processing costs for specific applications) can thus impede the ability of Finance groups and executives to plan and manage budgets, costs, cash, investments, and more.

Net Impact

At the bottom line, the Finance organization is responsible. The pervasive presence and influence of Cloud-based IT means that Finance will be more and more directly affected by IT than it has in the past. This suggests to Saugatuck that Finance organizations need to become better educated about Cloud IT (please see Note 1) in general, and about its presence and use within their business or organization.

Saugatuck has been researching and guiding user and providers on the costs, benefits, and effects of Cloud-based IT on Finance groups since 2003, and has published a series of reports and insights on the most effective ways for Finance organizations to manage Cloud-related IT (please see Note 2). Our most recent [Strategic Research Report](#) on Cloud IT reviews and updates this guidance in three ways:

- We suggest how and where to **Lead** their business or organization into



**Note 2:
Recent Saugatuck Cloud IT
Research for Finance
Executives**

- [Lead, Follow, and Get Out of the Way: A Working Model for Cloud IT through 2014](#)
- [Great Expectations: SaaS Strategies in the Finance Organization](#)
- [Different Wavelengths: SMBs, Change, and SaaS Adoption](#)
- [Cloud Computing: Seeing and Managing Not-So-Obvious Costs](#)
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- [Mitigating Risk in Cloud-Sourcing and SaaS: Certifications and Management Practices](#)

effective Cloud IT use;

- We suggest how and where to **Follow** users' demands and habits in order to develop and refine policies and practices; and
- We suggest how and where to "**Get out of the way**" in order to let Cloud IT develop fully and deliver on its promises.

Here, we summarize the guidance provided to Finance executives in that report (please see *Strategic Research Report SSR-706*, "[Lead, Follow, and Get Out of the Way: A Working Model for Cloud IT through 2014](#)," published 25 Feb. 2010).

- **Lead.** If IT is to effectively manage the costs of Cloud IT, then Finance must have skin in the game. Finance can establish and expand a leadership role for Cloud IT by working with IT leadership to chart the areas and costs of Cloud adoption and use, and to implement and enforce Cloud procurement standards that align with and complement those developed by IT leadership. Finance can also lead through the development of consistent policies and practices for qualifying and negotiating with Cloud IT providers.
- **Follow.** Allow IT and LOB executives and managers to lead Finance into areas of likely or established Cloud IT use. Otherwise, it is highly unlikely that Finance will be able to develop a full picture of Cloud use, and its effects on operations and budgeting.
- **Get out of the Way.** Micro-managing Cloud procurement is an impossible task. There will always be off-books, and out-of-budget Cloud procurement and use. Monitoring and managing Cloud provider relationships will be key to reducing this, and in reducing Finance's daily role in Cloud IT.

But to work, and to be effective, this guidance requires that Finance executives and organizations better understand three things:

- How IT organizations see Cloud IT being used and delivering benefits to the organization
- How that differs from the way(s) that Finance organizations see things
- The reasons for those differences.

About This Research

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|---|---|---|
| US Headquarters: Westport, CT 06880 +1.203.454.3900 | Silicon Valley: Santa Clara, CA +1.408.727.9700 | Germany: Eltville, DE +49.6123.630285 |
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