Financial Implications of a Cloud First Strategy

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Today’s Audience

What is your primary role?

1. Accounting support of information technology division
2. Broad finance / accounting role
3. Information technology professional
4. Other
As PCs decline, Microsoft is betting its future on the cloud

By Associated Press

In a world where there's a smartphone app for everything, one company — Amazon.com Inc. — has long been the host for an outsized share of online software and computing services.

Microsoft Corp. Chief Executive Satya Nadella wants to change that.

Nadella has poured billions of dollars into building new data centers around the world, betting that using Microsoft's cloud computing services will draw more customers to its other offerings.
Cloud-First

When presented with new needs or significant upgrades, we will actively seek out suitable cloud services.

We will fully evaluate available cloud options and, only after elimination, accept an on-premise solution.

-University of Rochester Cloud Computing Strategy, January 2015

Evaluate current technologies, practices and tools with focus on cost/benefit efficiencies through consolidation, simplification, cloud resources virtualization, right-sourcing and life-cycle planning.

-Saginaw Valley State University ITS Vision and Strategic Plan 2013-2016
Anticipated Benefits

• **Pace of Innovation / Time to Market** - widely shared end-user requirements and cloud provider competition drives innovation at a pace that far exceeds the University’s.

• **Elasticity** - many cloud-based offerings are based on paying for only what is needed. Where our needs are episodic, this benefit can be significant.

• **Cost (sometimes)** - cloud providers continue to promote some commodity products as entry loss leaders. Where thoughtfully utilized, such sources can allow us to redirect resources to higher value add activities.

• **Consistency of Expense** – embedded upgrade and infrastructure charges reduce need for other budget smoothing mechanisms often at risk of deferral (i.e. renew and replace)
Your Cloud Strategy

How would you describe your organization’s cloud strategy?

1. No plans
2. Cloud watching
3. Exploring
4. Focused (Cloud First)
5. Don’t Know (or N/A)
Financial Implications

• SaaS Implementation Costs  
  e.g. (1) Learning Management System  
  • Guided implementation was $0  
  • Migration tools

  e.g. (2) Campus Recreation System  
  • T&E for set-up & training

  e.g. (3) Behavior and Conduct Management  
  • Set-up and Training
Financial Implications

• SaaS Operating Costs

  e.g. (1) Learning Management System

    • 5-year subscription with an annual 5% increase plus a small flat recurring fee for the custom URL

  e.g. (2) Campus Recreation System

    • Flat 5-year subscription

  e.g. (3) Behavior and Conduct Management

    • 3 Year Subscription - reduced 2\textsuperscript{nd} & 3\textsuperscript{rd} Years
Financial Implications

• Hybrid Solution – Fully Hosted with Cloud Resources

  ERP and Document Management at SVSU

  – Equal to or greater than the annual maintenance and support costs
  – Customized environment has prevented a move to a fully SaaS model

_Not Quite the Right Time_ for SVSU
Financial Implications

• ERP Implementation Costs – Don’t expect much change...
  – No up-front major acquisition of software, but annualized payment generally begins upon contract inception
  – Reduces or eliminates most hardware expenditures, but generally these represent a small percent of the costs
  – Implementation costs are *disproportionately labor*, which are largely unaffected
  – Cost of customization generally zero, but labor to assure your needs met is not zero...
  – Other associated costs to consider – internet capacity and redundancy, security requirements, staff readiness

Degree of change desired remains the largest cost driver, regardless of sourcing strategy
Financial Implications

• ERP Operating Costs – Different, but not always materially less
  – Trading episodic expenditures for more consistent payment stream matching the much higher frequency of change/upgrades
  – Most contracts are NOT usage based for this category of service
  – Anticipate software subscription roughly averaging 5-8 year acquisition and maintenance contract, before accounting for upgrades
  – Substantial role changes – programmer vs. business analyst, regression test coordinator, etc..
  – Costs may not be less compared to current state, depending on condition and alignment of legacy solution

Need to evaluate each decision on total cost of ownership (TCO) ~10 years
Financial Implications

• Other Considerations
  – **Sunk or Captive Costs** – While business school may say “don’t consider”, it is hard to ignore... Data Center, Infrastructure, Environmental Efficiency – in short term, may redistribute fixed costs via utilization based allocations
  – **Staff Development** – Consider new job roles and what approach will be used to transition team members
  – **Infrastructure Cost Shift** – Trade reduced load in data center to increased load on external network connection
  – **Monitoring and Operating Console** – New investments may be needed to manage cloud services with same consistency and approach as on premise solutions
  – **Pace of Evolution** – May result in less long term contracts and higher frequency of switching service providers than we have historically experienced
Q & A
Thank You!

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