KPMG

cutting through complexity

KPMG INTERNATIONAL

Breaking through the cloud adoption barriers

KPMG Cloud Providers Survey

kpmg.com/cloud

Contents

Foreword

The rapid growth of cloud shows no sign of abating. Estimates by Gartner suggest the worldwide market will exceed US$109 billion in 2012,[1] while a separate forecast by IDC predicts global spending on public cloud services alone will approach US$100 billion in 2016.[2]

KPMG's 2012 global survey is part of our ongoing series of studies into cloud adoption patterns, looking at how cloud providers around the world are responding to rapid change to build a strong and compelling argument for their customers to migrate to the cloud.

To increase the understanding of the current cloud market, KPMG surveyed 179 cloud service providers. The purpose of this survey was to gain insight into how cloud service providers are addressing the following areas:

1. cloud adoption patterns
2. perceived barriers to customer adoption
3. the customer decision-making process
4. service level agreements (SLAs)
5. cloud deployment ecosystem.

The survey was carried out by Forbes Insights on behalf of KPMG. All the respondents are involved in cloud provision at a senior level.

The findings offer a timely contribution to an evolving discussion. When combined with our companion report, *The Cloud Takes Shape*, a global survey of cloud users, we get a comprehensive view of the current cloud environment.

Gary Matuszak
Global and US Chair, Technology, Media & Telecommunications

Tom Lamoureux
Global and US Advisory
Sector Leader, Technology

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1 Gartner, The Channel, Link to Gartner article: http://www.gartner.com/it/page.jsp?id=2163616, 18 September 2012.
2 IDC, Link to IDC article: http://www.idc.com/getdoc.jsp?containerId=prUS23684912, 11 September 2012.

Executive summary

Providers' cloud revenue as a proportion of total income is expected to almost double in the next 2 years.

KPMG's 2012 global cloud providers survey highlights a number of key issues facing vendors:

Cloud adoption patterns

Cloud service providers expect their share of revenues from cloud services to almost double within the next 2 years from 27 percent to 50 percent, as users migrate more and more functions to the cloud.

Barriers to cloud adoption

The executives involved in the survey say their customers' single biggest reason for using cloud services is to reduce costs, followed by speed to adoption and business process transformation. Consequently, providers feel their top challenge is to demonstrate clear evidence of cost savings, along with the development of usage-driven pricing and the creation of a realistic business case for the switch to cloud.

Forty-eight percent of respondents feel that loss of control is their customer's biggest concern, with additional worries over data security and the integration of cloud with existing architecture. Indeed, 42 percent expect the migration to cloud will lead to a downsizing of the entire IT function.

The customer decision-making process

Fewer than half of the respondents believe that customers are well-informed about cloud computing, the cost of migration and subsequent data security. Fifty-three percent of respondents claim that cloud-based sales are initially driven by non-IT executives. However, the Chief Information Officer (CIO) and the Chief Technology Officer (CTO) have the greatest influence upon cloud purchase decisions, as they help the business understand the implications of service level agreements (SLAs) and the costs and implications of migration. Forty percent feel that IT's level of influence and control over technology decisions is decreasing due to cloud, as some functions may choose to migrate independently of IT.

Service level agreements

Fifty-nine percent of providers currently have service level commitments offerings, a figure expected to rise to 68 percent within 3 years. Data security and system availability are the two most important SLA parameters today, while data security will remain the number one issue in 3 years' time. Half of the providers are changing their licensing model to reflect the move away from traditional IT solutions.

The cloud deployment eco-system

As core systems and critical infrastructure move onto the cloud, 61 percent of respondents feel that customers will rely on a third party for technology implementation, business process transformation, information security assistance and strategy, which reflects the huge and multi-functional impact of cloud. In order to provide more strategic services and consulting to business users – and to service global customers – 48 percent of providers say they will form a partnership, and a similar proportion plan to expand capabilities or acquire a complementary provider.

"

Switching to cloud is a significant undertaking with major implications across the organization. Cloud vendors play a vital role in helping customers present a compelling commercial argument for cloud, and also in the whole migration and implementation process, as cloud is not a simple off-the-shelf solution that can be easily bolted on. "

Tom Lamoureux
Global and US Advisory
Sector Leader, Technology

Customer adoption

Cloud revenue as a proportion of total income is forecast to increase from 27 percent to 50 percent in 2 years.

Adoption patterns

The pace of cloud adoption shows no sign of slowing down, as more and more functions and areas move onto the cloud.

Cloud providers appear very confident about the continued growth of cloud. Looking to the next 2 years, cloud revenue as a proportion of their total income is forecast to increase from 27 percent to 50 percent. These figures are in line with industry forecasts, which anticipate the cloud market to grow at an annual rate of between 20 to 25 percent between 2012 and 2016.[3]

The balance of usage between software-as-a-service (SaaS), platform-as-a-service (PaaS) and infrastructure-as-a-service (IaaS) is set to remain roughly the same, with SaaS continuing to contribute around half of all revenue.

What percentage of your revenue is derived from cloud-based products/services today, and what percentage is expected in 2 years?

Today: 27% Cloud, 73% Non-cloud

In 2 years: 50% Cloud, 50% Non-cloud

■ Cloud   ■ Non-cloud
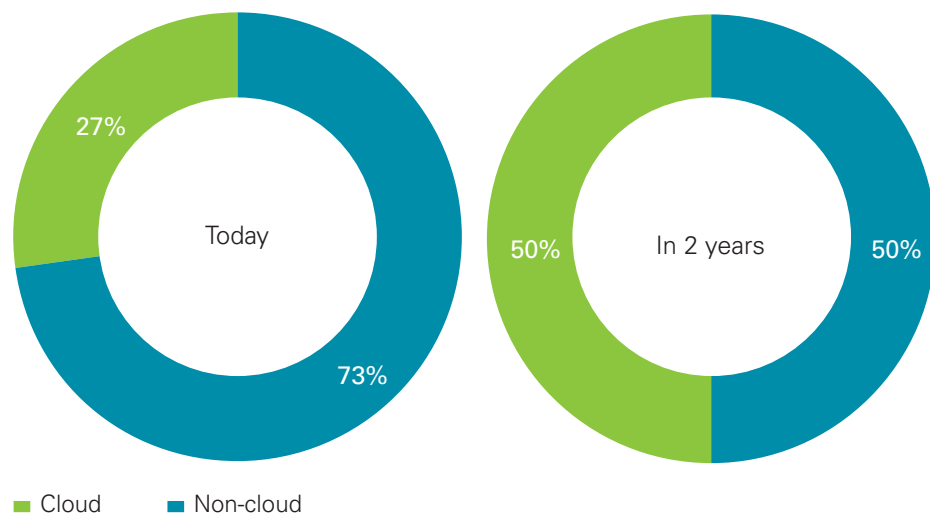
Source: KPMG International's 2012 Global Cloud Providers Survey

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3 Gartner, The Channel, Link to Gartner article:
    http://www.gartner.com/it/page.jsp?id=2163616, 18 September 2012.IDC,
    Link to IDC article: http://www.idc.com/getdoc.jsp?containerId=prUS23684912,11 September 2012.

In which areas of cloud-based services are you most active today and in 2 years?

Total Respondents

66% SaaS
74% SaaS – 2 yrs
39% PaaS
55% PaaS – 2 yrs
47% IaaS
61% IaaS – 2 yrs
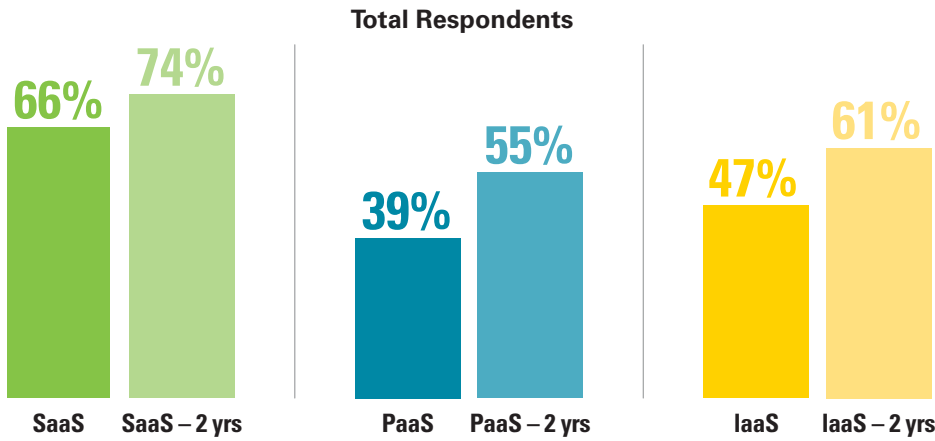
Source: KPMG International's 2012 Global Cloud Providers Survey

Another major development is the gradual homogenization of the cloud environment. Fifty-six percent of respondents say that distinctions between SaaS, PaaS and IaaS are blurring, with customers more interested in the end results and less in the specific service they are buying. And with cloud purchasing decisions being increasingly influenced by senior, non-IT executives, providers will have to adopt a more holistic approach to the sales process, with an emphasis on solutions rather than technical benefits. Vendors also need to play a more intimate role in customers' businesses by developing their own 'ecosystem' of services across cloud, traditional and business process operations.

To what extent do you think the distinctions between SaaS, PaaS and IaaS environments are blurring?

13% Disagree
29% Neutral
56% Agree

Value may not add up to 100% due to rounding.
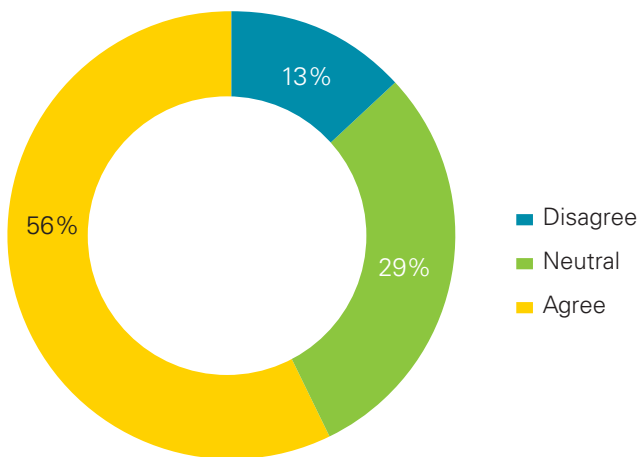Source: KPMG International's 2012 Global Cloud Providers Survey

> In many parts of Asia Pacific there is less legacy IT infrastructure, so businesses can move directly to the cloud without some of the costs or hassles experienced by more established organizations. This factor, along with strong economic growth in the region and government investments in building infrastructure, should lead to excellent opportunities for cloud providers.
>
> **Ning Wright**
> Head of Technology,
> Media and Telecommunications,
> KPMG in China

KPMG viewpoint:
the transformational qualities of cloud

Rick Wright
Global Cloud Enablement Program Leader, KPMG in the US

Organizations are most likely to consider using cloud when they face major technology upgrades, or alternatively, when they're undergoing some form of business transformation. Our survey shows that the prime attraction is to cut the cost of IT, but it can bring much more: 59 percent of providers say cloud is driving innovations in customers' products and services, while 54 percent feel cloud is driving innovation in processes.

The agility of cloud enables businesses to get products to market faster by joining up the different parts of the development chain. Sectors such as healthcare

and financial services can connect customers and influencers within the business, to assess market needs and quickly translate this into new ideas and ultimately new products and services.

Without the need to invest in infrastructure such as servers and data centers, companies can move faster and take more risks. Setting up a new division overseas, or entering into a new product area is faster and cheaper when the IT backbone already exists on the cloud.
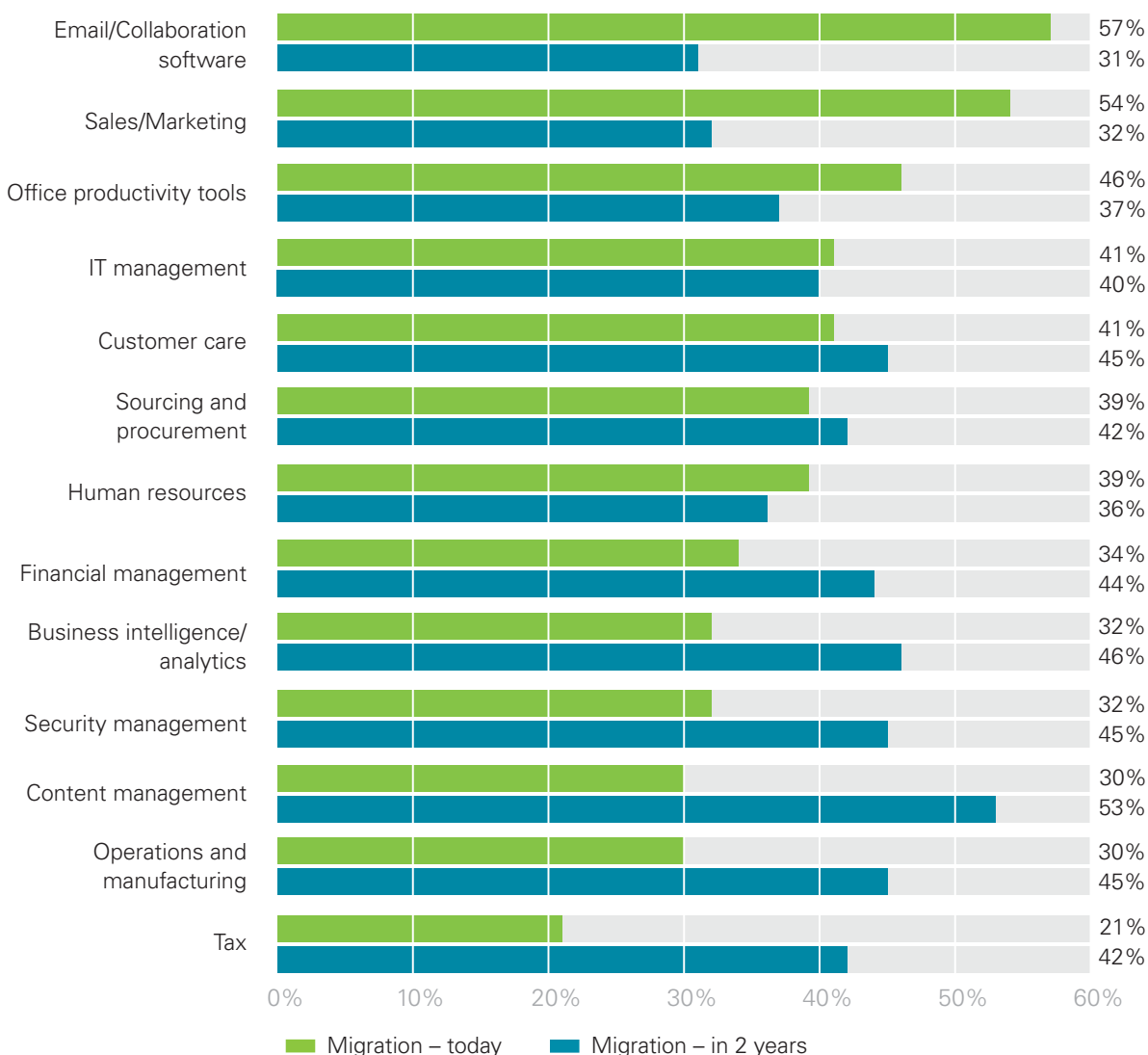
Customers are becoming more comfortable with cloud

To date, providers say that most customers have introduced cloud services on an incremental, department-by-department basis. The functions or areas most likely to have switched are email/collaboration software, sales/marketing and office productivity tools.

As a key engine driving growth, sales and marketing is high on the list of

functions adopting cloud today, as businesses seek innovative ways to connect with customers and manage relationships better. The speed and agility of cloud are particularly appropriate in such cases, especially when combined with mobile devices enabling sales people to access vital data quickly.

What functions/processes are customers migrating to the cloud today and in 2 years?

Function	Migration – today	Migration – in 2 years
Email/Collaboration software	57%	31%
Sales/Marketing	54%	32%
Office productivity tools	46%	37%
IT management	41%	40%
Customer care	41%	45%
Sourcing and procurement	39%	42%
Human resources	39%	36%
Financial management	34%	44%
Business intelligence/analytics	32%	46%
Security management	32%	45%
Content management	30%	53%
Operations and manufacturing	30%	45%
Tax	21%	42%

■ Migration – today   ■ Migration – in 2 years

Source: KPMG International's 2012 Global Cloud Providers Survey.

Breaking through the cloud adoption barriers **7**

Barriers to cloud usage

Providers feel their customers' single biggest reason for choosing cloud services is to cut costs, according to KPMG's 2012 global survey. They also believe that their biggest challenge is to show evidence of cost savings, as they struggle to come up with a robust business case for justifying the switch to cloud.
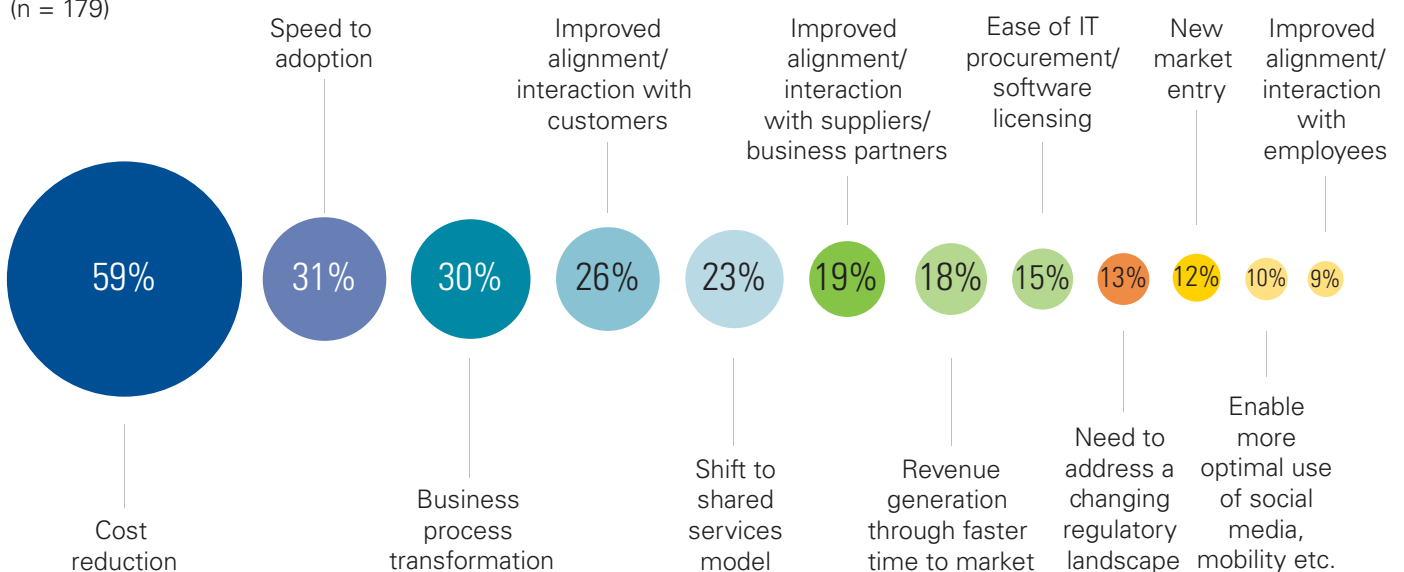
When asked why a customer would use a cloud service, almost 6 out of 10 providers say that cost reduction is the main goal, as they seek to run and/or upgrade their IT infrastructure, email, servers and data storage more efficiently. Speed to adoption and business process transformation are the next two reasons, indicating that companies are not just looking for short-term efficiencies, but are also considering how cloud can

change the way they run their entire business.

Although customers may be keen to lower their IT expenses through cloud, many providers feel customers' expectations are over-optimistic and show a lack of appreciation for the true costs of IT. Only 39 percent of respondents believe that customer expectations of cloud migration cost savings are 'realistic.'

**What are your customers' main reasons for using cloud environments?**

(n = 179)

Speed to adoption — 31%

Improved alignment/ interaction with customers — 26%

Improved alignment/ interaction with suppliers/ business partners — 19%

Ease of IT procurement/ software licensing — 15%

New market entry — 12%

Improved alignment/ interaction with employees — 9%

59% — Cost reduction

30% — Business process transformation

23% — Shift to shared services model

18% — Revenue generation through faster time to market

13% — Need to address a changing regulatory landscape

10% — Enable more optimal use of social media, mobility etc.

Source: KPMG International's 2012 Global Cloud Providers Survey.

To what extent do you agree that customers' expectations of cost savings are realistic?
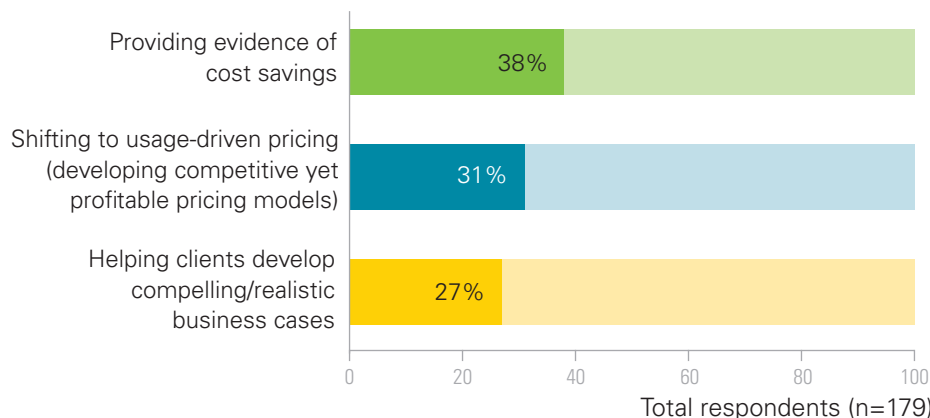

- Disagree
- Neutral
- Agree

19%
39%
42%
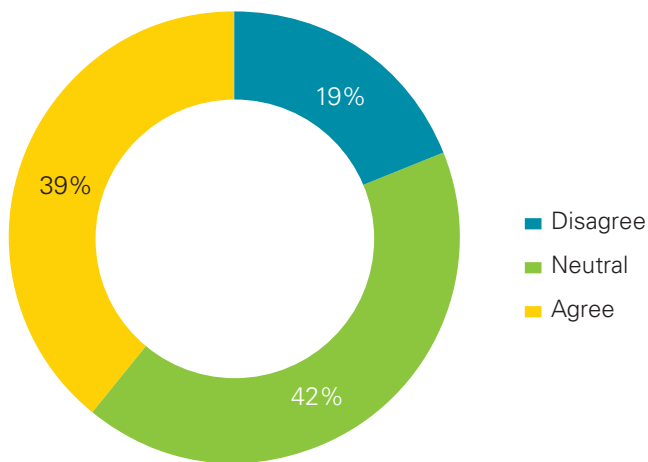
Source: KPMG International's 2012 Global Cloud Providers Survey.

Respondents say their greatest challenge is demonstrating how cloud can bring down costs, while the next most important issues are developing competitive, usage-driven pricing models and building compelling business cases. All three factors are interrelated as users start to embrace cloud for more strategic reasons.

These responses signal a major opportunity for those providers that can get under the skin of customers' businesses, to understand existing IT expenditure and produce meaningful and convincing comparisons of the benefits cloud can bring.

Providers' top three cloud-related challenges

Providing evidence of cost savings	38%
Shifting to usage-driven pricing (developing competitive yet profitable pricing models)	31%
Helping clients develop compelling/realistic business cases	27%

Total respondents (n=179)

Source: KPMG International's 2012 Global Cloud Providers Survey.

48 percent believe customers' biggest concern over cloud migration is a loss of control.

KPMG viewpoint:
Comparing apples with apples

Tom Lamoureux
Global and US Advisory Sector Leader, Technology

In constructing a credible business case for cloud, both the provider and the customer must be aware of the true cost of the existing IT infrastructure as well as the variable and fixed expenses of migration.

In addition, customers often fail to appreciate the complexity of migration, wrongly assuming that cloud is a simple off-the-shelf solution that can be easily bolted onto their processes.

Another hurdle to overcome is the lack of precision in IT cost allocation, making it hard to arrive at a valid cost-per-user that can be compared directly to cloud costs. Some organizations may not break down their labor costs between applications and infrastructure.

In order to present a compelling commercial argument for cloud, vendors need to work with their customers to align these two different approaches to costing and arrive at comparable figures.

Concerns over control and data security

Although most companies have become accustomed to outsourcing significant parts of their IT function, they still appear hesitant about releasing services into the cloud. Providers say that customers' main concern over switching to cloud is losing control – an issue voiced by almost half of all respondents. As well, 39 percent say that data loss and privacy risks are a major worry.
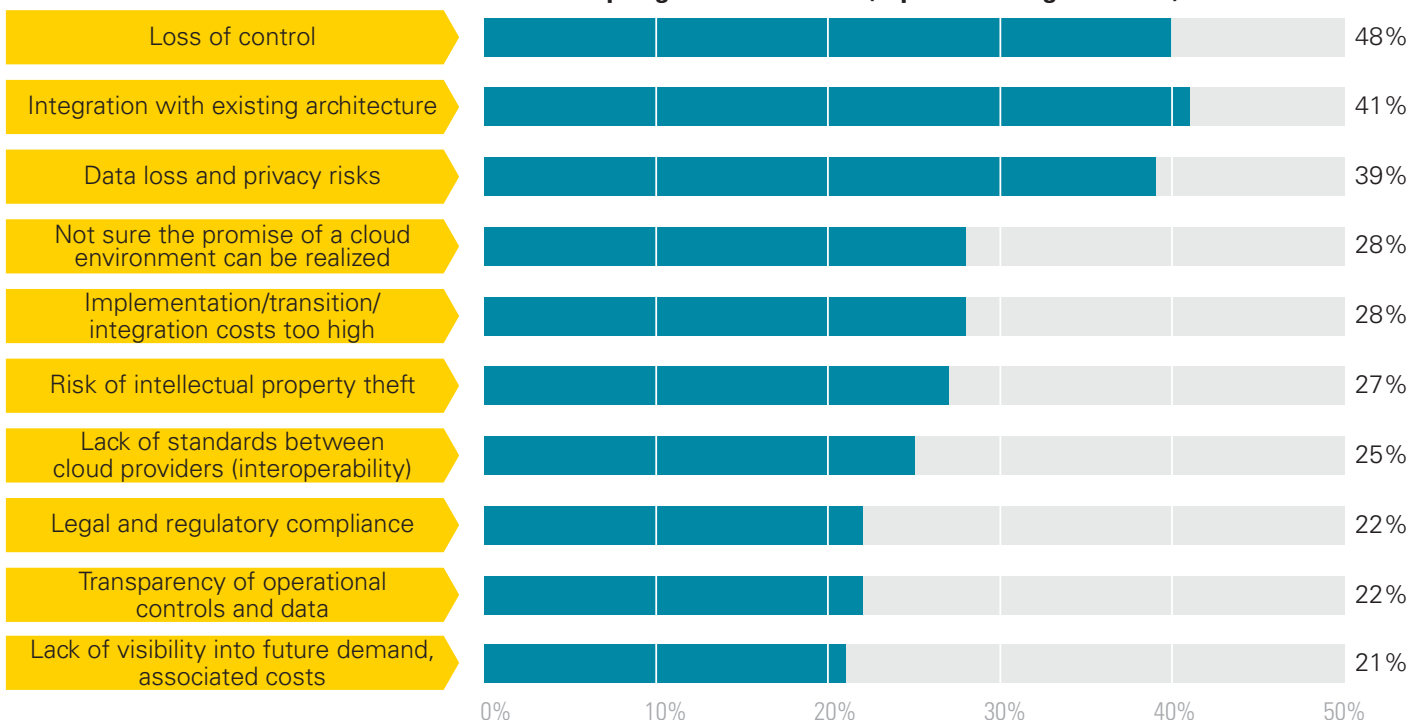
Some may be worried about security within data centers, while others may feel that moving data into different geographies could have tax or regulatory implications.

Another major challenge is integrating cloud with existing architecture. As mentioned earlier, the costs of migrating to cloud are not insignificant, and customers need to be fully aware of all the implications.

Organizations must keep information safe and secure to protect their customers, their business and their reputation. According to our survey, the single biggest challenge in managing data security and privacy is compliance with regulations, with 57 percent of respondents highlighting this concern. Cloud service providers should reassure their customers that they are meeting industry standards by gaining appropriate certification, something demanded by an increasing number of customers.
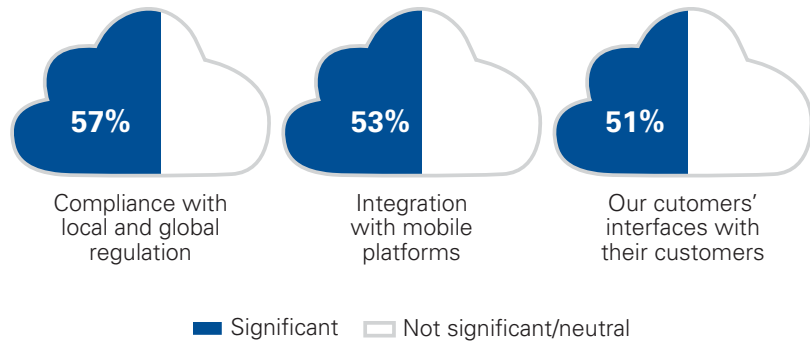
What are your customers' biggest challenges/concerns about adopting cloud services? (top 10 challenges shown)

Challenge	Percentage
Loss of control	48%
Integration with existing architecture	41%
Data loss and privacy risks	39%
Not sure the promise of a cloud environment can be realized	28%
Implementation/transition/integration costs too high	28%
Risk of intellectual property theft	27%
Lack of standards between cloud providers (interoperability)	25%
Legal and regulatory compliance	22%
Transparency of operational controls and data	22%
Lack of visibility into future demand, associated costs	21%

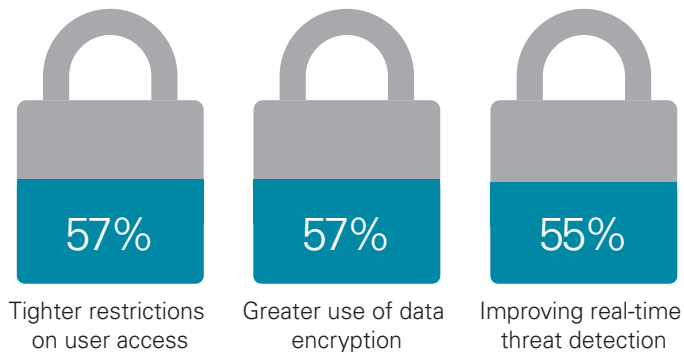Source: KPMG International's 2012 Global Cloud Providers Survey.

(n = 179)

How significant are the following challenges relating to your company's management of customer data security and privacy? (top three challenges shown)

57%	**53%**	**51%**
Compliance with local and global regulation	Integration with mobile platforms	Our cutomers' interfaces with their customers

■ Significant   □ Not significant/neutral

Source: KPMG International's 2012 Global Cloud Providers Survey.

What steps are you taking to improve data security and privacy in your cloud offerings? (top three steps shown)

57%	**57%**	**55%**
Tighter restrictions on user access	Greater use of data encryption	Improving real-time threat detection

Source: KPMG International's 2012 Global Cloud Providers Survey.

In response, cloud providers are shoring up their defenses by placing tighter restrictions on user access and making greater use of data encryption, as well as providing real-time threat detection techniques.

The respondents to our global survey acknowledge that cloud data security needs improvement. Less than half believe that cloud provides greater security than customers' own proprietary/distributed networks, or that cloud environments significantly improve real-time threat detection.

On a regional basis, providers from the Asia Pacific region are most confident in cloud security, while those from Europe, Middle East and Africa and North America are more cautious in their expectations.
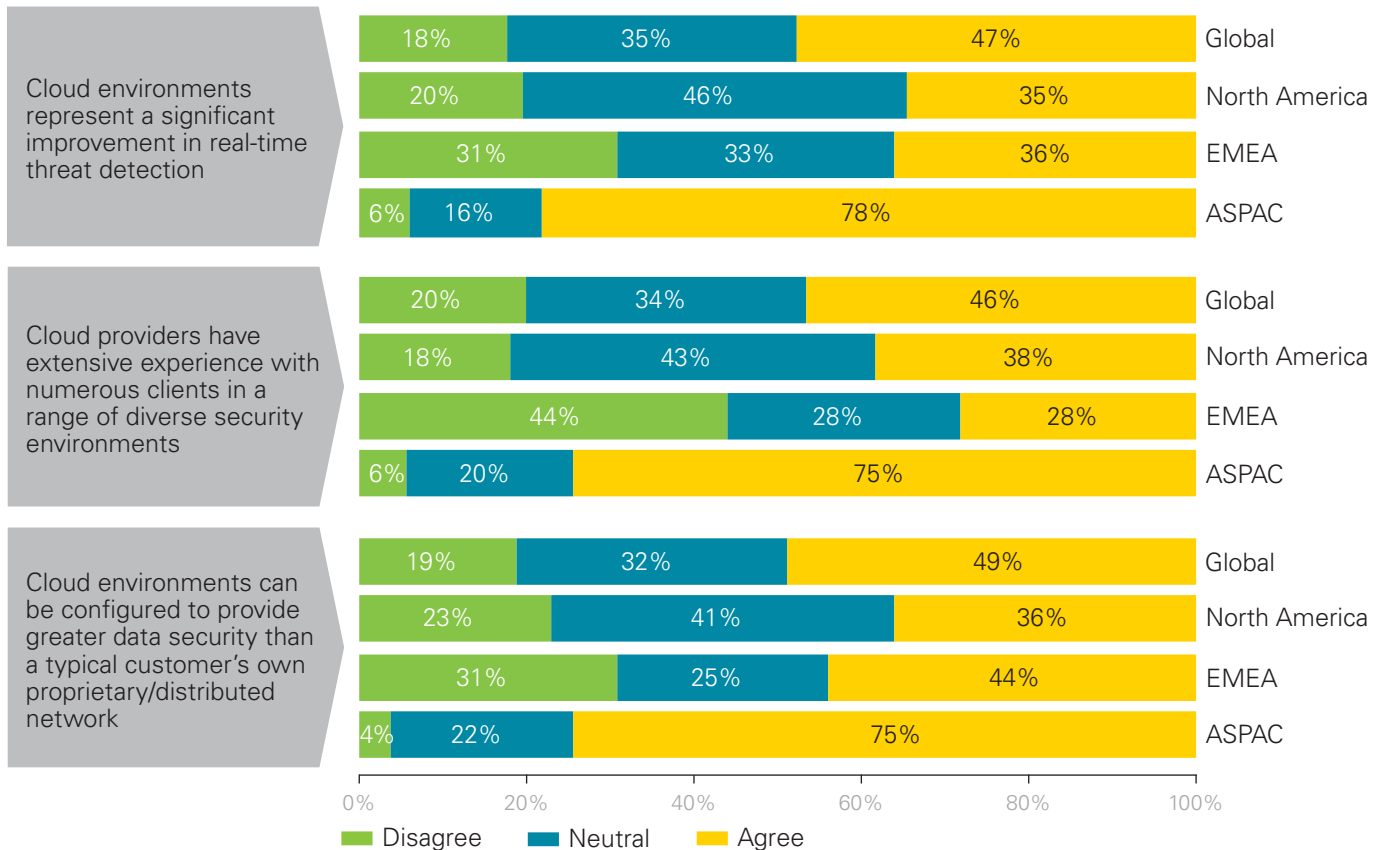
KPMG viewpoint

Tudor Aw
Technology Sector Head, KPMG Europe LLP

Our survey demonstrates that many enterprise customers are becoming more comfortable with moving at least part of their IT infrastructure to the cloud. But it also suggests that data privacy and security remain potential stumbling blocks for many organizations.

Similarly, customers are likely to ask potential cloud service providers about their procedures for storing and segregating data appropriately to comply with applicable regulatory mandates.

Cloud service providers can protect their customers' sensitive information through a variety of tests that demonstrate their compliance with, and adherence to, industry-accepted standards for data security and integrity. Such tests give providers important information and help them address any potential security concerns. And by sharing the results of successful security examinations, providers can reassure customers that appropriate measures are being taken to safeguard enterprise data.

Providers in ASPAC are the most likely to believe in the advantages of cloud; North America, in contrast, seems less convinced in this respect.

Cloud environments represent a significant improvement in real-time threat detection	Disagree	Neutral	Agree	
	18%	35%	47%	Global
	20%	46%	35%	North America
	31%	33%	36%	EMEA
	6%	16%	78%	ASPAC
Cloud providers have extensive experience with numerous clients in a range of diverse security environments	20%	34%	46%	Global
	18%	43%	38%	North America
	44%	28%	28%	EMEA
	6%	20%	75%	ASPAC
Cloud environments can be configured to provide greater data security than a typical customer's own proprietary/distributed network	19%	32%	49%	Global
	23%	41%	36%	North America
	31%	25%	44%	EMEA
	4%	22%	75%	ASPAC

0% 20% 40% 60% 80% 100%

■ Disagree   ■ Neutral   ■ Agree

Source: KPMG International's 2012 Global Cloud Providers Survey.

The customer decision-making process

As providers strive to build a business case for cloud, they are concerned that customers may lack knowledge of this new technology and require further education. Although the sales process is often driven by non-IT executives, the CIO and CTO are the two most important individuals in the ultimate purchase decision, informing the business of the full implications and costs of migration.

One potential consequence of cloud adoption is a shrinking of the IT function. Four in 10 respondents say that customers feel cloud usage contributes directly to a downsizing of their IT departments. This has implications for the sales process, as IT executives may feel threatened by the cloud, regardless of the benefits it can bring.

Cloud environments are a form of downsizing of the IT department
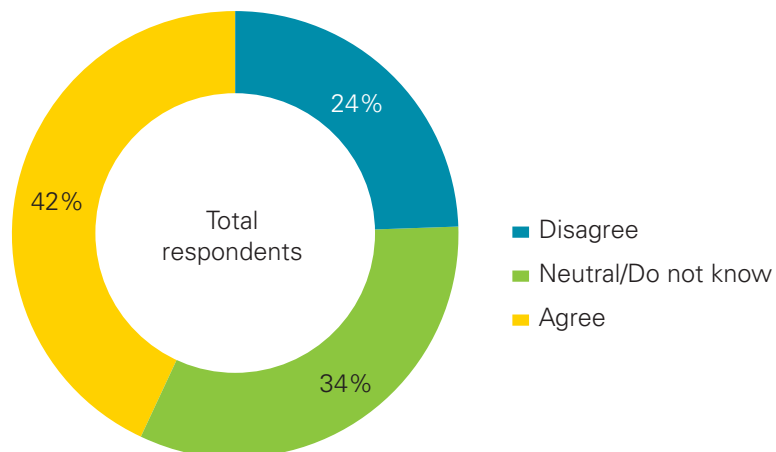
Source: KPMG International's 2012 Global Cloud Providers Survey.

The cloud sales message can be complex, involving a shift from a traditional IT environment to one with a different set of cost dynamics. Yet, less than half of the providers taking part in the survey feel their customers are well-informed about cloud computing at the executive level. Only 43 percent believe they are aware of the cost of cloud vis-à-vis their existing IT services, and a similar proportion feel they do not fully understand cloud security, pricing models, integration with existing infrastructure and contractual arrangements such as SLAs.

How informed are potential cloud customers, at the executive level, on the following issues?

Issue	Not informed	Neutral	Informed
The marketplace	17%	34%	49%
Security	23%	29%	47%
Pricing models	24%	31%	45%
Contractual arrangements including SLAs	25%	31%	44%
Relative costs (cloud vs. on-premise solutions)	23%	34%	43%
Integration with existing infrastructure	22%	37%	40%

■ Not informed   ■ Neutral   ■ Informed
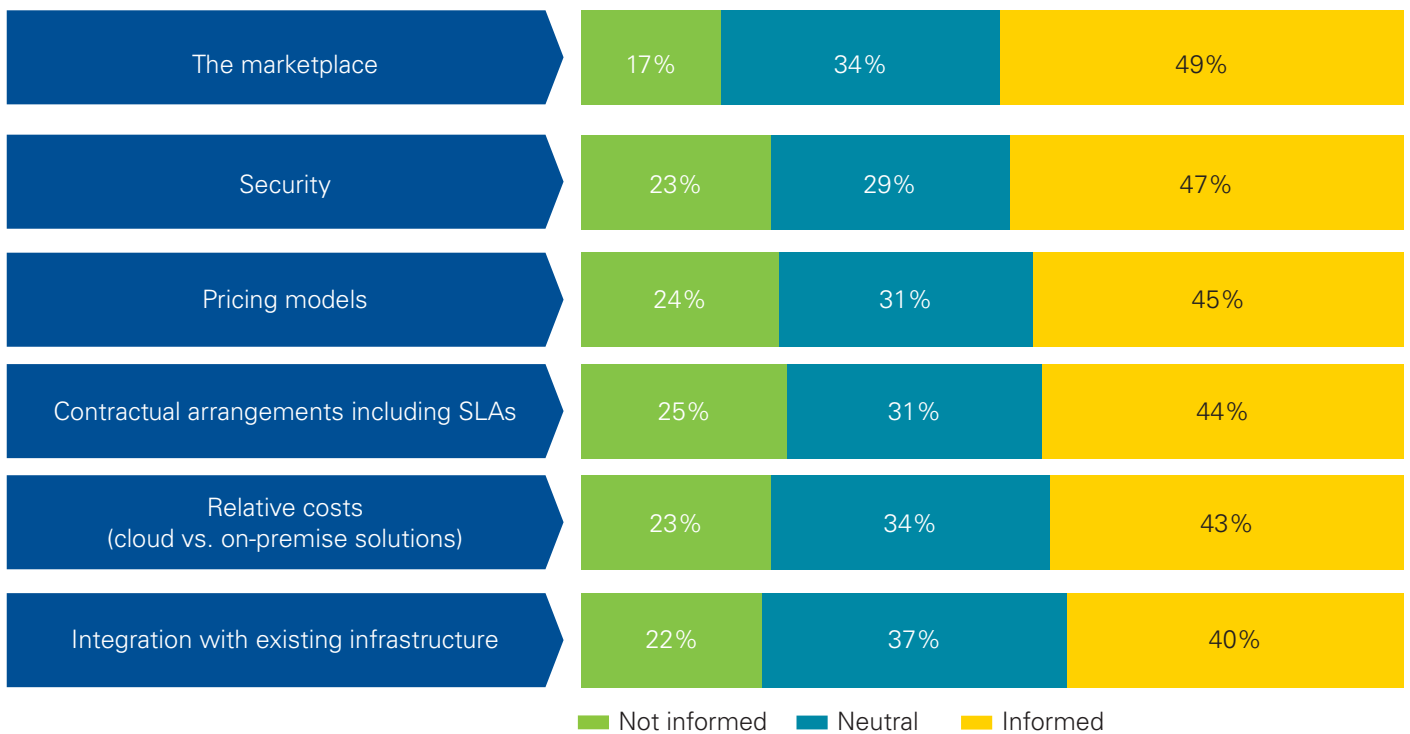
Source: KPMG International's 2012 Global Cloud Providers Survey.

" It's in the interest of providers to ensure that the CIO is heavily involved, as this will help increase the chances of success for the cloud integration and hopefully lead to a lasting relationship. "
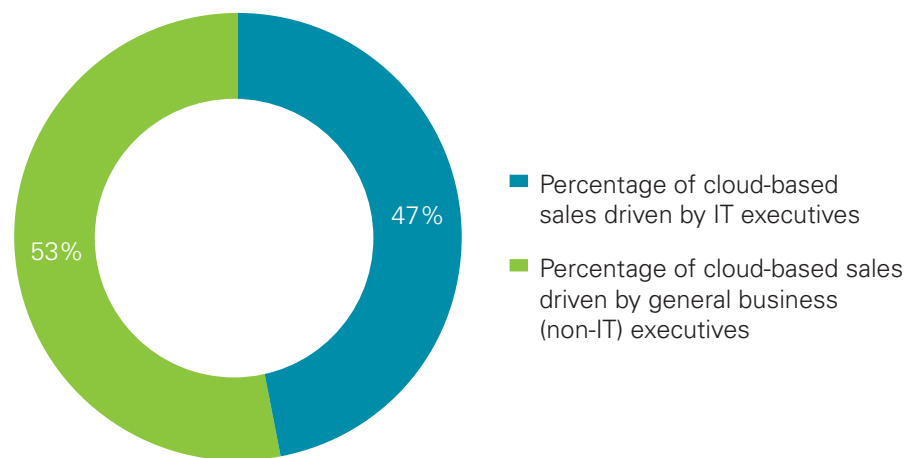
Shahed Latif
Principal,
KPMG in the US

Fifty-three percent of respondents claim that cloud adoption is driven by non-IT executives, and 40 percent feel that IT's level of influence and control over technology decisions is decreasing due to cloud. Providers should therefore ensure that the sales message reflects the needs of various stakeholders, who may be looking for tangible business benefits, cost savings and/or technical advantages.

Point of entry for a cloud relationship

47%

53%

■ Percentage of cloud-based sales driven by IT executives

■ Percentage of cloud-based sales driven by general business (non-IT) executives

Source: KPMG International's 2012 Global Cloud Providers Survey.

The two key figures in cloud purchases are the CIO and CTO, cited by 79 percent and 77 percent of respondents respectively. When business functions choose to adopt cloud independently, the migration can be very disruptive to information management, business intelligence and business processes. IT leadership therefore has to become a bridge between IT and the business leaders, advising on the impact and cost of cloud and assisting with SLAs and integration.

The emergence of cloud also calls for a different range of skills within the IT department, and IT executives will need to have a greater understanding of business engagement, enterprise architecture and vendor management.
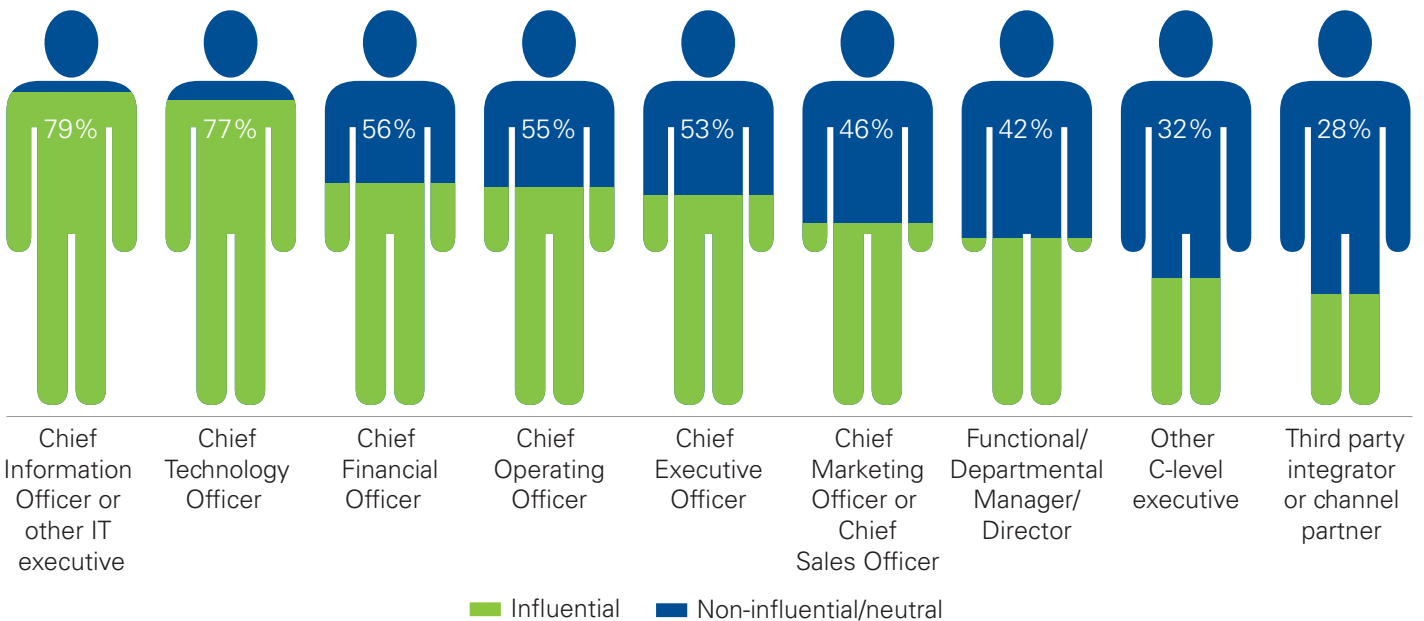
" Providers must recognize where customers have reached in their business transformation/IT upgrade journey, and demonstrate the business benefits of their cloud offering. This means speaking in business language and not just selling technology. It seems that providers are recognizing this, with 24 percent of respondents acknowledging the need to train or retrain their sales forces on cloud. **"**

Gary Matuszak
Global and US Chair, Technology,
Media & Telecommunications

How influential are each of the following executives in purchasing decisions related to SaaS cloud computing services?

| 79% | 77% | 56% | 55% | 53% | 46% | 42% | 32% | 28% |

Chief Information Officer or other IT executive | Chief Technology Officer | Chief Financial Officer | Chief Operating Officer | Chief Executive Officer | Chief Marketing Officer or Chief Sales Officer | Functional/ Departmental Manager/ Director | Other C-level executive | Third party integrator or channel partner

■ Influential   ■ Non-influential/neutral

Source: KPMG International's 2012 Global Cloud Providers Survey.

A cross-functional sale

Shahed Latif
Principal, KPMG in the US

To sell cloud effectively, providers should be aware of the motivations of the three main target groups: IT, the business and finance. The CIO may well be in favor of cloud from a technical perspective, but could also be worried that it might undermine his/her standing by moving IT provision outside the organization. Sales and marketing executives are concerned with how cloud can help them sell their products or service customers more effectively, while operational managers will be seeking greater efficiency. And of course the CFO is looking for a robust business case.

Functional heads may well buy cloud services directly from a vendor, which has serious implications for the implementation and can be highly disruptive. This puts the spotlight on the CIO's role as a subject matter expert and an enabler of IT, providing essential guidance and

expertise that neither the procurement team nor the departmental heads will possess.

It is in the interest of providers to ensure that the CIO is heavily involved, as this will increase the chances of success for the cloud integration and hopefully lead to a lasting relationship. A major failure could deter the customer from buying cloud services in future.

A collaborative sales approach should bring these disparate groups together, with a focus on solutions (as opposed to technical features), as well as on acquiring the relevant client data to produce a convincing cost argument. To achieve this, providers need to understand how far along customers are in their transformation, and what level of IT upgrade they want.

Service level agreements

Only 59 percent of providers have service level commitments, rising to 68 percent within 3 years.

As cloud adoption increases, customers are seeking greater reassurance over cost-effectiveness and security, leading to more tightly defined SLAs and a subsequent shift in the licensing model.

Fifty-nine percent of providers have service level commitments, a figure expected to rise to 68 percent within 3 years.

Data security and system availability are considered the two most important SLA parameters today, as CIOs come to terms with releasing control of areas of IT that were traditionally kept in-house or, in the case of data warehousing, held in a dedicated 'safe' part of the outsourcer's facilities. Looking 3 years ahead, data security remains the number one issue, as customers migrate more data-intensive functions to the cloud.

In marketing their cloud services, providers should be aware of customers' fears, which to some extent reflect a general wariness over outsourcing and shared services. To do this they will need to reassure customers about the reliability and safety of using this new technology. The rise in smartphone usage offers employees more opportunities to access sensitive data via their mobile device, and organizations need to find ways to keep track of and manage such sensitivities, as new mobile applications roll out in the thousands.
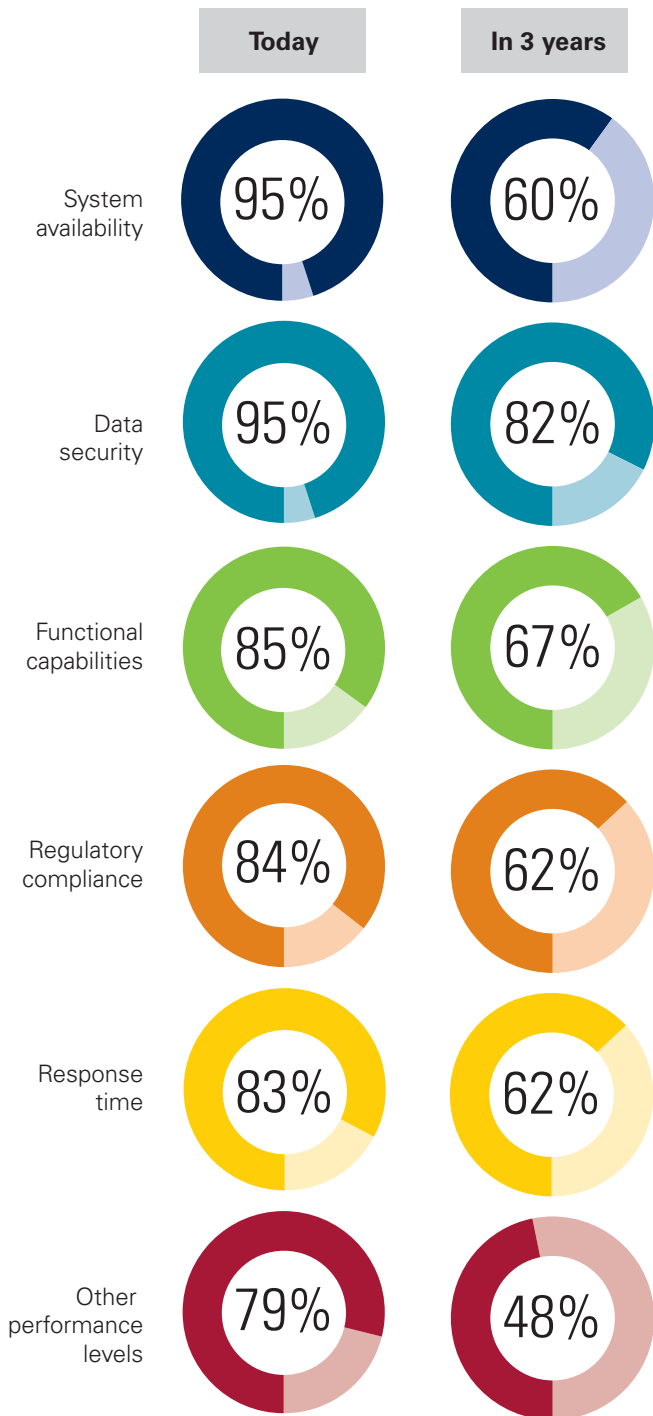
Do you have SLAs in your cloud offerings today?
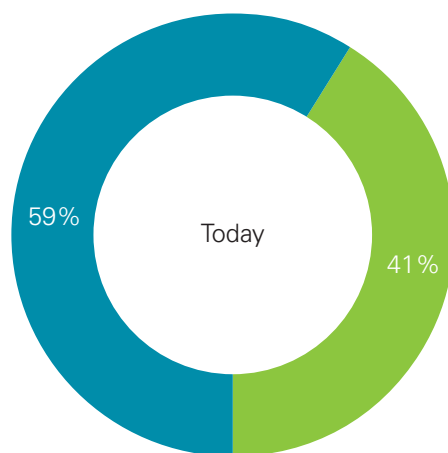
Do you expect to have service level agreements in your cloud offerings within the next 3 years?

Today
59%
41%
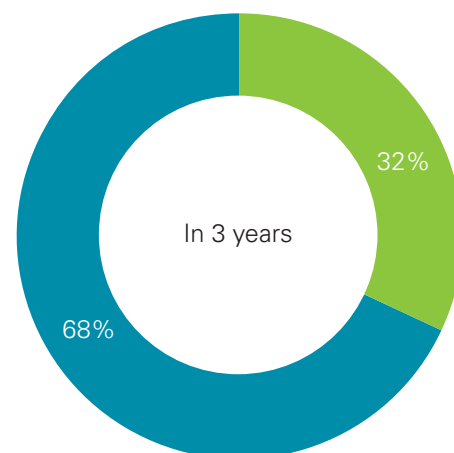
In 3 years
68%
32%

■ Yes   ■ No

Source: KPMG International's 2012 Global Cloud Providers Survey.

What do you believe will be the most important SLA parameters (today and in 3 years)?

	Today	In 3 years
System availability	95%	60%
Data security	95%	82%
Functional capabilities	85%	67%
Regulatory compliance	84%	62%
Response time	83%	62%
Other performance levels	79%	48%

Data security is and will continue to be the most important SLA parameter.

Source: KPMG International's 2012 Global Cloud Providers Survey.

The way in which cloud services are used and charged for is impacting the commercial terms of business with customers, and providers are aware that users may try to find ways to pay less. Over one-third of respondents are concerned that their customers may circumvent key elements of cloud-based agreements (intentionally or unwittingly) by developing workarounds or other methods.

Consequently, half of the providers taking part in the survey say they are changing their licensing model to reflect the move away from traditional IT solutions.

How concerned are you that your customers may circumvent cloud-based pricing, licensing, SLAs or other elements of your agreements?

- Not concerned
- Neutral
- Concerned

28%
36%
36%
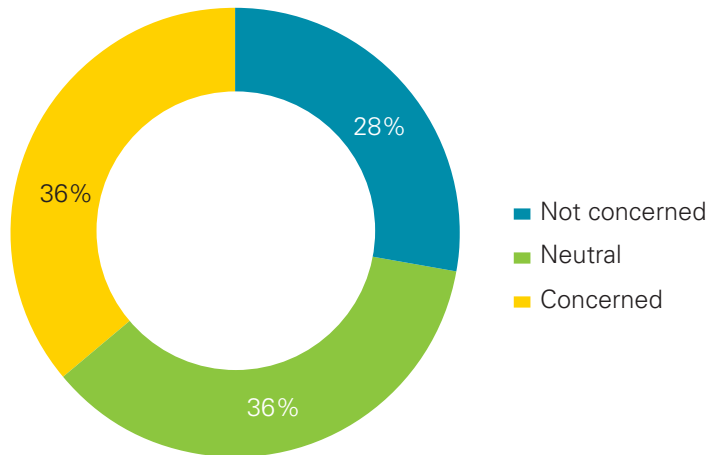
Source: KPMG International's 2012 Global Cloud Providers Survey.

For your primary products, how has your licensing model changed when moving from traditional solutions to cloud solutions?

- 11% No/little change
- 39% Neutral
- 50% Some/tremendous change
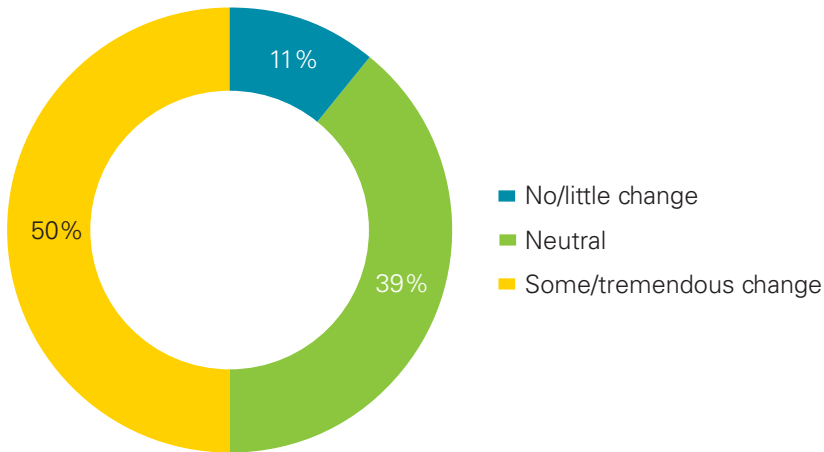
Source: KPMG International's 2012 Global Cloud Providers Survey.

"

While providers are seeing the challenges of a maturing, yet still relatively young, market, we are at a pivotal point in the evolution of the cloud ecosystem as users become more comfortable with a variety of cloud applications. Leading cloud providers know they must evolve to provide a new level of scale, capacity and capability. "

Gary Matuszak
Global Chair and US leader, Technology, Media & Telecommunications

The cloud deployment ecosystem

61 percent of providers say customers rely on a third party for acquiring and/or integrating technology.

Users are migrating core systems and critical infrastructure to the cloud, with PaaS and IaaS usage increasing over the coming years. Cloud users are unlikely to have the in-house skills to support such a major organizational change, and providers feel that customers will continue to seek strategic direction and guidance, as well as direct operational help across a broad range of areas.

Two-thirds of cloud providers say they are most active in SaaS and expect this to continue over the next 2 years. Yet, with the anticipated shift to more data-intensive applications, PaaS and IaaS activities are projected to have the greatest increase over the same period.

Migration to cloud can be a complex transformation, and users are typically unable to do it on their own – especially as many lack an in-depth knowledge of cloud. Sixty-one percent of providers say their customers rely on a third party for acquiring and/or integrating technology.

Do your customers rely on a third party for technology acquisition and/or integration?

Yes 61%   No 39%
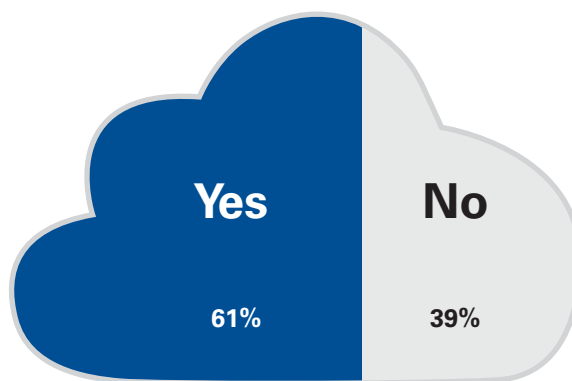
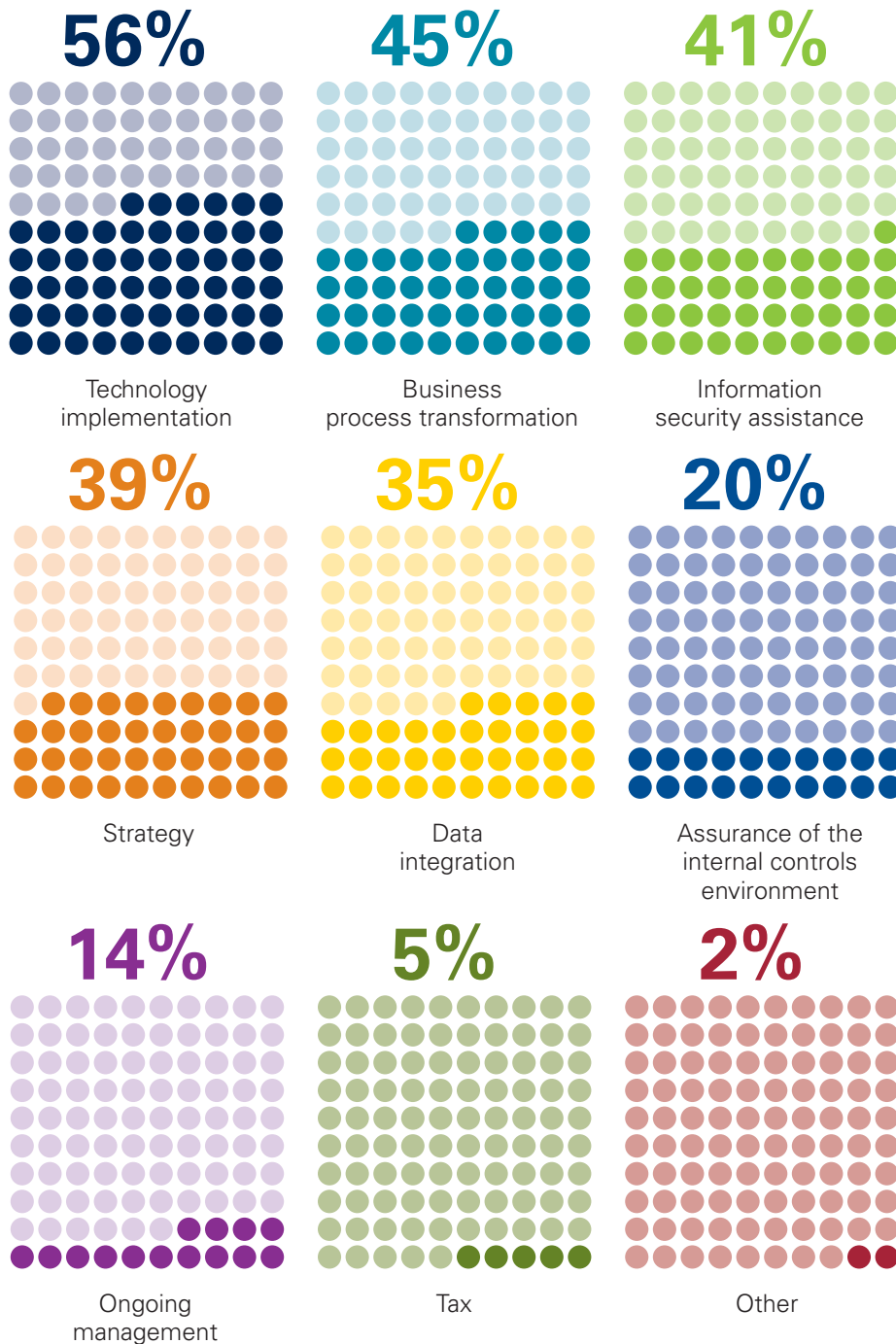Source: KPMG International's 2012 Global Cloud Providers Survey.

The survey suggests that customers are using third parties for a wide range of tasks such as technology implementation, business process transformation, information security assistance and strategy, which again signifies the multi-functional impact of cloud. Unique country tax, regulatory and cultural needs also call for specialized, local knowledge around the world, so the use of external assistance seems set to continue.

As cloud providers evolve, the market for PaaS and IaaS is becoming more commoditized, so users may ask for additional help from third parties that specialize in particular business functions, in order to provide very specific solutions.

What are the primary drivers behind your customers' decisions to involve third parties?

56%
Technology implementation

45%
Business process transformation

41%
Information security assistance

39%
Strategy

35%
Data integration

20%
Assurance of the internal controls environment

14%
Ongoing management

5%
Tax

2%
Other

Customers use third parties for technology implementation, business process transformation, information security assistance and strategy.

Source: KPMG International's 2012 Global Cloud Providers Survey.

Adapting to a changing marketplace

Almost half of respondents say they will form a partnership or expand capabilities, which will enable them to offer more strategic services and consulting and will also meet the demands of customers with global operations.

What is the likelihood your company's cloud strategies will lead to the following actions?

48%

Form a partnership(s)

47%

Create/expand a consulting arm to complement product offerings

44%

Acquire a complementary provider

40%

Initiate one or more formal joint ventures

38%

Acquire a competitor

36%

Collaborate with a competitor or competitors

35%

Pursue or agree to a merger

34%

Divest assets or divisions

26%

Be acquired
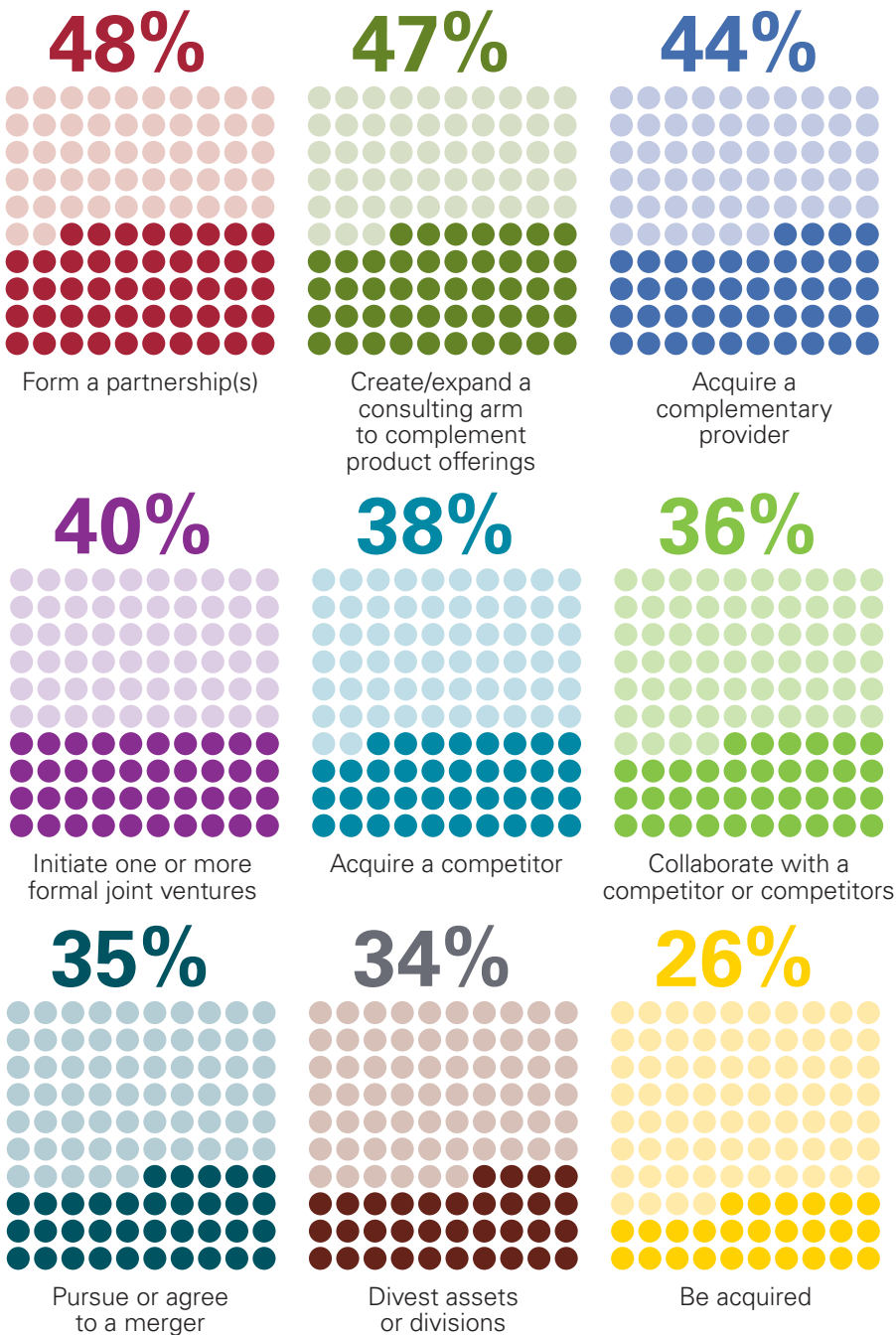
Source: KPMG International's 2012 Global Cloud Providers Survey.

Conclusion

Top seven tips for cloud providers

The cloud market is at a pivotal point, as users become more comfortable with a variety of applications and start to trust the cloud for their most critical, data-intensive functions and processes. As they look to the future, cloud providers should consider the following:

1 Ensure that you understand and explain customers' existing IT costs and the true cost of migration, and build a strong argument for switching to cloud. This should incorporate cost savings as well as wider business benefits, such as faster speed to market, improved productivity, and richer management information.

2 Educate customers on cloud and its implications for their businesses. Recognize that the CIO and CTO are bridges to senior management as well as decision-makers in their own right. This means orienting the cloud sales message towards non-technical, board-level executives, with a focus on solutions that recognize the motivations of the various stakeholders and take account of the gradual homogenization of the cloud environment.

3 Address concerns over the potential downsizing of the IT department and the loss of control over IT.

4 Understand where customers stand in their business transformation/IT upgrade journey, which will impact their willingness to migrate data-intensive functions and activities to the cloud.

5 Demonstrate clearly how you are adhering to industry-accepted standards and certification for data privacy and security. By showing that sufficient measures are in place, this may ensure customers get the same sense of security from the cloud that they do from their on-premise solutions.

6 Introduce more comprehensive cloud SLAs and new licensing models to tighten up commercial terms.

7 Consider how you can help customers with strategic and consulting services, which may involve training or retraining staff and working more closely with third parties.
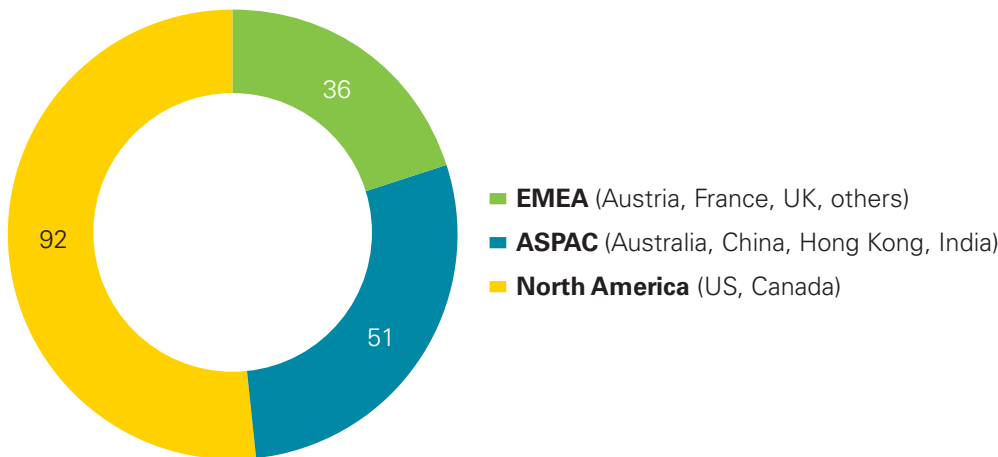
About the survey

This web-based survey was conducted by Forbes Insights on behalf of KPMG during July and August 2012, featuring 179 respondents from 10 countries. Seventy-four percent of the respondents' organizations have revenues of US$500 million or more, and 69 percent come from companies with more than 1,000 employees.

Forty-five percent of those surveyed are C-level executives working in the following businesses: manufacturers of IT/computing equipment; manufacturers of telecommunications equipment; other manufacturing and processing companies; computer software developers; telecommunications services; business and professional services; other technology organizations.

The survey is part of ongoing research into cloud adoption trends. We have also launched a global study looking at cloud adoption from the customer's perspective.

Respondents were located across a range of countries

- **EMEA** (Austria, France, UK, others) — 36
- **ASPAC** (Australia, China, Hong Kong, India) — 51
- **North America** (US, Canada) — 92

Source: KPMG International's 2012 Global Cloud Providers Survey.

If you would like a copy of our global cloud users survey report, *The Cloud Takes Shape*, please contact us at tmt@kpmg.com.
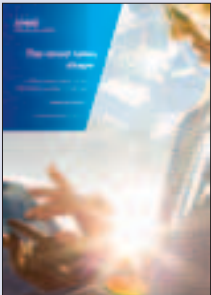
◀ **The cloud takes shape**

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