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# Got Cloud?

## Optimizing Your New Cloud Portfolio To Mitigate Your Risks

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Shared Services and  
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KPMG

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Partner and Chair, Technology and  
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Loeb & Loeb LLP



# Presenter



**Managing Director**  
***KPMG***

Brian is a leader in KPMG's Advisory Services practice with 25 years of experience in IT operations, outsourcing, and consulting. He has managed major transformational programs as a senior client executive, as an outsourcing executive, and as a consultant.

His core focus areas include strategy formulation, transformational leadership, outsourcing deal formulation/remediation, and steady-state operational optimization.

# Presenter



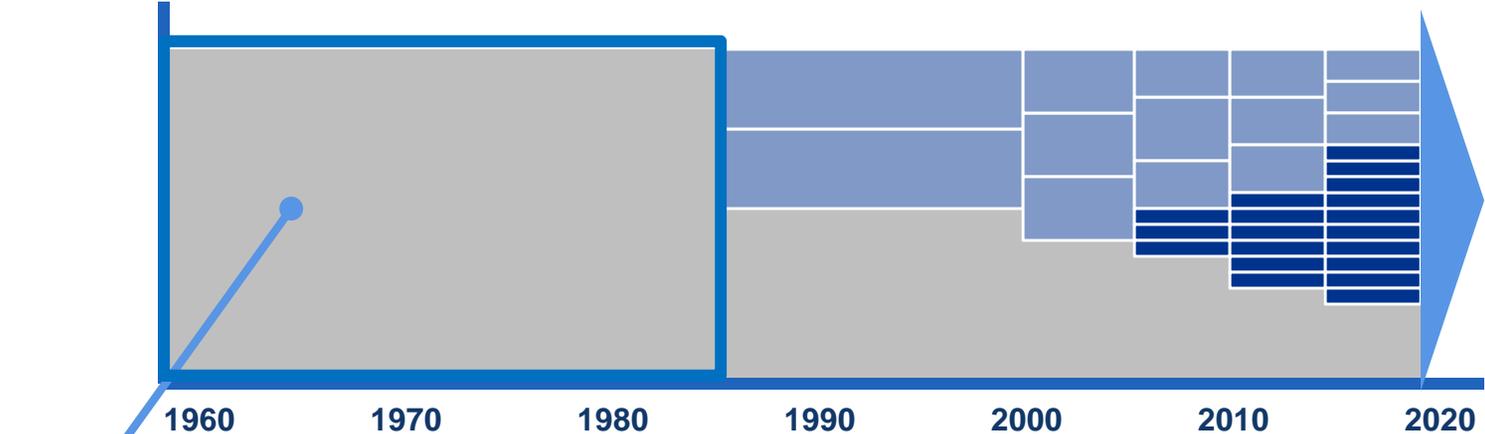
**Partner**  
**Loeb & Loeb**

Kenneth A. Adler specializes in complex global and domestic outsourcing and technology transactions. With more than 25 years of experience, his practice includes drafting and negotiating all types of outsourcing and technology agreements, including business process and information technology outsourcings. He has significant experience addressing the creation of, and strategies relating to, cloud computing, multi-sourced environments, as well as renegotiation and termination of existing outsourcing and IT related agreements. Ken is recognized in leading legal directories as one of the foremost attorneys in the areas of outsourcing and information technology. Among his many accolades, Ken has been cited for excellence in the law by *The Best Lawyers in America*, *The Legal 500 US*, *Chambers Global*, and *Chambers USA*, which recognized him as "a remarkable lawyer at the helm of a great team", as well as having "an encyclopedic knowledge of the industry – if you are doing something he has seen it."

# Evolution of IT Service Portfolios

# Evolution of Existing IT Service Portfolios

IT Portfolios are *Fragmenting*



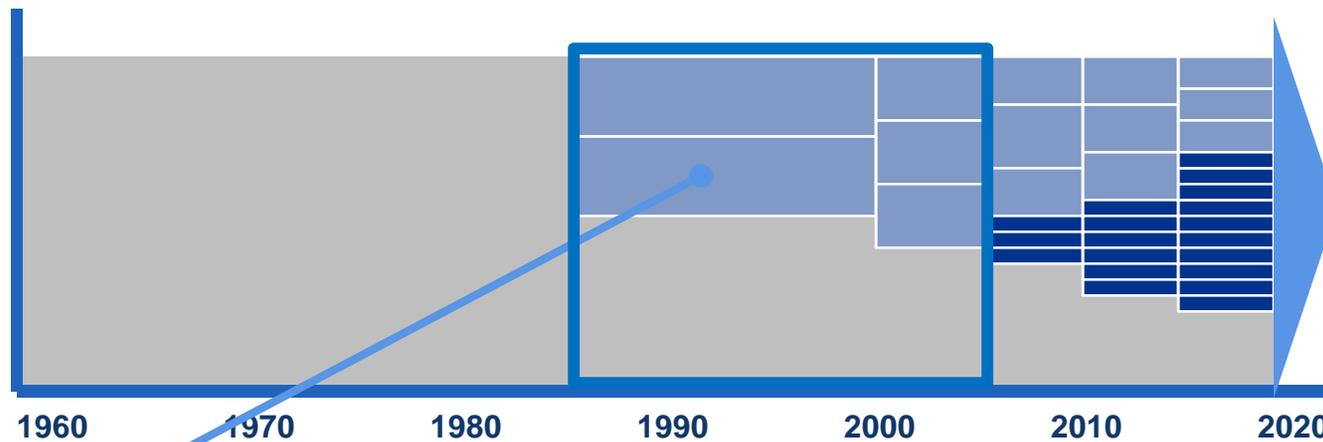
**1960s to 1980s: Single Provider...IT**

- Focus: initial technology exploration, development
- Major development, custom solutions
- External services limited to projects

Cloud Services
Traditional Outsourcing
Internal IT

# Evolution of Existing IT Service Portfolios

IT Portfolios are *Fragmenting*



## 1980s to 2000s: Outsourcing Boom

- Large deals
- Single providers
- Large scope areas
- Long-term deals (7-10 years)

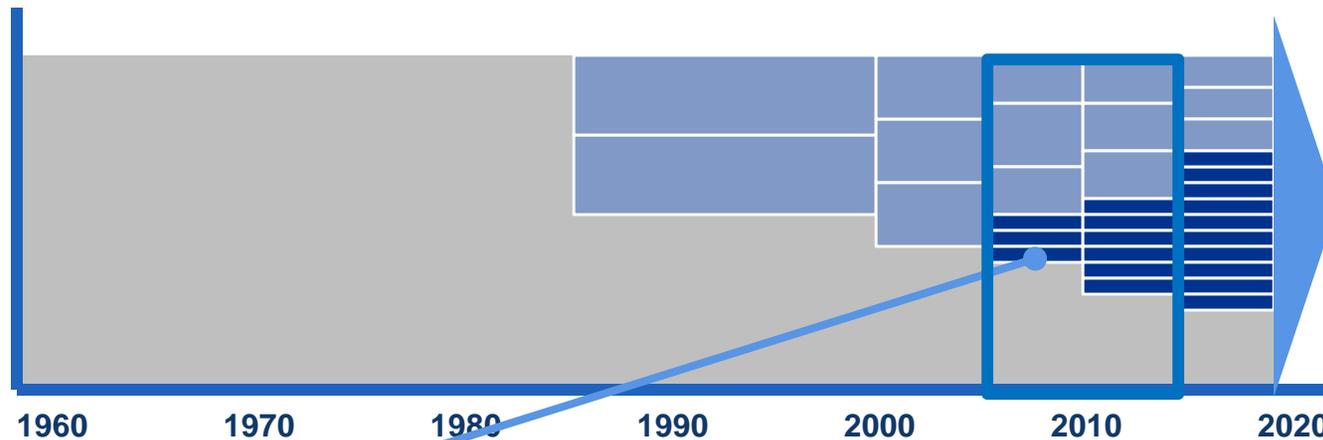
Cloud Services

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# Evolution of Existing IT Service Portfolios

IT Portfolios are *Fragmenting*



## 2000s to Present: Cloud

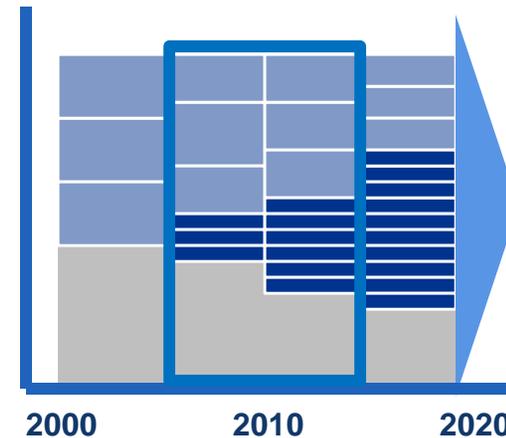
- Everything “as a service”
- BYOD
- Smart phones / Tablets
- “Apps”
- Traditional outsourcing squeezed: shorter deals, narrower scope, increased commoditization pressure from XaaS



# Evolution of Existing IT Service Portfolios

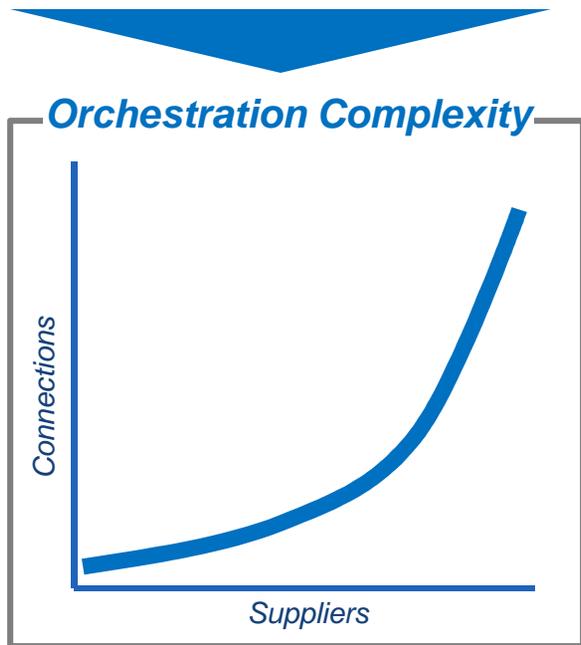
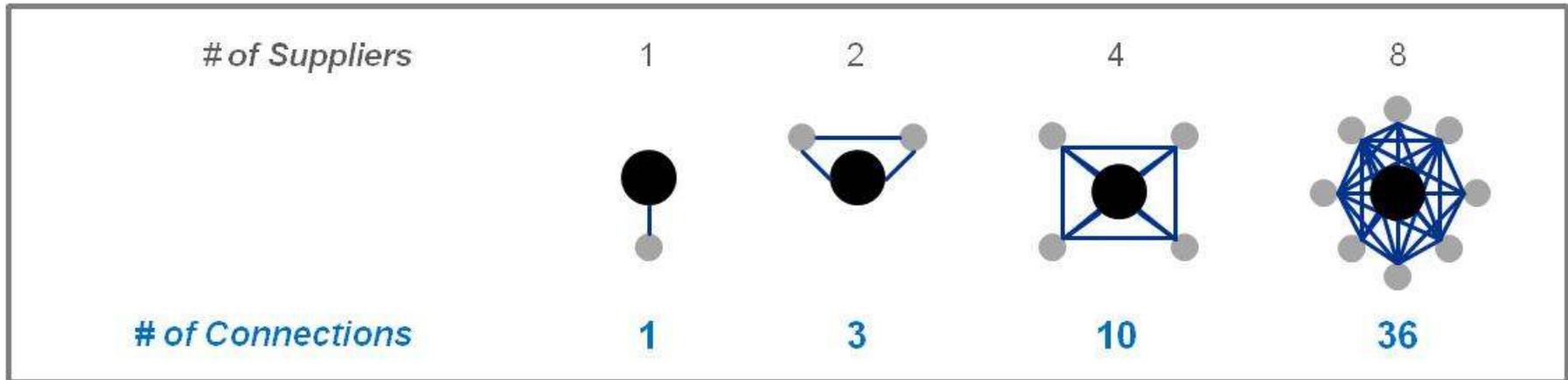
## IT Portfolios are *Fragmenting*

- **BYOD** enabled in some form by 89% of organizations (*Cisco*)
- U.S. **smartphone** market 1Q13 ~ 137 million users (*IDC*)
- Average number of connected **devices per user** is now 2.8, up 22% in just two years (*Cisco*)
- **Millions of users:** Salesforce.com ~ 3, SuccessFactors ~ 9, Taleo ~20 (*Morgan Stanley Research*)
- Amazon Web Services managed 905 billion **objects** 1Q12, up from 3 billion 4Q06 (*Industry reports*)
- **Sales of servers** for on-premise deployment historically grew at +/- 20% YOY up until 2010. In 2012, it was 0% (*Morgan Stanley Research*)
- **SaaS** adoption is projected to grow at 50% CAGR between 2010 and 2014 (*Morgan Stanley Research*)



# **Service Integration Emerges and Related Implications**

# Fragmentation Demands Rigorous *Orchestration*

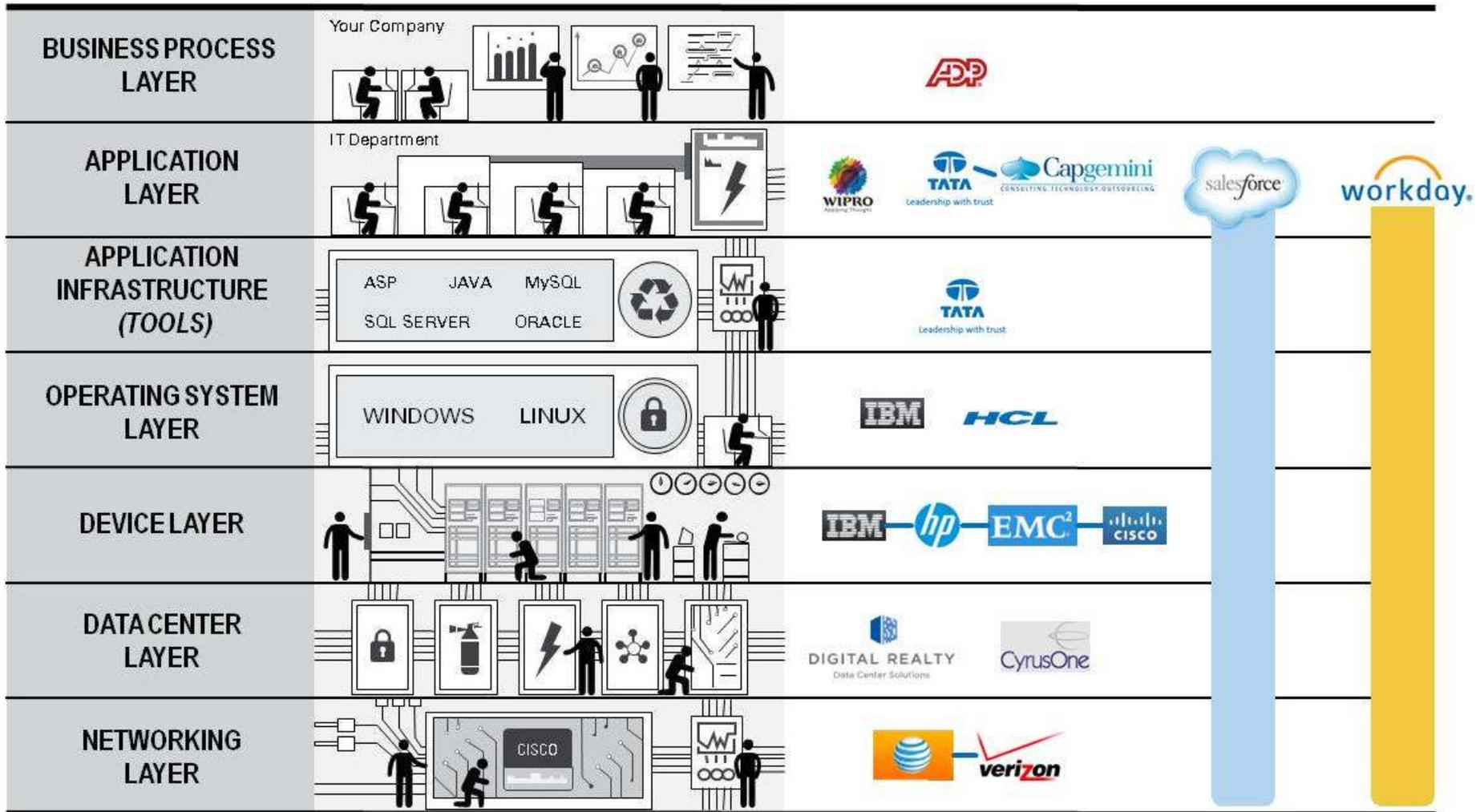


*Portfolio complexity increases exponentially as new suppliers are added*

# Operating Models Are **dE**volving Rapidly

*Increasingly decentralized, disaggregated, heterogeneous*

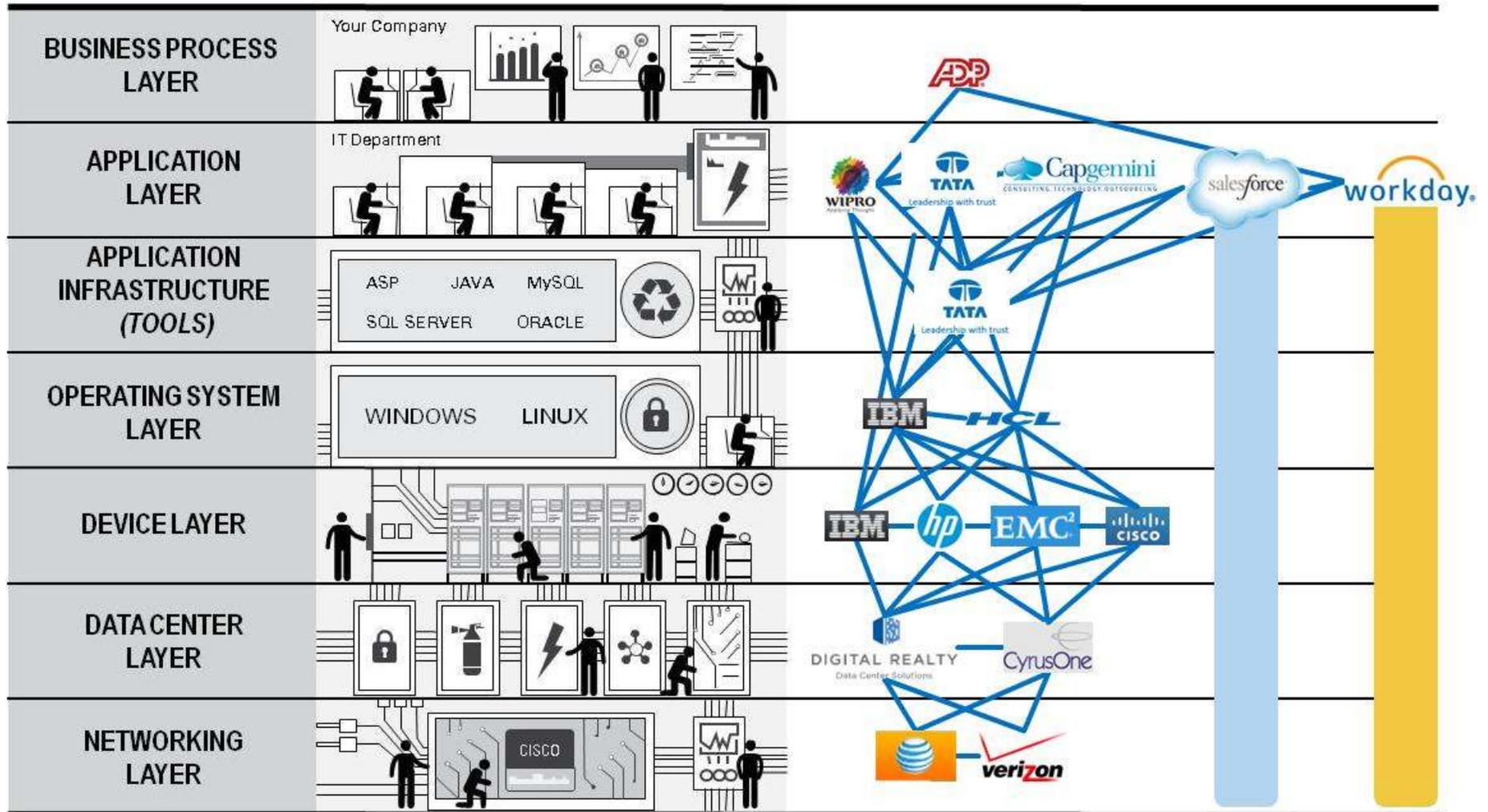
Illustrative



# Operating Models Are dEvolving Rapidly

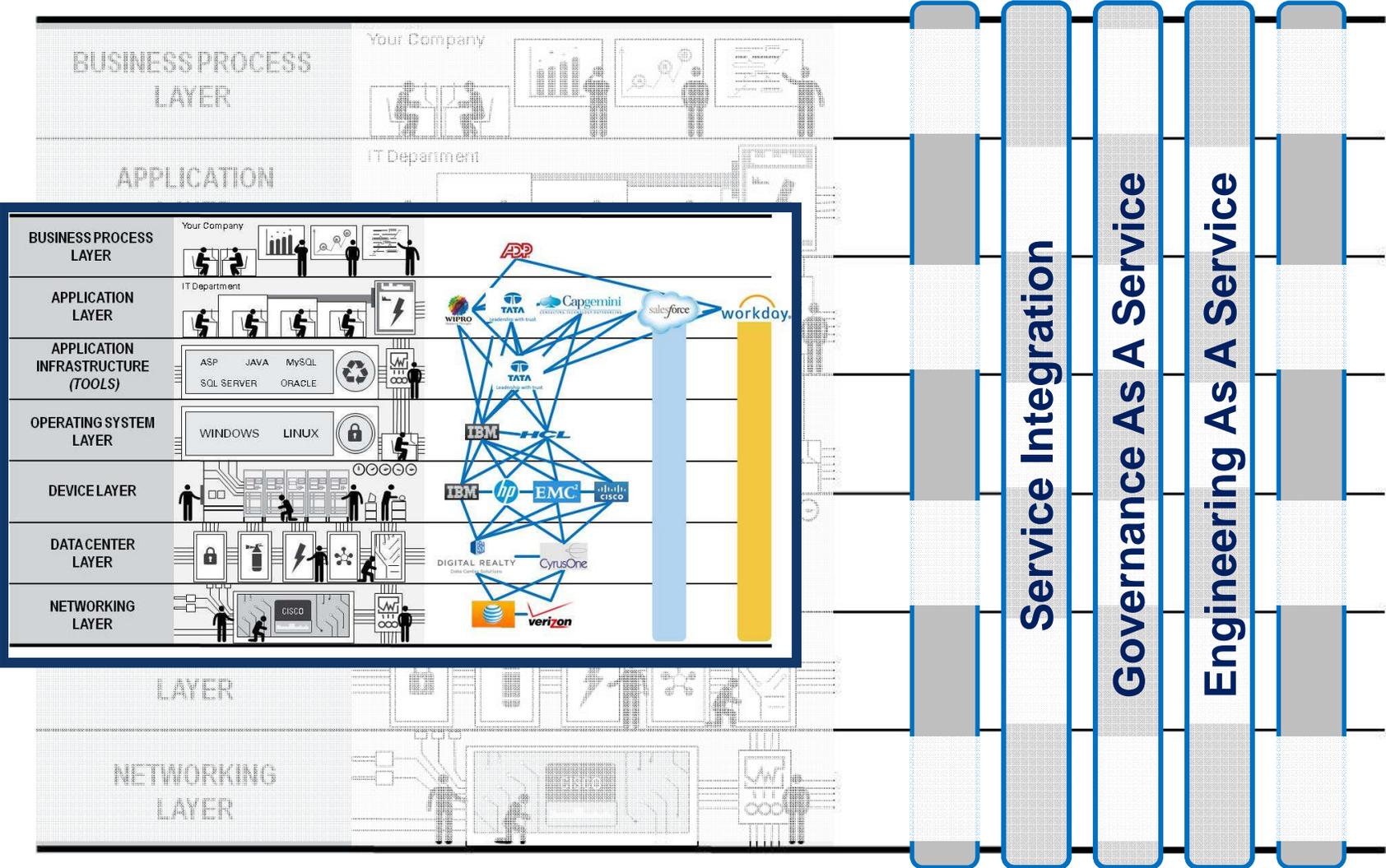
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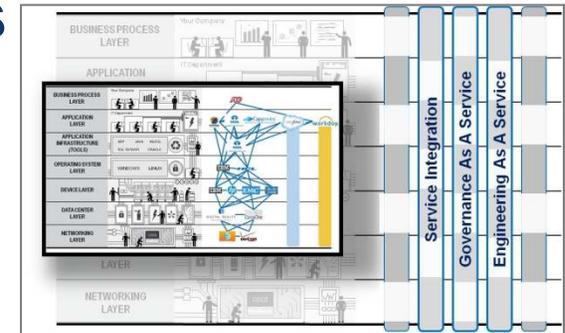
# Bringing Order

## *Emergence of Orchestration Services*



# Orchestration Services: Market Examples

***Robust integration capabilities are becoming critical***



	<b>Service Integration</b>	<b>Governance As A Service</b>	<b>Engineering As A Service</b>
<b>Alignment</b>	<ul style="list-style-type: none"> <li>• Extension of Service Delivery team</li> </ul>	<ul style="list-style-type: none"> <li>• Extension of Vendor Governance capability</li> </ul>	<ul style="list-style-type: none"> <li>• Extension of Architecture &amp; Engineering teams</li> </ul>
<b>Responsibilities</b>	<ul style="list-style-type: none"> <li>• Single point of contact, responsible for coordinating underlying services</li> <li>• Often combined with service desk, but becoming more stand-alone</li> </ul>	<ul style="list-style-type: none"> <li>• Deep expertise, tools, insights for overseeing a portfolio of service providers</li> <li>• Invoice / SLA verification, governance meetings, issue resolution</li> </ul>	<ul style="list-style-type: none"> <li>• Technical design</li> <li>• Project SME</li> <li>• Project execution &amp; leadership</li> </ul>
<b>Engagement</b>	<ul style="list-style-type: none"> <li>• Long-term contract</li> <li>• Operational SLAs</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term contract</li> <li>• Named Resources on-site, augmented by remote services</li> <li>• Deep expertise &amp; client intimacy</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term contract</li> <li>• Committed staffing/spend levels</li> <li>• Subset of Named Resources</li> </ul>

# **Contracting Implications and Best Practices**

# Increase in Cloud-based XaaS Offerings and Associated Risks

- Increase in Cloud-based offerings
  - SaaS, PaaS and IaaS
  - Pure play cloud
  - Hybrid cloud
  - Traditional service provider cloud offerings
- Increase in Industry Specific Cloud Offerings
  - Healthcare, Financial Services, HR
- Greater adoption for the enterprise
- Cloud provider risk profile  $\neq$  enterprise risk profile
  - Commodity offering v. integrated services

# Effect on Existing Contracts and Contracting Models

- Cloud-based services added to existing transactions
  - Technology improvements
  - Cost savings opportunities
- Disaggregation of service scope
- Best of breed solutions
- Shorter term transactions
- Varied models of partnering/subcontracting for service delivery

# Cloud Portfolio Lessons Learned

- Demarcation of service scope
  - Not end-to-end
  - Demarcation of *customer* retained scope
  - Demarcation of *third party* supplier scope
- No consistency on contract terms
- Form contracts are immature
- New entrants not accustomed to dealing with the “enterprise” concerns
- Suppliers view offerings as “commodity”
- Suppliers subcontract/outsource key portions of their solutions
- New entrants/financial and operational considerations

# Common Risks Across Cloud Transactions

- Data ownership and use
- Data security
- Compliance requirements
- Supplier ongoing viability
  - Sunsetting/replacement of service offering
- Integration with changing enterprise IT environment
- Disaster Recovery/Business Continuity
- Termination rights
- Remedies for service failures
- Disentanglement

# Establishing Robust Standards for the Various XaaS Services

## ■ Consistency:

- Contract terms
- Policies/processes
- Compliance requirements
- Governance

## ■ Requires buy in/participation from:

- IT
- IT Security
- Sourcing
- Compliance
- Finance
- Legal
- Business/Sponsors

# Proactively Deploy Contract Terms

- Create XaaS template agreements
- Conform terms to enterprise forms/customer concerns
- Address key cloud risk issues
- Obtain input from all applicable SMEs
- Consider back-up positions/playbook
- Train negotiators how to use template agreements

# Proactively Deploy Policies/Procedures

- Enterprise IT Cloud Policies
- Data security requirements
- Privacy guardrails
- Outsourcing requirements (as applicable)
- Procedures to address concerns/exceptions
- Define roles/responsibilities

# Proactively Address Compliance Issues

- Involve key SMEs
- Establish compliance requirements/prohibitions
- Develop integrated contract language
- Address ongoing compliance responsibilities/roles
- Ensure audit rights are addressed
  - Internal
  - External
  - Governmental authority
- Schedule periodic meetings

# Proactively Address Governance

- Establish standard governance models
  - Vary for type of cloud service involved
  - Simple structure for SaaS
  - More robust structure for IaaS
- Ability to manage across transactions
- Ability to manage across suppliers
- Consider enterprise level governance

# Takeaways

# Contact Information

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