Applying the private equity playbook to cloud migration

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The compelling economics of the cloud

Chief financial officers (CFOs) and chief information officers (CIOs) have balanced a difficult position since the recent financial crisis – drive down costs while demand for computing power, storage and bandwidth continue to accelerate. The general response among financial services firms has been to double down on large-scale enterprise IT capacity, leading to investments in fewer but larger data centers, more enterprise license agreements, and larger and longer vendor commitments.

As a result, up to 75% of a firm's enterprise IT budget is typically tied to fixed terms or assets.[1]

Most organizations have also recognized the value that the cloud offers: predictable performance, availability, flexible computing, agile enablement, elasticity and security – all at an economy of scale few organizations can match.

Market leaders have touted their focus on technology and innovation, and stakeholders will expect IT organizations to fully leverage new cloud capabilities. This presents two key challenges for leadership:

- As demand for internal IT environments fall, can financial services firms continue to operate economically?
- If the majority of costs are fixed, when will financial services firms realize financial benefits from cloud?

By following an approach inspired by private equity, CFOs and CIOs can create an accelerated glide path to reduce stranded costs and increase return on investment.

Our experience has found that companies that follow this playbook have up to 30% higher benefit through faster migrations and lower operating costs.[2]

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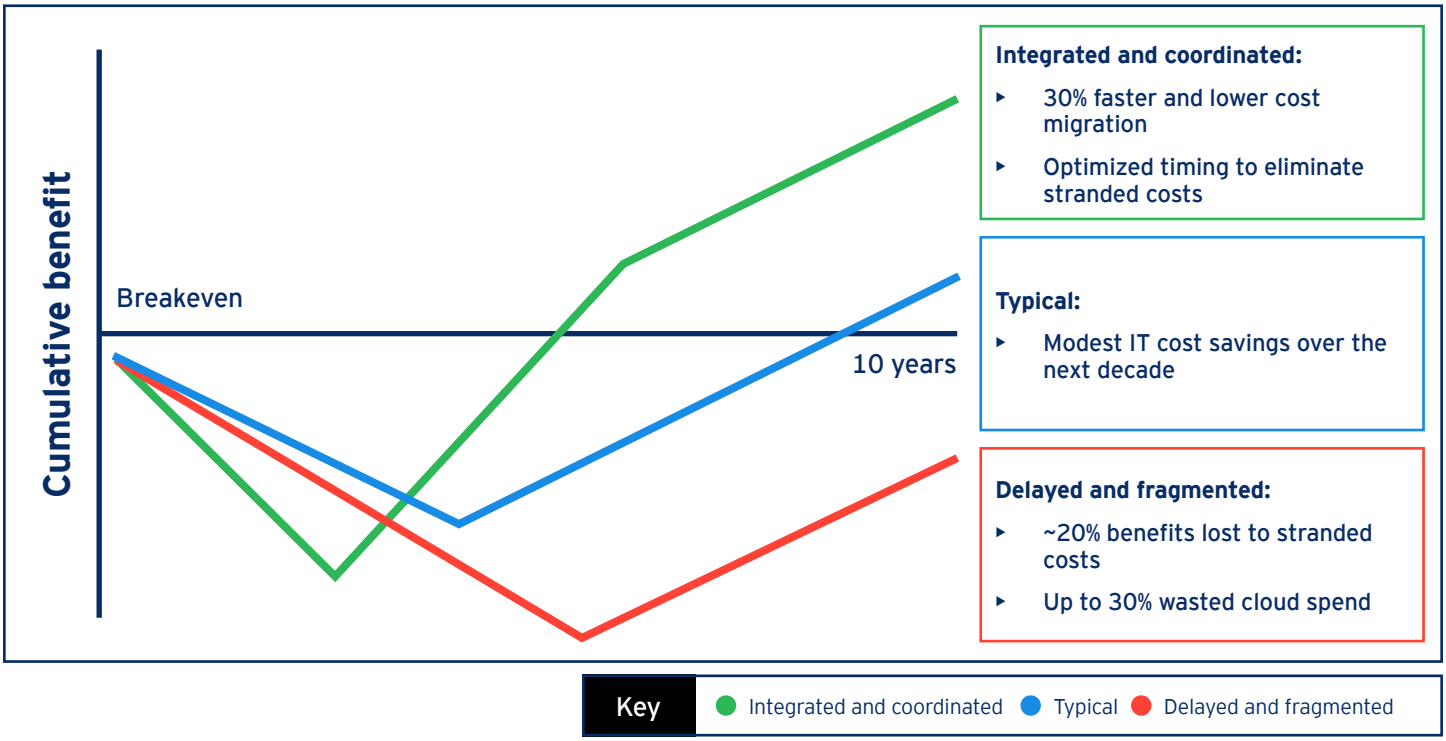
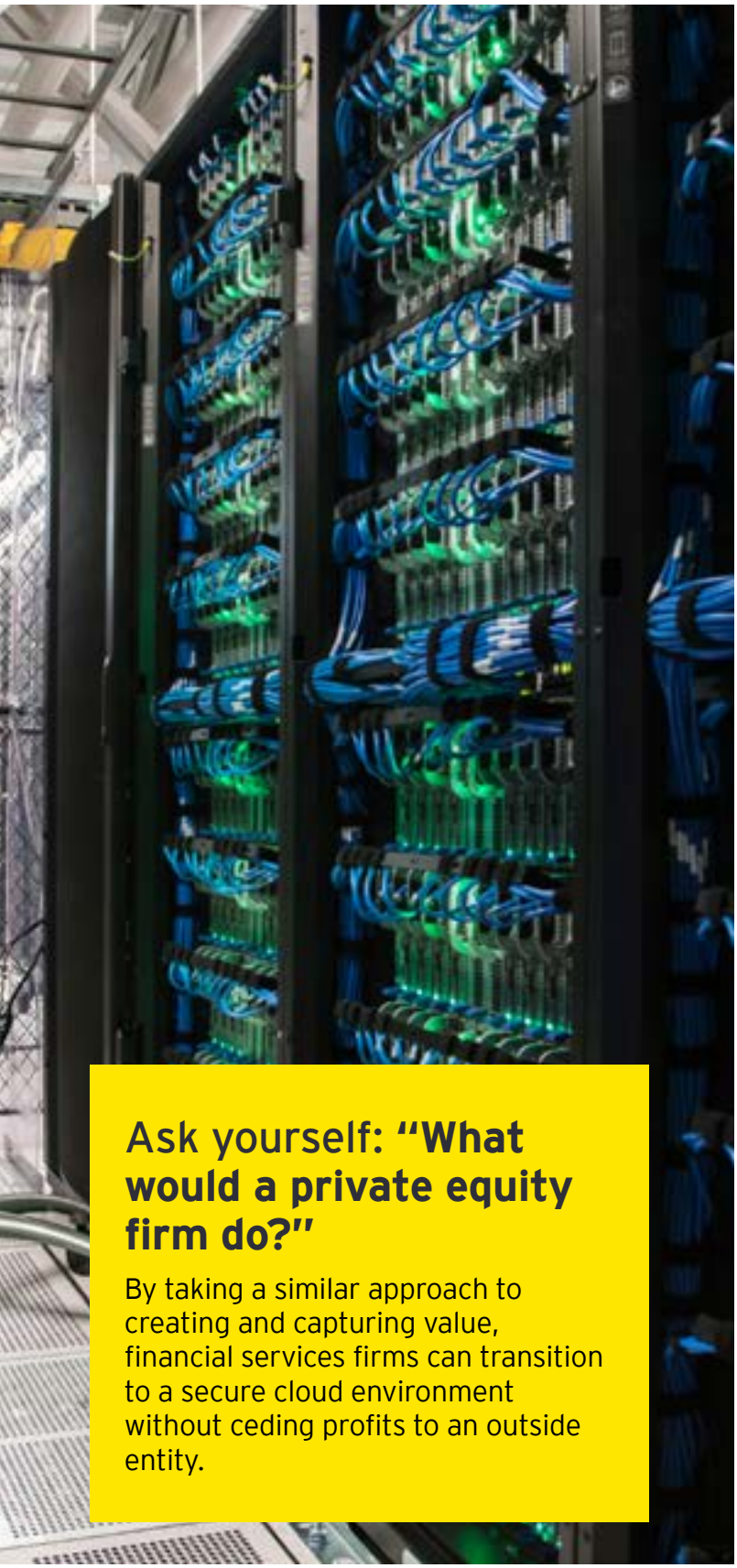


*A modified version of this article appeared in ABA Banking Journal, March 2019.

[1] EY proprietary research.
[2] Forrester and Pivotal Research; independent EY research.

The private equity playbook for cloud migration



Ask yourself: "What would a private equity firm do?"

By taking a similar approach to creating and capturing value, financial services firms can transition to a secure cloud environment without ceding profits to an outside entity.

Cloud represents one of the largest non-lending investments a bank will make over the next decade.

Here are our top recommendations to help you realize a return on your investment in cloud migration.

Value creation: find alpha by addressing the full stack

Going into a transaction, investors look at how to maximize synergies so they can produce above-market returns for their shareholders. Thinking of cloud as a carve-out of IT capability, financial services firms can look at six major recommendations to maximize their return:

1 Thinking of the cloud as only an infrastructure play misses the big picture

Financial services firms need to fully transform their development, operations, security, risk and compliance, and business teams to work differently.

Cloud and agile methodologies work together to enable faster development cycles, more efficient capability deployment and improved customer experiences.

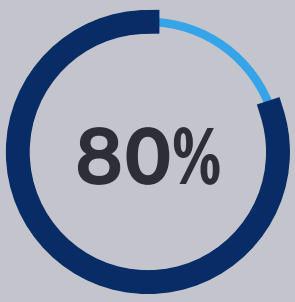
Teams can more than double their productivity by eliminating and automating the low-value activities they're using to manage legacy environments.[3]

2 Understand demand volatility and patterns (in other words, managing beta)

Internal IT is provisioned for a worst-case scenario, but the cloud lets you pay for only what you consume.

The cloud is also not all-or-nothing. The cost of migrating some applications may far outweigh the benefit from running on cloud, and it's important to plan for what workloads will remain on-premises.

With proper planning, you can balance reserved and on-demand resources based on the unique needs of each workload to reduce your cost and improve utilization up to 80%.[4]



[3] Microsoft analysis.
[4] Ibid.

3 Optimization doesn't end with migration

One of the cloud's biggest benefits is also a major risk: instant provisioning allows for rapid innovation but can also cause demand to grow exponentially. Confronted by millions of product configurations available, many financial services firms have left it to individual business units to manage themselves.

To measure the benefits of migrating to the cloud, financial services firms should deploy monitoring, software asset management and financial management tool and services to track spend and ramp consumption up and down as needed. A shared governance framework and a set common policies are key to enable innovation while controlling costs and managing risk.

There are a growing number of third-party and cloud provider scheduling services that can help businesses control costs, and solutions exist that apply machine learning and AI to optimize consumption.

Without robust financial management, financial services firms can waste **more than 30%** of their cloud investment.[5]

Value capture to minimize volatility

Investors look for strategies to minimize risk for a given return. There are a number of strategies financial services firms can deploy to mitigate benefit realization risks from a cloud migration plan and accelerate return.

4 Lead from the top

Establish your guiding principles. Set goals for the transformation to the cloud and align incentives and performance measures across business units. Hold leaders accountable for demand and supply targets.

On the "demand" side, hold business and application teams accountable to their migration commitments. If they miss a cloud migration window, you may have to renew a five- to seven-year facility lease.

On the "supply" side, hold the infrastructure team accountable for rapidly decommissioning and adjusting their operating model to better monetize efficiencies.

[5] Analysis of third-party spend management use cases.

5 Create cost flexibility

Evaluate your current fixed costs and determine what and when those can be turned into variable costs.

For example, if you have an unlimited software license, rather than renew it, you might switch to a per-user rate that is slightly higher but allows you to wind down the cost sooner. Without these changes, you can burden your business case with three to five years of additional fixed costs.

6 Make migration planning a two-way street

Migration planning will primarily be driven by business priority and application readiness. At the same time, look for opportunistic reasons to accelerate efforts and avoid "last mile" stranded costs.

Trigger events can include upcoming capital investments, renewals, or costly and underutilized shared infrastructure. Including infrastructure, operations and sourcing partners into migration planning provides a full perspective on impact and benefit realization.

The recommendations above will help you take advantage of the cloud's benefits without being held back by stranded costs and without waiting for activist shareholders to make those decisions for you.

How to get started with maximizing cloud economics

Create a cloud center of excellence (CCoE) to manage your new investment, and avoid the learning curve delays from multiple business units trying to developing their own plans, tools and methodologies. Your CCoE can help people and teams within business units to decide which environments and tools to use, based on the underlying use cases and the overall cloud economics.

The CCoE acts as a change champion for migration, raising awareness and proactively driving business unit adoption and migration. Additionally, the CCoE can provide the risk, process and financial management capabilities needed to manage an effective and secure cloud environment.

This approach also best situates your business processes to evolve to a multi-cloud strategy and scale knowledge across the organization.

Financial services firms need to conduct a thorough technical assessment to determine which applications should be migrated, how they'll be migrated or what will remain. This needs to address multiple factors, including performance needs, security requirements and dependencies across systems. Awareness, education and training cannot be underestimated. Common taxonomies across business and technology teams, and thoughtful choices of outside consultants who advise large allocators of money are key differentiators to those firms that get this right.

In parallel, finance teams need robust financial models to assess how shifting demand patterns would affect the cost of cloud and internal services. Teams should evaluate different cloud providers, configurations and timing to meet leadership goals.

Lastly, leadership needs to mobilize the governance to coordinate planning and execution across business lines. Following the private equity playbook, you can determine the glide path and migration plan to strengthen shareholder return.

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