How IT Maintains Relevancy In A Cloud World:
3 Steps To Transforming Enterprise IT
EXECUTIVE SUMMARY: THE CLOUD COMPUTING CHALLENGE

According to InformationWeek, one in three enterprises uses a cloud-based service — a number that has more than doubled over the past five years.¹ Gartner projects cloud spending will almost double by 2016.² The growth of this new deployment model is creating a shift in how enterprise IT teams balance cloud innovation with traditional IT processes.

What is driving this growth? Often, it’s a business’s response to IT organizations that dedicates the bulk of their limited resources to managing existing infrastructure, rather than innovating and building new technologies.

IT organizations and the companies they serve face growing financial, organizational and technical challenges. They are preoccupied with managing their existing IT infrastructure and “keeping the lights on” rather than focusing on innovation. As a result, these organizations are increasingly disengaged from the business units they serve, and they are often seen as adversaries instead of partners.

When business units deal with unresponsive IT organizations, they turn to third-party cloud computing services to get what they need. These “shadow IT” initiatives are typically cheaper, faster and more agile than traditional IT approval and provisioning methods.

This process turns into a vicious cycle for IT organizations that cling to the status quo. End users learn that it’s easier to work around IT than to work with it. Executives are more inclined to view IT as a cost center and a barrier to innovation. Budget cuts, staff reductions and outsourcing initiatives take a steady toll, and the cycle repeats itself.

For IT organizations that deal with shadow IT, cloud adoption by business users isn’t just a challenge. It’s a recipe for irrelevance.

A SILVER LINING IN THE CLOUD

Here’s the good news: For progressive, forward-looking enterprise IT organizations, the shift to cloud computing comes with a silver lining. These IT organizations now have a once-in-a-generation opportunity to renew and reinvent themselves.

In fact, these organizations can use cloud computing, as well as the service-provider business model it enables, to establish themselves as strategic advisors to the business. In other words, as partners who create value and facilitate creative technology solutions.

In this white paper, we’ll take a deeper dive into what’s driving these changes and what it means for today’s enterprise IT organizations. This paper will also explore ways to use cloud computing and a service-provider model to transform the IT business model from a cost center to a strategic business partner. It also examines how tactics, such as service catalogs and external cloud service-provider relationships, facilitate this transformation.

As you read this white paper, be prepared to change the way you think of delivering the business of IT. The resulting journey will be profitable, but just as important, it will help IT teams explore, experiment and innovate, rather than being limited to traditional management and maintenance tasks.

THE CHALLENGES FACING TODAY’S ENTERPRISE IT ORGANIZATIONS

Traditional enterprise IT organizations share a familiar set of defining traits. They tend to be highly centralized, and they exercise top-down control over a company’s IT resources. They maintain a monopoly on organizational IT knowledge and expertise. They manage a single IT budget, and they have limited visibility into cost-benefit calculations for specific IT projects.

Above all, traditional enterprise IT organizations are capital-intensive operations that invest heavily in physical systems and infrastructure — and, as a result, they must also support the overhead costs associated with managing and maintaining this infrastructure.
Traditional IT organizations are capital-intensive operations that invest heavily in physical systems and infrastructure.

These traits aren’t necessarily efficient or productive, but they do establish a performance baseline that most companies learn to live with. The idea of IT as a cost center is widely accepted, as is the need to maintain centralized control over IT planning and implementation activities.

Today, however, more enterprises — and more enterprise business leaders — are questioning the IT status quo. At a strategic level, there are six reasons why:

1. **Traditional IT can’t keep up with demand.** From Big Data and Business Intelligence, to Customer Relationship Management (CRM) and Enterprise Resource Planning (ERP), business units rely more heavily on technology than ever before. This is a problem for resource-constrained IT organizations that struggle to maintain existing systems — never mind implementing new ones.

2. **Business users demand instant gratification.** Today's cloud-based consumer apps are fast, powerful, and easy to install and use; they can be set up and put to work almost instantly. These tools, in turn, raise user expectations for business technology. As a result, when IT organizations require weeks or months to provision new applications, business users are more likely to see them as inefficient or even incompetent.

3. **Traditional IT faces a growing talent gap.** Retaining qualified IT staff has always been challenging. IT professionals want to be empowered to experiment with the latest technologies — not just performing mundane maintenance tasks. Organizations with an innovative environment can attract better talent than those stuck in traditional IT processes.

4. **Traditional IT is capital intensive.** Sinking millions of dollars into fixed IT assets was acceptable when technology changed slowly and business IT requirements were easy to predict. Today, neither of those things is true, and capital-intensive IT investments are far more risky as a result. The same holds true for traditional application development cycles that are more costly and less flexible than agile development processes.

5. **Traditional IT is getting too complex.** As companies scale their applications, data centers, storage and other infrastructure elements, the cost and complexity of managing these systems increases more quickly. The more money and staff resources IT organizations devote to managing existing systems, the less they have to invest in activities that add value to the business.

6. **Traditional IT moves too slowly.** The ability to turn on a dime to address new opportunities and changing business conditions is a life-or-death issue for today’s enterprises. When an IT organization lacks the flexibility to keep up with these demands, it exposes the entire business to unnecessary risk and sacrifices an important source of competitive advantage.
BRINGING “SHADOW IT” INTO THE LIGHT

Nothing illustrates the consequences of these trends more clearly than the growth of “shadow IT” or “rogue IT.” This involves the adoption of third-party, cloud-based applications that are deployed inside enterprises — and especially within individual business units — without the IT organization’s approval, involvement or knowledge. In some cases, business units may even hire their own development teams independent of an IT organization. Budgeting for these activities is scattered throughout the company, with no way to track or manage overall IT spending.

Many CIOs are aware that shadow IT impacts their organizations. According to one recent study, 43% of IT decision makers say they know people in their organizations use cloud services without IT support or approval. In addition, 38% of these respondents say the main reason why users seek out unauthorized cloud services is to save time; one in three said it was because internal solutions were not available or because users simply did not want to deal with the IT department.³

ROGUE RISKS

According to Lisa Larson, Vice President of Enterprise Cloud Solutions at Rackspace, shadow IT has penetrated many of the world’s largest companies — with or without the approval of traditional IT groups.

“Business units are circumventing IT completely and are going rogue,” Larson stated. “From our experience working with 60% of the Fortune 100, I know this to be true — because many of these business units are Rackspace customers.”

When business users take this route, they often feel as if they have no choice. Their mandate is to compete and innovate, adding value to the business and improving profitability. Shadow IT practices promise to solve problems an internal IT organization can’t or won’t solve, and they deliver fast results.

Unfortunately, shadow IT initiatives also impose significant, long-term costs and risks that extend beyond individual business units and affect the larger enterprise. The greatest risks include:

- **Governance and security.** This is a broad category that includes risks associated with lost or compromised intellectual property or trade secrets;

³ http://www.rackspace.com/blog/rouge-it-cloud-lock-in-dominate-cloud-concerns-infographic/
damage to a company’s brand or business reputation; regulatory compliance failures and associated penalties; and exposure to external security threats, such as malware. These risks expose a company to a host of associated direct and indirect financial losses.

- **Lack of visibility into spending and budgets.** These risks expose an enterprise to financial costs that outweigh the limited, short-term gains associated with many shadow IT initiatives. A business unit might pay more as a single cloud service customer than an enterprise as a whole would pay using negotiated volume pricing for a range of cloud services with a vendor. Another example would be the risks associated with misclassified or misallocated spending on shadow IT services, robbing an enterprise of visibility into its true IT spending requirements.

**THE HIGH PRICE OF SHADOW IT**

Many of the hidden costs associated with rogue IT initiatives are insidious and difficult to reverse. One example is the growing use of social media data aggregation and analysis within enterprise marketing organizations in order to cope with Big Data environments. These organizations may turn to a variety of cloud-based social media analytics tools that vary widely in terms of cost, quality and interoperability.

A marketing organization will select one of these tools, decide that it’s not what they need, and then attempt to migrate to another tool — only to encounter unexpected data ownership or migration issues.

This is typically the point where a business unit gets into trouble with a poorly planned shadow IT initiative and turns back to its own IT organization for help. The IT department, in turn, finds itself dealing with problems that could have been avoided if it had partnered with the business unit from the start to find and implement an efficient solution.

**WHY ENTERPRISE IT MUST CHANGE**

What happens when shadow IT projects misfire? Some IT organizations respond by adopting even more restrictive policies. They ban cloud computing and shut down unauthorized projects en masse. They reiterate existing project approval, budget and provisioning procedures. They rededicate themselves to the status quo.

The status quo, however, is precisely why business units feel compelled to look outside of the organization to meet their IT needs. Traditional IT organizations are still overwhelmed by demand; they struggle to meet changing business needs, and they spend the vast majority of their time and resources just keeping the lights on.

Business units, in turn, continue to see the IT organization as a barrier to productivity and innovation. They work around restrictive policies, follow the path of least resistance, and leverage outside service providers to solve their business needs.
Cloud computing is first and foremost a new business model; it completely redefines how businesses provision, procure, manage and run their IT services.

WINNING THE BATTLE — LOSING THE WAR

CIOs may win a few battles when they defend the status quo, but they can’t win the war. Business units will prevail in any argument that pits their profitability against an IT organization’s resistance to change. In a modern enterprise, IT organizations that can’t deliver business value will find their authority, their budgets and their staff downsized; resources once controlled by IT will be redistributed to CMOs and other business unit leaders.

Some analysts already see this shift well underway: According to Gartner, by 2017 CMOs will spend more on enterprise technology than CIOs.4

CLOUD COMPUTING AS A BUSINESS MODEL

What makes this trend so challenging for CIOs is the fact that it’s about far more than just technology. Cloud computing is first and foremost a new business model; it completely redefines how businesses provision, procure, manage and run their IT services. In the process, cloud computing also transforms the way an enterprise IT organization delivers services to its end users.

Accepting this shift means rethinking some of the most basic assumptions that drive a traditional IT organization:

• Instead of acting as a bottleneck, IT must embrace a self-service culture that puts as much power as possible into end users’ hands without sacrificing security or increasing business risk;

• Instead of simply keeping the lights on, IT must promote innovation — the lifeblood of any modern enterprise — and encourage users to experiment with new tools and services;

• Instead of reacting to crises, IT works with business units as a trusted advisor to identify new business-driven technology opportunities and to translate these opportunities into effective IT requirements.

By serving as a trusted advisor to business units, an IT organization puts itself in a position where shadow IT initiatives are a resource — not a risk. Business units are encouraged to experiment with new solutions, while the IT organization provides advice, guidance and due diligence. Dead-end services that fail to deliver tangible business benefits are discarded more quickly, and valuable services are identified, promoted and managed to maximize their long-term business value.

Perhaps most important of all, IT organizations that pursue this approach can use cloud computing services to free up internal IT resources that would otherwise be required to manage and maintain an increasingly large and complex infrastructure. These resources can be refocused on specific, high-value applications and business initiatives.

**THE SERVICE PROVIDER MODEL: MANAGING AND MINIMIZING CAPEX**

Capital expense (CapEx) investments can be a significant barrier to creating an innovative and agile IT organization. These investments are inherently risky, and the cost of failure can be very high. Long and complicated approval processes can kill a potentially promising project before it gets the chance to demonstrate its business potential.

Cloud computing solves this problem by:

- Eliminating the “culture of scarcity” that ties so many resources to a relatively small number of CapEx projects;
- Replacing it with a “culture of innovation” where IT is always ready and willing to experiment with new, cloud-based tools and services;
- Encouraging IT organizations to experiment with new solutions, thanks to the ability to “fail fast” without incurring significant cost or risk;
- Removing the organizational, financial and procedural barriers associated with funding and approving CapEx projects.

An IT organization that embraces cloud computing inevitably embraces the service provider model that makes these things possible. These organizations no longer concern themselves exclusively with running-the-business activities or babysitting physical infrastructure. Instead, they focus primarily on solving business technology problems, finding and assessing solutions, and serving as a trusted advisor.

It’s easy to see why cloud computing enables a transformation in the business of IT. These IT organizations have spent decades not being able to say “yes” to their end users. Today, the same organizations have adopted a new mantra: “We can help you, we are here for you, and we will create value for you.”
SERVICE CATALOGS: THE SERVICE PROVIDER MODEL IN ACTION

We’ve outlined the strategic shifts behind cloud computing and the benefits of a service provider model for today’s enterprise IT organizations. Now it’s time to examine the tactics required to embrace cloud innovation, empower users and incorporate the best traits of shadow IT, while still maintaining an appropriate level of governance, compliance and risk management.

We’ll begin by taking a closer look at a fundamental concept: the service catalog.

WHAT IS A SERVICE CATALOG?

A typical cloud computing service catalog is a list of vetted and pre-approved cloud services. Users are able to select and provision the services they require via a self-service web portal.

The number of services, and the number of options available to configure and customize these services, depends upon an enterprise’s unique business needs. A service catalog may also offer options, such as multiple service levels with different combinations of cost and performance.

Business units that require an approved service catalog option can select and provision the option they need without prior approval; the provisioning process is fast and easy. Many companies also adopt a standard process for vetting new cloud computing vendors and services, allowing business units to gain approval for new services that might otherwise have remained within the realm of unapproved shadow IT projects.

THE RIGHT SERVICE FOR EVERY SITUATION

Service catalogs are a win-win proposition for enterprise IT stakeholders:

• They allow an enterprise IT organization to implement a service provider model where it advises business units, performs due diligence on cloud computing solutions, implements the service catalog and handles risk/governance responsibilities;

• Business units get immediate access to a wide range of technology solutions, and can usually configure these solutions to meet their specific requirements.

“I like to describe a service catalog like a restaurant menu,” explained Anand Bhadouria, Senior Consultant at Rackspace. “The chef has already determined all of the ingredients necessary to make a dish and prepares it for you. All a restaurant patron needs to do is order what he or she wants. Menus can be limited or very robust — the number or variety of dishes should depend on what customers demand and how many the restaurant can prepare without sacrificing quality.”
How Rackspace Turns Shadow IT Into An Opportunity

By establishing guidelines through service catalog development, the Rackspace IT Services team has created a self-service model that promotes innovation and frees IT resources to work on driving true business value. Today, thanks to this innovative effort, Rackspace has a virtual army of 5,000 empowered employees who create their own solutions — and they’re doing so out in the open, with nothing to hide and no worries that the IT team will obstruct their efforts.

This process has also transformed how the business views and works with Rackspace IT. The IT organization’s team members now have the time and resources to serve as strategic advisors; they partner with business units, identify areas where IT can enable business opportunities, and use cloud computing services to create appropriate self-service options.

ENTERPRISE IT AS A SERVICE PROVIDER: BUILDING ‘BRAND EQUITY’

As they work to transform their IT organizations, CIOs face a hard truth: no matter how hard they try to reinvent themselves, they’re still fighting entrenched attitudes about the “bad old days” when IT was an obstacle rather than a partner.

CIO Magazine’s 12th Annual State of the CIO survey, conducted in January 2013, illustrates this dilemma. Just 20% of the CIOs surveyed said their IT groups are seen as business peers who develop, not just enable, business strategy. That number has increased in recent years, but there’s still a long way to go.

How can CIOs bridge the gap between perception and reality? According to the survey, 64% of the CIOs plan to market their IT department within their organizations to show off their new capabilities. Many other CIOs are arming IT experts with cross-functional business skills, brainstorming with their non-IT peers, and embarking upon other awareness-building initiatives.

Building these relationships ensures better communication between IT and business units; this, in turn, opens the door for closer collaboration. Over time, an IT organization builds its brand equity not just by marketing itself, but by following through with the advice and support its business-unit partners require.

Just 20% of CIOs say their IT groups are seen as business peers who develop, not just enable, business strategy.

http://www.cio.com/article/print/723858
THE GOAL: BEING THERE FROM THE BEGINNING

A recent CIO.com article on this process explains the ultimate objective: “Many CIOs strive to create an IT group that is the department people call first when a new business idea strikes. Even better: They strive to be there at the idea’s birth.”

The growth in Big Data applications — analytics tools designed to process large quantities of unstructured data — illustrates how this process can work within a business. As an example, Larson points to the Rackspace marketing organization’s struggle to turn a fire hose of unstructured customer data, aggregated from a variety of sources, into relevant business intelligence.

The Rackspace IT organization, according to Larson, has used its ability to deploy cloud-based infrastructure and analytics tools to deliver a Big Data reporting solution. The marketing team used these tools to gain a far more useful and detailed understanding of its customers, and the Rackspace IT team played a vital leadership role in achieving this objective.

STARTING YOUR JOURNEY: FINDING AN IT SERVICE-PROVIDER PARTNER

For enterprise IT organizations, there’s another key ingredient for success when adopting a service provider mentality: partnering with an upstream cloud service provider. This provider can work with you to develop, implement and manage cloud-based applications — services and infrastructure components that your organization needs to develop a service catalog and focus on initiatives that build business value.

There are several major issues to consider when selecting a service provider partner:

6 http://www.cio.com/article/723858/More_CIOs_Are_Gaining_Stature_As_Business_Strategists

Governance, risk and compliance issues. Risk management issues in general, and compliance issues in particular, are areas where enterprise IT is compelled to hold the line against inappropriate or unauthorized shadow IT activity. The right service provider can address these concerns on several levels:

• Understanding compliance requirements. A service provider with a solid grasp of PCI, HIPAA, Sarbanes-Oxley and other compliance regimes, can provide an appropriate portfolio of hybrid cloud computing options.

• Supporting compliant cloud services. In some situations, companies may be able to achieve compliance using public cloud platforms; in others a set of dedicated/private cloud resources may be required. It is imperative to find a provider with the breadth of portfolio that can create your optimized hybrid environment.
Enabling effective IT governance. An effective governance and risk management strategy requires a partner that understands the importance of predictability, transparency and accountability. Some cloud computing service partners, for example, understand how data center security policies impact IT governance — others may not.

Performance, reliability and scalability. Cloud computing gives enterprise IT organizations a unique resource for building solutions that are almost infinitely scalable — without the cost, complexity and management burdens of a traditional data center infrastructure. Doing this successfully, however, requires a service provider partner that has the expertise and experience to deliver a robust, highly scalable and available selection of cloud-based services.

Freedom of choice. Enterprise IT organizations must demand that their service provider partners offer open standard-based platforms. Cloud computing should never create concerns over data ownership and data portability. Vendors should never be in a position to dictate a customer’s long-term technology choices by driving up the cost of moving to a different vendor’s solution.

These problems threaten to undermine the potential of a new enterprise IT business model based on cloud computing and a service provider strategy; they should be instant deal-breakers for IT organizations seeking a service provider partner.

READY TO LEARN MORE?

Visit the Enterprise Cloud Solutions resources page for videos, webinars, whitepaper and other content to help you get cloud savvy.
About Rackspace Enterprise Cloud Solutions

Rackspace Enterprise Cloud Solutions, powered by an elite team of Sr. IT Strategists, Architects, Solution Engineers and Consultants, enable enterprises to harness the power of cloud computing. Our extensive Advisory & Professional Services portfolio offers end-to-end solutions for our customers. Begin your Fanatical Support experience with a complimentary IT Evolution Workshop, where our strategists help to define a cloud strategy and actionable roadmap to propel your organization toward its optimized solution. Contact us at 1-800-440-1249 or send us an email at advisory_services@rackspace.com

Continue the conversation in the Enterprise Cloud Forum on Linkedin! Along with 600+ other IT professionals, our Rackspace Senior IT Strategists and Cloud Solution Architects debate some of the most controversial topics facing the enterprise.

About Rackspace

Rackspace® Hosting (NYSE: RAX) is the open cloud company, delivering open technologies and powering more than 190,000 customers worldwide. Rackspace provides its renowned Fanatical Support® across a broad portfolio of IT products, including public cloud, private cloud, hybrid hosting and dedicated hosting. The company offers choice, flexibility and freedom from vendor lock-in. Rackspace has been recognized by Bloomberg BusinessWeek as a Top 100 Performing Technology Company and is featured on Fortune’s list of 100 Best Companies to Work For. Rackspace was positioned in the Leaders Quadrant by Gartner Inc. in the “2011 Magic Quadrant for Managed Hosting.” Rackspace is headquartered in San Antonio, TX with offices and data centers around the world. For more information, visit www.rackspace.com.