Managing Cloud Economics: A Sourcing Leader’s Guide to Productive Relationships With Cloud Architects

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Initiatives: Sourcing, Procurement and Vendor Management Leaders

Business risks evolve when sourcing, procurement and vendor management leaders and cloud architects have contentious relationships. SPVM leaders can establish a successful and effective cloud management and vendor relationship by avoiding a cost-reducing focus.

Overview

Key Findings

- Sourcing, procurement and vendor management (SPVM) leaders frequently find themselves in conflict with the cloud architects in a cloud center of excellence (CCOE) that is responsible for cloud governance and brokerage. Disputes about cloud provider selection, cloud cost management and “ownership” of vendor relationships are common.

- Proper management of cloud economics — providing cloud cost governance and maximizing the business value of cloud computing — requires collaboration between the SPVM and CCOE teams.

- SPVM plays a critical role in analyzing short-term and long-term cost implications, especially in large enterprises where the choice of one application team can impact forecasted usage, creating continuous cost economies for the organization as a whole.

Recommendations

SPVM leaders responsible for procuring while advancing the organization’s cloud strategy should:
- Build a strong collaborative relationship with the cloud architects to develop and maintain a shared understanding of cloud markets, acknowledging that cloud procurement is complex and sourcing strategies focused mainly on cost reduction will not work.

- Implement a dynamic (flexible) sourcing strategy for cloud services by working with the CCOE and the business stakeholders to align on a cloud transformation roadmap and use more agility and speed in the procurement process for cloud services.

- Implement a dynamic (flexible) sourcing strategy for cloud services by learning cloud fundamentals, collecting market data and creating market summaries that align with the cloud transformation roadmap developed collaboratively with the CCOE and the business stakeholders.

**Analysis**

*This research is adapted from* Managing Cloud Economics: A Cloud Architect’s Guide to Productive Relationships With Sourcing Leaders.

**Collaborate Effectively With Cloud Architects to Drive Cloud Adoption Success**

SPVM leaders and cloud architects often have a contentious relationship. This can manifest as day-to-day conflict over tactical decisions, but may also erupt into fights over strategic priorities — especially the relative importance of minimizing risks and costs versus maximizing value to the business. Unresolved, these conflicts lead to suboptimal cloud-related decisions, as well as day-to-day difficulties in purchasing cloud services, making workload placement decisions and working with cloud providers.

Cloud architects commonly reside in a CCOE, which is a Gartner-recommended best practice for an enterprise architecture function that enables successful adoption of cloud computing through its support for cloud governance, brokerage and transformation (see Innovation Insight for the Cloud Center of Excellence). If your organization does not have a CCOE, partner with a cloud architect in whatever team is responsible for cloud governance in your organization. That governance is vital for cloud success.

Figure 1 illustrates Gartner’s IT Vendor Management Framework, and areas where the CCOE’s responsibilities overlap with SPVM’s management of cloud providers. These areas should be the focus of collaboration efforts.
Figure 1. The CCOE’s Involvement in Vendor Management

### The CCOE’s Involvement in Cloud Vendor Management

<table>
<thead>
<tr>
<th>CCOE’s Involvement</th>
<th>Create Vendor Management Program</th>
<th>Acquire and Divest Vendors</th>
<th>Manage Vendors</th>
<th>Develop and Articulate Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establish Vendor Management Mission, Objectives</td>
<td>Evaluate and Select Vendors</td>
<td>Manage Contracts and Finances</td>
<td>Create and Manage Communication Plan</td>
<td></td>
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<tr>
<td>Develop Organization and Staffing Model</td>
<td>Negotiate and Contract With Vendors</td>
<td>Manage Performance</td>
<td>Establish Vendor Ecosystem Operating Model</td>
<td></td>
</tr>
<tr>
<td>Define Vendor Management Value Metrics</td>
<td>Onboard Vendors</td>
<td>Manage Relationships</td>
<td>Define and Manage Continuous Improvement</td>
<td></td>
</tr>
<tr>
<td>Classify and Optimize Vendor Portfolio</td>
<td>Manage Transitions</td>
<td>Link Demand Management and Supply</td>
<td>Drive Innovation</td>
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<tr>
<td>Create Strategic Vendor Management Program</td>
<td>Vendor Disposition</td>
<td>Manage Vendor Risk</td>
<td>Develop Dashboards and Analytics</td>
<td></td>
</tr>
</tbody>
</table>

### Vendor Governance Models and Rules

### Assess Vendor Management Maturity

Source: Gartner

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To support that collaboration, SPVM leaders must participate in the following actions:

1. **Establish a shared understanding of cloud markets.** The SPVM and CCOE teams must work from a common understanding of cloud markets, enabling them to have more productive discussions about the right approach to sourcing a new requirement and to managing existing vendor relationships. Gartner recommends cloud architect job shadowing, self-service learning and training for SPVM leaders looking for a better understanding of the product and services to be purchased.

2. **Agree on strategic priorities.** The SPVM and CCOE teams must arrive at a common understanding of the cloud strategy, including the prioritization of different factors — such as the balance between agility and cost. This is important to reduce conflicts over cloud-related policies and ensure consistency of governance.
3. **Align on the management of cloud sourcing.** Using a RASCI framework (responsible, accountable, supporting, consulted and informed), the SPVM and CCOE teams must agree on responsibilities for cloud sourcing — including provider acquisition, performance management, exit management, value extraction — and create joint processes.

4. **Establish a cloud economics practice.** The SPVM and CCOE teams need to collaborate to establish cloud economics as a cultural practice, implement a program for cloud cost governance and demonstrate the value of cloud services to the business on an ongoing basis.

**Provide Guidance and Options, Avoiding a Cost-Oriented Approach to Cloud Provider Selection**

You should begin by introducing yourself to the cloud team and offering your guidance. Come prepared with provider and market information as well as the willingness to learn about cloud best practices. However, if you already have a contentious relationship with the cloud team, there is a possibility that you will not be immediately embraced. That can be particularly true in organizations where the SPVM team is evaluated and compensated solely on the degree to which they reduce organizational risk or save money — rather than on driving successful business outcomes. If you need help to get the relationship started, you may need to “manage up” by discussing the issue with your CIO and CFO to proactively reduce the friction.

**Step 1: Establish a Shared Market Understanding**

In many organizations, cloud adoption necessitates a new set of vendor management, cost management and sourcing skills for SPVM leaders, IT finance and technical professionals across the organization.

In many cases, SPVM leaders and cloud architects find themselves in conflict because they lack a shared understanding of a given cloud market and the behavior of the vendors within that market. SPVM leaders should try to have some understanding of a particular cloud technology or the business models used to deliver that technology, requiring them to be engaged in the process of continuously updating their understanding of the market (see Figure 2).
You and your cloud architect partner should agree on how often to formally revisit this data. Annual or biennial reviews are adequate for most organizations. If the organization is actively making new provider decisions, you should revisit this data every six months.

Gartner recommends these steps:

- **Learn cloud fundamentals**: You must obtain the new skills to understand and manage cloud providers — especially in complex markets, such as integrated infrastructure and platform as a service (IaaS+PaaS). Begin by acquiring basic cloud-related technical vocabulary and concepts — easily accomplished through a brief online video-based training course. At least one SPVM leader should also complete the nontechnical portion of the free video-based introductory training course offered by each of the cloud IaaS providers that the organization is adopting.
Collect foundational market data: Meet with your cloud architect partner to discuss what market data will be needed to support decision-making, such as market share data, competitive pricing and benchmarking information, and comparative assessments of the cloud providers within a given market. In some markets, it will also be important to establish a comparative baseline not just for the cloud providers, but also the on-premises vendors, so that there is a basis for cloud versus noncloud placement decisions. Gartner provides data that can support a neutral view of cloud markets, such as Magic Quadrants and other vendor assessments, along with market share and trend analysis.

Create market summaries: Collaborate with the CCOE to maintain, for each key market segment of interest, market summary documents that summarize market conditions relevant to the organization’s adoption of vendors and technologies in this market. By agreeing on market conditions and vendor positioning in “neutral” circumstances, outside the context of a potentially contentious sourcing decision, the CCOE and SPVM teams should be able to reduce conflicts. These summaries essentially establish a consensus internal position on cloud markets of interest and the vendors within them, and should be the starting point for related cloud sourcing discussions.

Step 2: Agree on Strategic Priorities

Ideally, the organization’s cloud-related strategic priorities should be articulated in its cloud strategy document (see The Cloud Strategy Cookbook, 2021). In order for the SPVM and CCOE to jointly guide cloud adoption, the key cloud strategy elements illustrated in Figure 3 must be set at the executive level. It is in the best interests of the organization for the SPVM leader to comprehend and align any sourcing strategy with their organization’s cloud strategy.
Figure 3. Three Necessary Cloud Elements for Strategy

### Three Necessary Cloud Elements for Strategy

#### Strategy for New Applications

<table>
<thead>
<tr>
<th>Cloud-Last</th>
<th>Lean Toward On-Premises</th>
<th>Lean Cloud</th>
<th>Cloud-First</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only use the cloud for apps that require capabilities that are exclusive to cloud services.</td>
<td>Find the best fit for the app, but all other things being equal, it should remain on-premises.</td>
<td>Find the best fit for the app, but all other things being equal, it should go to cloud services.</td>
<td>New projects should use cloud services unless there are strong reasons not to do so.</td>
</tr>
</tbody>
</table>

#### Strategy for Migrating Existing Applications

<table>
<thead>
<tr>
<th>Limit Migration</th>
<th>Lean Against Migration</th>
<th>Lean Toward Migration</th>
<th>Migrate Everything</th>
</tr>
</thead>
<tbody>
<tr>
<td>Migrate only under narrow high-attractiveness scenarios.</td>
<td>Migrate only when there is a strong business case and no technical challenges.</td>
<td>Migrate when technically feasible and there is a good business case.</td>
<td>Migrate everything technically feasible over time.</td>
</tr>
</tbody>
</table>

#### Stack-Rank Conflicting Priorities

- Business Agility
- Short-Term Costs
- Technical Capabilities
- Long-Term TCO*
- Risk Reduction
- Transformation

Source: Gartner

*TTOI = Total Cost of Ownership

The organization’s top priority should be the must-have; that is, “Our cloud adoption will be considered a failure if we fail to achieve this priority.” The rank order of these priorities is vital to understand and align the organization around, because the prioritized list will drive many cloud-related decisions. Prioritization will be particularly critical to resolving many disputes regarding the balance of cost versus other decision factors. The CCOE and SPVM should agree to adhere to these priorities in their decision making.

The three key cloud strategy elements are:

- The stance toward the use of cloud for new applications
- The stance toward cloud migration of existing applications
- A rank ordering of priorities that govern cloud adoption decisions
The priorities typically considered are:

- Business agility (including business flexibility, time to market, and developer productivity)
- Technical capabilities (especially capabilities that are unique to a particular provider)
- Risk reduction (especially challenges related to availability, security, and regulatory compliance)
- Long-term total cost of ownership (TCO)
- Short-term costs (especially upfront investment needs, or temporary cloud provider discounts)
- Timeliness (speed of implementation and the ability to meet immediate needs)
- Transformation (the ability to enable transformation, or conversely, to avoid transformation effort)

When cloud-related decisions are made, the trade-offs should be explicitly understood, documented and accepted. Addressing risks should be done through the organization's broader risk management processes, with the recognition that some vendor-related risks perceived by SPVM may be best addressed through technical rather than contractual measures. (See Risk Assessment Toolkit Guidebook for templates and guidance.)

**Step 3: Align on the Management of Cloud Sourcing**

The creation of the governance framework, processes and policies should be a joint effort between the CCOE and SPVM. SPVM will be responsible for guiding the execution of many of those processes and enforcing the policies. At the start of that governance effort, projects should be initiated to understand the initial state (including identifying all cloud providers currently in use) and to develop processes and standards, as illustrated in Figure 4. SPVM also needs to develop a vendor performance management program around cloud providers.
Figure 4. Six Steps to Create Cloud Sourcing Governance

**Six Steps to Create Cloud Sourcing Governance**

1. Identify all cloud providers in use
2. Create cloud provider sourcing process
3. Create cloud provider onboarding process
4. Create cloud provider exit process
5. Create cloud contracting standards
6. Create cloud outsourcing standards

Source: Gartner
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While the CCOE is likely to be responsible for leading these projects, SPVM leaders should participate as follows:

- **Identify all cloud providers in use:** If the organization has had ungoverned cloud adoption, it may be necessary to determine what providers are currently in use. SPVM will have a record of all cloud providers that the organization uses, whether through a traditional contract or through resellers. A combination of contracts, corporate credit card transaction records and technical SaaS discovery efforts should yield a list of providers. The SPVM team can then decide how to “clean up” the contractual state of these providers.

- **Create processes for cloud provider sourcing, onboarding and exit:** SPVM plays an extensive role in cloud provider sourcing (see below). Onboarding — the process of integrating and operationalizing a new cloud provider — is largely a technical matter that SPVM will have minimal involvement in. The exit process is also largely technical, but SPVM plays a role in vendor divestiture.

- **Create cloud contracting standards:** The organization is likely to repeatedly contract for SaaS, so it is important that the SPVM produce contractual standards for internal use. See Research Roundup: Negotiate Software and SaaS Contracts to Reduce Costs and Risks and Toolkit: Negotiate Favorable SaaS Contract Terms Utilizing a Standard Amendment for guidance. SPVM may also set contract standards for other types of cloud service agreements.
Create cloud outsourcing standards: When an organization adopts cloud services, it often changes its relationship with outsourcers as well as external staffing agencies. Outsourcers that are developing applications for IaaS and PaaS environments (or for SaaS as a platform), extending SaaS or managing cloud operations need to be held to the organization's standards for managing security, regulatory compliance and risk in the cloud. They must also be held to the organization's technical configuration standards. SPVM must contractually ensure that outsourcers and agencies staff projects with appropriate cloud skills.

The Cloud Provider Sourcing Process

The cloud provider sourcing process specifies how new cloud providers are assessed, justified and sourced. There are usually separate processes for IaaS (including IaaS+PaaS), stand-alone PaaS and SaaS providers. The processes may also be different when selecting strategic rather than tactical providers.

Because the CCOE and SPVM teams may potentially have different priorities for sourcing, every cloud sourcing effort should begin with a rank ordering of priorities for this particular project. Those priorities should also be clearly communicated to the business stakeholders for this project. Gartner's recommendations for resolving the most contentious conflicts in cloud IaaS and PaaS provider selection are illustrated in Figure 5.
Gartner recommends that SPVM leaders:

- **Align strategic provider selection to business value and outcomes.** Cloud IaaS and PaaS are not commodities. There are meaningful near-term as well as long-term differences between providers, their roadmaps and their likely suitability for your technology and business strategy. Strategic provider selection is typically CCOE-led in close collaboration with a strategic sourcing leader.¹

- **Run pilot projects rather than RFI/RFPs.** The heavyweight process of an RFI or RFP is rarely effective for sourcing cloud IaaS or IaaS+PaaS, due to limited provider responses and the limited usefulness of evaluating hundreds of features across dozens of services. Instead, use agile sourcing techniques such as competitive or collaborative dialogues to create a shortlist of suitable providers (see [Leverage Collaborative and Competitive Dialogue Practices for Bimodal Sourcing Success](#)).
- **Make workload placement decisions based on affinity, not cost.** Gartner recommends against cost-based tactical selection of providers, as these decisions often negatively impact long-term TCO, and actually raise direct costs by reducing the ability to leverage volume commitment-based provider discounts. SPVM should provide input into the CCOE’s cloud strategy work based on the information it has about the market and provider negotiations.

- **Treat “vendor lock-in” as an application portability challenge, not a vendor management problem.** SPVM leaders may reasonably worry about vendor lock-in — including the cloud provider’s strategic influence over the organization’s technology choices, the volume of money spent with the provider, and the difficulty of switching providers. However, these challenges should not be addressed through vendor management tactics. There are rarely large differences in long-term TCO between cloud providers, and frequently limited room for negotiating discounts, which are often under 10% and rarely exceed 20%. The CCOE should be responsible for governing cloud portability on a per-application basis. See [What Is the Risk of Actually Losing Your Cloud Provider?](#) for background information.

- **Focus on provider resilience, rather than relying solely on performance against availability SLAs.** Do not focus on SLAs during provider evaluations or negotiations. SPVM leaders and cloud architects should treat cloud IaaS and PaaS SLAs as polite fictions. Cloud providers are generally not differentiated by their SLAs and, furthermore, never negotiate them. Even if SLAs could be negotiated, they would be unlikely to influence provider behavior.

- **Maximize the value of interactions with the provider’s personnel.** SPVM leaders should not seek to monopolize vendor interactions. The Vendor Interactions section below provides more detail.

### Vendor Interactions

Effective pilot projects require direct interaction between cloud architects, other technical personnel and the provider’s personnel. SPVM leaders should not seek to block such conversations on the grounds that they may weaken the organization’s negotiation position.
Furthermore, on an ongoing basis, the organization’s best hope of influencing the cloud provider’s roadmap and direction is through interaction with the provider’s product teams. When a CCOE has a good relationship with the cloud provider, and significant cloud usage, the cloud provider may offer meetings with product managers and engineering leadership. These are technical meetings, and SPVM will likely derive little value from them. SPVM leaders may have concerns such as the provider having too much influence over the organization’s future technical direction or “knowing too much” about the organization’s business. While these concerns should not be dismissed out of hand, the organization is likely to gain far more than it risks through such disclosure.

**Ongoing Vendor Management**

There are five ongoing vendor management responsibilities that frequently cause contention between the CCOE and SPVM teams.

These responsibilities, and Gartner’s recommendation for division of management of these efforts, are:

- **Managing provider expansion**: Authorizing expanded use of existing cloud providers is part of the CCOE’s governance responsibilities. The CCOE should ensure that SPVM is notified of expanding (or contracting) use so that SPVM can properly forecast spending and negotiate with vendors.

- **Managing provider innovation**: Cloud providers frequently introduce new capabilities, which in turn lead to changes in customer best practices, including the most cost-efficient way to implement a particular solution. Managing such updates is part of the CCOE’s brokerage responsibilities. SPVM can be informed of changes in forecast spend as a result of such practices through the CCOE’s routine updates of spending forecasts as part of the cloud cost management life cycle.

- **Tracking and influencing provider roadmaps**: The CCOE is primarily responsible for roadmap-related efforts, though SPVM may play a role in managing the vendor relationship.

- **Managing contracts**: SPVM typically has responsibility for managing the contracts themselves, holding the vendor to the terms and conditions of the contract, dealing with contractual disputes, negotiating midcontract changes, and leading the contract renewal process. The CCOE may sometimes benefit from SPVM-produced, plain-language, “what you need to know” summaries of contracts, which may inform workload placement decisions.
Managing provider performance: The vendor performance management program for cloud providers needs to be divided between the CCOE and SPVM. If SPVM normally creates and manages vendor scorecards in a standard vendor performance management program, the CCOE and SPVM should work together to identify the cloud providers that should be selected for a scorecard and dashboard. (See 3 Steps to Extract More Value From Your Strategic Vendors for guidance.) SPVM should manage the scorecard and dashboard, and the CCOE should provide the necessary data noted below.

The data that the CCOE supplies to the SPVM team should include:

- **Incident track record**: The CCOE should guide the cloud operations function in tracking service incidents, their impact, and provider communications during and after each incident. SLA-violating incidents should be clearly indicated so that SPVM can follow up to ensure that service credits are issued.

- **Support interactions**: Cloud technical support is frequently as much as a 10% uplift on the cloud usage bill. SPVM plays a critical role in ensuring the vendor is providing appropriate support resources, maximizing the value of timely and helpful support.

- **Provider interactions**: The CCOE and SPVM team should agree upon how to track other provider interactions — such as engagement with the technical account manager and with product teams — and their usefulness. This data can be used to better manage the vendor relationship.

**Step 4: Establish a Cloud Economics Practice**

Cloud cost governance encompasses the three key elements of IT finance — IT financial management, cost management and demonstrating the business value of IT. (See Use Gartner’s IT Finance Frameworks to Drive Successful IT Finance, Value and Cost Programs for details.)

Gartner recommends that CCOE and SPVM teams adhere to five principles when managing cloud economics, as illustrated in Figure 6.
To adhere to these principles, SPVM leaders should ensure that executive leaders are given insight into:

- Decisions to maximize value over aggressive negotiation to “getting the largest discount possible”
- Trends in cloud investment and the return on those investments
- Increases into an application’s cloud costs without corresponding increased use or business value
- The impact of cloud cost-related technical debt that results from business leaders prioritizing application delivery velocity over addressing excessive cloud costs
- The impact of noncooperative teams that do not participate thoughtfully in forecasting efforts

Figure 7 shows the life cycle of cloud cost management.
Gartner does not recommend creating a long-term dedicated team for cloud cost management. Instead, this should be a cross-functional collaborative responsibility and cultural practice. Gartner recommends that SPVM leaders participate in these efforts as follows:

- **Receive cloud cost reports**: SPVM should provide the CCOE with reporting requirements. Some SPVM teams prefer to receive monthly reports, while others prefer to be able to view estimated costs in real time. Reports should be used to adjust forecast spend, which may trigger the decision to pursue a midcontract renewal with a higher commitment in order to obtain larger discounts. Organizations that hand off showback/chargeback procedures to procurement will also gain benefit from this.
- **Participate in cloud cost forecasting efforts**: While these efforts will usually be CCOE-led, SPVM can play an important role in aggregating forecasts and determining a set of scenarios that will ultimately drive negotiations with cloud providers.

- **Provide “what you need to know about cost” summaries to application teams**: In order for application teams to make good cost-aware engineering decisions, those teams need to understand what drives costs and what levers can change those costs. For instance, software licensing implications may lead application teams to make different architectural trade-offs. Providing an inventory of existing perpetual license agreements, agreement limitations that affect workload migrations into the public cloud and choices related to “bring your own license” will help the organization holistically make a better choice.

If your organization believes that it has no further opportunities for technical cost optimization to reduce costs, then you should consider investigating a third-party cloud economics consultancy, such as The Duckbill Group or CloudSaver. Such consultancies can often help identify application architecture concerns that result in unnecessarily high costs.

**Evidence**

1. See [How to Initiate the Selection of Strategic Cloud IaaS Providers](#).

2. See [A Guidance Framework for Managing Vendor Lock-In Risks in Cloud IaaS](#).

**Recommended by the Authors**


- [How to Manage and Optimize Costs of Public Cloud IaaS and PaaS](#)

- [5-Step Framework to Manage Your Public Cloud IaaS and PaaS Costs](#)

- [From Firefighters to Trusted Experts: Preparing I&O Teams to Succeed With Cloud Cost Optimization](#)

- [Cloud Decisions Tools: Interactive Platform for Cloud Provider Selection and Application Placement](#)
Market Guide for Cloud Management Tooling

Market Guide for SaaS Management Platforms

Solution Criteria for Public Cloud Third-Party Cost Optimization Tools

Cloud Cost Scenario Planning Tool

Cloud Cost Optimization for Midsize Enterprises

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