CLOUD INDUSTRY FORUM®

Cloud UK

Paper fourteen

The Normalisation of Cloud in a Hybrid IT Market

UK Cloud Adoption Snapshot & Trends for 2015

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Introduction

The IT landscape is evolving rapidly, not least driven by the evolution and adoption of Cloud-based services and the relative increase in available internet bandwidth. That said, whilst Cloud Computing is now a core deployment model for IT, revolutionizing speed of access to IT and challenging the price points for delivering IT, our latest research suggests that hosted Cloud Services alone are not yet a panacea for all things IT for all businesses. This 2014 research shows that whilst 78% of UK organisations have now formally adopted at least one Cloud-based solution, 92% of the same audience said they were not intending to place everything in the Cloud yet.

The result? Simply put, the market is predominantly 'Hybrid' and will be for the foreseeable future. Some workloads will remain on-premise (driven by legacy technology constraints; perceptions of data protection; sovereignty and assurance; slow internet in given areas; regulatory constraints or just simply company policy) and some will move to private or public hosted Cloud Services (to support remote workers; enable more flexibility/agility; to achieve lowest price points, and to access an opex payment model). Most organisations will find they need to manage several deployment models combining in-Cloud and on-premise, and as such most companies will still require on-premise IT for managing essential activities such as user credentials, maintaining a central file-store, supporting print management and running specific applications.

The market is predominantly Hybrid and will be for the foreseeable future

Historically a professional Hybrid IT experience has been the privilege of the larger Enterprise where depth of technical resources and the focus of Vendors' enterprise product capabilities have enabled this, but with the arrival of Hybrid IT solutions for the SMB, the full flexibility of Cloud coupled with the assurance of on-premise IT can be delivered as a seamless service through managed service providers to the widest addressable market. Hybrid IT is no longer a by-product of technical transition, it is a sustainable strategic outcome.

For three quarters of the research base, changes to IT deployment models predominantly occur around the natural refresh of infrastructure. Furthermore, 22% of companies involved in this research specifically cite their intention to review Cloud Services at the next refresh of infrastructure. In the period leading up to July 2015 the market faces the most significant IT refresh of the 21st century to date with the end of support of both Windows Server 2003 and Small Business Server 2003. These products have not only underpinned the IT server market for the last decade they have been the basis upon which many local IT providers have built their businesses. In the UK alone an average of 1000 servers per day are likely to need to be transitioned to a new solution in the final year of support. Some customers will take the opportunity to move the server workloads to Cloud Services, some will undertake a rudimentary incremental upgrade and others will take the opportunity to refine their IT strategy. In any event the next 12 months will see a material increase in Cloud adoption by both new and existing Cloud users.

An emerging trend in the move to Hybrid IT is the increase in organisations taking IT-as-a-Service. 22% of organisations already use an MSP to deliver core IT services and this increases to 38% in organisations with less than 20 employees. This trend is likely to grow driven by the rapid pace of innovation in Hybrid IT and the pressure to free up precious IT resource from basic maintenance activity.

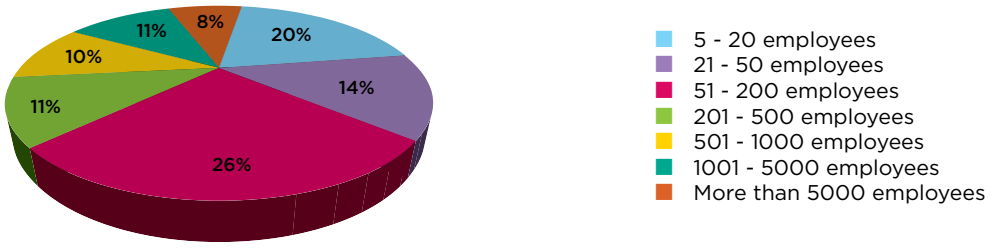
Methodology and sampling

In June 2014 Vanson Bourne conducted the fifth annual body of research on behalf of the Cloud Industry Forum (CIF) to determine the level of Cloud adoption among participants and to gain insights into attitudes, experiences and trends across the UK end user community.

The research polled 250 senior IT and business decision-makers in enterprises, small-to-medium sized businesses (SMBs) and public sector organisations. The organisations participating all had UK based operations.

How many employees work in your organisation?

Total

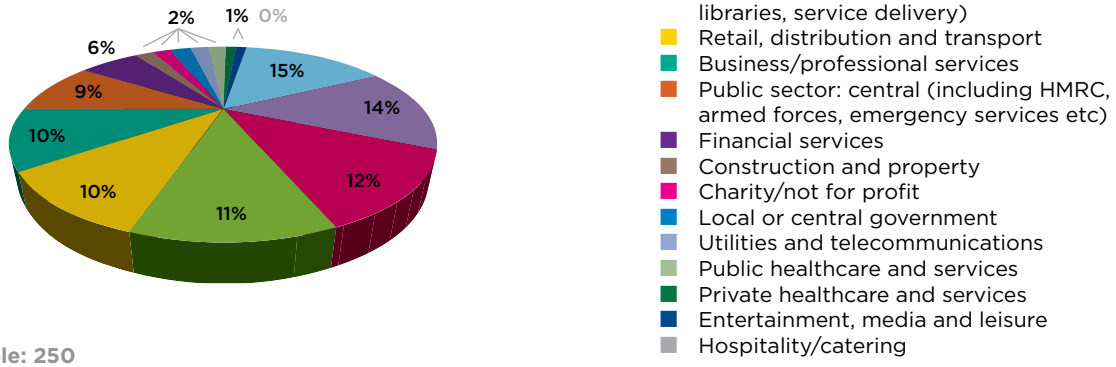


Sample: 250

Of the 250 end user organisations questioned, 15% came from the IT and technology sector, 14% from Educational establishments, 12% from Manufacturing, 10% from retail and distribution, 10% from business/professional services and 6% from financial services. A further 26% comprised of public sector and NFP organisations ranging from central and local government to healthcare and charities.

In which sector does your organisation primarily operate?

Total



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This White Paper summarises the results of this research and sets out to comment on the following:

1. The current state and pace of Cloud adoption in the UK including drivers and trends.
2. The prevalence and persistence of Hybrid IT as the new norm in IT deployment.
3. The impact of FUD and security on Cloud adoption.
4. An outlook to 2015.

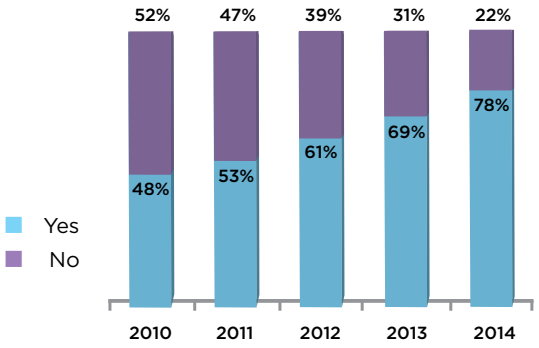
The organisations participating in this research had to answer 90 questions in a detailed research to provide an in-depth perspective on UK Cloud adoption

1. UK Cloud adoption status mid-year 2014

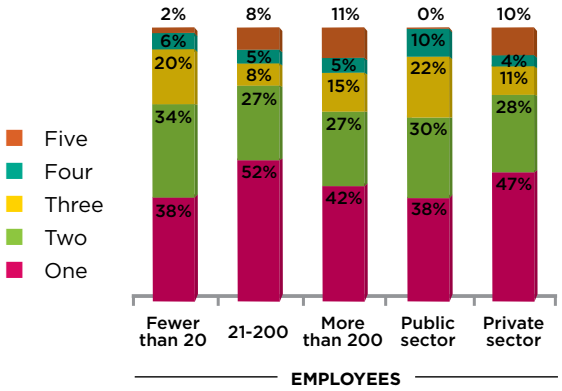
This research polled 250 respondents responsible for IT decision-making, from a broad and representative cross section of industries. The most widely-represented sectors included IT and services; education; business & professional services; manufacturing; financial services; and retail, distribution and transport. The public sector was also well represented, with over a quarter of total respondents.

The results of the research continue to validate that Cloud Services are now established as a credible and viable IT deployment model across the majority of organisations in the UK. The rate of adoption is also continuing to increase overall.

Does your company have any hosted or Cloud-based services in use today?



How many different Cloud-based services does your company use today?



Sample: 250

Well over three quarters (78%) of all organisations interviewed already consciously use Cloud Services formally for at least one application area within their organisation, this is a nine point increase or 15% growth over the research in September 2013, suggesting an annualised growth rate nearer to 20% could be expected by the end of September 2014. Since the original research in 2010, UK Cloud adoption has grown by 61.5%.

Large private enterprises are showing the highest rates of adoption at just over 80%, whilst the sub 200 employee organisations are tracking at around 75% and public sector specifically is lagging at around 68% despite the increased focus on this sector to improve efficiency.

In order to start tracking the level of Cloud adoption within an organisation, the CIF research now records the number of Cloud Services being accessed as shown in the right hand chart above.

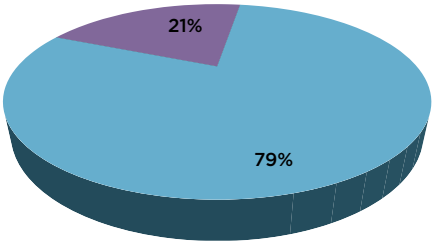
Understanding the organisational environment is critical to complete our understanding. The research recognises that the majority of organisations (85%) operate on-premise servers or data centres. Logically organisations with sub 20 employees have the least (66%) and the companies over 200 employees have the most (92%). The pre-existence of on-site technology is a direct influence on the evolution of IT strategy based upon historical investment and write down etc. Conversely though, the natural refresh of infrastructure is the point at which any IT deployment model is likely to be reviewed.

22% of organisations use a managed service provider

- 79% of organisations now formally consider Cloud as a part of their IT strategy.
- 72% of organisations make new deployment decision based around infrastructure refresh.
- 61% of organisation reported running Windows Server 2003 which formally goes end of support in July 2015 which will drive a wave of opportunity for Cloud Services adoption over the coming year.
- 78% of organisations run IT predominantly with in-house personnel and 22% use a managed service provider. MSP's have greatest penetration in the sub 20 employee organisations where 38% claim to rely on an MSP.

Does your company include consideration for Cloud Services within its wider IT strategy?

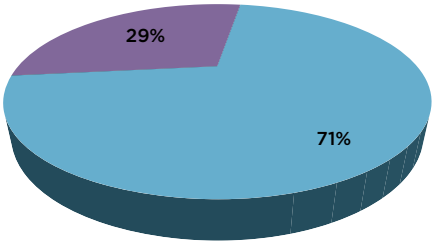
Total



Sample: 219 Yes No

Do you consider infrastructure refresh to be an opportunity to adopt alternative deployment models such as Cloud IaaS/SaaS or third party hosting?

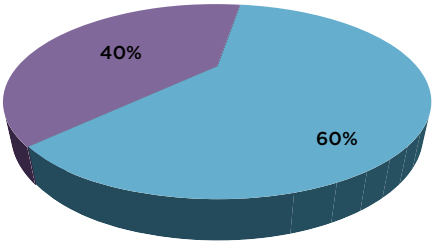
Total



Sample: 250 Yes No

Are you running any Windows Server 2003 operating systems that require a refresh by July 2015?

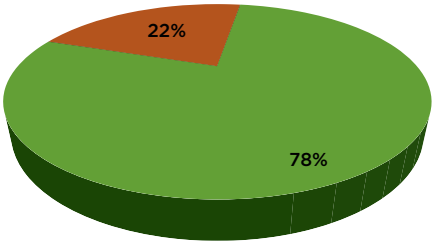
Total



Sample: 250 Yes No

Do you PREDOMINANTLY run IT internally or use a third party Service Provider to deliver your IT services?

Total



Sample: 250 Internal resources
External managed Service Provider

In addition to Cloud being pervasive across all organisational sizes and verticals, it is equally diverse in terms of the spread of application areas being accessed as a Cloud Service as reflected in the table overleaf. The table also shows the timeline associated with adoption of Cloud Services and for the majority of application areas reflects that the rate of adoption in the last 12 months is higher than the preceding periods, reinforcing a broadening in scope and pervasiveness of Cloud.

Do you use hosted or Cloud-based services for the following applications?

All respondents (250)	We do not use this type of application at all	We use this app but prefer it to remain on-premise	We use app on-premise but plan hosted or Cloud-based in future	We began using hosted or Cloud-based services for this app in the last 12 months	We began using hosted or Cloud-based services for this app in the last 3 years	We began using hosted or Cloud-based services for this app more than 3 years ago
Accounting and finance applications	**13%**	54%	17%	7%	7%	2%
Active directory/credentials	**19%**	48%	15%	9%	6%	3%
Advertising and online marketing services	**35%**	22%	14%	14%	8%	6%
Collaboration services	**29%**	27%	16%	12%	11%	4%
CRM	**24%**	31%	16%	14%	9%	6%
Data backup/disaster recovery services	**8%**	43%	16%	14%	10%	9%
Data storage services	**12%**	40%	20%	12%	12%	4%
Database/business intelligence	**19%**	38%	18%	11%	7%	6%
Document management	**18%**	38%	19%	12%	10%	3%
Email services	**7%**	36%	20%	16%	10%	10%
eShop services	**50%**	17%	11%	9%	8%	5%
File and print management	**14%**	55%	15%	12%	2%	3%
Infrastructure as a service	**34%**	25%	23%	9%	5%	4%
IT asset management services	**25%**	38%	21%	6%	7%	2%
IT operations management	**19%**	48%	19%	5%	6%	2%
IT security services	**17%**	50%	16%	7%	6%	4%
Managed IT services	**29%**	32%	16%	12%	7%	4%
Niche vertical applications	**44%**	26%	18%	8%	4%	2%
Office automation/productivity	**27%**	40%	17%	10%	4%	2%
Partner relationship management	**44%**	25%	18%	9%	3%	1%
Personnel and payroll	**11%**	45%	19%	14%	6%	5%
Portal services	**32%**	24%	22%	11%	8%	3%
Sales management	**35%**	31%	18%	8%	6%	2%
Service management/help desk services	**22%**	35%	18%	12%	8%	4%
Test and QA services	**33%**	35%	16%	11%	3%	2%
Unified communications	**36%**	32%	17%	8%	5%	2%
Video conferencing	**34%**	24%	14%	16%	8%	4%
VOIP	**28%**	31%	19%	12%	5%	4%
Webhosting	**14%**	24%	21%	14%	10%	18%
Workflow systems	**38%**	31%	17%	9%	3%	2%
Other	**58%**	16%	13%	7%	4%	2%

Workloads for web hosting, email, CRM, data backup and DR continue to be the most pervasive Cloud Services used by organisations in the research. Following close behind are video conferencing, collaboration solutions, HR systems and data storage.

Drivers of Cloud adoption

Looking into the drivers for first time Cloud adoption, the flexibility of Cloud as a delivery model continues to be cited as the most common primary reason for adoption among private sector companies and operational cost savings among public sector organisations.

Which of these were reasons for initially adopting hosted or Cloud-based services?

Asked of respondents whose company has any hosted or Cloud-based services in use today	TOTAL			PUBLIC SECTOR			PRIVATE SECTOR		
	This was not a reason	This was a reason	This was the primary reason	This was not a reason	This was a reason	This was the primary reason	This was not a reason	This was a reason	This was the primary reason
Low cost of adoption	**37%**	**57%**	**5%**	32%	56%	12%	39%	58%	4%
Flexibility of delivery	**25%**	**58%**	**17%**	32%	53%	15%	24%	59%	17%
Lack of in house skills	**56%**	**39%**	**5%**	35%	59%	6%	60%	35%	4%
New service – no experience	**56%**	**38%**	**6%**	41%	56%	3%	59%	34%	7%
Operational cost savings	**30%**	**55%**	**15%**	21%	59%	21%	32%	54%	14%
Limited internal resource priorities	**43%**	**54%**	**3%**	26%	71%	3%	47%	51%	2%
24/7 service dependence	**31%**	**58%**	**10%**	32%	59%	9%	31%	58%	11%
Scalability	**26%**	**65%**	**9%**	21%	79%	0%	27%	62%	11%
Temporary project	**64%**	**35%**	**2%**	38%	56%	6%	69%	30%	1%
RoI vs on-premise	**51%**	**48%**	**1%**	29%	71%	0%	56%	43%	1%
Time to market deadline	**55%**	**44%**	**1%**	35%	65%	0%	60%	39%	1%
Policy decision	**52%**	**44%**	**4%**	32%	65%	3%	56%	40%	4%
Avoiding additional capex	**53%**	**47%**	**0%**	35%	65%	0%	57%	43%	0%
Other	**71%**	**28%**	**2%**	53%	41%	6%	75%	25%	1%

It is also interesting to note that when looking retrospectively at which objectives were realised in implementing Cloud Services, the picture follows a fairly consistent pattern as shown in the next table with speed of access to technology and improving uptime and availability/service levels leading the list across both public and private sectors. Interestingly, public sector struggled in comparison to the private sector to achieve their objectives to the same level of satisfaction. Also of note is that the ranking of objectives achieved easily differs somewhat to the overall ranking of objectives achieved (including those achieved with difficulty).

Flexibility drives the private sector agenda whilst cost savings drive public sector decisions

Which of the following business objectives were achieved when migrating to the Cloud?

Asked of respondents whose company has any hosted or Cloud-based services in use today. Respondents from private sector organisations (161)	TOTAL				PUBLIC SECTOR				PRIVATE SECTOR			
	Not a desired business objective	Objective but not one we achieved	Objective achieved with difficulty	Objective achieved without difficulty	Not a desired business objective	Objective but not one we achieved	Objective achieved with difficulty	Objective achieved without difficulty	Not a desired business objective	Objective but not one we achieved	Objective achieved with difficulty	Objective achieved without difficulty
Reducing capital expenditure	**30%**	**23%**	**21%**	**27%**	6%	47%	24%	24%	35%	17%	20%	28%
Improving cash flow	**51%**	**17%**	**19%**	**13%**	26%	24%	32%	18%	56%	16%	16%	12%
Increasing speed of access to technology	**20%**	**14%**	**36%**	**30%**	6%	29%	47%	18%	23%	11%	34%	32%
Increasing flexibility of access to technology (i.e. ability to increase or decrease use)	**21%**	**21%**	**26%**	**32%**	3%	41%	35%	21%	25%	17%	24%	34%
Reducing the risk of lost data	**32%**	**14%**	**23%**	**31%**	12%	29%	38%	21%	37%	11%	19%	33%
Reducing the requirement for number of skilled personnel in-house	**47%**	**17%**	**22%**	**14%**	9%	41%	29%	21%	55%	12%	20%	12%
Reducing the pressure on IT staff within the company	**26%**	**22%**	**30%**	**23%**	12%	35%	29%	24%	29%	19%	30%	22%
Improving uptime/reliability of IT	**23%**	**13%**	**29%**	**36%**	3%	21%	50%	26%	27%	11%	24%	38%
Improving service levels of IT	**24%**	**17%**	**26%**	**33%**	9%	26%	47%	18%	27%	16%	21%	37%

Looking at the inhibitors to moving workloads to the Cloud, the primary generic constraints were signalled around budget for the transition and on-going opex, the legacy investment still carried on their books, meeting their basic needs and concerns over data security as well as integration with on-premise IT as shown below.

What have been the biggest inhibitors to moving more apps and/or infrastructure to the Cloud?

All respondents	Total	No. employees Fewer than 20	20 - 200	More than 200	Public	Private
Lack of budget	**37%**	44%	35%	35%	50%	34%
Existing investments in on-premise/legacy systems	**34%**	28%	35%	37%	44%	32%
Business security and privacy concerns	**31%**	30%	32%	31%	28%	32%
Integration challenges with legacy systems	**27%**	22%	30%	26%	18%	29%
Lack of strategy or business case	**19%**	18%	15%	23%	12%	21%
Lack of control	**17%**	4%	19%	22%	18%	17%
Lack of sponsorship or leadership	**16%**	10%	18%	17%	18%	16%
Regulation or other legal constraints	**16%**	6%	19%	18%	18%	16%
Constrained by lack of appropriate skills	**14%**	22%	11%	13%	18%	13%
Available low-risk Service Providers/product immaturity	**12%**	10%	12%	12%	14%	11%
Limited customisation	**10%**	2%	12%	11%	14%	9%
Other	**3%**	4%	3%	3%	2%	4%
There have been no inhibitors to moving more apps/ infrastructure to the Cloud	**6%**	6%	10%	2%	4%	7%
Base	**250**	50	100	100	50	200

When refining the views for those organisations that consciously do not want to place all services in the Cloud the sensitivity to issues increase as set out below with public sector being most constrained by legacy and the perceived impact of change.

What are the primary reasons for not wishing to move specific applications to Cloud Services?

Asked of respondents who will not ever move their entire IT estate to remotely hosted Cloud Services	Total	No. employees Fewer than 20	20 - 200	More than 200	Public	Private
Security concerns	**75%**	73%	64%	85%	71%	76%
Data protection concerns	**59%**	40%	64%	60%	50%	60%
Investments already made in on-premise	**47%**	53%	44%	49%	43%	48%
Efficiency	**39%**	27%	47%	36%	57%	37%
Legacy technology restrictions	**34%**	27%	38%	33%	57%	32%
Protection of intellectual property	**27%**	7%	33%	27%	14%	28%
Retention of key skills	**23%**	27%	25%	19%	14%	24%
Proprietary technology	**17%**	7%	16%	19%	7%	18%
Other	**9%**	13%	9%	9%	0%	11%
Base	**137**	15	55	67	14	123

The financial impact of Cloud Computing is often signalled as a core driver when CSPs advertise services, even though it is typically lower down on an end users priorities in buying Cloud Services compared to flexibility and access to appropriate IT. However, real savings are achieved as shown the table below which outlines an average saving of just over 9% which is expected to double to 18% within five years. The organisations with less than 20 employees are making the greatest savings through the use of Cloud Services.

Security remains the number one concern for Cloud users

What cost savings are you experiencing from your organisation's use of Cloud Services?

Asked of respondents whose company has hosted or Cloud-based services in use today or anticipate or foresee it being adopted within 12 months	TOTAL								FEWER THAN 20 EMPLOYEES							
	Nothing	Less than 10%	10% to 20%	20% to 35%	35% to 50%	50% to 75%	75%+	Av' cost saving %	Nothing	Less than 10%	10% to 20%	20% to 35%	35% to 50%	50% to 75%	75%+	Av' cost saving %
Currently saving	**35%**	**26%**	**30%**	**5%**	**2%**	**1%**	**0%**	**9.12%**	30%	15%	37%	11%	0%	7%	0%	13.37%
Savings in the next 12 months	**29%**	**22%**	**27%**	**16%**	**4%**	**3%**	**0%**	**12.69%**	22%	17%	33%	15%	7%	7%	0%	16.79%
Savings in the next 2 years	**25%**	**16%**	**30%**	**18%**	**6%**	**5%**	**0%**	**15.54%**	20%	17%	41%	9%	4%	9%	0%	16.74%
Savings in the next 5 years	**24%**	**12%**	**27%**	**18%**	**14%**	**5%**	**1%**	**18.28%**	17%	11%	33%	22%	9%	9%	0%	20.54%
	21 - 200 EMPLOYEES								200+ EMPLOYEES							
Currently saving	42%	20%	26%	7%	5%	0%	0%	8.93%	30%	37%	30%	1%	1%	0%	0%	7.17%
Savings in the next 12 months	37%	14%	23%	18%	5%	4%	0%	13.27%	26%	30%	28%	14%	1%	0%	0%	10.11%
Savings in the next 2 years	32%	8%	26%	17%	8%	7%	1%	17.14%	22%	23%	28%	23%	4%	0%	0%	13.51%
Savings in the next 5 years	33%	6%	23%	14%	15%	5%	4%	17.81%	20%	17%	28%	18%	14%	2%	0%	17.55%

Users of Cloud Services on average are achieving a 9% saving over on-premise

Has utilising Cloud Services given your organisation a competitive advantage?

Asked of respondents whose company has any hosted or Cloud-based services in use today	Total	No. employees Fewer than 20	20 - 200	More than 200	Public	Private
Yes, a significant advantage	**8%**	11%	8%	6%	6%	8%
Yes, some advantage	**47%**	58%	44%	44%	71%	42%
No advantage yet, but anticipating to see one	**23%**	18%	21%	26%	18%	24%
No advantage and not anticipating one	**23%**	13%	27%	24%	6%	27%
Base	**195**	38	75	82	34	161

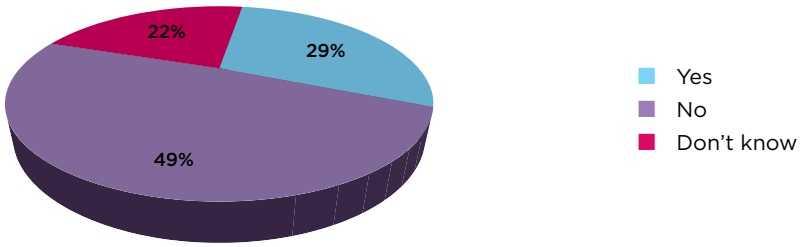
In further, albeit subjective, support of the positive influence of Cloud solutions on businesses, the majority (55%) claim that their organisation has gained competitive advantage following the implementation of Cloud Services.

Looking forward into 2015, in regard to the 22% of companies not yet making use of Cloud Services, just under a third of them (6.4% of the whole base) stated they expected to make use within the next year. Only 3.2% of companies in the total research project did not expect to make use of Cloud-based services in the delivery of their IT strategy at any point.

55% of participants signalled that the Cloud business model provided them competitive advantage

Do you anticipate Cloud Services being adopted by your organisation within 12 months?

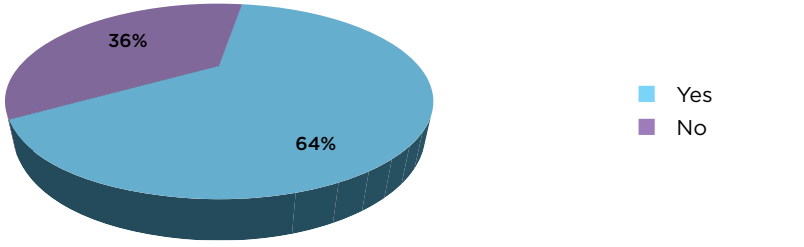
Total



Sample: 55

Do you expect your adoption of Cloud Services to increase over the next 12 months?

Total



Sample: 195

For those that had already used Cloud Services, satisfaction with the results of that use remained very healthy at 89% of end users being satisfied with their decision to use Cloud Services. This is further reinforced by the fact that 64% of organisations already using Cloud Services today expect to increase their use of Cloud Services over the coming year.

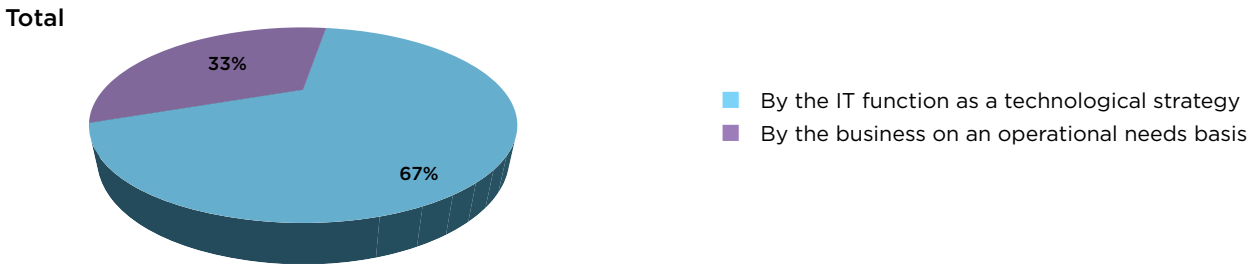
Another interesting dimension is the impact of the Cloud business model on commercial expectations. The clear inference being that overall almost as many organisations (34%) preferred an monthly Opex model for procuring IT over those that prefer an outright purchase (39%) with the balance not minding either way. In the Public sector the situation is more dramatic as 55% prefer an opex model versus only 31% who prefer to own outright (private sector is 27% opex to 41% ownership).

89% of organisations are satisfied with their use of Cloud Service

Cloud impact upon IT function

A lot of myth has surrounded Cloud Services inferring that it somehow obfuscates the IT function, however, the research demonstrates that the majority of Cloud selection decisions are still technically led (67%) versus business led (33%).

Is Cloud adoption driven within your business principally by the IT function as a technological strategy, or by the business on an operational needs basis?



Sample: 172

In terms of workloads and resourcing, 29% of public sector organisations stated that Cloud Services reduced the number of their IT staff, whereas in the private sector the impact was half that at 13%. The majority of organisations maintained staffing levels but refocused the team on new priorities.

In regard to the IT Managers, 32% of private sector managers believed Cloud made no impact on their day-to-day workloads, whereas only 21% of public sector managers concurred. In terms of those that noticed and impact of Cloud Services there was a direct correlation between reduced troubleshooting and server management and increased time for planning and new projects.

Perhaps most telling in the assessment of the impact of Cloud on the IT function is that 98% of participants signalled that the Cloud business model encouraged them to self serve IT solutions. Tied in with this trend is an increase in the number of organisations that trial Cloud Services before formally committing to contracts as shown in the chart below.

34% of organisations prefer on opex payment model whilst 39% still prefer a capex model for IT services

Did you trial Cloud Services before committing to purchase?

Asked of respondents whose company has any hosted or Cloud-based services in use today	Total	No. employees Fewer than 20	20 - 200	More than 200	Public	Private
Yes	**69%**	82%	61%	71%	79%	67%
No	**31%**	18%	39%	29%	21%	33%
Base	**195**	38	75	82	34	161

2. The prevalence of Hybrid IT as the new norm

As discussed in previous papers, Hybrid IT as a 'state' is hardly a new phenomenon as it relates to the co-existence of multiple IT deployments models which has been true for most businesses since the move away from mainframes in the 1980s. However, until recently the hybrid state has been a necessary process of transition from one state to another, whereas today 'hybrid' is a strategy, an outcome.

To prove this hypothesis we asked participants in the research study to give their views on a number of relevant factors:

When asked 'do you foresee a day when you will move your entire IT to Cloud-based services? The results were quite enlightening in that 45% of firms could see themselves one day being wholly based in the Cloud, however, this fluctuates based upon the size of the company with the larger end of the market being more reticent than the small end users. Furthermore, to put it in practical context only 8% saw this as an immediate possibility for their organisation, with a further 22% stating that they would consider doing so under a programme of product refresh cycles (such as the impending WS2003 refresh), and the balance of 15% saying that they did not believe the Cloud could offer them a full solution at this time even though they were open to the prospect of moving entirely to the Cloud. So in reality 30% of firms believe a practical transition is possible, 55% believe it is not possible for them to achieve that goal and 15% remain open minded but not convinced of the solution maturity for their business needs as shown in the table below.

The results were quite enlightening in that 45% of firms could see themselves one day being wholly based in the Cloud however, only 8% see this as an immediate opportunity

Do you foresee that you will ever move your entire IT estate to remotely hosted Cloud Services?

All respondents	Total	No. employees Fewer than 20	20 - 200	More than 200	Public	Private
Yes: as soon as practical	**8%**	8%	12%	4%	10%	8%
Yes: based on the operational refresh of servers and applications	**22%**	42%	19%	14%	44%	16%
Yes: although the Cloud proposition is not ready for us to make this move yet	**16%**	20%	14%	15%	18%	15%
No: we intend to keep specific applications and services on-premise	**55%**	30%	55%	67%	28%	62%
Base	**250**	50	100	100	50	200

Would you describe your primary approach to IT as being:

All respondents	Total	No. employees Fewer than 20	20 - 200	More than 200	Public	Private
On-premise	**48%**	42%	51%	49%	50%	48%
In the Cloud	**10%**	16%	12%	6%	26%	7%
Hybrid (a mix of the above)	**41%**	42%	37%	45%	24%	46%
Base	**250**	50	100	100	50	200

Additional supporting evidence for Hybrid IT can be drawn from understanding where an organisations IT strategy is grounded. 46% of the research base still consider their primary IT model to be on-premise, 44% see their IT model as Hybrid and only 10% see it as a pure Cloud model. This is backed up when looking at the level of Cloud penetration within organisations as show in section 1 where almost half of Cloud users still only use 1 Cloud Service formally meaning the remainder is still on-premise at this time.

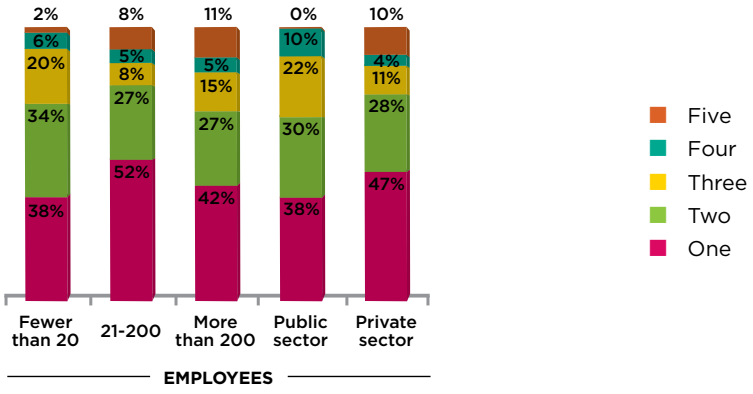
The rationale for those not yet willing to move everything to the Cloud covers a wide variety of concerns as set out in the table below with perceptions of security concerns, lost efficiencies, existing on-premise/legacy investments and data protection concerns driving the most opinions. Whilst it is possible to overcome most of these concerns in a Cloud-based approach with appropriate due diligence, it underscores the point that sometimes IT decisions are based on perception and irrational beliefs as much as operational realities and as such a well architected Hybrid IT solution will enable organisations with concerns still access Cloud Service, but on their terms.

What are the primary reasons for not wishing to move specific applications to Cloud Services?

Asked of respondents who will not ever move their entire IT estate to remotely hosted Cloud Services	Total	No. employees Fewer than 20	20 - 200	More than 200	Public	Private
Security concerns	**75%**	73%	64%	85%	71%	76%
Data protection concerns	**59%**	40%	64%	60%	50%	60%
Investments already made in on-premise	**47%**	53%	44%	49%	43%	48%
Efficiency	**39%**	27%	47%	36%	57%	37%
Legacy technology restrictions	**34%**	27%	38%	33%	57%	32%
Protection of intellectual property	**27%**	7%	33%	27%	14%	28%
Retention of key skills	**23%**	27%	25%	19%	14%	24%
Proprietary technology	**17%**	7%	16%	19%	7%	18%
Other	**9%**	13%	9%	9%	0%	11%
Base	**137**	15	55	67	14	123

When reflecting on the current state of Cloud adoption it is important to remember that almost half (46%) of the population of Cloud users are only using one Cloud Service and therefore even with a commitment to move to Cloud Services most businesses will remain Hybrid for the foreseeable future.

How many different Cloud-based services does your company use today?



3. The impact of FUD and security on Cloud adoption

Despite the significant growth in adoption and penetration of Cloud Services, the market remains somewhat confused and uncertain as to the legal, regulatory and security environment surrounding the market. Over the prior two research periods we saw the perceived impact of regulation diminish to 37%. However, in this latest research it has grown back to 52% of organisations believing data storage location is impacted for them by regulation and arguably this is driven by the continued FUD (Fear, Uncertainty and Doubt) being peddled following recent developments in European Data Protection and revelations like the PRISM controversy.

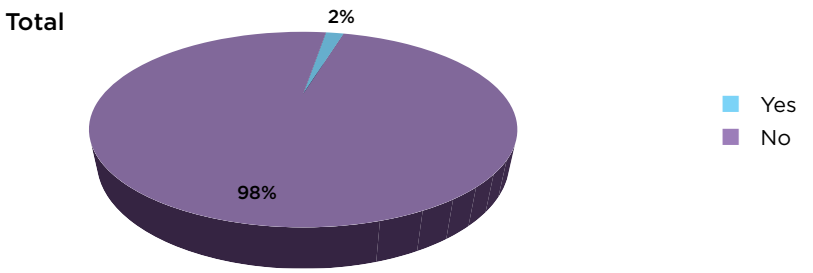
The research confirmed that the number one issue in the minds of end users still relates to Data Security with 61% citing this concern. This was followed by 54% concerned about data privacy and protection and 28% concerned about where the data is stored from a sovereignty perspective. The full results are set out below and it is clear that the concerns are most heightened in larger private sector organisations.

What are your most significant concerns, if any, about the adoption of Cloud Services in your business?

Asked of respondents whose company has hosted or Cloud-based services in use today or anticipate or foresee it being adopted within 12 months	Total	No. employees Fewer than 20	20 - 200	More than 200	Public	Private
Data security	**61%**	53%	61%	66%	43%	65%
Data privacy	**54%**	53%	55%	53%	35%	58%
Data sovereignty/jurisdiction	**28%**	27%	25%	31%	23%	29%
Fear of loss of control/manageability	**24%**	22%	27%	22%	33%	22%
Dependency upon internet access (availability and bandwidth)	**24%**	27%	29%	19%	18%	26%
Contract lock-in	**23%**	22%	27%	19%	18%	24%
Regulatory constraints	**21%**	11%	19%	28%	28%	20%
Cost of change/migration	**20%**	18%	19%	22%	28%	18%
Confidence in the reliability of the vendors	**18%**	13%	19%	19%	13%	19%
Confidence in the vendors business capability	**12%**	11%	17%	9%	18%	11%
Lack of clarity of impact of Cloud Services on business processes	**11%**	7%	12%	12%	8%	12%
Lack of clarity in most appropriate Cloud deployment model	**10%**	13%	7%	11%	18%	8%
Confidence in knowing who to choose to supply service	**9%**	11%	5%	12%	15%	8%
Confidence in the clarity of charges (i.e. will they be cheaper than on-premise)	**8%**	9%	11%	6%	5%	9%
Contractual liability for services if SLAs are missed	**8%**	2%	12%	8%	13%	7%
Lack of confidence in the business case to need Cloud Services	**7%**	9%	5%	8%	10%	6%
Lack of clarity in most effective service delivery model	**6%**	13%	4%	4%	18%	3%
Lack of any advice from within the company to adopt	**4%**	4%	4%	3%	5%	3%
Lack of any promotion or awareness by the people we buy IT from	**2%**	0%	1%	4%	8%	1%
Other	**2%**	0%	6%	0%	3%	2%
Base	**219**	45	84	90	40	179

Ironically, in regard to Data Security specifically, empirical evidence from the research around the security of Cloud Services clearly indicated that only 2% of organisations believed they had actually experienced a security breach related to the use of a Cloud Service. This should be seen as a solid reinforcement that the fear of a security issue is more exaggerated than the reality of incidents compared to on-premise IT.

Have you ever experienced any breach of security when using a Cloud Service?



Sample: 250

Looking specifically at the fallout from the PRISM debacle, participants in the research did not appear to show any extreme concerns about the privacy of their organisations data, although public sector and larger organisations were more sensitive and as a result appear to have taken steps to implement greater security. The private sector by contracts appear to have a more muted response suggesting they feel more prepared.

After the revelations of PRISM, how concerned are you about the privacy of your organisation's data in the Cloud?

Asked of respondents whose company has any hosted or Cloud-based services in use today	Total	No. employees Fewer than 20	20 - 200	More than 200	Public	Private
Not at all concerned	**12%**	13%	16%	9%	3%	14%
Marginally concerned	**29%**	24%	27%	34%	24%	30%
Somewhat concerned	**43%**	50%	36%	46%	62%	39%
Significantly concerned	**11%**	8%	19%	5%	9%	11%
Extremely concerned	**5%**	5%	3%	6%	3%	5%
Base	**195**	38	75	82	34	161

Has the PRISM revelations and related concerns about the privacy of your organisation's data caused you to do any of the following things differently?

Asked of respondents whose company has any hosted or Cloud-based services in use today	Total	No. employees Fewer than 20	20 - 200	More than 200	Public	Private
Change the way I secure my information	**32%**	50%	32%	23%	65%	25%
Change where I choose to put our organisation's data	**17%**	16%	21%	15%	21%	17%
Change my Cloud Service Provider	**9%**	13%	12%	4%	12%	8%
It has not caused me to do anything differently	**56%**	42%	53%	65%	26%	62%
Base	**195**	38	75	82	34	161

In regard to Data Sovereignty, the interpretation of where the data was required to be stored, 87% of the participants who believed they had a restriction or obligation placed upon them required the data to be stored in the UK with over half of those (43% in whole terms) still preferred to keep the data in some form 'on-premise' and the balance of 44% being hosted within the UK. Only 11% of organisations believed they would or should store their data elsewhere in the EEA despite being under the same umbrella legislations and only 2% saw that regions outside of the EEA were acceptable.

Why are you required to store this data in a specific location?

Asked of respondents whose organisation is required to store data for any application in a specific location	Total	No. employees Fewer than 20	20 - 200	More than 200	Public	Private
Concerns over security	**70%**	83%	57%	76%	76%	68%
Regulation	**52%**	28%	51%	67%	51%	53%
Size of database vs available internet bandwidth	**40%**	56%	38%	33%	53%	35%
Integration to related application on-premise	**28%**	19%	34%	27%	33%	26%
Operational preference	**26%**	22%	28%	27%	13%	31%
Other	**2%**	0%	3%	2%	0%	2%
Base	**170**	36	68	66	45	125

In regard to the data that you are required to store in a specific location, where are you required to store it?

Asked of respondents whose organisation is required to store data for any application in a specific location	Total	No. employees Fewer than 20	20 - 200	More than 200	Public	Private
On-premise	**43%**	36%	47%	42%	49%	41%
Hosted within the United Kingdom	**44%**	53%	40%	42%	44%	43%
Hosted within the EEA	**11%**	11%	12%	11%	7%	13%
Other (please specify)	**2%**	0%	1%	5%	0%	3%
Base	**170**	36	68	66	45	125

Other practical constraints often identified by end users as issues that impact their choice of deployment model relate to:

- The levels of Integration between applications - which if significant may limit use of public Cloud Services.
- The degree of flexibility in scale of use that is required over time - the more flexible the need, the more pro-Cloud the outcome.
- The perception of risk associated with the sensitivity of the data - the higher the risk the more typically organisations avoid.
- The level of internet bandwidth available to support IT operations.
- Legacy applications that still need to be operated on-premise as a viable Cloud alternative was not available.

Navigating the process of selecting a Cloud Service Provider remained a challenge for end users, however, the majority (62%) stated that they would prefer to work with CSP's who are publicly certified against an industry Code of Practice. Today CIF continue to operate the only certified CoP programme. The CIF CoP exists as an independent benchmark of best practice and key credentials that credible CSP's should be able to measure up to and be able to provide sufficient assurance around in regard to the transparency, capability and accountability of their offering to the market.

Do you see value in working with CSPs who sign up publicly to an industry code of practice that is independently audited over those that have no public accountability?

All respondents	Total	No. employees Fewer than 20	20 - 200	More than 200	Public	Private
Yes	**62%**	56%	61%	66%	50%	65%
No	**38%**	44%	39%	34%	50%	35%
Base	**250**	50	100	100	50	200

62% of organisations seeking to use Cloud Services would prefer to work with Certified CSPs

4. Future trends: An outlook to 2015

We have now conducted five research projects over 48 months looking at Cloud adoption in the UK, and as such have a sound basis for assessment and evaluation of trends. The following statements have been updated and put forward as market forecasts from the Cloud Industry Forum based on the extrapolation of empirical trends seen to date and reflecting on current and emerging attitudes toward Cloud Services and innovation. Clearly, the past is not always an accurate predictor of the future, but these statements reflect a pragmatic assessment of likely outcomes.

- First time adoption of Cloud Services will increase by 12 points (15% in real terms) by the end of 2015, meaning that 90% of all businesses in the UK will be formally using at least one Cloud Service by that time. Growth will be fuelled by the WS2003 EoS refresh that concludes in July 2015.
- Penetration of Cloud Services by existing users will increase by 66% points by the end of 2015 resulting in over 60% of organisations using two or more Cloud Services, again partially driven by the WS2003 EoS activity.
- 10% of businesses will report a primary Cloud-based IT strategy, 10% will remain entirely on-premise and 80% will have a Hybrid IT environment. Meaning that nine out of 10 companies will continue to invest in on-premise IT alongside and integrated with Cloud solutions.
- Growth by application will likely be higher for application areas covering line of business applications, collaboration solutions, productivity suites, IaaS/storage, data back-up and disaster recovery.
- Convergence of fixed/mobile, voice/data communications and IT will continue to be a core enabler of effective Cloud adoption both in terms of Cloud applications and device function.
- Key technology innovation around platform independent monitoring, efficient management and governance of a Hybrid IT estate will grow in prominence and will be instrumental to supporting IT strategy for CIO's.
- An increase in focus on delivering Hybrid IT for the substantial SMB market will be enabled through technical innovation improving the service delivery efficiency for this sector.
- Managed services will become a regularly attached solution to facilitate the delivery of Hybrid IT-as-a-Service.
- The maturity of process in selection of Cloud-based solutions within an IT strategy will be based on broader considerations of transparency, reputation, interoperability and governance rather than point process benefits.
- Cloud Service contracts will become more standardised as awareness of the complexities of the supply chain and of data portability at end of contract become more prominent. Key topics covered in agreements will include data sovereignty, data protection, back-to-back supply chain agreements, service levels and business continuity options, liability and data recovery at contract end.
- The ability to try-before-you-buy will remain the norm focusing on service experience and performance. Trials will be a mix of both free, no-obligation trials and short term paid proof of concepts.
- Service led consultancies, born in the Cloud resellers and value added resellers will become critical enablers of Cloud adoption and win market share through offering a new breed of managed services to market, establishing trust and reputation with companies moving to the Cloud through on-boarding, migration and support services.
- Standards relating to interoperability between platforms and providers will still be immature with competing perspectives. Commercial transparency and adoption of best practice will be the primary test of credibility for CSP's within this timescale.

Conclusion

So how can we summarise state of the UK Cloud market?

It is healthy and strong and the expectation is one of increasing growth (YoY 20%). The majority of UK businesses are now adopting at least one Cloud-based service and that number is forecast to grow to almost 82% by the end of 2014. Satisfaction levels remain high and two thirds of ends users operating a Cloud Service today expect to extend their footprint over the coming year.

Growth rates in, and volumes of, Cloud transactions will spike over the 12 months from mid 2014 to mid 2015 due to the timeline to the end of support for the Windows Server 2003 Operating System.

Whilst hosted public and private Cloud solutions are seen as core deployment models within the context of an organisations IT strategy, they are not seen as the only viable model and most organisations foresee the continued use of on-premise IT alongside Cloud-based services for the foreseeable future. The market has entered a phase that is likely to last for a decade or more which we refer to as Hybrid IT – the intended co-existence and interaction of on-premise and in-Cloud IT solutions.

Security continues to be the nagging doubt in the mind of the customer impacted by the rumblings around international data protection and sovereignty and the public playing out of issues like the PRISM debacle. IT is not however preventing Cloud adoption but the perceived issue needs to be countered and resolved by a professional industry, though it should be stressed it is about managing perceptions rather than an evidenced risk according to the research.

Perhaps the next big trend to watch in a market increasing comfortable with Cloud Services in a Hybrid IT environment will be the rise of managed services to deliver a holistic solution for customers. Arguably, this will complete the definition of IT-as-a-Service.

The Cloud Industry Forum (CIF) was established in direct response to the evolving supply models for the delivery of software and IT services. Our aim is to provide much needed clarity for end users when assessing and selecting Cloud Service Providers based upon the clear, consistent and relevant provision of key information about the organisation/s, their capabilities and operational commitments.

We achieve this through a process of self-certification of vendors to a Cloud Service Provider Code of Practice requiring executive commitment and operational actions to ensure the provision of critical information through the contracting process. This Code of Practice, and the use of the related Certification Mark on participant's websites, is intended to provide comfort and promote trust to businesses and individuals wishing to leverage the commercial, financial and agile operations capabilities that the Cloud-based and hosted solutions can cover.

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