Six Costly Cloud Mistakes

The savings from cloud computing may be considerably less than expected if you don't avoid these missteps.
David McCann, CFO.com | US August 12, 2010

The chance to cut costs is one of the chief reasons companies turn to cloud computing, but how much is saved may depend on avoiding some common mistakes and misperceptions.

On the surface, moving to the cloud seems like a can't-lose deal. When third parties (such as Amazon.com, Google, Hewlett-Packard, IBM, Microsoft, and Savis) host your applications or computing capacity in their massive virtualized data centers, you save the capital expense of updating hardware, cut maintenance costs, use less power, and free up floor space. The basic cloud pricing model is a flat fee based on capacity consumption, which often amounts to less than the forgone costs.

But there are a number of "hidden gotchas" when it comes to using cloud infrastructure providers, warns Jeff Muscarella, executive vice president of the IT division at NPI, a spend-management consultancy. If a company runs afoul of them, "six months in, the CFO might be wondering where all the savings are," he says.

In particular, Muscarella identifies six potential pitfalls that can make cloud costs pile up higher than expected:

1. Not taking full account of financial commitments on existing hardware. IT departments that have much of the responsibility for technology decisions and purchases may underappreciate the financial impact of committing to a cloud provider before existing physical equipment is fully depreciated. If that equipment cannot be repurposed, the ROI of moving computing workloads to the cloud may suffer. "This has to be looked at from an accounting perspective," says Muscarella.

2. Not factoring in your unique requirements when signing up for a cloud service. Most cloud offerings are fairly generic, as they are designed for the masses. For specialized needs, such as a retailer's need to comply with payment-card industry regulations, a company is likely to face additional charges. Be sure you understand such charges before signing a contract, says Muscarella.

3. Signing an agreement that doesn't account for seasonal or variable demands. In the contract, don't tie usage only to your baseline demands or you'll pay for it, warns Muscarella. If high-demand periods are not stipulated up front, there are likely to be costly up-charges when such periods happen.

4. Assuming you can move your apps to the cloud for free. Many software licenses prohibit the transfer of applications to a multitenant environment, but the provider may let you do it for a price. If you think you may want the flexibility, ask for such permission to be written into licenses at the time you're negotiating them.

5. Assuming an incumbent vendor's new cloud offering is best for you. Many providers have added cloud-based infrastructure to their traditional outsourcing and hosting services, but they're not motivated to give existing customers the lower price point that the cloud typically offers. "They're struggling with how to develop these new offerings without cannibalizing their existing revenue stream," says Muscarella. If you want to switch to a vendor's cloud services, do it at the end of the current contract term, when you can get negotiating leverage by soliciting other vendors.

6. Getting locked in to a cloud solution. Some cloud-services providers, notably Amazon, have a proprietary application program interface as opposed to a standardized interface, meaning you have to customize your data-backup programs for it. That could mean trouble in the future. "Once you have written a bunch of applications to the interface and invested in all the necessary customizations, it will be difficult — and expensive — to switch vendors," says Muscarella.