

## RESEARCH PAPER

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### Ready for Cloud: Early User Experiences in Australia

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March 2012

#### EXECUTIVE SUMMARY

During 2011–2012, the way in which CIOs assess and select cloud services has undergone a fundamental and lasting change. The early tendency to effectively outsource an IT function to the cloud in order to achieve lower IT delivery costs has changed to a business-driven attitude and CIOs now report that they are not seeking cloud services per se, but are looking for solutions to business requirements. These business requirements are now solvable by cloud services because without the cloud delivery platform, the only other solution would be to continue using the traditional time- and asset-intensive approach.

IDC believes that with consistently good service levels associated with cloud services and a broader service palette, organisations in Australia will selectively choose cloud services that suit their business needs. This expanded choice of services provides much flexibility and agility to organisations, but also presents new challenges to the CIO and the IT staff responsible for ensuring that the business receives uninterrupted service.

It is quite natural for early adopters of cloud services in Australia to tread cautiously and begin by migrating non-mission critical workloads to the cloud until they get more confident with the maturity of cloud services for more mission critical workloads. This is why we need more case studies and examples of real-world applications, which can help dispel the myths, fears and uncertainties of cloud computing.

IDC conducted a series of independent interviews with eight Australian businesses: Bis Industries, Cudo, Fortescue Metals Group, Jetset Travelworld Group, Komatsu Australia, Ledge Finance, Surf Life Saving Australia, and a Melbourne-based bakery. This research paper summarises their journey in incorporating public and private cloud environments with their existing on-premises systems and their recommendations on how to best deal with implementation challenges.

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## **CLOUD'S RECIPE FOR CHANGE**

During the last two years, Australian organisations' level of understanding of where and how different types of cloud services can be used has become widespread and more consistent. The breadth and quality of services available from cloud vendors has also increased dramatically since the peak of the cloud hype in 2010, with services now spanning the range from commodity infrastructure services to cloud-enabled business process services.

Cloud services have grown beyond the initial use of replacing non-critical applications, to enterprise-class applications that are now suitable for mission-critical roles.

A few key themes consistently resonate from the series of interviews, offering valuable insights into how cloud captured the interest of and delivered value for these Australian organisations. Some insights matched the general expectations for cloud services, but others were particularly interesting because the use of cloud services delivered results in unexpected and sometimes counter-intuitive ways. Of particular note was the frequently expressed opinion that cloud solutions provided far better business continuity capability than current self-managed, in-house approaches.

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### **Competitiveness Through Business Agility**

Successful businesses are widely acknowledged as those which are agile and flexible, but current IT deployment models can often be unexpectedly costly and require long implementation cycles. This can make it a challenge for internal IT to meet the organisation's expansion strategies or to provide improved services to internal users and customers. As organisations like Fortescue Metals Group (Fortescue), Bis Industries and Komatsu Australia found, cloud-based services address this challenge by providing them with the capabilities to expand existing operations with services that can be deployed more rapidly compared to the pre-cloud approach. They found that cloud services provided the surety of a predictable cost while also providing access to the latest technology, the ability to scale up and scale down resources relatively easily and rapidly, and the ease of manageable version control across the organisation.

However, that element of predictable costs did more than improve IT productivity; these companies also found that it made them more competitive. This undervalued aspect of predictable service gave them an ability to respond much more rapidly to RFPs and customer requests, and allowed very accurate costing estimates for all projects. This translated to an increased competitiveness through higher confidence in their pricing. Greg Willis, CTO of Cudo, put it this way, "As a fast-growing business and in start-up phase... being able to take on quite sophisticated and mature platforms for email and CRM quickly with effectively no capital expenditure and no investment of time to spin up that infrastructure was extremely helpful and returned a lot of intangible benefits."

"Being able to take on quite sophisticated and mature platforms for email and CRM quickly with effectively no capital expenditure and no investment of time to spin up that infrastructure was extremely helpful and returned a lot of intangible benefits."  
- Greg Willis, CTO, Cudo

Cloud's contributions to IT agility and competitiveness centre on shortening the implementation cycle by having a consistent set of services with which to work while delivering better IT services, better corporate compliance, and an improved customer experience.

For example, these areas were specifically identified by Komatsu Australia:

- ☒ Better operational management and control of critical applications;
- ☒ Improved business continuity levels with standard recovery times; and
- ☒ Consistent performance and availability of services.

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## **Improved Business Processes from the Cloud**

Organisations now consider the sourcing and delivery of new or replacement services from the cloud as a viable alternative to traditional asset ownership and on-premises operation – an extension of the outsourcing model. However, more organisations are also recognising that the latest breed of cloud services do a lot more than replace in-house IT infrastructure; they include business processes honed to provide best-practice levels of service and compliance for both horizontal and vertical applications. Where there is a shortage of expensive, skilled staff for employment to develop and support in-house business processes (and not to mention the associated costs of an accompanying in-house IT workforce), cloud-based services provide organisations with access to valuable industry IP and processes.

This option of partnering with a trusted provider for both business and IT functions struck a chord with Surf Life Saving Australia (SLSA) and with Cudo.

As an exclusively volunteer-driven organisation, SLSA does not have the luxury of a large IT department, so an externally sourced cloud solution made perfect sense. Instead of owning infrastructure, which would require capital expenditure and ongoing operational costs and specialised contract staff to customise to the organisation's requirements, SLSA adopted a cloud-sourced infrastructure as a service delivery model to underpin its new "Saves Time Saves Lives" project aimed at reducing the time required for the administration and support of member services and activities.

For Cudo the cloud provided much more than infrastructure. As a start-up hoping to get early-mover advantage, they needed rapid systems deployment without a huge capital outlay, and its business leaders did not have to think too hard about taking the cloud services route. Since the start of the business in 2010, Cudo has been completely reliant on a public cloud-sourced email system and a cloud-sourced CRM system – both of which are central to their business model.

The cloud objectives of SLSA and Cudo are quite different – cost control vs. rapid deployment – but the benefits that they reported overlapped because they delivered both business value and IT solutions:

- ☒ Improved implementation speed through removal of infrastructure selection and implementation activities from project;
- ☒ Removal of asset management responsibilities as third-party service providers provide the latest technologies; and
- ☒ Access to expertise, skill sets and industry best practices that would have been difficult to replicate internally.

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## Changing the IT Budget Model

Since the Global Financial Crisis (GFC) of 2009-2010, which led to closer scrutiny on capital expenditure proposals, CIOs have altered their outlook on traditional IT implementations. During the GFC, they were more likely to seek alternative low-cost solutions based on an operating expense model (opex) that do not require high capital expenditure (capex). Today, that interest in replacing capex with opex remains because this new approach to IT project funding has delivered tangible benefits – a change which has also impacted vendors. Many are being implicitly asked to shoulder much of the financial risk in IT projects and only the most financially secure are able to accept this responsibility. Although this approach better aligns IT to fluctuating business demands, it also asks CIOs to take on new responsibilities of a business rather than being only technology focussed.

The SLSA and Jetset Travelworld Group were able to report major cost savings through the use of cloud services. For example, Jetset Travelworld Group gained a 30% reduction in its combined capex/opex budget through its IT infrastructure and application rationalisation process.

Cloud also lends itself well to changing business needs as it gives organisations like Fortescue and Bis Industries the ability to provision IT services without owning and managing the IT assets. There is no need for high capital outlays and cloud's delivery model is more closely linked to varying demand.

For Bis Industries, an important ongoing benefit was derived from the relationship which they developed with their services provider. The partnership that Bis Industries has built with its trusted cloud service provider was a key factor in achieving a marked decrease in the time a project takes for management approval because of the much shorter service acquisition cycle when planning a project. The trusted relationship allows them to remove the time-consuming assessment and selection phases of any new project; this is an important gain in efficiency for an IT department as it contributes to the agility of the whole organisation that they support.

Bis Industries, like Fortescue, found that having a robust service delivery platform with known costs and capability for future application deployment provides a much greater level of confidence for its LOBs and the CIO when responding to RFPs for new projects – the IT team is not accused of slowing down the business. As Russel Wellock, National Infrastructure Manager, Bis Industries, said, "Any uncertainty about the cost of service delivery can result in underestimating project costs, thereby negatively impacting profitability. Similarly, overestimation of costs to protect against possible cost overruns can result in a loss of competitiveness and, at worst, loss of the project." For

"Any uncertainty about the cost of service delivery can result in underestimating project costs, thereby negatively impacting profitability."  
- Russel Wellock, National Infrastructure Manager, Bis Industries

Bis Industries, certainty in costs and trust in the provider remain as key elements in their cloud environment and their service provider relationship.

Cloud's benefits from an IT budgeting perspective were not just about cost reduction. For organisations which needed to accommodate short project deadlines and variable levels of service consumption across an unknown period, Bis Industries, Komatsu Australia and Fortescue all pointed out that the cloud model gave three benefits unattainable with traditional on-premises or outsourced arrangements.

The three benefits are:

- ☒ No need for initial high capital outlays;
- ☒ Predictable but flexible costs; and
- ☒ Better cost management with the help of a trusted partner.

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## **Building Business Continuity into IT Delivery**

Some might view the use of cloud services as an increase in risk to the business, particularly as a threat to business continuity, but the use of cloud services can provide effective business continuity that may otherwise be lacking in traditional environments. Ledge Finance is an example of an organisation that turned to cloud precisely to minimise future business disruption. In February 2011, the server hosting the corporate email system failed, driving Ledge Finance to use an email cloud service. This kept the inter- and intra-office communications and operations running because downtime of such systems is unacceptable.

On a larger scale, Fortescue was adamant that by adopting a pragmatic attitude to one's capabilities, cloud services offered a better solution than the DIY approach. Vito Forte, CIO of Fortescue, told us: "If you look at the service offering... their availability capability is going to be always better than mine. I don't have a four-hour guaranteed SLA for my current environment. And for me to do that, I'd need to spend millions of dollars." With infrastructure spread over most of Australia, an in-house business continuity/disaster recovery (BC/DR) solution was evaluated as needing higher initial capex and ongoing opex costs when compared to cloud-sourced solutions where asset ownership, management and operating costs were the responsibility of the cloud provider.

"I don't have a four-hour guaranteed SLA for my current environment. And for me to do that, I'd need to spend millions of dollars."  
- Vito Forte, CIO, Fortescue

Another benefit to the IT delivery is the ability to focus on other areas that are of value to the organisation. For Jetset Travelworld Group, efficient management of resources allows their budget to be directed to service delivery rather than administration. For them, a notable outcome was the increased utilisation levels of all their IT assets. This is attributed to the ability of the selected partner to provide both better IT management processes and the partner's ability to leverage their higher investments in staff and tools.

Their final choice resulted in their IT and communications services being delivered by the same provider. Commenting on this, Jetset Travelworld Group did mention that they can identify tangible value from the delivery of both IT and communications services from the same supplier, with marked improvement in terms of overall TCO and manageability.

What is often seen as a cloud weakness can often be converted into a benefit if the appropriate cloud deployment model is chosen from a provider which is capable of supporting an SLA which matches the business service requirement. Many variants of cloud services are available, and all of the interviewees acknowledged that selection of the best service from the best provider could provide mission-critical levels of business continuity and disaster recovery.

The specific benefits identified are:

- Reduced risk of business disruption;
- Reduced budget pressures through removal of the need to fund a BC/DR site;
- Peace of mind gained through eliminating the need to build and manage the IT infrastructure themselves; and
- Consistent service levels across all business processes.

## **CHALLENGES AND LESSONS LEARNT**

With such a broad spectrum of business types and applications included within this research, it was always certain to return a range of experiences. While this is true, there are also significant similarities in experience which translate to valuable lessons for any CIO starting a cloud project.

### **Project Planning**

A common thread in all our CIO discussions has been the importance of analysing the risk level of cloud services, designing mitigation strategies and convincing their executive management teams that their strategy is safe. All CIOs were asked about risks and all acknowledged that cloud services bring their own unique threat factors. However, all also pointed out that these risks are manageable by experienced IT professionals and there is little difference compared to threats faced in any IT outsourcing project.

### **Work With a Trusted Partner**

A notable lesson, which Bis Industries recommends others follow, is to treat the use of cloud services like any engagement with an external services provider. Even with the standardised offerings available from the cloud, the IT team must invest time in planning from the earliest stage and – if necessary – use an experienced partner to provide advice in order to avoid the possibility of any small but annoying obstacles which could add risk to the project's successful delivery. For the new player, focus on minimising upfront cost but evaluate the cloud project on a total cost of ownership (TCO) basis, with those initial consulting/SI costs as an essential and mandatory inclusion in order to minimise the risk of project failure.

## **Understand the Cloud Service in Your Context**

Challenges do come in many forms and are often categorised as risks. For Fortescue and Bis Industries, technology risk was minimal, but there were significant risks in other areas such as the risk that the actual capability of the vendor to deliver the contracted service was not as they claimed. For example, the financial aspects of the project must be explicitly clarified in advance of the project. It is also important to scrutinise the various pricing models offered and ensure it aligns with the organisation's needs. Those that do not expend considerable time in fully understanding the commercial aspects of the services offered could easily fail to gain the benefits of the cloud model.

## **Service Management Processes**

A common comment was that any CIO must pay attention to risks arising from potential mismatch between the cloud service being delivered and other internal vendor processes which have not kept pace with the technology. For example, Fortescue found that while their virtual private cloud service provider could easily provision a virtual machine within the required 15 minutes, the service provider's existing legacy change management workflow and approval processes actually resulted in a 10-day provisioning time requirement for that same virtual machine. The big benefit of speed to deploy was undermined by processes which had not caught up with technology. Through early identification of this mismatch, Fortescue were able to avoid being tied to an unsatisfactory service level.

## **RECOMMENDATIONS**

Here are several tips that the interviewed CIOs recommended for those planning a cloud project:

- ☒ Deeply analyse the SLAs provided by the service provider within the context of your own IT and business operating environment, especially for BC/DR plans.
- ☒ Scrutinise the track record of each vendor within the service delivery chain as well as that of the lead provider to minimise the potential risk of selecting a vendor that does not have the actual capabilities as claimed.
- ☒ Understand the cloud and product ecosystem in which the service provider operates. The strength of a cloud service is as dependent on the capabilities of the partners as it is upon the service provider itself.
- ☒ Look for cloud providers that continually invest in cloud solutions as this will provide ongoing value for your business.
- ☒ Finally, select a service provider with which you can build a comfortable working relationship based on trust.

## CONCLUSION

During the course of our discussions with a number of CIOs and infrastructure managers, we identified many reasons for using cloud services and a range of ways in which they quantified the business value derived from their use. While the choice of services allows much flexibility and agility, cloud also brings some new challenges to the CIO and the IT team. Managing service delivery, which incorporates elements from a number of providers, if not planned properly, could open the organisation up to poor service availability and failure to meet governance benchmarks.

Cloud computing is rapidly becoming more than "another option" for the IT manager – and very often it is an option that must be managed closely, following a decision to let selected workloads go into the cloud, rather than on-premises, for processing.

In effect, cloud computing can be, and is already being viewed as a change agent – a mechanism to overcome long-standing IT problems such as cost overruns on IT projects, a lack of resource utilisation in current infrastructure, frustration with information silos, and concerns about high opex costs.

Cloud computing now offers a way to address many long-standing IT issues quickly, by opting to have an external provider host and manage selected applications on an entirely different infrastructure. This cloud infrastructure is likely to be built around industry-standard components, to be highly virtualised, to be optimised for high network speeds, and to support a variety of computing languages and programming tools. It is, in short, an opportunity to start again – at least for the workloads selected for deployment in a cloud model.

As the cloud-sourcing model continues to mature, IDC believes that an increasingly common viewpoint put by CIOs will be, "I am not a technology mechanic. I am a service provider."

Cloud is, in essence, a bridge or coping mechanism and over time, cloud of all flavours will settle into general technology procurement, and cloud will become simply another means of buying IT.

## METHODOLOGY

IDC and Telstra embarked on a thought leadership initiative to explore the practical experiences of cloud computing. In this specially commissioned independent research project sponsored by Telstra, IDC conducted a series of independent interviews with eight Australian businesses: Bis Industries, Cudo, Fortescue Metals Group, Jetset Travelworld Group, Komatsu Australia, Ledge Finance, Surf Life Saving Australia, and a Melbourne-based bakery. This research paper summarises their journey in incorporating public and private cloud environments with their existing on-premises systems and their recommendations on how to best deal with implementation challenges. These interviews were conducted independently by IDC and at the offices of the interviewees. IDC used a standard set of questions to gain information about the organisations' experience with cloud services. All analysis was peer-reviewed by a group of IDC analysts. While specific vendor names were mentioned in the discussion, they have been omitted from this publication.

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### Source – Case Studies

- ☒ IDC Case Study – SaaS, Cloud Services Spotlight: Cudo, March 2012 (Page 11)
- ☒ IDC Case Study – IaaS, PaaS and SaaS, Cloud Services Spotlight: Fortescue Metals Group, March 2012 (Page 14)
- ☒ IDC Case Study – SaaS, Cloud Services Spotlight: Ledge Finance, March 2012 (Page 17)
- ☒ IDC Case Study – IaaS, Cloud Services Spotlight: Surf Life Saving Australia, March 2012 (Page 20)
- ☒ IDC Case Study – IaaS and SaaS, Cloud Services Spotlight: A Melbourne-based Bakery, March 2012 (Page 23)
- ☒ IDC Case Study – IaaS and SaaS, Cloud Services Spotlight: Bis Industries, March 2012 (Page 26)
- ☒ IDC Case Study – IaaS and SaaS, Cloud Services Spotlight: Jetset Travelworld Group, March 2012 (Page 29)
- ☒ IDC Case Study – IaaS, Cloud Services Spotlight: Komatsu Australia, March 2012 (Page 32)

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## I D C C A S E S T U D Y

# Cloud Services Spotlight: Cudo

March 2012

By Chris Morris

Sponsored by Telstra

*This document is part of a series of case studies conducted and written by IDC to highlight use cases of cloud deployment in Australia. The experiences of these companies serve as a guide for others who are exploring cloud services or planning to embark on their cloud journey.*

### Introduction

Cudo is a young company, delivering group purchase offers for restaurants, bars and other personal services to the Australian consumer market. This is a new market enabled by cloud services, and Cudo is the typical "greenfield" start-up company.

### Business Needs

As a start-up, Cudo's business plan dictated that they must get to market quickly in order to gain first-mover advantage. Consequently, it was essential that they could implement systems which would give them service delivery capability almost immediately, with minimal capital outlay. With their chosen approach, their major IT capital investment has been limited to desktop systems for their staff — a key goal which was reached by taking early advantage of new delivery models for IT and business services. The business grew rapidly, with staff numbers growing from the initial five employees to the current level of more than 100 within 12 months. Cudo knew that the demands on IT to support the rate of business growth would be tremendous. To be able to grow and retain customers, they needed to have the capabilities to reliably and securely communicate with their thousands of customers, provide customer support levels to build customer loyalty, as well as provide management with deep insight into customer buying patterns. This customer-centric focus remains central to their business strategy and success.

### Implementation

Cudo's "shopfront" is their Web site, and it is currently hosted by way of a partnership with a tier 1 Australian hosting provider; with this arrangement they have management control and the level of SLA which is demanded by a Web-based business. And since the start of the business in 2010, Cudo has been successfully relying on public cloud-sourced applications to run their business. Their cloud applications are an email system which is hosted in Singapore, which

### Case Study Snapshot

**Cloud type:** SaaS

**Organisation:** Launched in September 2010, Cudo is a joint venture between Microsoft and Nine Entertainment Co., and is part of the NineMSN group of companies, Australia's largest media company

**Industry:** Ecommerce

**Number of employees:** Over 100

**Operational challenge:** To ensure it has the IT capabilities to deliver a good customer experience

**Solution:** Adopted a public cloud-sourced email system

**Benefits include:** Implementation speed; flexible pricing; no need for huge initial capital outlay

**www.cudo.com.au**

they plan to migrate to a newer version of this service during 2012. They also rely heavily on a public cloud-sourced customer relationship management (CRM) solution which is also hosted in Singapore. This CRM system is their core business asset as it enables them to manage all facets of customer interactions, and has been modified by Cudo to generate business analyses for management. Cudo may choose to review this arrangement in the future as their business expands and have started to consider how their business goals will be best satisfied. At this stage, a continuation of the service is being considered, but the alternatives of a public cloud-sourced solution as well as migrating the applications back into a Cudo-managed data centre are all being considered – recognising the significant capital costs which would be incurred to build and manage a data centre with business continuity capabilities as well.

As their user population almost exclusively comprises individual consumers, their transaction loads are very sporadic and tied to marketing program activities. Transactions also spread over a 24-hour day and are only slightly predictable. Thus the ability to scale service delivery infrastructure rapidly was mandatory. In this environment, their CRM system is mission-critical for them and has been customised by Cudo to match their business processes and now has considerable Cudo intellectual property within the system. They have achieved this with a team of in-house developers for application development to draw maximum value from the CRM platform.

The choice of a standardised CRM platform that can be customised to suit a unique business environment allowed the rapid start-up of Cudo's core systems, but it also brought some challenges: while customisable, there were limitations to what could be done, so Cudo needed to build business processes within what was permitted by the selected product. Also, their aggressive start-up timeframe necessitated the use of a beta version, and with the general availability (GA) release slipping, they experienced some unforeseen delays in the project. Regardless, through the strength of the supplier relationship they were able to maintain service levels during this period.

So far, though they have preferred the controllability of a dedicated system over a shared cloud solution, they are open to other solutions in the future. They believe that both the future available cloud services and their business will mature considerably over the next 24 months and will provide a broad range of sourcing alternatives for existing applications.

## **Challenges**

Cudo faced some challenges:

- A significant challenge for Cudo was project risk management; their goals for delivery of production subsystems to support business goals were very aggressive, and generated a level of vendor dependency risk within the implementation project. Public cloud services have proven to be unexceptional in risk profile, with the chosen services meeting all availability and performance requirements. However, as noted earlier, Cudo was working with pre-GA versions of the CRM product. That they were reliant on timely delivery of functionality and patches added to the level of implementation complexity and potentially to the project duration. This was addressed by way of the close working relationship with the supplier, but remains a lesson which they would like other companies to take note. This experience will be applied to planned investments in new applications and in business intelligence systems to extract maximum value from their CRM platform.
- An ongoing challenge that is common to many multi-sourced solutions is user identity management; they would like to move to a single sign-on environment but with multiple service delivery locations this remains a major challenge. It is achievable, but this goal will affect their architectural choices in the future.

## Benefits

With the deployed hybrid cloud/managed service solutions, they have achieved several benefits which are essential prerequisites for success, especially for a business like Cudo's. These include:

- Implementation speed
- Flexible pricing and predictable costs
- Growth capability
- No need for huge initial capital expenditure

The cost to Cudo of fitting out a data centre and associated BC/DR facility, along with the ongoing operational expense, would have dictated a very different business model. This cost minimisation benefit also had the added value of coming with the best-practice IT service management processes of the hosting company. Access to this capability has allowed Cudo to achieve necessary IT governance and compliance levels without significant staff costs.

As a young company with a steep growth trajectory, they plan to start conducting regular re-evaluation of their IT strategy for a different stage of development where enhancement and consolidation of processes and skills is more important than new services

## Methodology

This interview was conducted in person, with Cudo's CTO, Greg Willis, in Sydney in January 2012. In the interview, IDC used a standard set of questions to gain information about Cudo Australia's experience with cloud services. All analysis was peer-reviewed by a group of IDC analysts. While specific vendor names were included in the discussion, they have been omitted from this publication.

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## I D C   C A S E   S T U D Y

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# Cloud Services Spotlight: Fortescue Metals Group

March 2012

By Chris Morris

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### Introduction

Fortescue Metals Group (Fortescue) operates in the booming Australian mining and resources sector, and is one of the fastest growing industry players. Fortescue has committed almost A\$15 billion to resource projects in the Pilbara region of Western Australia since 2006. In its early years, Fortescue was recognised as the highest investing exploration company in Australia. Having discovered a resource base of over two billion tonnes of iron ore, Fortescue went on to establish the company's original mine, first rail line and open access port, spending A\$5 billion on infrastructure, mining fleet and rolling stock. Fortescue has now commenced an A\$8.4 billion expansion program with works well advanced for scheduled completion in mid-2013.

### Business Needs

To support this business growth and its breadth of operations, it has been essential from the start for Fortescue to leverage technology to its fullest extent if the business was to maintain growth targets. Being in a growth market and operating across such a large geographic spread, where often no infrastructure existed, Fortescue faced significant service delivery challenges.

Consequently, Fortescue is now totally focused on how well they can deliver the required services to a highly dispersed and rapidly growing business. The competitiveness of the industry dictates that projects are delivered on time and on budget, thus speed of delivery and predictability of costs are paramount to business success.

### Implementation

Being more affected by customer requirements and the competitive nature of the business than global economic conditions, Fortescue can choose the most appropriate solution for their requirements rather than focus on only

### Case Study Snapshot

**Cloud type:** Hybrid environment of hosted private cloud and private cloud; using IaaS, PaaS and SaaS

**Organisation:** Fortescue Metals Group is the world's fourth largest iron ore producer and expects to triple in size, increasing iron ore exports by 180% over the next two years

**Industry:** Mining

**Number of employees:** 3,000

**Operational challenge:** To have the ability to scale its IT infrastructure capabilities and meet business growth plans

**Solution:** Adopted a hybrid cloud model

**Benefits include:** Better operational management and control of critical applications; predictable IT budgets; and consistent performance and availability of services across projects

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reducing costs. The business value of any service came under close scrutiny, and was rigorously evaluated against criteria that covered:

- Fortescue's assessment of the supplier capability to deliver the service as proposed;
- The flexibility of the service and its commercial conditions to suit changing business requirements; and
- The provider's commitment to ongoing service innovation which would deliver improved capabilities, service level quality and improved pricing.

Like any other company procuring cloud services, Fortescue needed to initially understand the suitability of the different cloud deployment models, including their inherent risks and benefits. After evaluating the different options available in the market, they decided on a workload-based service selection strategy which served to ensure that the specific requirements of each workload were completely addressed.

This approach resulted in a hybrid cloud environment where they have a virtual private cloud which delivers infrastructure as a service (IaaS) for mission-critical applications that are hosted by a third-party service provider; software as a service (SaaS)-based communication and collaboration facilitated by a productivity suite sourced from the public cloud; and an application development and test environment based on platform as a service (PaaS) from the public cloud.

The three infrastructure components of their hybrid cloud environment are managed by an external services provider which has experience in service delivery. But Fortescue remains responsible for application management and service management. This makes them comparatively advanced users when compared to like-sized organisations in Australia.

A central activity of the cloud project's implementation was the need to fully understand and address the usual market concerns about cloud (such as privacy, security and availability) prior to any initial choice of deployment model or of service provider. While these areas remained key assessment criteria for the procured services, Fortescue was satisfied in the early stages that the cloud services and different deployment models they chose would match and sometimes exceed the workload requirements. However, not all providers were able to show the same levels of capability, so Fortescue made a decision to only source solutions delivered by vendors of proven capability (i.e., tier 1 vendors), and to only deal directly with them (i.e., no systems integrator-type partner unless they met the tier 1 criterion).

Their overall cloud environment is far from static, with ongoing enhancements underway and planned for 2012 as they continue to look for better ways of delivering services and maximising overall business productivity. For example, their hosted private cloud environment is about to complete a migration to a different virtualised environment, even though they were early users of a more commonly used virtualisation product. This seems counter to industry trend, but they estimate that the virtualised environment to which they are moving will cost them about 50% less compared to the currently installed virtualisation technology while delivering all the functionality which they expect they will need in the future, reflecting Fortescue's need to source the most appropriate products and services to deliver the best value.

Their advice to organisations starting a cloud project:

- Allow time to gain a good understanding of the service offering from both the technical and commercial aspects. The cloud brings new elements to IT service delivery which could destroy the value of their benefits.
- Do not trust anyone who does not have a strong cloud ecosystem supporting them and does not have a proven track record in IT service delivery.
- Just go ahead and try out cloud services. There are many opportunities to trial services at minimal risk and cost, in particular Fortescue pointed out the work they are doing with PaaS for application development and testing. For them, the result of this trial has been above

expectations: excellent tools, flexible pricing and no need to invest in servers which will ultimately be underutilised.

## Challenges

Fortescue's answer to the potential risks they identified for this project was interesting: Technology risk was minimal, but there were significant risks in other areas such as:

- A risk that the actual capability of the vendor to deliver the contracted service was not as stated meant significant business risk to Fortescue if the cloud project was delayed or did not fulfill all requirements.
- Some of the pricing models they were offered did not meet the minimum capex requirements that one would expect from a flexible "cloud" model, but more like leasing arrangements with their associated commitments to assets.
- Risks arising from potential mismatch between the cloud service being delivered and other internal vendor processes which did not reflect the cloud model.

## Benefits

Prior to the start of this project, Fortescue knew that they had to be able to rapidly deploy and scale the IT infrastructure in order to stay competitive and profitable. They prioritise the benefits as follows:

- Fast deployment of standardised IT infrastructure services and applications with consistent performance and availability of services across all projects;
- Improved business continuity levels; and
- Predictable IT budgets for existing and future workloads.

## Methodology

This interview was conducted by IDC with Vito Forte of Fortescue Metals Group at their Perth office. He is their Chief Information Officer. In the interview, IDC used a standard set of questions to gain information about Fortescue's experience with cloud services, with all analysis being peer-reviewed by a group of IDC analysts. While specific vendor names were included in the discussion, they have been omitted from this publication.

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## I D C   C A S E   S T U D Y

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# Cloud Services Spotlight: Ledge Finance

March 2012

By Chris Morris

*Sponsored by Telstra*

*This document is part of a series of case studies conducted and written by IDC to highlight use cases of cloud deployment in Australia. The experiences of these companies serve as a guide for others who are exploring cloud services or planning to embark on their cloud journey.*

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### Introduction

Founded in 1979, Perth-based Ledge Finance operates as an intermediary within the specialised equipment finance sector of Australia's banking and finance industry. The company focuses on the fast-growing resources sector in Western Australia, and has established strong relationships with the nation's leading banks, which provide the majority of the funding arranged. Ledge Finance prides itself on adding value to both their clients and financiers by properly assessing each client's financing needs and providing a comprehensive finance proposal to lenders. The company also prides itself in maintaining consistently high service standards. Unlike some companies which cite cost, the desire to access new technology, or business demand for moving to the cloud platform, Ledge Finance was motivated by a completely different reason.

### Business Needs

In February 2011, the server hosting the corporate email system failed. This drove Ledge Finance to use an email cloud service. It is their first cloud-sourced system and considered a critical business function given that the entire organisation relies on it for inter- and intra-office communication and collaboration. When the server failed, Ledge Finance were given a painful reminder of how totally dependent they were on their IT systems; their hardware VAR was unable to source spare parts or replacement servers in Perth, resulting in a two-day outage of the email system. This disruption to the business highlights the sensitivity of a small organisation to the reality of the challenges of the SMB VAR relationship, and the potential inadequacies of their own IT infrastructure and management processes.

### Implementation

After the email system failure, there was no difficulty in convincing the Ledge Finance management team about the value of the cloud solution, as delivery of a reliable business-

#### Case Study Snapshot

**Cloud type:** SaaS; public cloud

**Organisation:** Ledge Finance was founded in 1979 and has grown into one of Western Australia's largest equipment financing firms

**Industry:** Equipment finance

**Operational challenge:** To find a more reliable corporate email system and minimise future business disruption

**Solution:** Adopted a cloud-based email system

**Benefits include:** 99.999% email uptime; predictable monthly fees; and greater flexibility such as the ability to add and remove users as required

[www.ledge.com.au](http://www.ledge.com.au)

critical function was far more important than the potential cost savings. The company had considered the cloud previously but at that time the costs were prohibitive. Despite the high level of hype accompanying the cloud security issue, and though it was a focus of management during the early stages of evaluation, security concerns were allayed after the level of security provided by the cloud service was assessed as being more than adequate.

Despite their relatively small size, the selected email cloud service provider met the requirement of delivering a robust and comprehensive solution to Ledge Finance users. Another plus point was the minimal internal resources that would be required from Ledge Finance in terms of IT support. Actual implementation was fast, but some application dependencies were not identified prior to cut-over. This resulted in some short-term outages of applications during the days after the transition. However, Ledge Finance has achieved 99.999% availability since its implementation. The cloud-based email service is delivered from a Singapore data centre and supports 25 users using desktop and notebook devices. Tablet and smartphone support will be added this year.

## Challenges

Ledge Finance faced some challenges:

- With the wisdom of hindsight, Ledge Finance advises all new cloud users to spend more time during the planning and preparation stage to thoroughly identify existing usage patterns and match them to the cloud service provider's capabilities. More time should be allocated during this phase to identify all possible related technical issues. This will also help minimise the risk of any application outages which might occur due to their dependency on files or servers that are located outside the firewall. Key to this process is engaging an experienced partner to help thoroughly plan the migration.
- A lesson from their implementation is the importance of evaluating the actual usage patterns of email against the capabilities of the selected cloud-delivered service. Looking back, if Ledge Finance had done so, they would likely have identified that they needed a real-time collaboration tool, not an asynchronous messaging tool. For them, combining the hosting location of the service with their network infrastructure makes a difference in terms of user satisfaction. Noticeable transmission latency within the service delivery chain means that transmission of a message and/or attachment via email within and between offices can take minutes.
- What for most organisations may be an inconsequential transmission delay is for Ledge Finance, because of their need for near-real-time sharing, a source of frustration. Based on their experience, they recommend that early evaluation of existing infrastructure is essential to ensure that local factors do not detract from cloud-sourced applications. Alternatively, locally sourced service could be preferable for other potential cloud workloads.

## Benefits

Ledge Finance had no return on investment (ROI) targets in mind when they embarked on the project. Delivery of a quality service was the only important goal. Although reducing IT costs was not a factor in their decision to source cloud services, using the external cloud services provider did result in cost savings. The key benefits are:

- The predictable monthly fee and minimal upfront costs;
- The ability to add and remove users as required;
- Reducing the amount of storage which would have been required to support an in-house email system and the overheads incurred by the required back-up and off-site secure storage processes; and

- The ability to offer higher levels of service availability and the marked improvement in business continuity. These benefits were not quantified, but recognised by Ledge Finance management as being of high value.

## **Methodology**

This interview was conducted by telephone, with Robin Cohen of Ledge Finance. Robin Cohen is responsible for the delivery and management of the ICT-based business services used by Ledge Finance's employees. In the interview, IDC used a standard set of questions to gain information about Ledge Finance's experience with cloud services. All analysis was peer-reviewed by a group of IDC analysts. While specific vendor names were included in the discussion, they have been omitted from this publication.

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## I D C C A S E S T U D Y

# Cloud Services Spotlight: Surf Life Saving Australia

March 2012

By Chris Morris

Sponsored by Telstra

*This document is part of a series of case studies conducted and written by IDC to highlight use cases of cloud deployment in Australia. The experiences of these companies serve as a guide for others who are exploring cloud services or planning to embark on their cloud journey.*

### Introduction

Surf Life Saving is Australia's major water safety, drowning prevention and rescue organisation. This national movement, with regional and state administrative branches, coordinates 310 community surf life saving clubs which collectively patrol more than 400 beaches. Surf Life Saving is Australia's largest volunteer movement of its kind with more than 158,000 members. It is a not-for-profit movement and relies on community donations, government grants, fundraising and corporate sponsorship.

### Business Needs

As an almost exclusively volunteer-driven organisation, the ability of Surf Life Saving Australia (SLSA) to deliver the levels of service to which it is committed relies heavily on the time and commitment of more than 44,000 patrolling volunteer lifesavers. These volunteer lifesavers are only a part of their organisation; in total they have in excess of 158,000 members ranging from five-year old "nippers" to life members. But in delivering the essential services to beachgoers for which their organisation is synonymous, one of the greatest challenges for the organisation is reducing the amount of time required for the administration of clubs and services.

Starting with a review of SLSA's ICT systems in 2008, the "Saves Time Saves Lives" project aimed to improve service levels, save time and facilitate commercial expansion by providing sophisticated business and communications tools and applications.

### Implementation

SLSA selected cloud-sourced infrastructure as a service (IaaS) as the service delivery infrastructure to underpin the Saves Time Saves Lives project. With this IT project, the national operations of the organisation have been streamlined and automated by the comprehensive redesign

#### Case Study Snapshot

**Cloud type:** IaaS; virtual private cloud

**Organisation:** Surf Life Saving  
Australia's largest volunteer movement of its kind with more than 158,000 members

**Industry:** Water safety

**Operational challenge:** To ensure it has the IT capabilities to improve services levels, save time and facilitate commercial expansion in a cost-effective manner

**Solution:** Adopted infrastructure as a service

**Benefits include:** Gained cost savings and peace of mind; better utilisation of staff and physical resources; improved reporting and operational visibility

[www.sls.com.au](http://www.sls.com.au)

of its service applications and delivery, but a critical component of SLSA's business case that was put to the Federal Government to obtain the funding for the three-year project was cost reduction.

SLSA recognised significant cost advantages of a cloud solution and, together with the supplier's technical team, developed a three-phase strategy to roll out its redesigned processes and underlying ICT infrastructure in the cloud. Most of their high-level support for IT is currently outsourced with minimal internal IT resources. Consequently, for SLSA it was most effective for them to source a cloud solution rather than acquire an inventory of products which then needed assembly by SLSA or contracted staff into a custom solution. However, there was an obstacle in this process: Their relatively small IT budget made it difficult to get responses from the type of vendor which they preferred. Until they commenced the engagement with the chosen vendor, SLSA had to rely heavily on their own search efforts for appropriate services.

The service applications and delivery, underpinned by the cloud services, provides a cost-effective infrastructure across three service areas:

- Access to a centralised operational data store (CODS) which includes people, organisations, awards, patrols, incidents and beaches;
- A members' portal, linked to Web-based content and workflow management with a national enterprise view of SLSA information, which keeps members up to date with rostering information, beach conditions and training schedules; and
- Voice recognition and telephony services enabling "on beach" access to services by SLSA members.

Since it was time to refresh infrastructure and modernise some legacy applications, as part of the vendor and service assessment process, SLSA reviewed the option of owning infrastructure and the level of benefit for the business. It was then realised that to maximise value for money, a private cloud solution hosted within a trusted and experienced vendor's data center with the environment being managed by SLSA provided the best balance of control and cost efficiency. The applications to be supported by this cloud environment are mission-critical to SLSA, so the services delivered necessarily include 24/7 support, and business continuity/disaster recovery (BC/DR) solutions. This requirement limited SLSA's choice of providers and drove them to their ultimate selection.

The vendor selection criteria which SLSA applied were:

- The provider had to be a tier 1 service provider with unblemished credentials and a strong market track record;
- A provider with Australia-based hosting facilities in order to more easily achieve compliance with data privacy and security legislation;
- The provider had to own its data centres to provide strong BC/DR solutions; and
- The overall cost of implementation.

ROI targets were calculated for four years, with cost being the most important factor in the three-year life-cycle analysis of infrastructure, cost of assets, costs of enhancement, maintenance and support. Significant savings were estimated over the four-year period and at this stage of the implementation are in line with expectations.

## **Challenges**

SLSA faced some challenges:

- Getting the board's approval; and
- Managing the level of uncertainty of the selected vendor's service levels.

This choice of cloud service delivery required SLSA's IT department to justify their decision with detailed cost and risk analysis, which was provided by way of a presentation to the board to ensure that the associated risk and cost benefits were understood and agreed. Apart from "selling" the idea to executive management, the biggest risk identified was relying on the committed service levels of the vendor and their ability to deliver the services they promised. Rather than uncertainty about the technologies, it was uncertainty about whether the vendor could deliver as promised. As it eventuated, while there were some delays to the project brought about by late delivery of hardware, the project was completed to the full satisfaction of SLSA.

## Benefits

Cost efficiency was the key goal of the whole ICT project and it was necessary to deliver improved value for money while also providing broader and better member services such as data collection for streamlined management, reporting and education programs.

There were also unexpected benefits which include:

- Peace of mind gained through not needing to build and manage the infrastructure themselves – this simplified and shortened the project significantly; and
- Better utilisation of staff and optimal utilisation of physical assets .

SLSA's advice to those planning a cloud project:

- The financial aspects of the project must be sorted out in advance of the project. Cloud may not necessarily be the most cost-effective solution when all criteria are considered.
- Deeply analyse the SLAs provided by the service provider within the context of your own operating environment, especially for BC/DR plans.
- Select a service provider with which you can build a comfortable working relationship based on trust.

## Methodology

This interview was conducted in person, with Gary Daly, SLSA's National IT Manager, in Sydney in February 2012. In the interview, IDC used a standard set of questions to gain information about SLSA's experience with cloud services. All analysis was peer-reviewed by a group of IDC analysts. While specific vendor names were included in the discussion, they have been omitted from this publication.

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## I D C C A S E S T U D Y

# Cloud Services Spotlight: A Leading Melbourne-based Bakery

March 2012

By Chris Morris

Sponsored by Telstra

*This document is part of a series of case studies conducted and written by IDC to highlight use cases of cloud deployment in Australia. The experiences of these companies serve as a guide for others who are exploring cloud services or planning to embark on their cloud journey.*

### Introduction

This bakery is an Australian owned and operated food business encompassing the manufacture, wholesale and retail of French/European style breads, cakes, pastries, savouries, confectionery and other food products. Its wholesale customers range from airlines, five-star hotels, restaurants, cafes, caterers, national and multinational food giants. Its operations also include a chain of more than 17 retail outlets, food production facilities in Melbourne and Sydney, and an expanding wholesale business.

### Business Needs

In the last four years, the bakery has been experiencing rapid growth. With the introduction of new product lines and new facilities, there has been an associated increase in the scale of operations. Associated with this expansion has been the constant pressure on wholesale margins brought on by the nature of the Australian grocery market. The IT vision is to effectively manage vendor relationships to get the best price for the best solutions available.

### Implementation

The key IT investments have been the point-of-sales (POS) system, a hosted solution that has already been rolled out and caters to their 17 existing stores. The bakery is using a public cloud for email and Web control management, but opted for on-premises private cloud for application sharing across their distributed offices in South Australia, New South Wales and Victoria. They are currently in the process of selecting a new enterprise resource planning (ERP) solution for the business which will take care of all their finance, supply chain management (SCM), customer relationship management (CRM), as well as sales & delivery (S&D) requirements.

Like many SMEs, the IT department is not huge and the cloud solution presents a practical alternative which allows

### Case Study Snapshot

**Cloud type:** Public SaaS, with private on-premises IaaS

**Organisation:** Operations include a chain of retail outlets and food production facilities, and counts five-star hotels, airlines and MNC food giants among its customers

**Industry:** Food

**Operational challenge:** Meeting the growing needs of the expanding business with limited IT resources and budget

**Solution:** Adopted a public cloud-based email and Web control management system

**Benefits include:** Reduced TCO and no longer require a large IT in-house to support and deliver IT services

them to tap the technical skills, expertise and knowledge of their vendor partners at a competitive price point.

Technology has been changing rapidly, along with a fast-changing vendor ecosystem. For enterprises such as this, there will be significant costs required to constantly upgrade skills and systems to ensure the smooth running of business processes. Email is a mission-critical service given that they receive much of their sales orders through email and transactions for the wholesale business are carried out through this medium. Although the selection of public cloud for email and Web control management was driven by a need to deliver better services to their users, the key driver was mainly the cost benefit of cloud services and the ability to access skills and expertise of their service provider to supplement the small in-house IT team.

When selecting their service providers, the main criteria they considered were the service provider's reliability, track record, local presence and ability to work collaboratively. However, the responsibility of protecting the interest of the business cannot be risked by absence of a business continuity/disaster recovery (BC/DR) plan which matches the expectations of management. The bakery assessed the suitability of the service providers' business continuity plans but found they did not meet the requirements. Therefore, they chose an on-premises private cloud for application deployment, retaining the BC/DR management themselves.

With the benefit of their early cloud experience, they considered three different models for their ERP implementation: a hybrid model where core parts of the business ERP were retained in-house; a fully on-premises private cloud to address data security and control concerns; and a fully hosted off-premises virtual private cloud. Each of these had benefits for them, but the ultimate selection boiled down to service cost, functionality and risk.

## Challenges

The bakery faced some challenges:

- The bakery's IT department can now shift their focus to higher level IT management and governance processes instead of just technology maintenance and support. This requires them to develop or acquire new skills and competencies such as commercial negotiations, governance frameworks to evaluate vendor performance, and vendor relationship management skills. This shift is a considerable change compared to the past where the IT environment was controlled and managed in-house.
- Additionally, they have company growth to deal with; supplying to major national supermarket chains will require enormous production volumes, with the associated demands on ERP and enterprise resource management (ERM) systems as well as the supporting infrastructure. With a small-scale IT organisation, new delivery models will necessarily form part of the future service portfolio.

## Benefits

The key benefits of this cloud solution were:

- Reduced total cost of ownership (TCO): both operating and capital expenditure budgets were reduced significantly.
- Higher ROI on IT investments by sourcing the most appropriate solutions without having to recruit and manage a large internal IT team.
- Better access to a wider and deeper set of operational data for all production and operation managers irrespective of time and place. Apart from easing the workload of staff, this also provides much better analysis of business performance by the store managers and for the executive management.

## Methodology

This interview was conducted in person, with the bakery's IT manager, in Melbourne in February 2012. In the interview, IDC used a standard set of questions to gain information about the experience with cloud services. All analysis was peer-reviewed by a group of IDC analysts. While specific vendor names were included in the discussion, they have been omitted from this publication.

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## I D C   C A S E   S T U D Y

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# Cloud Services Spotlight: Bis Industries

March 2012

By Chris Morris

Sponsored by Telstra

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### Introduction

Bis Industries works with large mining and resource companies to design and build infrastructure and solutions which process, handle, haul and support millions of tonnes of materials across Australia.

### Business Needs

Like other providers of services to Australia's booming mining sector, Bis Industries was challenged to rapidly deploy reliable services to widespread and remote geographical locations. Having reached a stage in 2011 where the need to replace ageing hardware reached a critical point — any lag in delivery of IT services could adversely affect business performance — Bis Industries made the decision to migrate workloads to a virtual private cloud hosted by one of their existing providers of ICT services.

Migration to the hosted cloud environment was fast. It took less than four months from start to production. Bis Industries attribute this to having a clear definition of the workloads to be migrated and its dependencies, and also to the decision to only use a partner with which they had experience and trust. Why? They assessed that the risk of failure for this project was too large for them to take chances with unproven vendors.

### Implementation

This was a fast implementation by any IT project standards; four months would have been out of the question if the usual methodology of product selection and sourcing, equipment commissioning and deployment was adopted. To be able to roll this out quickly, Bis Industries needed to find a partner with the right capability and experience. Value for money was measured but secondary to proven delivery capability.

Today, Bis Industries has deployed a hybrid cloud, an environment which most Australian organisations are only

### Case Study Snapshot

**Cloud type:** Hybrid environment of hosted private cloud (IaaS) and public cloud (SaaS)

**Organisation:** With 120 years of history, Bis Industries has established a diverse and blue chip customer base across Australia, and continues to innovate as part of its growth strategy

**Industry:** Mining

**Number of employees:** 2,000

**Operational challenge:** To find a way to extend reliable services to remote geographical locations

**Solution:** Migrated workloads to a virtual private cloud hosted by one of Bis Industries' existing ICT service providers

**Benefits include:** The hybrid cloud model approach has helped Bis Industries gain IT delivery efficiencies and not to mention the confidence the IT team has with its service provider as a trusted business partner

[www.bisindustries.com](http://www.bisindustries.com)



now considering with caution. The company uses both a hosted cloud environment for selected workloads, such as enterprise resource planning (ERP) applications, and public cloud for services such as email. Under the engagement model with its primary service provider, the selected service provider is responsible for management of these services — both individually and collectively. However, because of the scope and variance of site conditions, the service-level agreement (SLA) between Bis Industries and the service provider is less critical than the value they perceive as accruing from their relationship with a trusted business partner.

This trusted partner factor is central to Bis Industries' cloud adoption path; they are unwilling to engage with a service provider which cannot provide the necessary level of confidence. For Bis Industries, any partner must be able to support them throughout the planning, implementation and operational phases of any project. Once the most appropriate partner has been selected, they are able to speed service acquisition decisions through executive management. This attitude to partners is driven by the business-oriented decision-making process for IT and business service acquisition. While the technology platform underlying the service is considered, the ability of the service to meet business requirements (such as speed to deploy, ability to support remote locations, and commercial relationships) is the primary decision criterion.

For Bis Industries, the return on investment (ROI) is not measured in the traditional sense of dollars returned against dollars invested. Working in the resources sector, the primary criteria for service and technology selection are speed and effectiveness. Without a consistent ability to respond to client requirements, they would lack competitiveness. Efficiency (i.e., cost), while evaluated, is a lowly ranked factor. In the Bis Industries business, with a need to deploy, support, relocate and tear down infrastructure across numerous remote sites, they would not have been able to achieve the levels of revenue and profit without the use of cloud services.

## Challenges

Bis Industries faced some challenges:

- With the need to reduce IT costs not being a primary factor in their decision to source cloud services, the flexible, pay-per-use pricing models of cloud services was actually of limited importance to Bis Industries. What was thought to be of more value to them was the minimal upfront costs, the ability to add and remove users as required and, most highly valued, the predictable monthly cost for the service.
- A notable lesson that Bis Industries recommends others do is to approach the use of cloud services like any engagement with an external services provider. Even with the standardised offerings available from the cloud, the IT team must invest time in planning from the earliest stage and — if necessary — work with an experienced partner who is able to advise and navigate potential obstacles which could add risk to the project's successful delivery. For the new player, their advice is to focus on minimising upfront costs, but more importantly, to evaluate the cloud project on a total cost of ownership (TCO) basis, with those initial consulting or systems integration costs as an essential and mandatory inclusion in order to minimise the risk of project failure.

## Benefits

Bis Industries believe they have achieved the expected benefits that they have set for themselves in terms of their use of cloud services and a trusted partner.

- While speed of service deployment is important to the LOB manager and the CIO, through their partnership with their trusted services provider they have also decreased the time which a project takes for management approval. This is a small albeit important gain in efficiency for an IT department as it contributes to the agility of the whole organisation which they support.
- Another key benefit is the ability to source a service with flexible pricing which closely aligns with the business demand — an essential capability in the competitive mining infrastructure market.

- An important ongoing benefit is derived from the relationship with their services provider. Having a robust service delivery platform with known costs and capability for future application deployment provides a level of confidence to Bis Industries' LOBs and the CIO when responding to request for proposals (RFPs) for new projects. Any uncertainty about the cost of delivery can result in underestimating costs and reducing profitability. Similarly, overestimation of costs to protect against possible cost overruns can result in a loss of competitiveness and the project. For Bis Industries, certainty in costs and trust in the provider are the key elements in their cloud environment.

## Methodology

This interview was conducted by IDC with Russel Wellock, the National Infrastructure Manager for Bis Industries and who is responsible for the delivery and management of the ICT-based business services. In the interview, IDC used a standard set of questions to gain information about Bis Industries' experience with cloud services. All analysis was peer-reviewed by a group of IDC analysts. While specific vendor names were included in the discussion, they have been omitted from this publication.

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## I D C   C A S E   S T U D Y

# Cloud Services Spotlight: Jetset Travelworld Group

March 2012

By Chris Morris

Sponsored by Telstra

*This document is part of a series of case studies conducted and written by IDC to highlight use cases of cloud deployment in Australia. The experiences of these companies serve as a guide for others who are exploring cloud services or planning to embark on their cloud journey.*

### Introduction

Jetset Travelworld Group is one of the largest retail travel distribution groups in Australia. Following the completion of the merger of Jetset Travelworld Ltd and Stella Travel Services Holdings Pty Ltd (Stella) in September 2010, Jetset Travelworld Group is an integrated travel business operating several wholesale travel businesses (holiday packaging), franchise-based and affiliate retail agency networks, air ticket consolidation, airline representation and travel management services.

Jetset Travelworld Group has operations in Australia, New Zealand, the United States of America, Fiji, Asia, the United Kingdom and South Africa and is listed on the Australian Stock Exchange with an ASX code of JET.

### Business Needs

In the last 36 months, Jetset Travelworld Group has undertaken significant M&A activity; initially Stella merged three travel companies into a single entity, and then in the most recent 12 months Jetset Travelworld Group executed the merger with Stella to double the size of the overall organisation. As with all M&A transitions, Jetset Travelworld Group was challenged to maintain service delivery to their internal customers and external Web customers while integrating systems based on varying software platforms and delivery of different business processes. Consolidation of systems to a standardised environment was a key part of the mergers if the cost benefit from increased economies of scale were to be achieved. Adopting a cloud-enabled solution offered them a feasible way to deliver services more effectively to the combined new entity and reorientate their IT service delivery model from asset operation to process-focused service delivery.

### Case Study Snapshot

**Cloud type:** Hybrid environment of hosted private cloud (IaaS) and public cloud (SaaS)

**Organisation:** Jetset Travelworld Group is a vertically integrated travel business represented by many household names with over 1,800 travel agencies across Australia

**Industry:** Travel

**Operational Challenge:** To maintain IT service delivery standards after undergoing major M&A activities

**Solution:** Adopted an infrastructure-as-a-service solution hosted on a hybrid cloud

**Benefits include:** Reduced the combined capex/opex budget by 30% and increased utilisation levels of IT assets

[www.jetsettravelworld.com.au](http://www.jetsettravelworld.com.au)

Their infrastructure supports approximately 2,000 desktop users, and up to 100,000 hits per day from individual users of their Web site.

## **Implementation**

Jetset Travelworld Group closely assessed the varying levels of cloud service maturity, the value of their existing IT assets, the risk levels of the offered solutions as well as the project cost and compliance with corporate requirements against the required SLAs and applied the following supplier selection criteria:

- In terms of project risk, can the vendor deliver on time and to a specific SLA? Implementation had to be completed to meet the phasing out of support contracts for existing hardware and software assets.
- Capex had to be minimised wherever possible.
- Service provisioning had to align with Jetset Travelworld Group's business needs and the solution had to deliver higher utilisation levels and enhance their business continuity capability.
- Strength of track record in cloud solution deployment and proven ability for rapid provisioning and SLA achievement.
- Ongoing service improvements demonstrated by committed equipment refresh cycles, price reductions, and service roadmaps.
- Strength of service delivery processes. This is a very important factor and, in this case, without the strength and experience of a key partner, the evaluation may have had a different result as the solution value would have changed.

Their infrastructure now supports approximately 2,000 desktop users, plus up to 100,000 Web hits per day from individual users of their Web site. This access is delivered by way of 20 physical servers within a hosted data centre environment, which Jetset Travelworld Group chose to have delivered at a fixed monthly cost. The same service provider delivers the storage and network resources; unlike the servers, these components are delivered on a usage-based charging model. This hybrid charging model was judged as most appropriate when initiated 24 months ago, but when the contract comes up for renewal they will re-evaluate the appropriateness at that time as they do recognise that the market has moved on considerably since 2010.

These hosted servers support their core applications, and they are now adding a public-cloud sourced email solution for provision of internal collaborative services. In the assessment phase of that project, they did also evaluate a more traditional colocated solution, and though it did demonstrate a better ROI if evaluated over a long period, it was rejected because of several unfavourable characteristics such as the longer time it would take to acquire the assets and implement the solution compared to the cloud solution, and the ongoing operational overheads incurred for systems management would result in a higher operating expense than incurred with the cloud solution.

## **Challenges**

Implementation challenges, though few, were mostly not technical in nature. The inexperience of the IT team with cloud services and technologies was also a slowing factor, as was the transition to a new IT architecture. Jetset Travelworld Group noted an important area of the impact of cultural change on IT staff; operational mode changed from having direct control of the IT environment to an indirect management model where there was a rigid process to follow to request actions by the service provider.

Governance processes were also affected by the loss of direct control of service delivery, requiring reworking to ensure that the compliance levels were maintained.

Jetset Travelworld Group's key recommendations to others:

- Fully understand the value of any SLAs provided with the service, and the impact of their application to their business processes.
- The importance of security at all connection points, as applied to Jetset Travelworld Group's IT environment and not in isolation.
- The possible implications of variable costs and potential for budget blowouts, especially if one is unsure about the total impact.

## Benefits

Jetset Travelworld Group gained a number of key benefits in its cloud journey. They described them this way:

- Foremost was the cost savings it gained through the IT infrastructure and application rationalisation process; this was vital for the successful conclusion of the M&A activity. As such, the primary ROI factor was cost reduction. Jetset Travelworld Group's goal was to reduce their combined capex/opex budget, and this was achieved by implementing the hybrid hosted/cloud solution.
- Increased utilisation levels of all their IT assets. This is attributed to the ability of the selected partner to provide both better IT management processes and the partner's ability to leverage their higher investments in staff and tools.
- Their IT and communications services being delivered by the same provider. Commenting on this, Jetset Travelworld Group did mention that they can identify tangible value from the delivery of both IT and comms services from the same supplier; with marked improvement in terms of overall TCO and manageability.

## Methodology

This interview was conducted by phone with Peter Beveridge, CIO at Jetset Travelworld Group, in Sydney in January 2012. In the interview, IDC used a standard set of questions to gain information about Jetset Travelworld Group's experience with cloud services. All analysis was peer-reviewed by a group of IDC analysts. While specific vendor names were included in the discussion, they have been omitted from this publication.

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## I D C C A S E S T U D Y

# Cloud Services Spotlight: Komatsu Australia

March 2012

By Chris Morris

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### Introduction

Komatsu was established in Japan in 1921 and today, has global revenues of US\$26.3 billion with 144 subsidiaries and a total of 40,000 employees worldwide. Komatsu Australia serves the Oceania markets which include Australia, New Zealand and New Caledonia. It supplies and supports Komatsu Mining, Construction and Utility equipment. It operates with 52 branches and three distribution centres across Sydney, Brisbane and Perth, supported by local warehouses. About 70% of the 2,300 employees at Komatsu Australia perform technical roles.

### Business Needs

Komatsu Australia had been a traditional user of IT for decades until the demand from their main customers — infrastructure, mining and resources — grew exponentially in the last five years. Supplying heavy earth-moving equipment to the resources and infrastructure sectors had been a predictable business until the rise of Asian emerging markets drove market demand upwards. To keep up with their staggering business growth, it became imperative for Komatsu Australia to re-evaluate their IT investment strategy and pursue new models of service delivery in order to support the surge in demand. Up until then, business had been supported by an enterprise resource planning (ERP) system, with its supporting delivery infrastructure, which was due for upgrade and/or replacement. This provided an opportunity to take advantage of new IT service delivery models which were then just emerging: cloud services and the new flexibility of the associated commercial conditions.

Apart from the supply of heavy earth-moving machinery to customers, a core element of their business is providing spare parts and servicing of the equipment which they supply. This equipment can represent million-dollar investments by their customers, and the result of having any out-of-service periods for such valuable assets is unthinkable. The challenge of maximising equipment uptime is exacerbated by the fact that the majority of the assets are remotely located in areas not easily accessed by regular means. Any interruption to key business processes which

### Case Study Snapshot

**Cloud type:** IaaS; private cloud

**Organisation:** Komatsu was founded in 1921 and has grown into a multibillion-dollar organisation, with Komatsu Australia serving the Oceania markets

**Industry:** Mining, construction and utility equipment

**Number of employees:** 2,300

**Operational challenge:** To ensure IT service delivery is able to keep up with business growth

**Solution:** Adopted an infrastructure-as-a-service solution hosted on a private cloud

**Benefits include:** Predictable costs for existing and new workloads; better manageability in terms of integrating systems with those of network provider; improved business continuity

[www.komatsu.com.au](http://www.komatsu.com.au)



support the parts and service functions would potentially affect customer relationships and the business. Selection of proven products and partners to deliver a faultless project was a real necessity. As a result, the assessment and vendor evaluation process for any new service offering must be extremely rigorous and was limited to a shortlist of proven suppliers.

## **Implementation**

Given the expected high capital costs which were anticipated if Komatsu Australia only considered replacing their existing on-premises infrastructure with a newer private cloud solution, alternative sourcing strategies were evaluated very early in the project. Many providers were able to offer several variants of cloud services, but few met the strict criteria inherent to Komatsu Australia's business requirements. The leading solution was infrastructure as a service, delivered as a hosted private cloud. This delivery model was chosen for a number of reasons:

- There was no need to buy and manage IT assets;
- Komatsu Australia avoided a data centre upgrade; and
- Improved business continuity and disaster recovery capability was achieved.

Once the solution was chosen, very rigorous planning was undertaken between the chosen provider and Komatsu Australia; this relationship is now described by Komatsu Australia as a business partnership, not a provider/customer relationship. They stress the importance of this aspect, as they do not believe that they could have achieved the desired outcome without the commitment of their partner. This commitment allowed Komatsu Australia to develop, deploy and migrate to the new environment with the assurance that the right resources would be available whenever they were required.

They also stress the importance of planning every detail of the project; for them any project hiccup would not only result in a loss of credibility with management and customers, but also add risk to the project.

## **Challenges**

As would be expected, mitigation of all types of risk was the major challenge in this mission-critical project. Komatsu Australia and their selected partner addressed this by detailed planning throughout all phases of the project, based upon a project team drawn from representatives of all key vendors, including those supplying equipment to the service provider. This joint project approach was essential to ensure that key milestones at all stages were achieved with minimal disruptions and the right resources were on hand to address any unforeseen challenges that potentially could stall the project. Undoubtedly, therefore their key message to others is: "plan, plan, and more planning".

Prior to this project, the ERP software had been deployed on IA64 architecture machines which, apart from concerns about declining market share, were not suitable for Komatsu Australia's chosen virtualisation approach. As a first step, this IA64 environment had to be migrated to x86-64 systems to gain the benefits of the preferred virtual environment. This was the first time that a migration of this type had been attempted for this ERP software, and the risk to both project success and to Komatsu Australia's business was judged so critical that it would influence their choice of cloud implementation partner. Since few had a demonstrable track record, the shortlist was short and the importance of reference checks, exceptionally high. Unless a provider could clearly demonstrate this capability, Komatsu Australia would have no choice but to do it themselves.

## **Benefits**

Komatsu Australia will state that cloud services and technologies are now a standard part of their delivery portfolio, and will use them as appropriate for the business requirement which they are addressing. In assessing the delivered benefits, their ROI is judged against the service delivered — not the technology which delivers it.

As such, the reported benefits are business related:

- Predictable operating costs for existing workloads;
- Predictable costs for additional workloads;
- Better manageability by integration of their systems with those of their network provider; and
- Improved business continuity.

Closely tied to these benefits is Komatsu Australia's ability to better control IT staff costs. The close relationship with the service provider and clear delineation of service management responsibilities allows Komatsu Australia to hire only those staff which they require for their key business processes, and rely on the partner for infrastructure management.

## **Methodology**

This interview was conducted in person with Martin Fern, Infrastructure Manager at Komatsu Australia, in Sydney in January 2012. In the interview, IDC used a standard set of questions to gain information about Komatsu Australia's experience with cloud services. All analysis was peer-reviewed by a group of IDC analysts. While specific vendor names were included in the discussion, they have been omitted from this publication.

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