Cloud Changes the Way You Interact with the Business

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Even if you're not an aggressive user of cloud services, the burgeoning attention to cloud has a profound impact on the way you relate to your business clients.

From a technical perspective, cloud is outsourcing with two key distinctions: the standardization of technology platforms, and the automated configuration of infrastructure. Cloud turns infrastructure services into commodities.

From a business perspective, cloud is changing the way clients view IT. Even non-technical clients are aware that Amazon sells storage; and most have heard of internet vendors that sell the range of data-center services, from rack space to applications hosting. They're can see vendors' prices, and how easy it is to do business with them. So they're coming to expect the same of their internal IT providers. They expect an understandable catalog of products and services, published prices, and the ability to order products and services when they need them.

In short, internal IT departments are now being forced to operate as businesses within a business. They have to respect clients as customers, and treat them at least as well as cloud vendors do.

This does NOT necessarily mean chargebacks (fee-for-service). You can gain most of the benefits of chargebacks without the risks. Here's how:

First, with or without chargebacks, you need a catalog of products and services that truly represents what your customers can buy (not what you do to make it). And it has to be at the level of granularity of their purchase decisions (not big bundles that they're forced to buy).

Second, you need to assign all your costs to those products and services in a manner that's comparable to vendor offerings. That means that every product/service must bear its fair share of indirect costs, so that you're never asking for money for things clients don't buy (like your overhead). But to ensure fair comparisons, you must not burden those rates with things which vendors don't have to do, such as corporate-good services (like standards and policies). And funding for your infrastructure has to come from "loans from the bank" (i.e., corporate treasury, repaid through depreciation), not from clients (just like in the real world).

Your rates are the basis for fair comparisons with cloud vendors, hopefully comparisons you'll make before your clients do. In many cases, this will prove that you're the better deal. And wherever you're not, rate comparisons permit you to make sensible use of cloud (buy versus make) wherever it's technically feasible and more economic.

By the way, that same cost model allows you to submit a budget that estimates the costs of the products and services you might deliver in the coming year – a budget for what you want to sell, not just what you want to spend. Termed an “investment-based budget,” this transforms the dialog during budget negotiations; allows executives to decide budgets based on the needs of the business; and clearly explains what your budget does and does not pay for.

Third, clients must be empowered to decide what they buy from you. This means resource-governance processes that allow clients to control your priorities.

If you don't charge back, think of your budget in a different way. It's not given to you to cover your costs. It's a "pre-paid account" – money put on deposit with you at the beginning of the year to buy products and services from your catalog all year long.

Allocations (big lump-sum payments by business units based on high-level cost drivers) are much the same. Instead of viewing allocations as a way to spread your costs to the business, they too are pre-paid accounts that allow business units to buy things from you.

Those pre-paid accounts create "checkbooks" that belong to the business. Then, resource-governance processes engage clients in deciding exactly what checks they'll write. They'll spend much of their money at the beginning of the year on keep-the-lights-on services; they'll use the remainder for discretionary projects. And if there isn't enough in their checkbooks to buy all they want, they'll have to come up with more money – either by defending a budget increase for you, increasing their allocations, or providing incremental cash (fee-for-service).

Internal market economics washes away bureaucracy, and sets up straightforward, businesslike governance processes. This aligns you with the needs of the business, automatically and dynamically. It manages clients' expectations. It's the antidote to the unrealistic "do more with less" demand. It's the basis for fair benchmarking. And it makes you as easy to do business with as any cloud vendor.

To compete with cloud – indeed, to take advantage of cloud – you need to run IT as a customer-focused business. Internal market economics is the foundation.

Learn more about market-based resource-governance processes from Meyer's latest book, ***Internal Market Economics***, available in hardcover and Kindle on Amazon.