

Study: Cloud Service Agreements Omit Key Considerations

New ISO/IEC 19086-1 Standard
Guides Organizations To Structured,
Effective Agreements

Table Of Contents

Executive Summary	2
There's More To Cloud Service Provider Selection Than Cost	2
Cloud Agreements Are Often Missing Key Considerations	3
Key Recommendations	8
Appendix A: Methodology	9
Appendix B: Supplemental Material	9
Appendix C: Endnotes.....	9

ABOUT FORRESTER CONSULTING

Forrester Consulting provides independent and objective research-based consulting to help leaders succeed in their organizations. Ranging in scope from a short strategy session to custom projects, Forrester's Consulting services connect you directly with research analysts who apply expert insight to your specific business challenges. For more information, visit forrester.com/consulting.

© 2016, Forrester Research, Inc. All rights reserved. Unauthorized reproduction is strictly prohibited. Information is based on best available resources. Opinions reflect judgment at the time and are subject to change. Forrester®, Technographics®, Forrester Wave, RoleView, TechRadar, and Total Economic Impact are trademarks of Forrester Research, Inc. All other trademarks are the property of their respective companies. For additional information, go to www.forrester.com. [1-TWE210]

Project Director: Mark Brozek, Senior Consultant, Market Impact Consulting
 Contributing Research: Forrester's Sourcing And Vendor Management Research Group

Executive Summary

In an era where organizations require more agility than ever to keep up with changing demands of technologically empowered customers, cloud computing has become a compelling method for reaching new markets faster and staying ahead of the competition.¹ As organizations build out complex cloud ecosystems with multiple cloud service providers (CSPs), they often struggle with contracting and governance — issues that begin with highly variable cloud procurement agreements that are in place across various cloud service providers.

Recognizing this challenge, the International Organization for Standardization (ISO), an international standard-setting body that develops worldwide technological and manufacturing standards, is establishing a standard for cloud compliance agreements and SLA frameworks and technology. This standard, the ISO/IEC 19086-1 Standard², offers some much needed structure and guidance to cloud contracts that will help inform CSPs and buyers alike.

In June 2016, Microsoft commissioned Forrester Consulting to evaluate the current state of cloud agreements against the elements of the forthcoming standard. To further explore this trend, Forrester tested the hypothesis that many organizations are overlooking service-level and service-quality objectives in their RFPs and cloud service agreements.

Ninety-four percent of respondents would have changed something about their most recent cloud agreement.

In conducting an online survey of 467 enterprises, small and medium-size businesses (SMBs), and government organizations, Forrester found that organizations lack standardization in their cloud agreements and often omit considerations that are important to their evolving organizations.

KEY FINDINGS

Forrester's study yielded three key findings:

- › **There's more to cloud service provider selection than cost.** In an era where business agility is paramount to win, serve, and retain customers, organizations are expanding their use of the cloud. With emerging cloud technology, the demands for new skills and expertise are increasingly required, and many organizations must turn to managed service providers to help them transform their existing services into fully cloud-based equivalents. In turn, businesses have high demands from their CSPs. Rather than solely prioritizing costs in their CSP selection process, they prefer CSPs that can lend their business process expertise to help fulfill growing needs for innovation and improving the business technology (BT) agenda.³
- › **Cloud agreements are often missing key considerations.** The unique and complex nature of the cloud means that many common IT services contract stipulations may not be relevant. Customers often push for very stringent SLAs and penalties and, in turn, the CSPs push back. The result is customized and highly variable cloud agreements that lead to some level of buyers' remorse, as businesses suffer the consequences of narrowly focused agreements.
- › **The ISO/IEC 19086-1 Standard will help organizations meet new requirements.** Evolving business demands will continue to add complexity to the cloud procurement process. Most organizations use some form of external guidance to help them navigate this complexity and ensure that they are including the considerations that are of highest priority to them; however, most existing external guidance documents are not comprehensive, and organizations admit to missing key considerations. The ISO standard will provide much-needed definitions and a checklist of key information that cloud buyers can use to help ensure that they haven't overlooked any considerations in negotiating cloud agreements.

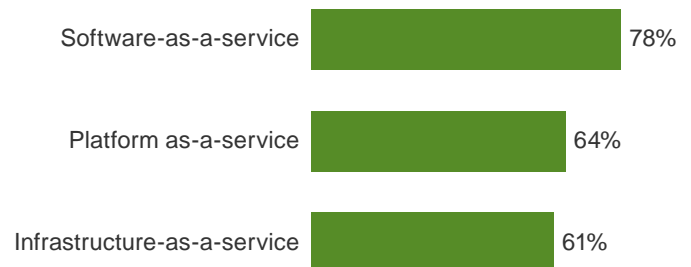
There's More To Cloud Service Provider Selection Than Cost

Cloud technologies are widely praised for their agility, scalability, and subscription-based agreements that require fewer upfront capital expenditures. As decision-makers gain comfort with the cloud, they are adopting it in increasingly larger deployments covering more technology areas and mission-critical tasks. As the adoption of cloud increases, so do the associated costs and risks, making it critical for procurement professionals to pay extra care in drafting the right agreements with the right CSPs. Our study found that:

- › **Most respondents have multiple cloud service model deployments.** Our study surveyed respondents who have deployed at least one cloud service, but we found that most are deploying multiple types of cloud services. The most prevalent is software-as-a-service (SaaS), which is deployed by 78% of respondents, followed by platform-as-a-service (PaaS) (64%) and infrastructure-as-a-service (IaaS) (61%) (see Figure 1).
- › **Business continuity, improved IT infrastructure flexibility, security, and compliance are key drivers of cloud adoption.** There is a wide range of considerations that factor into the decision to adopt cloud. Our study found 13 separate considerations that respondents all ranked as “important” or “very important” drivers. These considerations fell into a few major categories — namely flexibility and agility, on-demand scalability, easier management, and better disaster recovery/compliance. The lattermost category is of particular importance when companies are choosing CSPs, as security, privacy, and compliance concerns are traditionally considered barriers to cloud adoption, and costs associated with breaches and/or noncompliance can be quite high.⁴
- › **A significant proportion of overall IT management is provided by cloud service providers.** Technology management teams often need help with choosing the right solutions for various workloads and transferring their services into the cloud; therefore, they turn to their cloud providers as partners.⁵ IT departments frequently rely on CSPs — as well as other third-party service providers — to manage their applications (55%), but they also rely on them for other areas of their infrastructure such as platform architecture (47%), virtualized infrastructure (46%), facility (44%), and hardware (43%). Responsibility for these components is quite variable across cloud

FIGURE 1
Organizations Commonly Use Multiple Cloud Services

“Which of the following types of cloud services has your organization deployed?”



Base: 467 respondents responsible for or involved in the decision-making process for cloud agreements within their organization

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, June 2016

agreements, as roughly 40% of organizations self-manage each of these on average. Organizations are more likely to self-manage IaaS deployments and least likely to self-manage SaaS deployments.

- › **Expertise is the top criterion for selecting a cloud service provider.** Price is always an important consideration for CSP selection (and is the second-highest-ranked criterion by decision-makers), but there are many other important factors when selecting a CSP. Many organizations are involving CSPs that offer business process or vertical capabilities in addition to core cloud services. The number one factor is overall expertise — whether in a particular business process, customer experience, technology, or software platform. This was ranked as a top-five criterion by 61% of respondents. Other important factors include the ability to integrate with mission-critical applications, industry-specific knowledge, soup-to-nuts capabilities from implementation to marketing, and the ability to deploy and support global implementations (see Figure 2).

FIGURE 2
Buyers Look For Cloud Service Providers That Support Their Business Technology Agenda

“Which of the following criteria are most important to your organization when selecting a service provider for a cloud implementation? Rank up to your top five.”

Rank 1 Rank 2 Rank 3 Rank 4 Rank 5



Base: 467 respondents responsible for or involved in the decision-making process for cloud agreements within their organization

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, June 2016

Cloud Agreements Are Often Missing Key Considerations

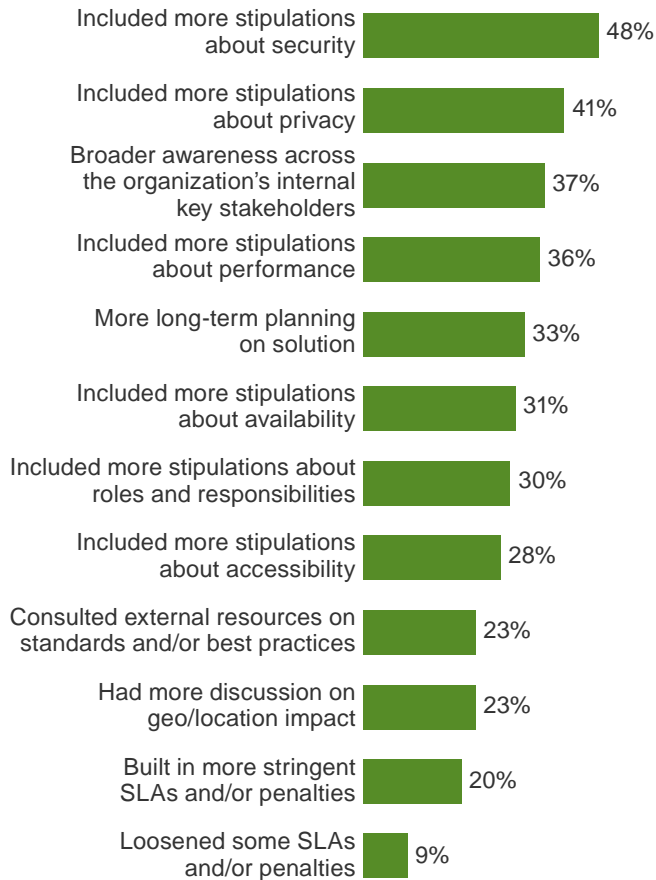
To better assess the value of the ISO standard (and similar checklists) to businesses, we asked cloud agreement decision-makers a series of questions regarding their most recent cloud deployments to understand what is working well for them and what they would like to have done differently in hindsight. While respondents are not wholly dissatisfied with their cloud agreements, we found that 57% were less than “very satisfied,” and even these respondents saw room for improvement. In our gap analysis, we uncovered the following insights:

- › **Ninety-four percent of respondents would have changed something about their most recent cloud agreement.** Due to their complex nature, cloud agreements almost invariably omit some considerations and SLAs, leading to consequences for the business when problems later arise. For example, 48% of respondents indicated that if they could redo their most recent cloud agreement, they would include more stipulations about security. Many respondents also would have included more stipulations about privacy (41%), performance (36%), availability (31%), roles and responsibilities (30%), and accessibility (28%). Cloud decision-makers also wish that they had incorporated more points of view and considerations when developing their cloud agreements, both from the organization's internal key stakeholders (37%) and from external resources on standards and best practices (23%) (see Figure 3). The procurement, risk management, and legal respondents we surveyed were the least satisfied with their most recent cloud agreements, indicating that perhaps they are not being involved heavily enough in the early stages of developing the agreements.

FIGURE 3

Cloud Buyers Would Like Cloud Agreements To Carry More Stipulations Around Security, Privacy, And Performance, Among Others

“Thinking about your most recent cloud agreement, what would you like to have done differently?”



Base: 467 respondents responsible for or involved in the decision-making process for cloud agreements within their organization

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, June 2016

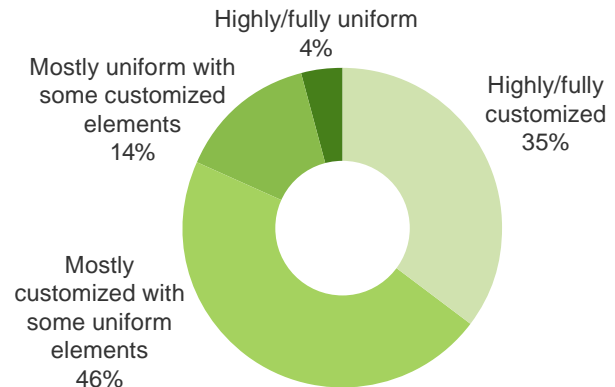
› **Cloud agreements tend to be highly customized, which is time consuming and leaves room for error.**

The fact that many agreements are missing critical stipulations is likely a byproduct of the fact that cloud agreements do not follow a consistent structure. Thirty-five percent of respondents reported that their cloud agreements are highly or fully customized, and another 46% indicated that their cloud agreements are mostly customized with some uniform elements. A mere 4% described their cloud agreements as highly/fully uniform (see Figure 4). Much of this heightened variability is due

FIGURE 4

Cloud Agreements Are Usually Customized

“Which of the following best describes the customization and uniformity of your cloud agreements?”



Base: 467 respondents responsible for or involved in the decision-making process for cloud agreements within their organization

(Percentages may not total 100 because of rounding)

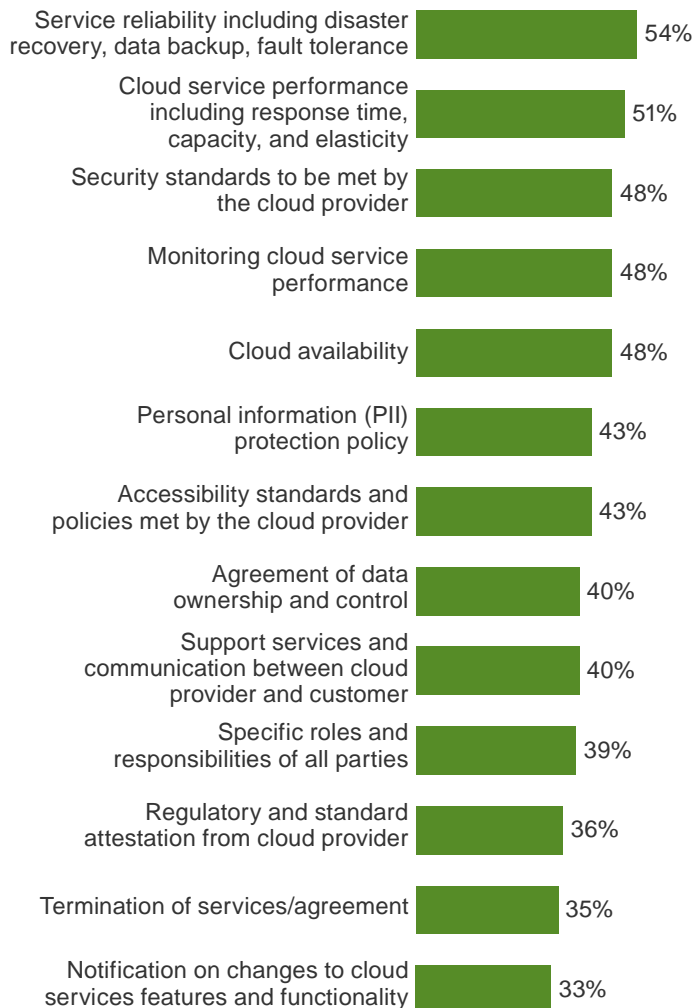
Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, June 2016

to CSPs' insistence on their own standardized agreements. While suppliers understandably seek to maintain control over agreements in order to deliver consistent services and stable environments, their agreement terms may not be aligned with the customers' own views of best practices and may leave IT professionals with significant responsibility for self-managing at least some elements of their cloud environments.⁶

- › **Components of the ISO standard are frequently omitted from cloud agreements.** We asked respondents to look over a list of criteria included in the ISO standard and found that many elements were not included in their most recent cloud agreements. The most frequently omitted components of a cloud agreement were notifications on changes to cloud service features and functionality (included only 33% of the time), language around termination of services (35%), and regulatory and standard attestations from cloud providers (33%). Even the most frequently included stipulations are only accounted for about half the time: 54% of agreements had service reliability stipulations including disaster recovery, data backup, and fault tolerance, and 51% had cloud service performance stipulations including response time, capacity, and elasticity (see Figure 5).

FIGURE 5
Most Agreements Omit Key “Best Practice” Considerations

“Thinking back to your most recent cloud agreement, which considerations were included?”



Base: 467 respondents responsible for or involved in the decision-making process for cloud agreements within their organization

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, June 2016

› **Non-optimized agreements lead to consequences.**

Missing terms are far from inconsequential; in fact, they can significantly hurt the organization. Consequences include delays in project delivery, a lack of quality control, and loss of profitability, among others. Eighty-nine percent of the respondents we surveyed have had at least one issue with a cloud service agreement that has carried some form of consequence.

The ISO/IEC 19086-1 Standard Will Help Organizations Meet New Requirements

The combination of evolving business demands along with the unique nature of the cloud continues to pose special challenges for customers who need to decide which of their typical IT services agreement considerations are relevant to cloud services (and worth fighting for when CSPs omit them). The emergence of published industry standards will help both CSPs and buyers by driving some homogeneity of terms over time in an industry that currently has significant agreement variability from CSP to CSP. For now, decision-makers can use the standard to ensure that they are negotiating the best practices for agreements and reducing risk for their organizations. Our study found that:

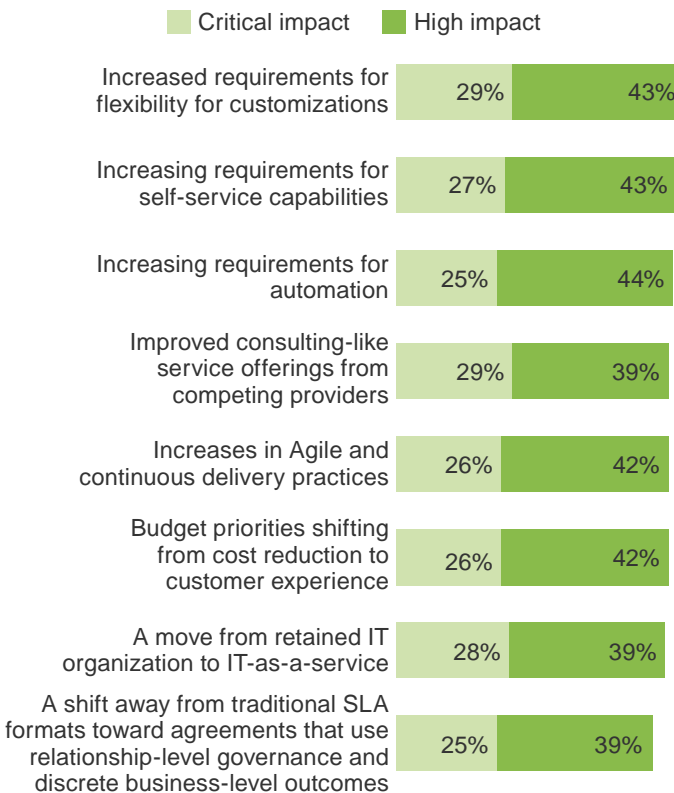
› **Most cloud agreement decision-makers use external standards/research and find them useful.** The majority of the decision-makers we surveyed consulted some form of external guidance when negotiating and/or setting criteria for their most recent cloud agreements. The most common tools are published standards and research from analyst firms, followed by conferences/events and blogs. These decision-makers find these tools to be quite useful as well: 98% of organizations that used research from analyst firms or published standards found them to be at least somewhat useful, and information gleaned from conferences and blogs was also seen as instrumental in guiding agreements. Only 6% of our respondents did not use any external guidance whatsoever, and 81% of those respondents indicated that such guidance would have been helpful. Despite their use of standards, many organizations still have issues with their cloud agreements. The ISO standard should provide a more robust checklist for organizations to ensure that they are no longer omitting important considerations.

› **Increased requirements and shifting priorities have a large impact on the structure and components of cloud agreements.** Digital technologies are evolving rapidly and are increasingly key components of organizations' strategies for winning, serving, and retaining customers. As new trends emerge, cloud agreements will need new considerations to reflect increased expectations. Our study found that the structure and components of recent cloud agreements have been affected by a number of evolving trends, including increasing demands for customization flexibility, self-service capabilities, automation, consulting-like service

offerings, and agile and continuous delivery practices (see Figure 6).

FIGURE 6
New Business Demands Lead To Shifting Requirements For Cloud Agreements

“Which of the following criteria are most important to your organization when selecting a service provider for a cloud implementation? Rank up to your top five.”



Base: 467 respondents responsible for or involved in the decision-making process for cloud agreements within their organization

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, June 2016

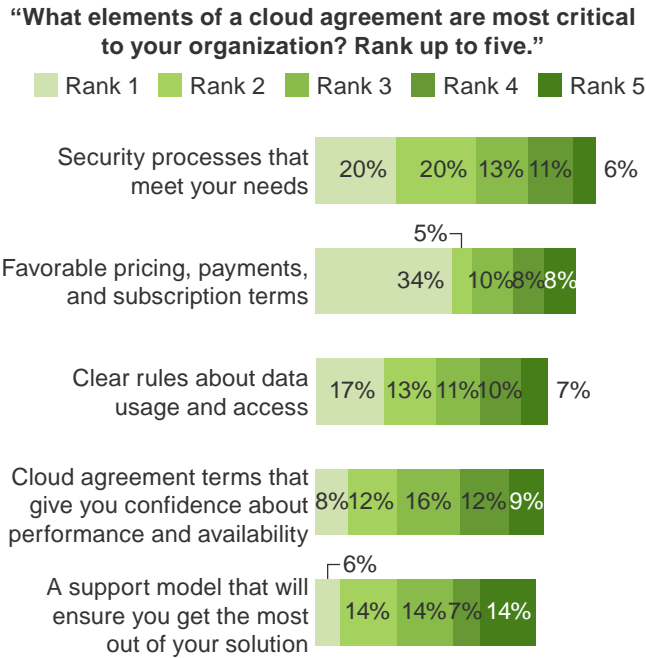
› **Almost half of respondents are adding more specific technical metrics; 41% are increasing standardization within a project.** To improve the quality of delivery and adherence to terms, cloud decision-makers are pushing for a number of changes in their cloud agreements. The top change is adding more technical metrics (47%), followed by requiring more regular status reports/meetings (43%) and adding more business outcome metrics (41%). Our study found that 41% of respondents are bucking the trend of customized agreements and instead beginning to use standard cloud agreements between providers on a project.

Forty-one percent of respondents are beginning to use standard cloud agreements between providers on a project.

› **Security and pricing are frequently the most important terms in a cloud agreement.** In the end, CSPs may not agree to all of their customers' preferred terms for deployments, and negotiations may turn into a “take it or leave it” conversation for some stipulations. While it's ideal to incorporate a standard list of terms to ensure optimal service levels, it's quite possible that contract decision-makers will need to prioritize the elements of cloud agreements that they believe are most valuable. Our study found that respondents tend to rate security processes (which presumably include compliance and privacy considerations) as the most important, followed by favorable pricing, payments, and subscription terms. Additional considerations include clear rules about data usage and access, terms that provide confidence about performance and availability, and a support model that will maximize success (see Figure 7).

FIGURE 7

Security, Pricing, Data Use, Reliability, And Support Are Key Considerations



Base: 467 respondents responsible for or involved in the decision-making process for cloud agreements within their organization

Source: A commissioned study conducted by Forrester Consulting on behalf of Microsoft, June 2016

FIGURE 8

Key Elements Of The ISO/IEC 19086-1 Standard

Area	Key elements
Performance	<ul style="list-style-type: none"> • Accessibility • Availability • Capacity • Elasticity
Service	<ul style="list-style-type: none"> • Service monitoring • Response time • Service resilience / fault tolerance • Disaster recovery • Backup and restore data • Cloud service support
Data management	<ul style="list-style-type: none"> • Cloud service provider data • Cloud service customer data • Intellectual property rights • Account data • Derived data • Data portability • Data deletion • Data location • Data examination
Governance	<ul style="list-style-type: none"> • Roles and responsibilities • Personally identifiable information • Information security • Termination of service • Changes to features and functionality • Law enforcement access • Attestation, certification, and audits

Source: ISO/IEC 19086-1 International Standard

Key Recommendations

With the ISO/IEC 19086-1 Standard being released in the fall of 2016, the ISO is addressing a substantial market requirement. In considering its usefulness, customers seeking to establish cloud agreements should embrace the following suggestions:

- › **Consult best practices guidance when negotiating cloud agreements.** Cloud service customers should start ensuring they have information they need from CSPs immediately. Published guidance such as Forrester's Cloud Contract Negotiations checklist suggests a range of considerations, from pricing and subscription terms to data usage, business continuity, security, support, SLAs, benchmarking, indemnification and liability, and upgrades.⁷ Use the ISO/IEC 19086-1 Standard for more guidance upon publication.
- › **Use ISO's best practices guidelines to guide agreement negotiations and cloud discussions.** When available, use the ISO/IEC 19086-1 Standard in a request for information and other communications with CSPs to support consistent transparency. Despite the ample contributions of industry analysts and other sources, the industry has suffered for the lack of a ready template for key issues for cloud agreements, and the proposed ISO standard fills a substantial market requirement. Use it as a guide for crafting your own agreements.
- › **Understand that the ISO standard covers a lot but not everything. Be ready to go beyond.** While appreciating the contribution of the proposed ISO standard, pay attention to other areas not addressed specifically by the standard. For example, customers continue to struggle with other areas of "legalese," including indemnification and limitations of liability. Consider the ISO standard as a guidance document; the considerations will need to be tailored to meet each agreement individually.

Appendix A: Methodology

In this study, Forrester conducted an online survey of 467 organizations from Australia, Brazil, France, Germany, Japan, Korea, the UK, and the US to evaluate their service agreements with cloud service providers. Survey participants included cloud agreement decision-makers in IT, legal, operations, procurement, and risk management roles at enterprises, SMBs, and government organizations. Respondents were offered a small incentive as a thank you for time spent on the survey. The study was conducted in June 2016.

Appendix B: Supplemental Material

RELATED FORRESTER RESEARCH

“Organize The Chaos Of Cloud With A Realistic And Effective Strategy,” Forrester Research, Inc., April 24, 2015

“The State Of Cloud Platform Standards: Q2 2015,” Forrester Research, Inc., May 14, 2015

“Brief: Be Aware Of These Key Sourcing Trends,” Forrester Research, Inc., February 27, 2015

“Brief: Cloud Contract Negotiations Checklist,” Forrester Research, Inc., September 18, 2015

“Navigate The Limitations Of Public Cloud Agreements And SLAs,” Forrester Research, Inc., July 25, 2013

Appendix C: Endnotes

¹ Source: “Benchmark Your Enterprise Cloud Adoption,” Forrester Research, Inc., August 12, 2015.

² As of this writing the standard is in draft form, and is currently named the “Draft ISO/IEC JTC 19086-1 International Standard”.

³ Source: “Brief: Be Aware Of These Key Sourcing Trends,” Forrester Research, Inc., February 27, 2015.

⁴ Source: “TechRadar™: Data Security, Q1 2016,” Forrester Research, Inc., March 17, 2016.

⁵ Source: “Brief: Be Aware Of These Key Sourcing Trends,” Forrester Research, Inc., February 27, 2015.

⁶ Source: “Brief: Cloud Contract Negotiations Checklist,” Forrester Research, Inc., September 18, 2015.

⁷ Source: “Brief: Cloud Contract Negotiations Checklist,” Forrester Research, Inc., September 18, 2015.