



Enterprise reboot perspectives

**The sky's the limit
for cloud value, but you
need a future-ready plan**

November 2020

home.kpmg/enterprisereboot



According to the 2020 KPMG Enterprise reboot report,¹ 56 percent of business and technology executives surveyed agree that cloud migration has become an absolute necessity.

Cloud adoption is now firmly mainstream, but many organizations continue to struggle to scale this resource across the value chain and maximize value. Cloud computing offers a number of tangible operational benefits, from lower IT costs and data protection to increased collaboration and process flexibility, and companies are trying to get their arms around how this evolving technology can support the business and improve business outcomes. Perhaps the daunting task for organizations, particularly in our COVID-19 reality, is not so much “why” but “how.” Companies need a plan to leverage the benefits, while delivering what the business needs on a day-to-day basis.

Despite the general acceptance of cloud as the “place” technologies converge, we’ve found that many organizations have reached a “cloud adoption plateau,” where migration and modernization efforts stall after only about a fifth of suitable workloads are transitioned. This is a major inhibitor of cloud-based business transformation.²

¹ Enterprise reboot: Scale digital technologies to grow and thrive in the new reality, August 2020. HFS Research in conjunction with KPMG International.

² Harvey Nash/KPMG CIO Survey 2019

Throughout this document, “we,” “KPMG,” “us” and “our” refers to the global organization or to one or more of the member firms of KPMG International Limited (“KPMG International”), each of which is a separate legal entity.

KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

The KPMG Enterprise reboot perspectives series digs deeper into insights captured from the global Enterprise reboot report. Leveraging insightful data from the two-phased global research effort, augmented with experienced guidance from KPMG leaders, we offer this pragmatic series to help our readers better understand how to leverage emerging technology to thrive in the new reality.

This Enterprise reboot perspectives piece was developed by Priya Emmanuel, Managing Director of Cloud Strategy and Transformation, KPMG in the US, with insight from Paul Glunt, principal, International Tax, KPMG in the US.

The plateau in the cloud journey is a function of mindset and leadership. When the business views application and infrastructure modernization efforts primarily as technology initiatives and not as a holistic transformation, progress will likely stall. It's vital to build a comprehensive and cohesive roadmap toward change around functions, capabilities, and competencies across the enterprise.

The biggest roadblock facing leaders is fragmented and inefficient infrastructure across business lines and functions, which conspire to hinder the integration of front- middle- and back-office activities. Cost transparency is another roadblock. Cloud helps to mitigate the impact of fragmentation by helping to link offices via a common, accessible platform. Also impeding leaders is the lack of expertise in managing cloud providers and virtualized networks, which can prevent the organization from deploying the agile practices that are critical to removing friction from iterative processes.

Signs of a cloud adoption plateau include:

- Inability to scale and move at market speed with initial migrations
- Security and compliance are perceived as inhibitors
- Failure to make the business case for cloud
- Inability to adopt cloud technologies in a consistent manner
- Regression to legacy on-premises platforms for cloud-suitable demand items

The COVID-19 effect

While there was a degree of urgency pre-COVID-19, many companies were moving at a relatively leisurely pace in regard to their transitions to the cloud. COVID-19 put into perspective how unprepared most of these organizations were when they suddenly had to spring into action and look for innovative ways to reduce the COVID-19-related disruption to the business.

56% of business and technology executives surveyed agree that cloud migration has become an absolute necessity.

This and all statistics in the report are from Enterprise reboot.

It quickly became obvious that the solution would require more than a tweak here and there — it would entail a sustained rearchitecting and rethinking of the organizational approach to technology. Leaders would need to think strategically and to ensure their operating model was enabled and ready for a migration to the cloud. What our research uncovered was widespread acceptance of the required commitment and investment necessary to become a digitally connected, largely virtual enterprise.



Getting there from here

Pre-
COVID-19, **25%**
were deploying a hybrid
private/public cloud.

70%

of executives now say
they expect hybrid and/
or multicloud to be
the predominant cloud
infrastructure going
forward.

Prior to the COVID-19 outbreak, our research indicated that numerous companies were exploring moving various aspects of their infrastructure and applications to the cloud, albeit gradually. And many were struggling not only with questions of scale and integration, but also automation and risk management.

As a result, many were taking their time, studying feasibility through limited-scope proofs of concept and moving one application at a time to the cloud so they could test security. The new reality presented by COVID-19 essentially forced companies to seek out and work with technology partners, such as hyperscale cloud providers and managed services firms, in an effort to incorporate security-as-a-service. This empowered the organization to fast-track the process of moving applications to the cloud without having to handle all of the security pieces themselves.

As firms solidify their COVID-19 recovery plans, we're seeing more and more organizations review their current challenges and reach out to potential partners to augment the capabilities they don't have, rather than buying these different technologies and services off the shelf — which has its own set of challenges — or investing the time, effort, and budget into developing these capabilities in-house.

This model is becoming quite common, especially in industries like healthcare. Both the providers themselves, as well as the companies that focus on coronavirus testing and other related services, rely heavily on protected health information (PHI), where security and privacy are major concerns. Companies are also trying to figure out how to reduce their technical debt by focusing internally on application rationalization and then making a business case to leadership and/or their board for larger cloud adoption.

These organizations are exploring different self-funding models in an effort to get buy-in from the broader business and free up cash to help them continue to innovate using cloud. For example, we've been working with a global supply chain logistics company that has historically done everything on-premises. When they started thinking about broad-scale cloud adoption, their IT team initially struggled to either convince management to increase their budget or take it upon themselves to cut something out to free up funds. Like many companies, they found themselves in the difficult position of having to support the business on a daily basis, while simultaneously seeking to introduce innovative new product-, support-, and customer experience-related thinking to ensure they are prepared for the future.

Finding the funds

So how do companies, already on tight budgets and now fighting to recover from COVID-19, fund a cloud transition? We've been inviting our KPMG Tax colleagues into these conversations and finding ways for companies to free up cash. One strategy that is catching on is the creation of a kind of digital "center of excellence" for software development on the cloud that doesn't have to reside where the technology team sits (although it can).

By locating certain resources in a different location, with appropriate governance along the value chain, tax benefits can be created and funneled back to the IT team to enable them to self-fund the investments needed to stand up a sustainable cloud infrastructure. And because the tax benefits in these models are based on the *value* of the underlying technology or services, rather than cost, the amount of the benefit can often be larger than the underlying investments.

Hybrid or multicloud?

Pre-COVID-19 (according to the Phase I component of the Enterprise reboot study from March/April 2020), 51 percent of survey respondents were prioritizing an all-public multicloud structure, while 25 percent were deploying a hybrid private/public cloud. In the midst of the crisis (according to the Phase II component of the same study from May/June 2020), however, that story essentially flipped, with 45 percent preferring a hybrid structure — with some resources, systems, and capabilities migrated to the public cloud and others hosted in enterprise data centers — and only 15 percent working with a multiple cloud model.

Clearly, not everything needs to be on the cloud. While it makes sense to containerize many monolithic, single-unit applications and place them on the cloud, it may be preferable — for security, resilience, or recovery reasons — to keep other datasets on your on-premises stack.

In this environment, companies must make some very complex technology decisions. It's not easy to retire your on-premises applications and quickly move data to the cloud. This is why nearly 70 percent of executives in this study say they expect hybrid and/or multicloud to be the cloud infrastructure going forward, even though less than half consider themselves to be "strong" in regard to these technologies.

Against this backdrop, many IT teams are looking to build out a portfolio of workloads that are supported across a combination of on-premise and cloud platforms. The challenges are many: awareness of the differences between the structures, the best way to manage them, how to effectively ensure they are secure, and assembling a knowledgeable team, to name a few. There's a continuous learning curve.

51% of survey respondents were prioritizing an all-public, multicloud structure.

Improving resilience

As many companies struggle just to keep the lights on and adapt quickly to market or competitive disruption, they often forget about the importance of operational resilience.

The more efficient the operating model becomes, the more resilient it has to be. Increased efficiency, which cloud clearly offers, certainly helps reduce costs, but overall resilience — the ability to bounce back from system downtime, data corruption, security breaches, etc. — also needs to be funded and managed appropriately.

We're seeing companies struggle with this dynamic every day. As much as anything else, COVID-19 has reminded us that IT's contribution to organizational resiliency and recovery is critical.

New reality, new mindset

We talk frequently about operating models because when an organization introduces something new — whether it's cloud or any other new technology — the need for a tight plan to ensure everyone understands how the resource works and how it can benefit the entire business is amplified. Changes to the operating model in these instances are inevitable and create a domino effect across the entire value chain.

It requires a completely different mindset and way of doing things. Cloud vendor contracts are very different. How you pay for cloud is different. How you secure cloud is different. The tools you use to manage and access data on the cloud are different. Reporting is different.

The cloud democratizes application development by empowering companies to do this work anywhere. It addresses the initial investment challenge as well as the competition for top talent that companies would otherwise need in-house, while funding their ability to innovate.

To learn more about **Enterprise reboot**, our latest research report that explores the current and future state of emerging technologies, please visit: home.kpmg/enterprisereboot.

Enterprise reboot survey methodology:

From March–June 2020, KPMG International and HFS Research conducted two global, cross-industry quantitative surveys of 900 business and technology executives about their enterprise’s investment in and adoption of emerging technology. All respondents held executive-level positions at Global 2000 enterprises with over US\$1B annual revenue. The study was conducted in two phases: March–April, when many countries were starting to see the impact of COVID-19, and May–June, when many economies and societies were shut down due to the virus. By conducting two phases of research, we sought to achieve a fuller picture of the impact of COVID-19 on enterprise approaches to emerging technology adoption and the sentiment toward the evolving emerging technology landscape. Research covered process automation, artificial intelligence, smart analytics, hybrid cloud, multicloud, blockchain, 5G, edge computing, IoT, augmented/virtual reality (AR/VR), cybersecurity, quantum computing, and trusted data backbone.

Contact us

Priya Emmanuel
Managing Director
Cloud Strategy and Transformation
KPMG in the US
E: pemmanuel@kpmg.com

Paul Glunt
Principal
International Tax
KPMG in the US
E: gpaulglunt@kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

The views and opinions expressed herein are those of the interviewees and survey respondents and do not necessarily represent the views and opinions of KPMG member firms and KPMG International.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Throughout this document, “we,” “KPMG,” “us” and “our” refers to the global organization or to one or more of the member firms of KPMG International Limited (“KPMG International”), each of which is a separate legal entity. to clients.

© 2020 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved.

KPMG refers to the global organization or to one or more of the member firms of KPMG International Limited (“KPMG International”), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit home.kpmg/governance.

home.kpmg

