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4 Pitfalls to Avoid When Managing Cloud Costs

Understanding a cloud contract is vital to ensuring that an enterprise gets the services they need.

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Have you jumped on the cloud bandwagon yet? There has been a tremendous shift in the IT industry to the cloud, and many enterprises are already leveraging cloud technologies for ease of deployment, scalability, and cost. So, let's dive into one of these benefits – cost!

We keep hearing that the cloud is an operating expense (OpEx) model, and there is a lot of discussion around OpEx vs. capital expense (CapEx). Which one is best for your business? What are the gotchas that no one talks about?

Crack open any business textbook, and OpEx is defined as an expense that reflects the actual cost of running a business without any future benefits. If the OpEx is too high, the company may lose money. In contrast, CapEx is where money is paid upfront for a business asset like a building or piece of equipment to create a future benefit to the company. We live in a disposable society where everything is needed quickly, at the lowest possible cost, and used until expended. This seems to be the appeal of the OpEx model – a company can use what it needs now. Of course, there is more to this, but that's for another discussion.

So, how is the OpEx model working for your company or client? In the world of IT expense management, cloud expenditures are like the Wild West...anything goes. Consumers and businesses need to be informed about what is being spent and why. So, here

are some things to know about the expenses of the cloud:

1. **Whether it's a voice application, software solution, or license, the goal is for an organization to pay for what is used. But is this indeed what really happens?** It's important to understand how the item is billed, how the item is taxed, and any other fees that are assessed. I recently worked with an organization that purchased a cloud-based telephony solution, and the client was shocked to find out that it was taxed like a traditional telecom service. The amount on the monthly bill was 30% higher than what the vendor proposed. This meant that the client was 30% over budget (OpEx). Think about if all the client's cloud solutions followed suite…it would erode the bottom line for sure!

2. **Users can spin up a server, add a software application, even get a new toll-free number with one click.** This can be great for the individual user or department but a nightmare for the IT support department. The user might click "I agree to the terms and conditions" and not understand what is being agreed to. Where and how will the service be billed? How is the expense tracked? I have found recurring charges on employee credit card statements and expense reports. Who validates that the charges are accurate or even necessary?

3. **Since everything is moving to this mysterious cloud, how does a company know what it has?** Just as companies use asset management tools to track and manage hardware, it is also important to oversee licenses and applications. Are there duplicate licenses? Is the organization paying for licenses for former employees? Are there licenses that can be displaced by a new or existing application? Having an inventory can create a good baseline for managing these operating expenses.

4. **Contracts for cloud services and licenses are vague or even non-existent.** Back in the days of fixed costs for phone lines, data circuits, and long-distance, contracts were complex and regulated by the FCC, FTC, or State Utility commissions. Today, customers don't have much recourse when something goes awry. It's important to know what the vendor and customer's obligations and agreements are. These agreements can be very one-sided. Vendors get every advantage, and the customer's rights are limited. Recently, I reviewed an agreement that said terms and conditions can change at the vendors' sole discretion without notification! That included features, service level agreements, and price. Buyer beware!

As demonstrated above, if the OpEx isn't managed, it can create inefficiencies, inflated costs, and mismanagement. All of this can negatively impact a company's bottom line. It's imperative to learn ways to control these costs or engage an expert in identifying and minimizing these costs – it's the new frontier of IT expense management.

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Looking for more insight on cloud contracts? Then, check out **this (https://schedule.enterpriseconnect.com/session/cloud-contracts-the-good-the-bad-and-the-ugly/871871)** *Enterprise Connect session! View the full conference* **schedule here (https://schedule.enterpriseconnect.com/sessions?_mc=nojitter)**, *and* **register today (https://enterpriseconnect.informatech.com/2020/registrations/Attendee?_mc=njenews)** *using the code* **NOJITTER** *to save $200 off the current rate! Advance rates end Jan. 31.*

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