



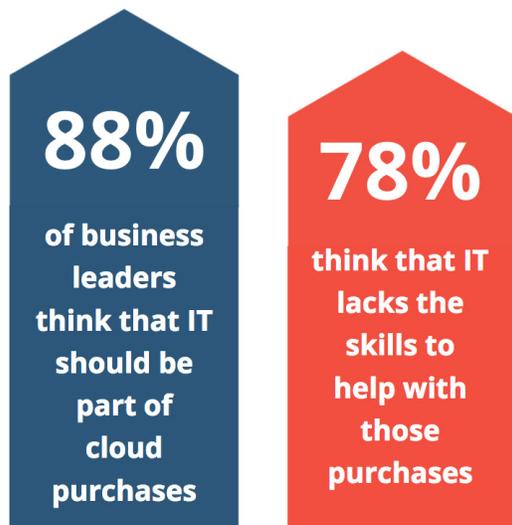
## GUIDE

# A Guide to Cloud Pricing Models

*Avoid billing surprises and be a savvy IT consumer in this cloud era.*

As cloud computing and SaaS adoption charge ahead, IT roles are changing along with technology. It's no longer easy for an IT team member to tend to just one area of an infrastructure that's distributed and run in multiple locations, using outside providers.

As both technology and job roles change, you're probably wearing multiple hats as an IT leader—and finding there's a lot to learn about the business of IT. With cloud and SaaS pricing models, you'll need to get savvy about how your business is paying for each application or service that users need. Some of the new skills to learn include understanding how procurement works at your company, how cloud and SaaS providers calculate pricing, and how to get the most out of apps you're supporting.



Source: [Accenture](#)

It's going to be ever more important to keep up with changing IT responsibilities. One recent survey from Accenture found that 88% of C-level leaders think IT should be part of cloud purchases. But 78% think their IT department lacks the skills to help with those purchases. That gap is largely up to IT to close, and understanding cloud pricing is one area that needs attention. Learning the essentials will help you become invaluable and gain a voice in the boardroom.

Cloud pricing models include two forms of cloud adoption these days: one, the use of SaaS applications to handle all kinds of enterprise tasks, which increasingly includes business-critical tasks. Second, cloud adoption involves moving some or all of an infrastructure to a public cloud provider. In either case, calculating pricing and costs is radically different than it was with legacy IT infrastructure.

## How to Master the Cloud Pricing Model

### 1. Learn the pricing details specific to your business's needs.

The way that businesses pay for [technology products](#) has [changed dramatically](#) in just the past decade or less. Instead of annual purchases, there are now monthly SaaS subscription models and shorter cloud provider billing cycles. Even if you subscribe to a service on a yearly basis, there's more flexibility in canceling if needed.

Whatever the provider and product or service you're planning to adopt, identify the base units particular to your situation. Most cloud pricing models are based on some unit of usage over a given period of time. Some cloud providers offer an online calculator to help you plan. The usage unit could be the number of API calls, number of users, number of reports or another number depending on the vendor and business need. Don't consider users or head count as a separate category for SaaS and cloud. That number can also vary from month to month, depending on business changes, like a reorganization, layoff or influx of temporary workers. Your contract might specify that you'll end up in a new, higher pricing tier with the addition of workers, or, worse, you'll be paying for users who aren't using the service anymore.

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*SaaS pricing is based on a unit of usage over a period of time.*

With that in mind, consider the best and worst case scenarios for application usage to avoid wasting money. Pricing for SaaS and cloud can be really complex, so get a handle on how each provider charges to avoid unexpected price hikes. Be sure to apply some consumer savvy, and use your power as a bill payer to get the best deal you can. SaaS providers are constantly selling their products with these new cost models, and they need your business as much as you need their service.

## **2. Understand SaaS and cloud forecasting.**

Trying to plan ahead with SaaS pricing and usage is tricky, but necessary to spend money wisely and avoid going over budget. If you're just starting out with these new pricing models, or deploying a brand-new app in the cloud, there's no historical data to reference. A good place to start is by assessing how likely the situation is to change. Look for flexibility in a provider contract to change upwards or downwards if necessary. With that in mind, you can negotiate pricing tiers ahead of time. Apps like Salesforce group users into packs, so you can establish discount tiers in advance.

The concept of "IT cost per employee" makes a lot of sense for cloud-driven organizations today. It's hard to pin down exactly how much and which technology each user is consuming to get his or her job done. Network Alliance compiled research on IT spending benchmarks, with numbers showing that an unmanaged PC costs \$5,000 per year, and that on average, businesses spend \$700 per user per month, with all IT expenses factored in. See if you can approximate that IT-per-user number at your organization. It'll be useful to finance and HR as well, so they can plan costs for hiring and growth.

Along with calculating the cost per user, try benchmarking by unit when you have data for a particular service or process that you're moving to cloud. (This is easier if you've established certain apps or services in the cloud already.) That should give you the information you need to plan ahead. So, use the unit that your app or provider charges on, and see what you've used in the past, and how much it has varied. For example, when buying AWS space, go beyond simply counting servers and see how often you've spun up extras, or how often the servers are over- or underutilized. When planning SaaS app usage, consider whether you're charged for concurrent users, or a one-license-per-login model. That difference contributes greatly to the product's, and your environment's, scalability.

Finally, when you're forecasting SaaS use, leave room to scale. With a fixed IT budget, you'll want some wiggle room if you overutilize one month during the year. Budgeting in the era of cloud pricing models is a balancing act to spend wisely without wasting money. Businesses might also want to calculate the [total cost of ownership for cloud purchases or subscriptions](#). For cloud computing, considering cloud's value beyond simple pricing will be essential. For example, faster time-to-market and saved expenditures on future hardware may be worth a lot, though they're harder to quantify.

### 3. Be the SaaS emissary in your organization.

Get in the habit, both within IT and with operations teams and finance, of making the business case for the SaaS app or cloud service you've got your eye on. The app or service might save time, eliminate manual tasks and resources or save costs, such as on capacity and hardware. Make sure to match the features of the product with potential business improvements or existing problems that need solving. This can also help bridge the gap between [IT and the shadow IT apps that exist in an organization](#). IT doesn't need to be the one saying "no," but instead can ask the questions that help evaluate which application will meet users' needs. That'll also make supporting those apps a lot easier down the road.

IT is working with tight budgets, and need to incorporate themselves into the larger business and business processes. Proving a business case helps that happen, especially if the tool or improved process can save money, time and help desk tickets. Plus, proving the business case for a technology is a good way to vet products, and could expose potential feature gaps or integration issues. It'll also make the purchasing process easier in the larger organization, which might involve finance, procurement, security or other teams. You'll get what you want faster if you can provide data on the value of what you want to buy.

Along with proving the value of technology, get to know how purchasing works at your organization. Finance may prefer annualized up-front payments or monthly payments, and have specific purchasing cycles they use. If you only cross paths with the finance team during budget allocation season, make more of an effort. Your knowledge of the business value of the apps they're paying for, added to knowing the payment process, makes you an important resource.

### 4. Know your cloud or SaaS provider.

Negotiation basics aren't always part of IT's skill set. But SaaS and cloud pricing models usually do—or can—include some negotiation around pricing and the service-level agreement for a particular app or service. To negotiate properly, remember to:

- **Identify the variables.** Service-level agreements include a lot of variables, and cloud service performance can vary every month. Make sure these variables are addressed in your SLAs.
- **Identify the violation penalties.** It should be spelled out in the SLA what the penalty is for the provider violating the SLA, and how your business will recover costs or credit from the provider.
- **Include financial motivators.** These can be part of SLAs, and it's a good way for IT to level the playing field. Make sure it's not too easy for service providers not to fix recurring problems.
- **Decide on trackable metrics.** There are plenty of [metrics you can choose to keep track of success in this cloud era](#). The ones you use should be tailored to what success looks like at your company, whether it's reduced downtime, faster load times or better VoIP call quality.

- **Know how problems will be fixed.** Note the mean time to resolution that's promised, as well as recovery guarantees in the SLA. See what the resolution path is if there's an outage or performance issue.

If you've inherited old contracts or SLAs, read the fine print to see if you should try to renegotiate when renewal time comes around. Remember that SLAs are specific to the app or service, so they'll vary quite a bit from provider to provider. And for business-critical apps, take extra care in understanding the details and communicating with the provider. Remember to vet providers' security standards and availability thresholds, and know who will own the data you're putting into the cloud.

Adding an understanding of cloud and SaaS finance models is becoming essential for IT teams. There's some up-front education you'll need to do, but ideally you and your team will gain new respect throughout your organization—and avoid billing surprises too.

#### **ABOUT APPNETA**

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