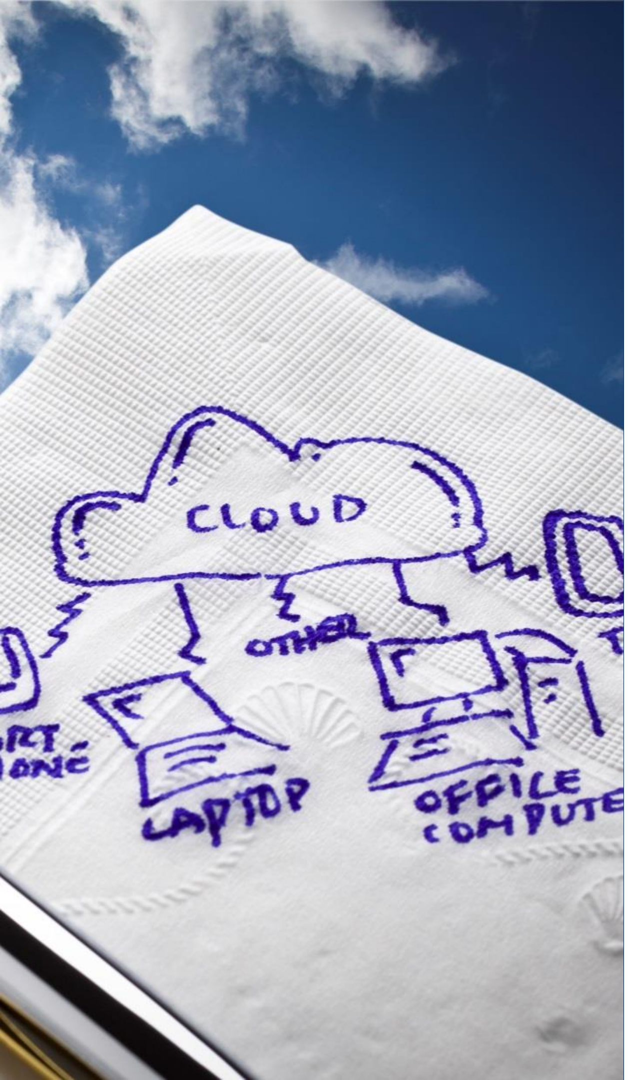
2016 Cloud Survey



Agenda

1 Survey Background

Key Trends Observed

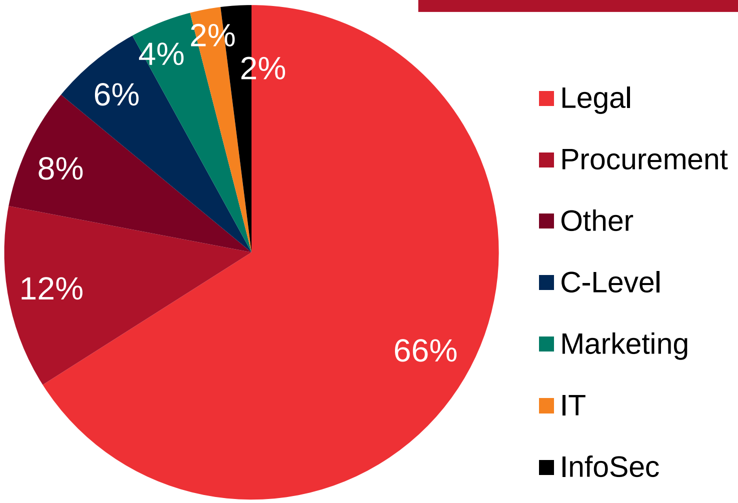
This is our third year in a row of surveying the cloud marketplace and the following are just a few of the trends that we have observed:

- Security: Security has been one of the most consistent themes across our surveys.
- Convergence: The longer a type of offering has been in the marketplace (e.g., SaaS) the greater convergence and standardization of the offering.
- Customization: We have seen greater customization in offerings and potentially corresponding reduction in contracting time.
- Complexity: Even with such convergence, cloud deals remain complex. Respondents cite complexity as a sticking point in negotiation and a source of disappointment.

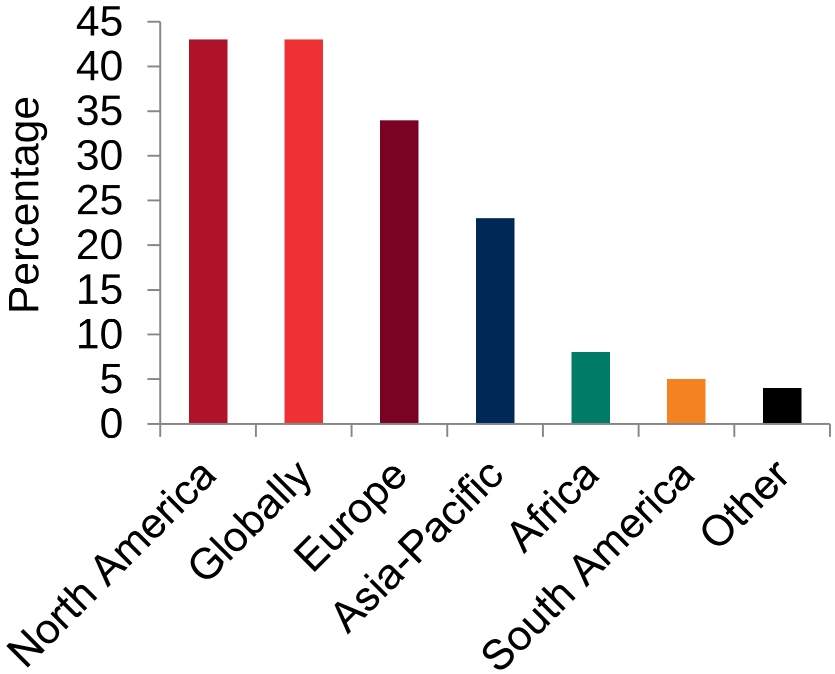
Respondents by Role

We limited the scope of the survey to cloud deals processed through official procurement channels (e.g., not purchased with an individual's credit card).

Respondents in a legal role are more heavily represented than in previous surveys.



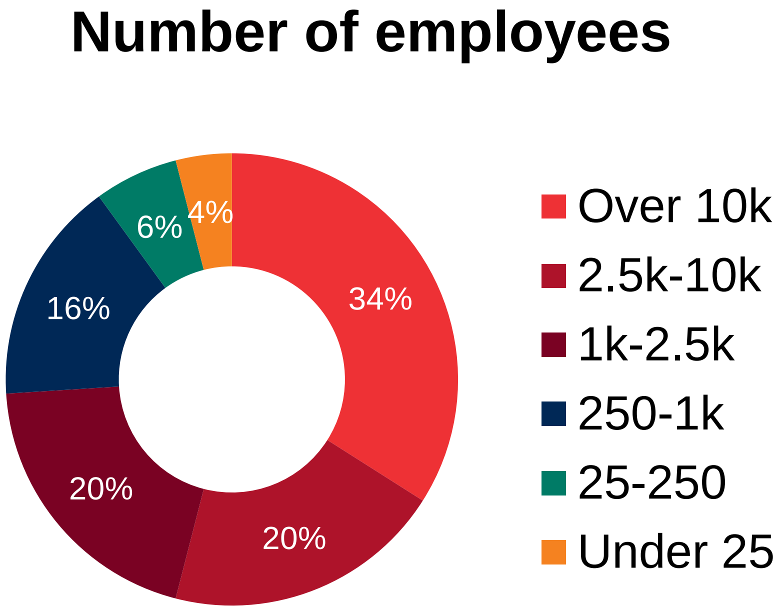
Respondents by Geography

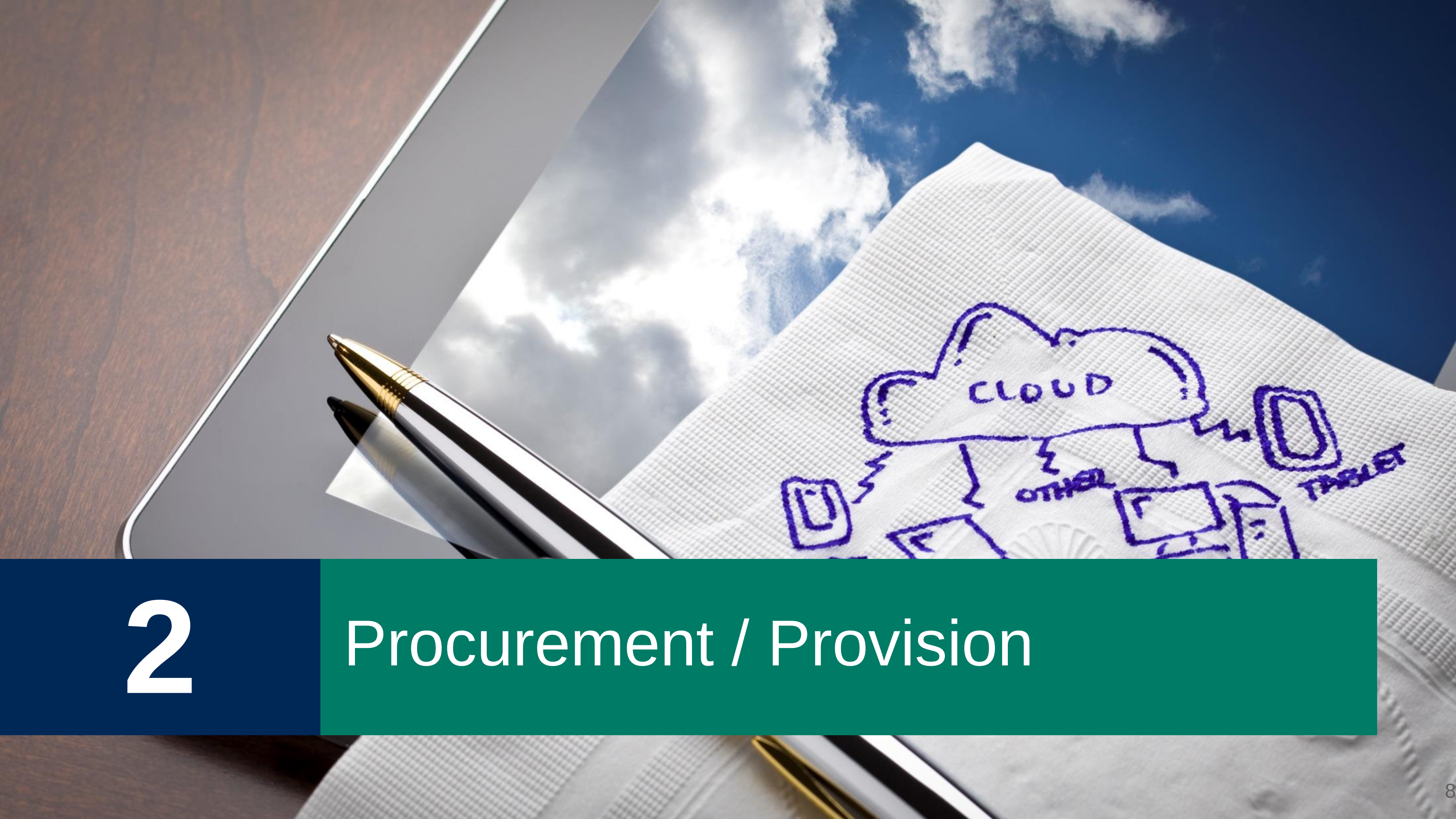


Consistent with past surveys, our respondents represent a broad geographic distribution. Just under half of our respondents doing business globally

Respondents by Size

Respondents from larger organizations are slightly more represented, but the overall responses are fairly balanced.





2 Procurement / Provision

Before the Cloud

50% of our respondents indicated there is certain data they will not host in the cloud. A few examples of such data are:

- Protected health information
- Other personal data
- Strategic/highly proprietary / "crown jewels" data

Just over 50% of our respondents (both provider and buyer combined) carry cyber liability insurance. Given the rapidly evolving marketplace for such coverage, we expect this number will increase.

Procurement/Provision Decision

Objectives:

- Cost
- Flexibility
- Speed

Hesitations:

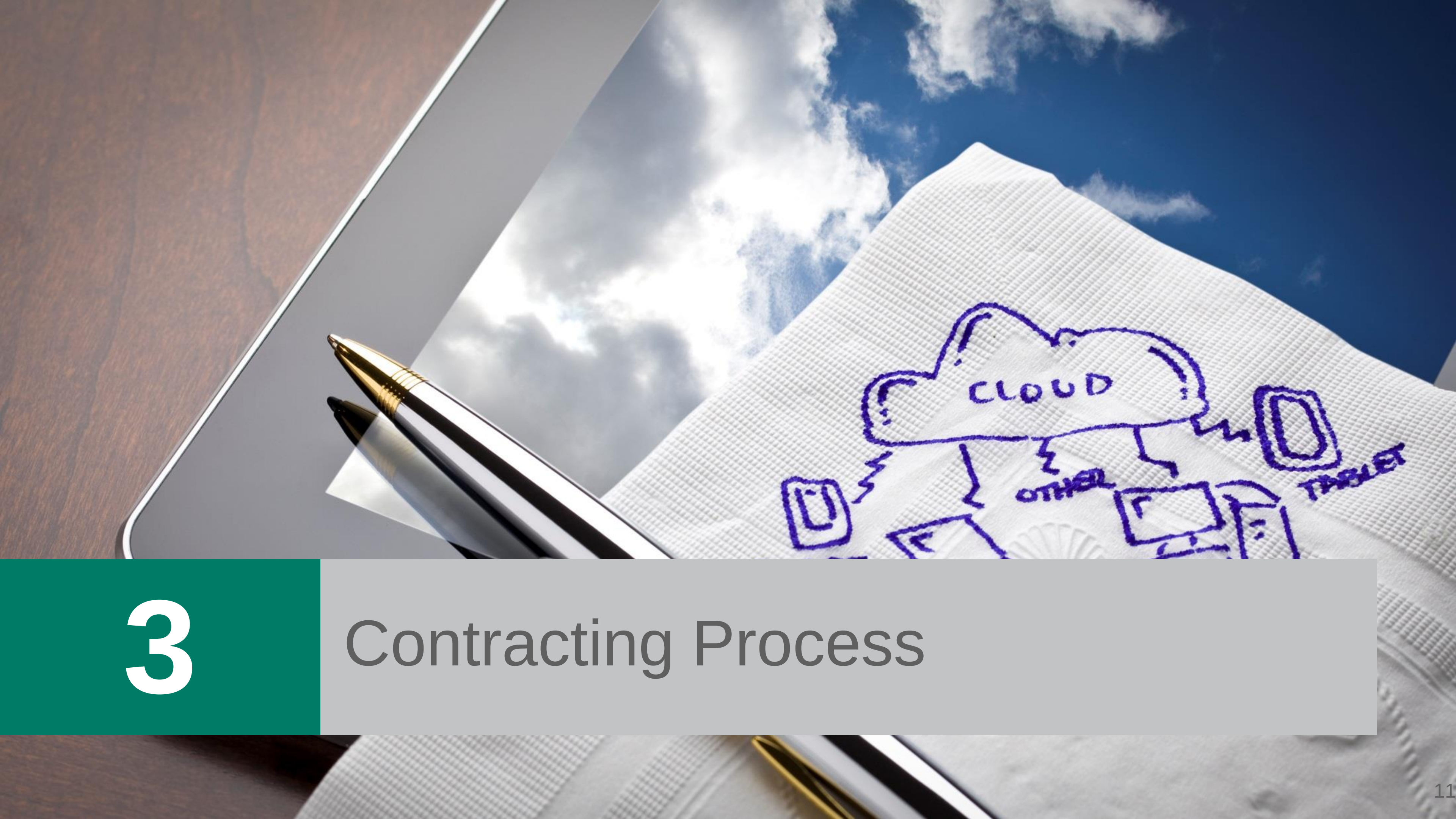
- Security
- Privacy
- Regulatory

Criteria:

- Reputation
- Cost
- Published security

We have indicated the top three objectives, hesitations, and criteria that our buyer respondents indicated factored into their cloud procurement determinations.

The responses from our provider respondents were almost identical, potentially indicating further convergence in the marketplace.



3 Contracting Process

Subject matters considered; tools used; and impediments to success

Legal subject matters considered (ranked in order):

1. Industry sector guidance/regulations (e.g., security standards)
2. Export contrade/trade sanctions
3. State/provincial/federal tax
4. Insurance
5. Employment
6. Human rights

Impediments

Price
Indemnities
Liability
Termination
Scope
Term
Security
SLAs

Tools used (ranked in order):

1. Model agreements
2. Checklists
3. Legal reference guides
4. Playbooks
5. Heatmaps
6. Other (e.g. benchmarking, networking, research, etc.)

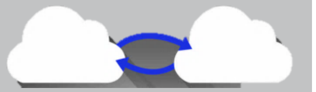
Structuring the Contracts

We asked respondents, "What is the best way to structure contracts for solutions involving multiple cloud providers?"

42% indicated buyers contracting with each provider as the best solution.

The remaining respondents suggested the following solutions:

- Buyer contracting with a prime contractor (35%); or
- A hybrid approach with some buyer contracting (23%).

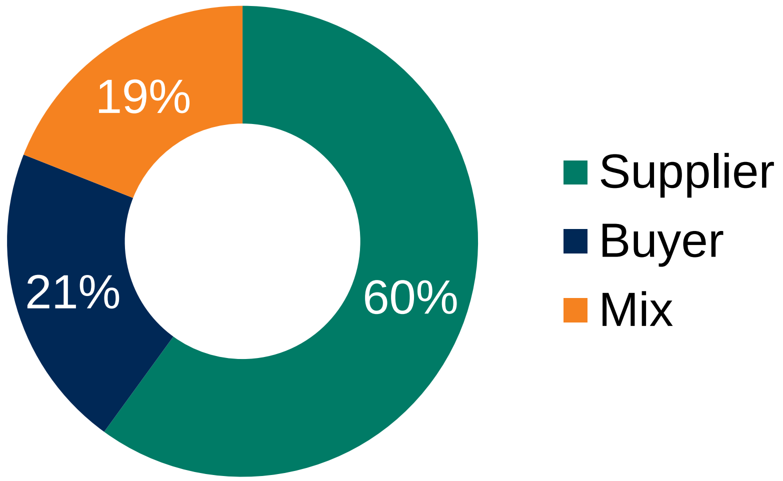


Which Contracting Terms

A majority of deals are on provider paper

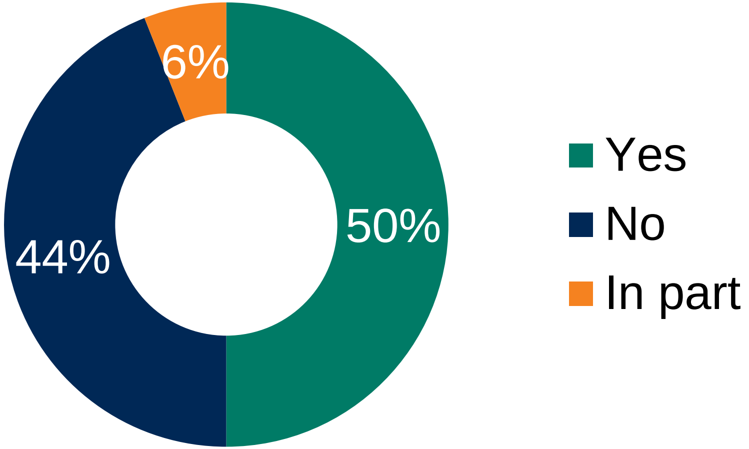
For deals that were not on provider paper, they were either on buyer paper or a mix.

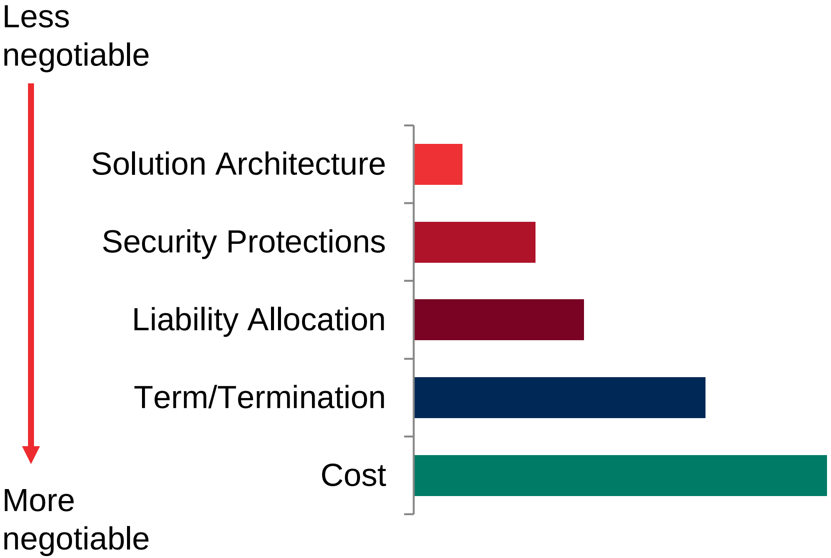
Our respondents indicated that where there was a mix of paper, the parties would typically pull certain buyer terms (e.g., security requirements) into provider's paper.



Negotiability

Generally, were the contract terms negotiable?





If yes or in part, what terms were most negotiable?

4 Marketplace

Service Offerings

A majority of service offerings contain terms and conditions specific to the offering.

95% of respondents indicated that market standard terms exist for SaaS offerings.

A majority of providers indicated they offer solutions that may be tailored for IoT integration.

Our results indicate that there may be convergence in the more established parts of the cloud marketplace (e.g., Software-as-a-Service).

Newer portions of the cloud marketplace (e.g., Infrastructure-as-a-Service and integration with machine-to-machine/Internet of Things solutions) may still have greater variance in both the solutions and contracting terms.

Geofencing and Data Rights

A majority of buyers indicated they included at least some prohibitions on where a provider may host their data.

Providers did not report the same prevalence of geofencing.

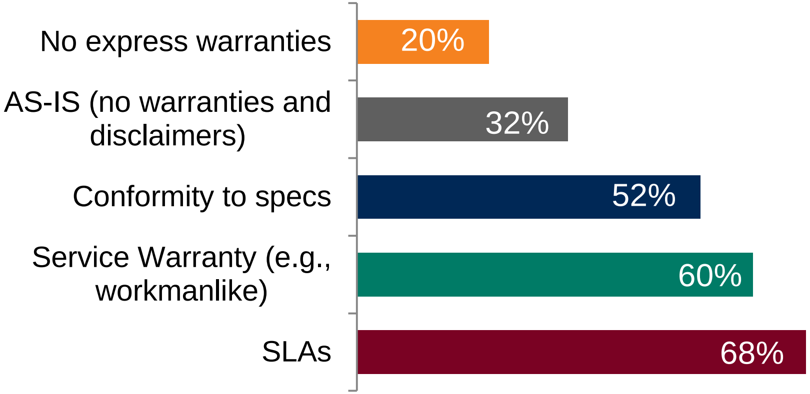
A majority of buyers granted express rights for providers to use buyer data as necessary to perform the services.

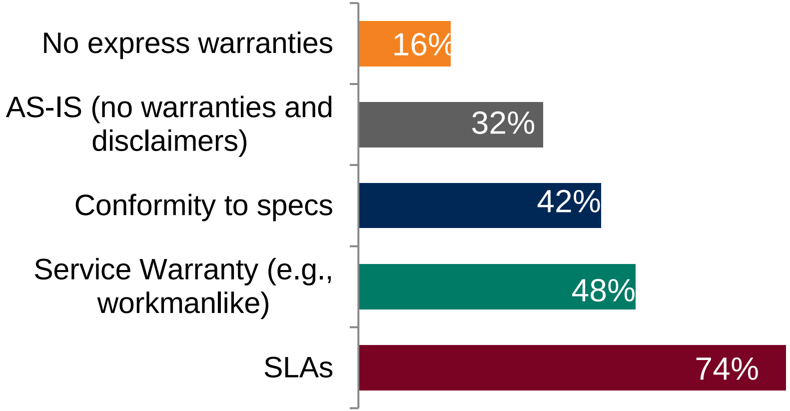
Providers also reported receiving rights in buyer data (i) to improve provider's services; and (ii) for statistical and analytical purposes.

Warranties

Buyers – What warranties are included in your agreements?

*respondents could select multiple options

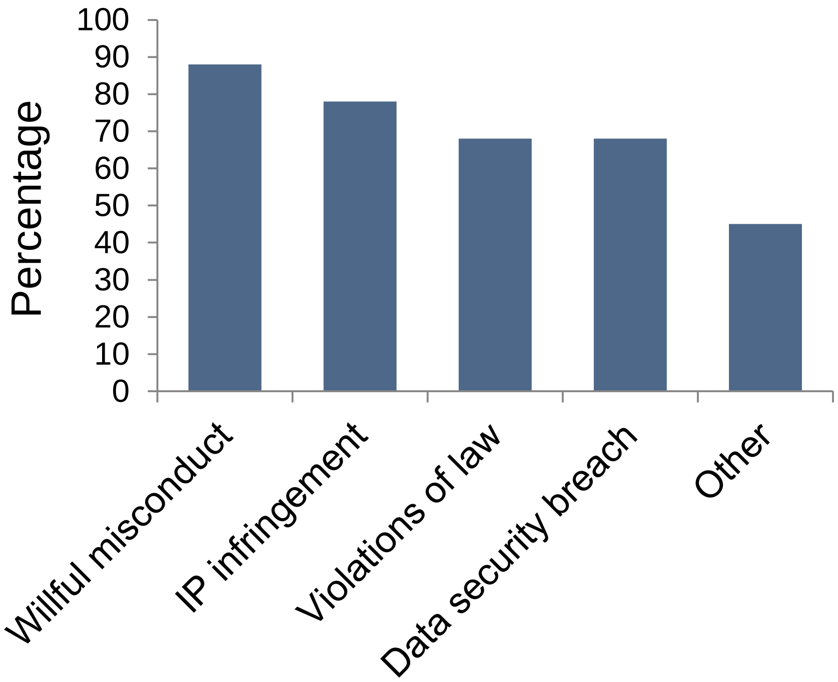




Providers – What warranties do you offer?

*respondents could select multiple options

Indemnities



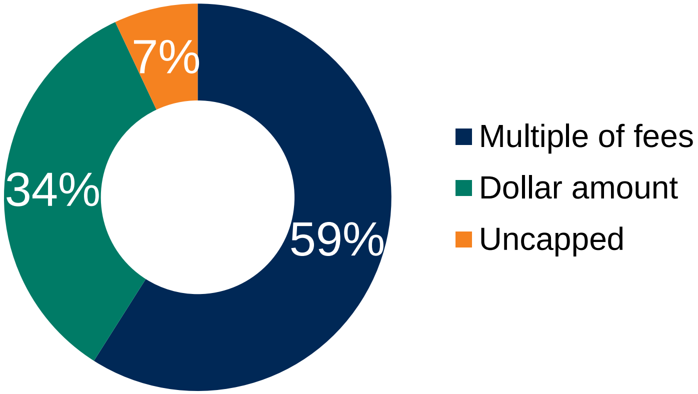
We asked buyers what indemnities providers provided.

*respondents could select multiple options

Limitations on Liability - Buyer

For caps that are tied to fees, a majority of buyers responded that the cap is equal to annual fees.

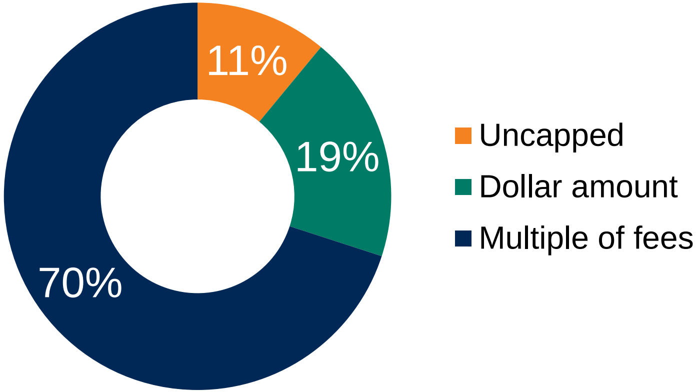
The responses ranged, however, from 1-5x annual fees.



A minority of buyers indicated they were able to negotiate for uncapped liability for a data security breach.

Where such liability was capped, buyers split almost evenly whether the data security breach cap is a multiple of fees or a specific dollar amount.

Limitations on Liability - Provider



For caps that are tied to fees, a majority of providers responded that the cap was equal to annual fees.

The responses ranged, however, from 1-3x annual fees.

A minority of providers indicated they have agreed to uncapped liability for a data security breach.

Where such liability was capped, a majority of providers indicated that such a cap was typically a multiple of fees.

Security and Audits

- 80% of buyers/providers indicated that the agreement required provider to follow specific security standards.
  - A majority listed the ISO 27000 series
  - Also included were HIPAA, NIST 800 series, ITIL, PCI-DSS, FedRAMP, and COBIT.
- A majority of buyers indicated that they have a right to audit the providers' delivery environment.
- A slim majority of providers indicated that their agreements obligate them to provide proof of standard audits to buyers.

5 Looking Forward

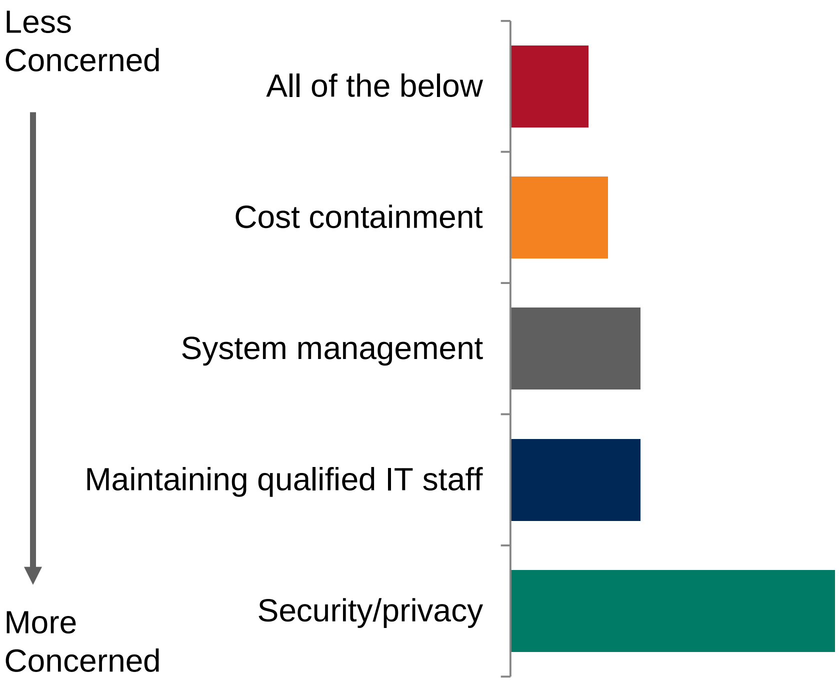
Satisfaction

About 60% of buyers indicated that their cloud offerings met their goals (last year, 70% of buyers responded positively).

The remainder of respondents indicated that their cloud offerings met their goals sometimes. Examples of where cloud offerings fell short:

- Privacy and compliance issues
- Complexity of implementation
- Quality of service

Primary Concerns



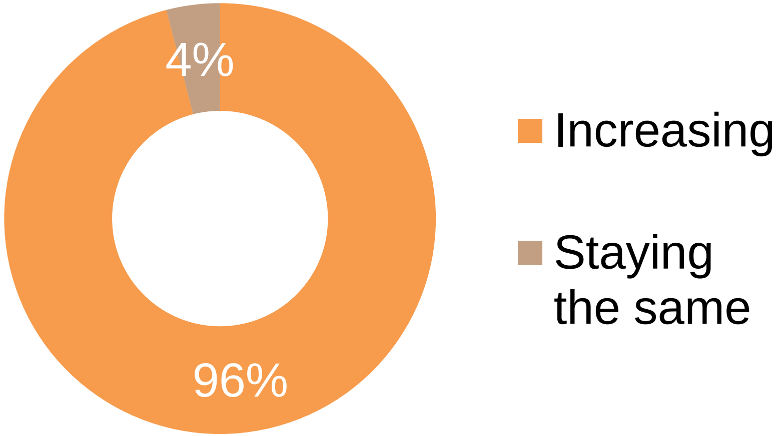
Primary concerns over the next several years

Security/privacy remains at the forefront of our respondents' minds.

Respondents will also keep in mind costs and management of their sourced cloud solutions.

Integration

Do you see the integration of various cloud service offerings as part of common business solutions increasing or staying the same?



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