

STRATEGIES

First steps critical when entering cloud ...

Every business wants to keep up with its competition and make sure the other guy does not get a competitive advantage.

These days, organizations are outsourcing more and more functions into the

“cloud,” which is essentially using hardware and/or software hosted by a third-party vendor remotely over a network (the Internet). There are various different types of cloud computing — a common example being SaaS (Software as a Service) where a software application is accessed over the network.

Using a cloud computing model can save an organization significant dollars and internal network resources. However, like anything else, there are also disadvantages related to using the cloud. Issues to consider when deciding to enter into the cloud include the following:

1. Control. A company needs to carefully determine what

functions it is willing to outsource to the cloud. By its nature, using the cloud requires giving up certain control of the services. The contract between the customer and vendor is the key factor in maintaining required standards and some measure of control with the vendor. The parties should mutually agree on the parameters of the relationship and what requirements are the contractual obligations of each party. If a customer requirement is not in the parties' contract, a vendor may not be required to comply with it. A good contract can lead to less disputes and headaches for both parties because it goes a long way to aligning both parties' expectations.

2. Due diligence. As cloud computing has become the trendy thing to do, more and more vendors have entered the space. As a result, cloud vendors differ greatly in resources, capitalization, reputation and other areas. Each vendor may also have areas of strength and weakness in the services it offers. Companies considering entering the cloud should perform adequate due diligence on their potential vendors, get references, etc.

3. Data breach/security. By definition, the information related to the outsourced function is on the vendor's servers. Consequently, a breach of the vendor's security and system can lead to severe consequences for the customer. This is especially true when dealing with protected types of information such as personal or medical information. For example, if a financial services company outsources various functions to a cloud vendor and that vendor is hacked, confidential personal information of the financial institution's customers may be compromised. In such an instance, the financial institution will likely have significant liability under various data breach requirements.

Consequently, a corporation must ensure its cloud vendor has proper security on its systems where sensitive information will be stored or transmitted through. Security requirements also need to be fully addressed in the contract between the parties otherwise there is no legal obligation to maintain the level of security the customer may require.

4. Disaster recovery. The customer must confirm the

vendor has satisfactory disaster recovery, backup and redundancy systems in place. If there is a problem — which may be totally out of the vendor's control, like an earthquake — and the vendor's system is damaged, the customer needs to be confident its data is still intact pursuant to the vendor's disaster recovery practices.

Also, depending on the services the cloud vendor is providing, the prompt ability of the vendor to restore access and get the services working again can be critical.

Any outsourcing is always likely to lead to some level of additional risk; that is simply part of the model. Going into the cloud requires a fundamental cost vs. benefit analysis. Using cloud computing can have significant benefits for the party that does its due diligence and puts a solid contract that covers the biggest risk areas in place.

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