# Navigating Cloud: Supplier Risks

In the rapidly evolving landscape of cloud computing, small and medium-sized enterprises (SMEs) in the UK face a complex array of challenges when it comes to managing their cloud infrastructure suppliers. As these businesses increasingly rely on cloud services for critical operations, the risks associated with supplier dependency, lock-in, and market volatility have become more pronounced. This article explores the multifaceted nature of these risks and offers insights into how forward-thinking companies are navigating this treacherous terrain.

## Executive Summary:

- **Vendor lock-in** threatens strategic flexibility and cost control
- **Skill shortages** and recruitment challenges exacerbate dependency
- **Market concentration** amplifies risks of service changes or discontinuations
- **Billing complexities** hinder effective cost management
- **Contractual imbalances** leave SMEs vulnerable to unfavourable terms

## The Landscape of Supplier Risks

1. **The Allure and Peril of Familiarity**

   For many SMEs, the journey into cloud infrastructure often begins with a single provider. As teams become proficient with one platform, there's a natural tendency to expand its use across the organisation. This familiarity breeds a sense of comfort and efficiency, but it also sows the seeds of dependency.

   The Economist notes, "Familiarity with a particular cloud provider's services can create a form of cognitive lock-in, where the perceived cost of switching outweighs the potential benefits". This cognitive bias can lead to suboptimal decision-making, where alternatives are not fully explored or considered.

   Moreover, the impracticality of maintaining expertise across multiple cloud platforms further entrenches this dependency. As one IT director of a UK fintech startup puts it, "We simply don't have the resources to be experts in AWS, Azure, and Google Cloud simultaneously. We had to pick one and go all-in".

2. **The Concentration of Risk**

   As SMEs deepen their reliance on a single cloud provider, they inadvertently concentrate their operational risk. This concentration manifests in various forms, from the potential for widespread service disruptions to the vulnerability of being subject to unilateral changes in service terms or pricing.

   A recent survey by Cloud Industry Forum found that 82% of UK businesses using cloud services express concern about their level of dependency on their primary provider. This concern is not

unfounded, as evidenced by several high-profile outages in recent years that have affected thousands of businesses simultaneously.

**3.   The Strategic Straitjacket**

Perhaps more insidious than operational risks is the strategic constraint that deep integration with a single cloud provider can impose. As businesses build their infrastructure and processes around specific cloud services, they may find their future choices limited by the capabilities and roadmap of their chosen provider.

This limitation can be particularly acute for SMEs in rapidly evolving sectors such as AI and machine learning. As one CTO of a London-based AI startup laments, "We're constantly weighing the benefits of using cutting-edge services from our current provider against the risk of being left behind if a competitor develops a superior offering".

**4.   The Price of Loyalty**

Cloud providers often employ pricing strategies that incentivise deeper integration and higher usage. While these can offer short-term cost benefits, they can also create financial dependencies that are difficult to unwind.

The complexity of cloud pricing models further complicates matters. A study by Gartner found that 81% of organisations struggle to manage and optimise their cloud costs effectively. This opacity in pricing can lead to unexpected cost escalations and make it challenging to compare offerings across providers accurately.

**5.   The Skills Conundrum**

The acute shortage of cloud skills in the job market exacerbates the risks associated with supplier dependency. The 2023 Harvey Nash Group Digital Leadership Report highlights that cloud architecture is the second most scarce tech skill in the UK. This scarcity not only makes it difficult for SMEs to recruit and retain the necessary talent but also increases the cost of doing so.

Furthermore, the specificity of skills required for each cloud platform creates a self-reinforcing cycle of dependency. As employees become more specialised in a particular provider's ecosystem, the perceived cost of switching providers increases, both in terms of retraining and potential productivity loss.

**6.   Contractual Asymmetry**

 SMEs often find themselves in a weak bargaining position when it comes to negotiating terms with large cloud providers. Standard contracts are typically designed to favour the provider, with limited room for customisation or negotiation.

A survey by the Cloud Legal Project at Queen Mary University of London found that 46% of SMEs felt they had little to no ability to negotiate changes to standard cloud contracts. This imbalance can leave businesses exposed to unfavourable terms, including those related to data ownership, service level agreements, and liability limitations.

**7.   The Spectre of Service Changes**

Cloud providers are in a constant state of evolution, regularly introducing new services and sometimes discontinuing others. While this innovation can bring benefits, it also introduces an element of uncertainty for businesses that have built their operations around specific services.

The abrupt discontinuation of Google Cloud IoT Core in 2022 serves as a cautionary tale. Many businesses that had integrated this service into their IoT solutions were forced to scramble for alternatives, incurring significant costs and disruptions in the process.

## Navigating the Risks: Emerging Strategies

Despite the challenges, innovative SMEs are developing strategies to mitigate supplier risks without sacrificing the benefits of cloud infrastructure. These approaches focus on maintaining flexibility, diversifying risk, and enhancing internal capabilities.

**a. Embracing Multi-Cloud Architectures**

Forward-thinking companies are increasingly adopting multi-cloud strategies to reduce dependency on a single provider. This approach involves distributing workloads and services across multiple cloud platforms, allowing businesses to leverage the strengths of different providers while mitigating the risks of lock-in.

A survey by Flexera found that 89% of enterprises have a multi-cloud strategy, with SMEs following suit. While implementing a multi-cloud architecture can be complex, tools and platforms that facilitate management across different cloud environments are making this approach more accessible to smaller businesses.

**b. Containerisation and Portability**

Containerisation technologies, such as Docker and Kubernetes, are emerging as powerful tools for maintaining flexibility in cloud deployments. By encapsulating applications and their dependencies, containers make it easier to move workloads between different cloud environments or even to on-premises infrastructure.

As one CTO of a UK-based SaaS company explains, "Containerisation has been a game-changer for us. It's allowed us to design our applications with portability in mind from the outset, significantly reducing our dependency on any single cloud provider".

**c. Investing in Cloud-Agnostic Skills**

Rather than focusing solely on provider-specific certifications, some SMEs are prioritising the development of cloud-agnostic skills within their teams. This approach emphasises fundamental concepts and best practices that apply across different cloud platforms.

The Open Group's Open Cloud Architect certification is gaining traction as a vendor-neutral qualification that demonstrates broad cloud architecture skills. By cultivating a workforce with diverse cloud capabilities, businesses can maintain greater flexibility and reduce the risk of skills-based lock-in.

**d. Leveraging Managed Cloud Providers**

For SMEs struggling with the complexity of managing cloud infrastructure, partnering with managed Cloud providers (MCPs) can offer a middle ground. MCPs can provide expertise across multiple cloud platforms, helping businesses navigate the intricacies of different providers while maintaining a degree of independence.

A report by Markets and Markets predicts that the global cloud managed services market will grow from $86.1 billion in 2023 to $198.4 billion by 2028, indicating the increasing reliance on these intermediaries .

### e. Implementing FinOps Practices

To address the challenges of cost management and billing complexity, many SMEs are adopting FinOps (Financial Operations) practices. FinOps brings together finance, technology, and business teams to manage cloud costs more effectively and make informed decisions about resource allocation.

The FinOps Foundation reports that organisations implementing FinOps practices can achieve cost savings of up to 20-30% on their cloud spend . For SMEs operating on tight margins, these savings can be significant.

### f. Negotiating for Flexibility

While individual SMEs may have limited bargaining power, some are finding strength in numbers by joining industry associations or purchasing consortia. These groups can negotiate more favourable terms with cloud providers on behalf of their members.

The European DIGITAL SME Alliance, for instance, has been advocating for fairer cloud contracts and greater interoperability on behalf of its members . By participating in such initiatives, SMEs can gain access to better terms and conditions than they might achieve individually.

## Conclusion

The risks associated with cloud infrastructure suppliers are multifaceted and evolving, presenting significant challenges for UK SMEs. From the allure of familiarity to the complexities of cost management, these risks have the potential to impact not just operational efficiency but also long-term strategic flexibility.

However, as the cloud market matures, so too do the strategies for mitigating these risks. By embracing multi-cloud architectures, investing in portable technologies and cloud-agnostic skills, and leveraging external expertise, forward-thinking SMEs are finding ways to navigate the complex landscape of cloud supplier risks.

The key lies in maintaining a balance between the benefits of deep integration and the need for strategic flexibility. As one IT director aptly puts it, "Our goal is not to avoid dependency entirely—that's unrealistic. Instead, we're aiming for a level of 'managed dependency' where we can leverage the best of what cloud providers offer while maintaining our ability to pivot if needed" .

As the cloud continues to evolve, so too will the strategies for managing supplier risks. For UK SMEs, staying informed, agile, and proactive in their approach to cloud infrastructure will be crucial in turning these challenges into opportunities for growth and innovation.