The Second Migration: What the Cloud Years Teach SME Leaders About AI

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Executive summary

In 2009, Gartner placed cloud computing at the peak of its Hype Cycle. The small and mid-sized firms that did well over the next four years did not bet the company on it. They moved workloads in order of risk, made vendors compete on price, and kept judgment-heavy systems close until they trusted the model.

AI calls for the same discipline, with one difference: AI produces judgments, not just storage and compute. The governing question shifts from "where does our data live?" to "who owns this decision?"

This paper offers a workload-by-risk framework, a buying stance for a market where open models cap prices, and five moves for the next 12 months.

The question your board asked in 2010

Picture a 2010 leadership meeting. Someone proposes moving email to a hosted service, and the objections come fast. Our data will sit in someone else's data center. What if the vendor fails? What will regulators say? In a 2012 Microsoft-sponsored comScore survey, security was the top barrier for small and mid-sized businesses not yet using cloud, cited by 40% (SecurityWeek, 2012).

Replace "cloud" with "AI" and the objections barely change. Our data will train someone else's model. What if the vendor is gone in two years? What about the EU? Meanwhile, the work is already happening without a policy. Microsoft and LinkedIn found that 78% of AI users bring their own tools to work, rising to 80% at small and medium-sized companies (Microsoft Work Trend Index, 2024). Shadow IT has become shadow AI.

The lesson from cloud is not "adopt faster." It is "adopt in the right order."

What the cloud winners did

In 2009, Gartner called the cloud hype "deafening" and put mainstream adoption two to five years away (IndustryWeek, 2009). That forecast held up. The SMEs that came out ahead followed a common pattern.

1. **They started with commodity workloads.** Email, file sharing and CRM moved first. Finance and core operations moved later, if at all.
2. **They let early results make the case.** In the same 2012 survey, 35% of cloud-using SMBs said they were more secure than before, and 41% had moved staff into roles that drive growth (SecurityWeek, 2012).
3. **They kept their options open.** Hybrid setups and portable data limited lock-in while prices kept falling.
4. **They treated sovereignty as a real risk.** After the 2013 Snowden disclosures, ITIF estimated US cloud providers could lose $21.5 billion to $35 billion in foreign business over three years (CBS News, 2013). Firms that had already asked where their data lived were ready.

With fewer legacy systems to unwind, SMEs often moved faster than large enterprises. That advantage applies again.

Sidebar: Same playbook, new technology

	Cloud, 2009–13	AI, 2024–26
Board's first fear	Our data in someone else's data center	Our data training someone else's model
Ungoverned use	Shadow IT: staff sign up for file-sharing apps	Shadow AI: staff paste client data into chatbots
Sensible first workloads	Email, file sharing, CRM	Drafting, summarizing, document extraction

Architecture choice	Public, private or hybrid cloud	Frontier model, small or open model, or both
Price trend	Compute and storage became commodities	Cost of GPT-3.5-level output fell more than 280-fold, Nov 2022–Oct 2024 (Stanford AI Index)
Sovereignty shock	Snowden disclosures, 2013	Chip export controls, national AI programs, EU AI Act

What is different this time

The analogy holds for strategy. It breaks in three places, and each one changes what leaders must do.

Cloud stored your answers. AI writes them.

A hosted server returns exactly what you put in. A language model returns a plausible answer, which is usually right and sometimes confidently wrong. So the main control is reviewing what the model produces, not where the data sits. Early returns show the gap. McKinsey found 88% of organizations use AI, but only 39% report any EBIT impact, and most of those put it under 5% (McKinsey, 2025). Forrester expects enterprises to defer 25% of planned AI spend into 2027, because fewer than a third of decision-makers can tie AI to financial growth (Forrester, 2025).

Open models cap what vendors can charge.

On some benchmarks, the gap between open-weight and closed models fell from 8% to 1.7% in one year (Stanford AI Index via HPCwire, 2025). Gartner predicts that by 2027, organizations will use small, task-specific models three times more than general-purpose LLMs (Gartner, 2025). Frontier labs will keep an edge on the hardest reasoning work and defend it by bundling models into platforms. For SME buyers, that means more choice and more lock-in risk at the same time.

Geopolitics is built in.

Governments now treat AI as a matter of national power. They control chip exports, fund national models and set rules on where data and models may run. A model's

country of origin and hosting location are now procurement questions, just as data location became one after 2013.

Sidebar: Regulation in one minute

European Union.

The AI Act regulates uses by risk level. Rules for general-purpose model providers have applied since August 2025. The Digital Omnibus (Regulation (EU) 2026/1744), in force since July 27, 2026, moved high-risk obligations for uses such as hiring and credit scoring to December 2, 2027. It also extended simplified documentation and lighter penalties for SMEs (White & Case, 2026).

United States.

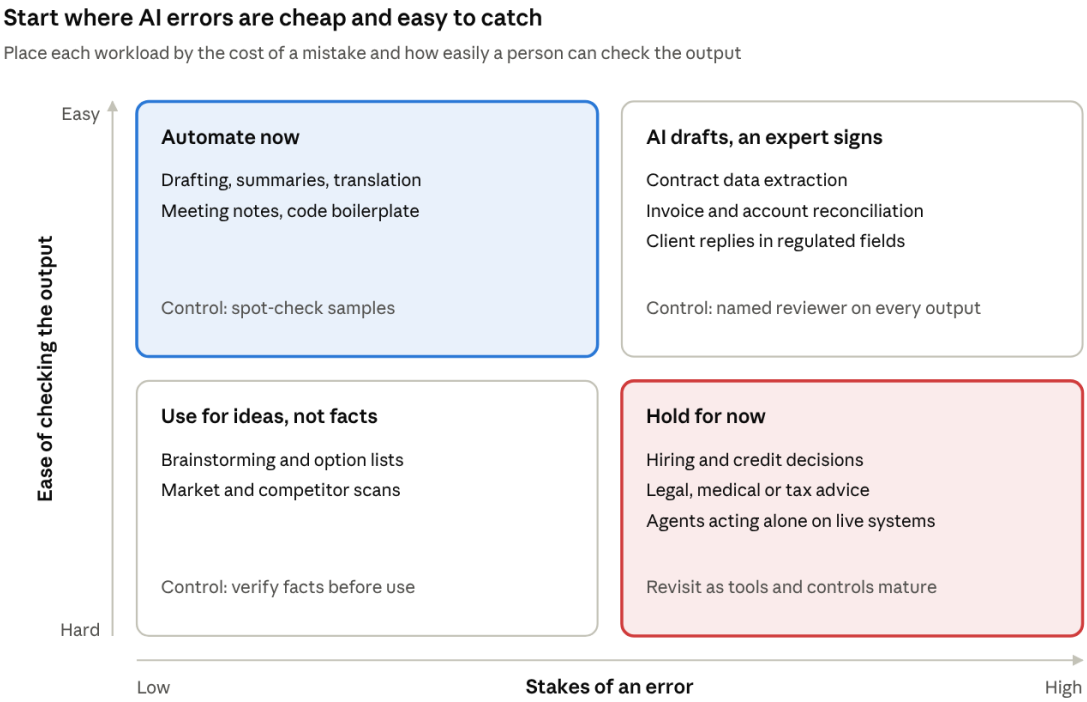
The July 2025 AI Action Plan rejects licensing regimes and is the strongest federal endorsement yet of open-weight models. It directs the Commerce Department to help small and medium-sized businesses adopt them, and gives NIST's Center for AI Standards and Innovation the lead on model evaluation (Stanford HAI, 2025).

What it means for you.

If you sell into the EU, or use AI in hiring, credit or other regulated decisions, map those uses now. The deadline moved; the obligations did not. Elsewhere, expect rules to target how AI is used rather than the models themselves.

Sort work by stakes and checkability

Tasks do not all carry the same risk. Two questions place any workload: what does an error cost, and how easily can a person catch it?



Most SMEs should fund the top-left quadrant now, run the top-right with named expert reviewers, and keep the bottom-right on hold. Be wary of vendors pitching autonomous agents for that last quadrant. Gartner expects over 40% of agentic AI projects to be canceled by the end of 2027 because of rising costs, unclear value or weak risk controls. It also estimates that only about 130 of the thousands of "agentic" vendors are genuine (Gartner, 2025).

Buy AI the way you bought cloud

Four buying rules carry over from the cloud years, with small updates.

- **Match the model to the task.** Use frontier models for hard, varied reasoning where quality matters more than cost. Use small or open models, hosted privately or by a trusted provider, for narrow, repeated tasks and sensitive data.
- **Keep switching costs low.** Put a thin layer between your workflows and any one model. Keep your prompts, data and test cases in your own hands, and favor contracts that let you change models without rebuilding processes.

- **Use open models as a price benchmark.** When a vendor quotes, ask what an open model would cost for the same task. Even if you never switch, the comparison sharpens the negotiation.
- **Ask where it runs.** Model origin, hosting region and data retention belong in every AI contract, alongside the usual security terms.

Govern decisions, not just data

Cloud governance asked where data lived and who could reach it. AI governance must also ask who is accountable for each output that leaves the building. Most firms have not answered that yet. IBM's 2025 breach study found that 63% of organizations have no AI governance policy. High levels of shadow AI added $670,000 to the average breach cost, and 97% of organizations with an AI-related breach lacked proper AI access controls (IBM, 2025).

For an SME, a workable model fits on one page:

- Name an owner for every AI-assisted workflow.
- Decide which decisions AI may draft, which it may recommend, and which it may make.
- Require a named human reviewer for anything client-facing, financial or legal.
- Keep a simple record of which tools and models were used, and for what.

This is lighter than an enterprise framework and far more useful than a ban, which only pushes use out of sight.

Five moves for the next 12 months

1. **Bring shadow AI into the open.** Find out which tools staff already use, approve and fund a sanctioned set, and publish one page of data rules.
2. **Sort workloads by stakes and checkability.** Place each candidate on the matrix above and fund the "automate now" quadrant first.
3. **Run two or three pilots, each with an owner accountable for results.** Set a baseline metric and a 90-day review and stop any pilot that cannot show

results. Forrester expects CEOs to lean on CFOs to approve AI investments based on ROI in 2026; be ready for that conversation.

4. **Adopt a two-model vendor stance.** Pair one frontier provider with one small or open model option, under contracts that allow switching.
5. **Set decision rights before you deploy agents.** Decide what an agent may do without a human, and who answers when it gets something wrong.

The SMEs that won the cloud transition were not the earliest or the boldest. They were the most deliberate. The same will be true of AI.

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