

Enlisting the Cloud to Manage Growth



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I recently checked in with John, an old friend of mine who is the CFO at Pro-X¹, a distributor of high-end sports equipment. Pro-X is the classic case of a company with an entrepreneurial founder who took a common product – in this case skis – and found a way to make it even better. In the arms race that is American sports equipment, his company branched out into product lines such as lacrosse, field hockey and volleyball.

Pro-X had grown steadily through consistent product enhancements, solid branding, and savvy marketing. From one quarter to the next, its top line revenue growth showed remarkable consistency over time. The company was now quite large and well-regarded in the industry. But based on my past conversations with John, I knew he'd been thinking about the future and how to build an operational model that would enable the kind of growth Pro-X envisioned.

Like many executives trying to grow their business today, John was particularly curious about how cloud software should fit into his overall strategy. As we sat down for lunch, John jumped right in, "So is the cloud ready for prime time? Will it deliver on its promises?"

1 Pro-X is a pseudonym for an Acumen Solutions client.

I laughed. He was raising the questions that all leaders should ask themselves. John is not one to read a business magazine and start writing checks; he's well-prepared and disciplined. As expected, he described the analyses he'd run and the pro forma financials he'd developed for year one. My friend realized that if he stayed on his current path, he'd continue to add employees, increase his overhead, and hope that his middle management and IT could scale up their groups. "Those are exactly the kinds of bets I don't want to make," he admitted.

John had heard a lot about cloud solutions and liked the idea of pegging his costs to revenue growth rather than making big upfront expenditures. But as a prudent businessman, he wanted to better understand the technology before pushing forward. He proceeded with a series of insightful questions that many businesses like his are pondering.

Finding The Right Fit

"Does a cloud infrastructure work for large and dynamic enterprises?" John wondered. I told him that the answer is largely "yes," but that you still need to be thoughtful about the solutions you select and how you implement them. At Acumen Solutions, we've found there are a few key considerations that typically drive success. In fact, we've constructed a detailed analysis tool that shows executives the expected impact of cloud offerings on their particular organization.

To start, you should thoroughly explore the software offerings available. Many firms seem to think that implementing cloud applications is like downloading an app from iTunes and trying it out. It isn't quite that simple. There are many proven applications, such as Salesforce.com in the customer relationship management space and Amazon Web Services in the area of remote computing services. There are also numerous legacy applications, such as ADP, that have cloud-based offerings. The growing cloud market now covers virtually all major back-office needs, including configure/price/

quote functions, asset management, event management, compensation, expenses, procurement and subscription billing. I explained to him that high-volume systems, such as usage-based billing, often still utilize on-premises software. In the case of Pro-X, this wasn't a big issue, however.

"But how deep is the field?" John wanted to know. I noted that the answer depends somewhat on the application. Where complexity is a true differentiator, such as pricing and configuration, there are solid cloud applications. In areas that can be simplified, packaged software implementations are often the most cost-effective options. That's why it's so important to carefully analyze your business functions and take a strategic approach to selection.

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I also tried to impress upon the CFO that all software decisions, including cloud technologies, have major long-term implications. Cloud packages have their own ecosystems or participate in other cloud ecosystems. And when you buy into a particular ecosystem, you make a major commitment. You can add functions later, but a clear enterprise architecture strategy is needed to help optimize results. Furthermore, cloud providers can release updates three times a year that impact all of their users, which make the product roadmap so important. "Unlike iTunes, you can waste a lot of time and money if you pick the wrong application," I asserted.

Customizing The Experience

John was clearly curious. He proceeded: “Okay, so tell me more about upgrades.” The pace of change is a huge benefit, I assured him, as long as Pro-X can handle it. And there is truth in the “no software” claim. Implementations and enhancements can be done quickly. Add-ons also increase functionality very quickly. Gamification is very popular, and the implementation is blazing fast. The trick is to configure the application to benefit your business. Third parties play a huge role in this regard. For example, the Salesforce.com AppExchange has surveys, LinkedIn connectors and other tools that a firm can bolt on.

I also pointed out how well some cloud applications integrate with one another and with on-premise systems, for that matter. This is particularly powerful when it comes to fostering a customer-centric business approach. Firms can easily merge much of their functionality with Salesforce.com, for instance. Email-to-case and social media are key elements that are already built-in. We’ve integrated suggestive selling engines in the call center that mirror the public website capabilities, which has consistently improved the customer experience and grown revenue.

“Okay, I get the ‘care’ story,” John said. “I also understand that hooking cloud apps together, as well as, connecting them to my existing applications, is a complex process. The existing applications aren’t going to vanish all at once so we’ll need to integrate them.”

We were now swimming in deep waters. I explained that venturing into the cloud does require middleware. There are good options here, and they are improving rapidly. I told my companion that you don’t want to spend time building one-off integrations. There are pretty solid tools that come with cloud adaptors that are aggressively building out their solutions. They can read the metadata and adapt to the data models of the cloud systems to support their integration flexibility.

"I assume the cloud applications scale as advertised?" he asked. "Absolutely!" I responded. "You may need to consider language differences in your business, but in terms of scaling across geographies and in raw numbers of users, you will be set."

A New Financial Paradigm

John was thoughtful for a moment. "We've discussed that the cloud is a viable business solution if I plan well, and that if I plan to transform my business operating model, I need to simplify it where possible. That all makes sense. I have work to do, but I'm becoming more confident that an enterprise solution is doable."

I took the initiative on the next topic, which was John's bread and butter. "To truly modify your cost structure," I went on, "you'll need to turn off old systems as new ones come online. The idea is to create an environment that's less capital-intensive. Infrastructure won't disappear, but it will shrink. Those depreciation schedules will also go away. Fixed costs become variable as your license costs track to the number of users rather than the amount of hardware you're supporting."

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"You will start to transform to a development and enhancement model that's heavier on integration and configuration projects. Financial modeling will depend on what your company looks like today. A lot of IT departments have been starving or are outsourced, so you'll need to consider the cost shift implications."

I continued, "This may not be your direct purview, but how your IT staff functions will need to change."

Here are a few points to keep in mind, I advised John:

1

The emphasis will be on configuring the application rather than writing a lot of complex code. So IT will configure and integrate with a comparatively small amount of custom code.

2

With cloud solutions, there's an "80/20" rule that describes the ratio of out-of-the-box to custom functionality. I told John this would require a cultural shift at Pro-X, where they've tended to build first and buy second.

3

You also need to manage the vendors, track their product roadmaps and upcoming features, and understand how future changes will impact end users.

Of particular importance is that IT must align more closely with the business for effectiveness. The business can be closer to the software since it's easier to make changes, but controls and discipline are still needed to keep your environment orderly and scalable. In fact, your Enterprise Architect had better excel at making friends because networking is one of the quickest, most cost-efficient ways to expand capabilities.

As he took it all in, John smiled unassumingly. "I like it. How do I get more firsthand information and experiences?"

"You're in luck," I said. I told John that I'd introduce him to some of Acumen Solutions' experts at the Dreamforce conference this fall. "Many of our clients

will also be there and I'm sure they'd be happy to share their experiences. You'll find cloud transformation to be populated with many collaborative individuals."

"Perfect, I'm looking forward to it!" he said as the waitress cleared our plates. "Now, have you tried our new snowboard, Pro-Snow 11? It will make a weekend athlete like you sing on the slopes. Let me tell you about it."

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