Is the cloud right for your business?

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The emergence of cloud solutions has generated considerable excitement, and with good reason. The cloud has the potential to transform the way companies operate and enable businesses to access world-class software with little upfront cost. While cloud solutions can boost efficiency, reduce IT costs and increase agility, these investments also have far-reaching implications for business strategy and operations. Achieving better performance and the expected ROI often require a sustained organizational commitment.

To date, the companies that have reaped the greatest benefit from the cloud have taken a more surgical approach, first determining how technology can support their company's priorities and then considering its impact on operations. Based on our experience with clients, we have developed a four-part framework to help companies determine organizational areas that could be best served by the cloud. By aligning technology with business strategy and understanding how the organization must adapt, companies can optimize the impact of their cloud investments.

Determining where to implement the cloud

Executives must be aware of the expected benefits of cloud solutions as well as the resources needed to achieve them. The key, then, is for companies to identify areas or functions that are particularly well-suited for cloud applications. Companies can use four criteria to determine where the cloud can deliver the most value.

1. **Great applications from great companies.** Over the past 15 years, software companies have committed increasing resources to the development of cloud applications and products. When considering a solution, executives should evaluate the software provider and its viability. If software companies don't have the strategic direction or funds to deliver on their vision, organizations can be saddled with cloud applications that can't evolve with the business. Companies should also avoid selecting a wide range of software providers with one-off solutions, which require organizational resources to transfer and integrate data among various solutions, enable analysis and generate reports.

2. **Total cost of ownership and ROI.** Companies should undertake a thorough cost-benefit analysis that considers all relevant factors — not just the product price, but also ancillary and opportunity costs. Although a cloud solution enables an organization to avoid a capital expense, costs for implementation, systems integration, data conversion and training, among other components, can all affect the price tag. The value to the business — as measured by better performance or the ability to pursue new opportunities — should also be considered to get a full picture of the total cost of ownership. A cloud solution's capability to scale as the business expands can also pay dividends by reducing growing pains.

3. **Organizational capabilities.** Companies need to determine the degree of process redesign that will be needed for business functions to adapt to cloud products. Since most cloud solutions are provided with out-of-the-box, best-practice features, organizations that have grown accustomed to making frequent modifications in order to accommodate existing processes must be prepared to adapt their organization. In some cases, a change management effort may be required to facilitate adoption and ensure that employees can get the most from enhanced functionality. While one of the benefits of cloud solutions is automatic updates that alleviate the need for IT to manage the rollout of new versions, companies may need to commit resources for ongoing testing, training and support.

4. **Governance and compliance.** Companies in certain industries will be better positioned to take advantage of the cloud's functionality. The regulatory burden may elevate the importance of reporting and compliance — a key feature of many cloud applications. In addition, regulations on handling sensitive data such as credit card numbers or personal information could also affect the decision on what functions to move to the cloud. These factors must be weighed against the benefits of access to real-time information, seamless report generation and systems with analytic tools.

How companies have used the cloud to achieve benefits

The cloud's impact can vary by the type of company, its industry and the goals it is seeking to achieve. A middle-market professional services firm pursuing a growth strategy through acquisitions, for instance, will have different needs compared with a global manufacturer seeking to manage a sprawling supply chain and multinational network of factories. The following three examples demonstrate how the enhanced functionality of cloud solutions can deliver organizational benefits.

Current systems with enhanced tools and functionality

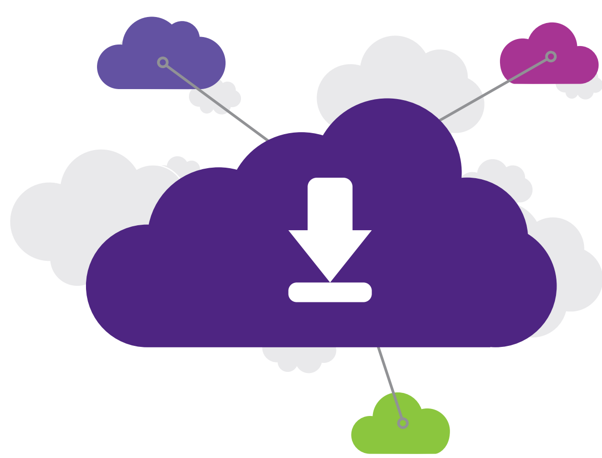
An up-to-date human capital management (HCM) system can significantly increase an HR department's efficiency, but costly systems upgrades can present a significant obstacle. One company's HR department was looking to replace its aging HCM system, which had been installed eight years earlier and modified over the years to meet end-user requests. In addition, the system was four years behind on software releases due to the cost, time and support required to implement them. As a result, the HCM system wasn't meeting business expectations and needed additional funding to install the current release.

The company opted to review transitioning to a cloud-based application for several reasons: it offered automatic upgrades, ensuring that the company would always have the latest functionality. Each new release also reflected recent changes to employment regulations, saving the company time and supporting its compliance efforts. Last, the subscription-based fee spread the system costs out over time while keeping the application current.

Greater transparency and real-time access to data

Management's ability to monitor day-to-day activities and track progress depends on access to data from across a department or function — a key benefit of the cloud. When a multinational company's overseas sales division had missed its sales numbers for several consecutive years, executives decided to spend $150,000 to install a cloud-based customer relationship management system. The sales team received training on the system, which required them to record all sales calls and enter detailed information on all interactions with current and potential customers.

This added visibility helped to boost performance in several ways. Sales reps who had been lax on tracking customer engagement were now suddenly compelled to log all of their activities. In addition, access to real-time data enabled the sales force to make better decisions and trade-offs. Management could now track progress on individual accounts and provide coaching or additional resources when necessary. Further, the marketing team could determine the effectiveness of campaigns and provide additional support for high-value customers. After installing the new system, the overseas division hit their sales targets for the first time in years, thanks in part to the increased visibility of sales activities as well as the behavioral change of employees.



Flexibility and low capital investment

For businesses pursuing growth opportunities, an IT infrastructure that can adapt to evolving needs is critical to support expansion. Traditionally, components such as data servers required a substantial, upfront investment in hardware, implementation and systems integration. Executives faced the challenge of trying to forecast their organization's IT needs and meet increased demand — an exercise that often led companies to pay for far more capacity than they needed at the time. Even with these efforts, small and medium-size enterprises (SMEs) were at a competitive disadvantage to large companies, which had greater resources to devote to building a world-class IT infrastructure and the better performance it could enable.

Through infrastructure as a service (IaaS), the cloud levels the playing field for SMEs, which can get access to the same platforms and tools as large companies without making huge capital investments in IT. Instead, businesses pay only for what they need and can add capacity gradually as they grow. Companies are using these investments to support business strategy by taking assets off the books and freeing up capital to build their organization's capabilities.

Conclusion

The cloud has tremendous potential to deliver value, but its applications and services have implications that extend beyond IT. By clearly defining business objectives and determining how cloud technologies can support them, executives can be better positioned to make the right decisions on where and how to integrate the cloud into their organization.

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