ROI, Value and Business Impact

While the general advantages of cloud computing are widely known, a challenge many managers face is making a compelling business case for it. Questions that CIOs and CFOs often grapple with are: How does cloud computing affect costs and how should those be measured? What impact does cloud computing have on productivity, agility, and a company’s ability to be innovative? Knowledge@Wharton spoke about these questions and more with Erik Berggren, vice president of customer results and global research at Success Factors (an SAP company), and Don Huesman, managing director of the Innovation Group at the Wharton School of the University of Pennsylvania.

An edited transcript of the conversation appears below:

Knowledge@Wharton: Let us speak about the value of cloud computing. Erik, how should managers think about making the business case for cloud computing?

Erik Berggren: Typically we see companies address this question in an old-school fashion. They assume that the cloud application is going to replace or be an alternative to an on-premise application. If you make that assumption, you are likely to look at impact in terms of speed – you can move from years to days and get much more agile at implementation. This allows you to quickly scale up and down. You could, for instance, go into a joint venture, or enter a new market, or move applications across the whole population of your employees at will.

The other aspect is that cloud computing lowers the overall cost, the total cost of ownership. This has proven to be the case in all sizes, irrespective of how many users you might have. You can reduce costs and also make them more transparent. You know exactly what your costs are. There’s no shady gray zone.

Yet another reason why many companies are looking at cloud computing is with the software as a service implementation, you actually get your cost right on your P & L. So this becomes an operating expenditure (opex) instead of something that you have to amortize as capital expenditure (capex) over time. That is very, very appealing to companies.

In addition to all this, we are also starting to see companies getting extended business value out of cloud computing. For instance, it has an impact in the area of business execution. When we help companies execute more and improve on their strategy, what we see is that they deploy these applications because they want to drive innovation. And this results in a dramatic increase in productivity from their whole workforce, which is arguably the largest expense a company has. When you see improvements in productivity and innovation in addition to efficiency and doing things faster and cheaper, that’s the real value.

Knowledge@Wharton: Don, what’s your view?

Don Huesman: I would highlight the concept of agility. Does agility matter to your current position and your current markets? Are you in a high-growth marketplace? Is there a great deal of uncertainty? Do you need to be agile? If your answer to these questions is yes, then the value of cloud computing rises. It’s inevitable in any case. Cloud will, in fact, be replacing your on-premise capabilities to some extent. The pace at which you adopt it and the extent to which you try to move forward and speed up your implementation is driven by a question you have to ask yourself about how agile you need to be in your current environment.
Knowledge@Wharton: Erik, in speaking about value, you mentioned costs. I wonder what needs to be considered in trying to understand the real costs. Could you help us understand that?

Berggren: It's pretty straightforward and simple. If we take the comparison between traditional software implementation and cloud, in traditional software implementation, it's a little bit tricky and murky because you've got to have people doing a lot of different things -- working on the application, the database, the infrastructure, and so on. And then you have to actually have both hardware and software to support all that.

When you look at the transparency of costs for the cloud implementation, it is much more straightforward and simple. There is a fixed fee, just like you might have for subscribing to a magazine. You just know exactly how much you're going to pay each month or each year depending on the model. Typically an implementation fee is a fixed fee; it's a fixed scope and a fixed fee. This becomes much easier because the whole cycle is a couple of months rather than a couple of years. The transparency around that is much more vivid.

Knowledge@Wharton: Don, what do you think?

Huesman: I have a slightly more practical take on this. Take, for instance, the example of 10 years ago when most people were happy to have a desktop. Occasionally that desktop would need to be rebuilt, and an IT engineer would come out of the back closet and work for a couple of hours while you went away and tried to think about what you used to do before you had a computer. And then, you got it back, restored to the way it was once.

All of that time is a waste of extraordinary proportions, both on the part of the IT person as well as your own. It also represents down-time for people who work for you and who are waiting for their capabilities to come back. There are a couple of solutions. One is rapid and immediate cloud-based backup; the other is to eliminate the relevance of the local installation of the software in its entirety, so that when a computer that you have or a mobile device that you're relying on to get your job done goes bad, you can throw it away. Pick up a new one and take advantage of the real business intelligence and capabilities you have, which are available to you anywhere on any device, including a new one.

Knowledge@Wharton: Based on what both of you have just said, what do you think are the biggest benefits of cloud computing?

Berggren: It all comes back to what we talked about. It's all about agility and speed and cost savings. But the real value is when you actually can increase your competitiveness as a business. Because you can get rid of stuff that you had to spend management attention on and worry too much about...now you can get that professionally done.

It's another way of thinking about outsourcing. Maybe you want to spin your mind around and start thinking about insourcing. You're insourcing best practice and process capabilities into your organization so that you can focus on your core business. There are cloud applications that help you drive more productivity and execution power. That is one of the research areas that we are going really deep into, to see what kind of usage is actually driving these financial benefits. We had the opportunity to work with Wharton and also with Stanford to go in and see it, and if you can increase a couple of these parameters, you'll actually see shareholder return as the outcome.

Knowledge@Wharton: Can you give an example of some of these benefits in a specific situation?

Berggren: Specifically, in this study we set up the hypothesis that there are four key elements that drive stronger execution of your strategy in your business. One is that people have specific goals and they have a conversation with their managers about calibrating those goals. Second, those goals are aligned to the overall strategy. This is about connecting an individual’s heart and things they find meaningful to what they’re doing, as well as, from a structural element, making sure that we don’t have redundancy or people working on small pet projects that lead nowhere.

Third, you can leverage a lot of IT investment. And fourth, it's about you as an individual getting frank feedback from your managers and employees on how you’re doing. Are you getting your strongest people to know that they actually are the strongest and finding the right opportunities for them within your organization so they don’t quit and go and work for your competitor? And, for your weakest performers, are you giving them the coaching, the help, the learning and training and getting them to the right spots? Or if that doesn’t work, are you addressing that issue and parting with them earlier so that you actually can get other people that perform stronger in that role?
What we saw very clearly from this research study is that if you can increase either one of these four executions I mentioned by 10%, you’d see in the following year, a 3% to 6% increase in industry adjusted shareholder return. That is the real innovative benefits that you can get from execution software in particular. That is what cloud offerings can do.

**Huesman:** There's been enormous adoption of the cloud by developers. Here at Wharton I see a lot of young entrepreneurs and developers who work sometimes with their colleagues from the engineering school and will use the cloud to build out what looks to be a full-blown business in the course of just a few weeks, mostly in an effort to attract venture capital or to get a good grade in an entrepreneurship class.

But it’s remarkable that they can spin up what would have been unthinkable even a few years ago in terms of a highly professional and polished presence of functional e-commerce websites.