



# “The New Competitive Advantage”

*Strategic CFOs Embrace the Cloud*

A FSN & Oracle White Paper

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**Strategic CFOs  
Embrace the Cloud**

*“My initial perception of the cloud was that it was a conduit to get to a service, application, or technology. It’s shifted to being an opportunity for enablement. The security services we receive, the technical expertise, and the ability to have our systems managed effectively has all been possible through the cloud.”*

**- Steve Ayala, Senior Vice President, Accounting, LPL Financial**

Fact: In the next three years, 53% of CFOs estimate that over half of their enterprise transactions will be delivered through the cloud, up from the 12 percent who use that delivery mechanism today. In addition to non-core business processes like project management and email, strategic CFOs are also starting to embrace the cloud to deliver core ERP processes, including financial management, human capital management, and procurement. Rather than view the cloud just as a cost-saving platform, they recognize the strategic benefits that the cloud delivers to get critical growth initiatives up and running quickly, whether that’s using the cloud to quickly upgrade to a new application, or delivering new mobile or analytical capabilities to employees.

As CFOs increasingly take over responsibility for their companies’ IT investment strategy, they are looking at the benefits of cloud computing to deliver business value in the form of improved business processes – especially those able to increase operational efficiencies and support new growth initiatives. This Oracle FSN white paper provides CFOs with a strategic playbook on how to leverage the cloud to drive greater agility in response to economic and competitive change, and more flexibility and choice in how you deploy and manage enterprise applications.

**The Cloud: The New  
Catalyst for Change**

*“When the Internet first started, the primary device connected to it was the personal computer. Now we’ve migrated that complexity off the desktop and moved it to Internet servers. That has been recast as cloud computing.”*

**- Larry Ellison**

Since the early days of the Internet, the World Wide Web has been characterized as a cloud, depicting its ubiquity and the fact that organizations cannot touch and feel the hardware on which the applications are hosted. But the Cloud manifests itself in a variety of ways, from public clouds where application vendors host their applications on a platform or infrastructure provided by themselves or a third party (Infrastructure as a Service) and charge for their applications on a subscription basis; private clouds, built and managed by a third-party cloud provider and often referred to as a managed cloud service; and hybrid clouds, combination of private and public cloud service components deployed to meet specific business and industry needs.

Not surprisingly, the need to drive down costs in today’s tough economy is a major incentive for CFOs to explore cloud computing. Recent research confirms that companies that have ventured into the Cloud have been able to cut costs as a result<sup>2</sup> [35 percent of cases]. The savings derive from the subscription model, the ability to consolidate onto a single platform from disparate systems and through process standardization. Savings are significantly more pronounced for Public Clouds than Private Clouds or Hosted solutions. Furthermore, when cash is constrained CFOs are broadly welcoming of the ability to shift capital expenditure from ‘big ticket’ IT projects into operational expenditure associated with the Cloud subscription model.

The most common cloud trigger is when companies have to consider a new application or an upgrade to their current systems. In a survey<sup>5</sup> of CFOs and cloud computing conducted by Oracle in the spring of 2012, 58 percent said that their use of the cloud was triggered by the need to deploy an upgrade or new implementation. And CFOs aren't looking to the cloud for just any upgrade, but ones that are critical to finance, including upgrades to enable regulatory reporting and compliance. Pennsylvania-based engineering and design firm Michael Baker upgraded to Oracle E-Business Suite 12 using Oracle's managed cloud services, not only saving hundreds of thousands of dollars in implementation fees, but reducing reporting and compliance risk in the process:

*“One advantage of moving to Oracle Cloud Services was to better deal with reporting required by Sarbanes-Oxley. With Oracle’s rigorous structure, we can rely on its reporting, which is based on SAS 70 [Statement on Auditing Standards No. 70]. Oracle provides this information to us, and our auditors can depend on those findings. That takes away a large set of control concerns and allows us to focus on the functional side of things.”*

**– Jeremy Gill, CIO, Michael Baker Corporation**

But the Cloud is also widely appreciated by CFOs and others for its ability to more easily accommodate business change. The ability to bring Cloud applications on board very quickly, to absorb a reorganization, an acquired business unit, or simply to test a new market venture, liberates businesses from the technical constraints of old and inflexible legacy systems. The same survey<sup>5</sup> noted that in addition to cost savings, around a third of participants using the Cloud experienced increased flexibility and scalability to adapt to changes in business requirements – no doubt helped by being able to deploy solutions much more quickly than in the past and without requiring IT resources. When General Electric sold its Morpho Detection Unit to Safran several years ago, the \$300 million company was faced with building a new IT infrastructure from scratch. Management wanted to avoid asking the company's new owners for an infusion of funds to support that effort. “We needed a system that could manage our cash flow,” said Morpho CFO Jeremy Avenier. “We also wanted to keep our costs down after the initial investment.” Morpho Detection turned to Oracle Cloud Services to host its entire ERP system, including Oracle Financials, Oracle Order Management, Oracle Supply Chain Management, and Oracle Hyperion applications.

Avenier appreciates the security and compliance that Oracle's cloud services provide.

*“Data security and credit card information security - that is one of our highest priorities. Working with Oracle and being in the cloud has made me, as CFO, a lot more comfortable with what I am approving.”*

There are also significant advantages from an operational view point. Applications hosted in the Cloud are usually available and supported 24/7 which is a major advantage for distributed organizations working in different time zones. Furthermore, access to the applications requires no more than a browser on a PC, or perhaps a mobile device such as a laptop, tablet ( i.e. iPad) or mobile phone. Such flexibility not only suits a mobile workforce but also empowers other employees to work on a self-service basis as and when they like.

## **The Obstacles to Change**

However, despite the apparent advantages of Cloud computing this method of deployment does not always enjoy universal support and there are a number of impediments to change.

### **The pedigree of Niche vendors**

The Public Cloud is the most prevalent example of Cloud computing in practice, popularized initially by the small to medium sized enterprises (SME's) and a large number of niche vendors. SME's and early stage businesses have been attracted by the low entry costs of the Cloud, the subscription model and the ease with which they can deploy without specialist IT skills in-house. Mid-sized businesses also have the advantage that they are not encumbered by large investments in legacy systems and, in general, do not suffer the business complexity of larger organizations. As a result they have been able to migrate, say, financial systems to the Cloud with relative ease.

But larger organizations have been wary of niche Cloud vendors that have grown up around the SME sector. Many of these vendors have a limited track record and, like the companies they serve, are relatively new to the market. They do not have 'deep pockets' and struggle to turn a profit with a

wholly subscription-based model. Worse still the SaaS model for niche vendors is often predicated on exceptionally low levels of staffing which means that subscribers have little human contact – a distinct disadvantage for relatively complex financial applications. And there’s a perception that pure SaaS-based applications offer little customization capabilities. As a result, few niche vendors of financial applications have been able to attract larger customers.

However, the Public Cloud has made sizeable inroads into larger enterprises in other (non-financial) application areas, most notably CRM (Customer Relationship Management). This paved the way for larger deployments and proved that the Cloud can make a valuable contribution to larger organizations.

**Creation of processing ‘silos’**

The term “Islands of automation” was coined more than two decades ago and coincided with an era of distributed computing (minicomputers and small networks of PCs) in which responsibility for computing was devolved to a divisional or departmental level. The resulting fragmentation posed significant problems for sharing data and unifying processes and it seems that Cloud computing, if left to its own devices, can suffer from some of the same limitations.

*“Having a complete cloud solution was extremely important to Blurb. It’s allowed us to extend the functionality and the feature set to our service, marketing and feedback teams and have everybody access the same information without having to try and dig through disparate systems and siloed information.”*

**– Zo Silver, Director Customer Experience, Blurb.com**

In a sense, Cloud computing is a victim of its own success. The subscription model lowers the cost of entry of Cloud computing and puts Cloud-based applications easily within the grasp of departments or even individuals within an organization. As a result they can unwittingly side-step the management and financial controls (CapEX approval) that have traditionally governed IT spending by signing up for a Public Cloud application and starting to use it without any supervision. Indeed such investments can go completely unnoticed by the IT function. There is a certain irony in this as contrary to the popular belief that businesses turn to Cloud as an alternative to their own IT departments, the impetus for Cloud computing actually comes from IT executives<sup>2</sup>.

Whether investments are made intentionally or unintentionally without IT involvement, this relatively new phenomenon poses profound issues for the integrity of information architectures, data management and management processes. Take for example a straightforward CRM (Customer Relationship Management) system in the Cloud. Typically, this shares many data elements with an on-premise ERP system, such as customer information, order history, commentary, price/discount structures and payment terms, leading to the immediate duplication of data and the data quality issues this implies.

But the ‘Quote to Cash’ cycle is also broken by the presence of two distinct processing platforms which straddle the “on” and “off” premises worlds. The inability to integrate workflow and reporting across these two environments leads to process inefficiency, impaired reporting and loss of productivity. It’s a pattern that is being replicated across industries as more and more niche Cloud-based applications appear, reviving concerns about the “Islands of automation”.

**SaaS Integration**

So the challenge of integration is a rising concern in organizations. Around 27 percent of organizations say they are concerned that Clouds are “Siloed” and are neither interoperable with other Cloud instances nor in-house solutions<sup>2</sup>.

There are two aspects to this, namely, ‘SaaS to SaaS integration’ and ‘SaaS to On-premises’ integration, but early promises by Cloud vendors that integration is easy to achieve is not being realized. Although the value proposition of integration-platform-as-a-service (iPaaS) solutions is attractive, the solutions are not yet mature enough and do not provide enough functionality to be used for a wide range of complex integration requirements<sup>3</sup>. Global spend on integration solutions is forecast to grow at a compound annual growth rate (CAGR) of 8.3 percent between 2011 and 2016,

reaching US\$14.4bn by the end of 2016. A significant part of this spend will be for SaaS integration solutions, uptake of which is being driven by the increasing complexity of enterprise application portfolios and tight IT budgets<sup>3</sup>.

*“Oracle’s infrastructure has many different modules and they take the time to integrate those modules so we don’t have to hire the IT resources and worry about many different vendors. Oracle has so many different applications and the experience on integrating them that we know we are working with the best in class on infrastructure. And that’s really important to a company like iRobot. We want best-in-class infrastructure, seamless execution and 24 by 7 access.”*

**– Maryellen Abreu, Director of Global Customer Service, iRobot Corporation.**

**Cultural Issues**

Other objections to Cloud processing are more prosaic. Chief among these is the lack of organizational support although curiously Cloud computing seems to have caught the imagination of the top decision makers within an organization. Although IT management are primarily responsible for initiating a company’s first foray into Cloud computing (57 percent of cases) more than a quarter are kicked off by the CEO, CFO or CM02. Nevertheless, creating the business case and funding model for investments in the Cloud remains an impediment to progress in around 30 percent of cases<sup>5</sup> and merely gaining organizational support or participation is a challenge in 21 percent of instances<sup>5</sup>. More obvious concerns about loss of visibility or control of applications, databases, storage and systems rank high in the list of barriers to Cloud adoption. But it is important to note that an organization’s perception of the challenges of Cloud computing can change markedly over time. For example, more mature Cloud users are far more concerned with cloud integration issues or vendor ‘lock-in’ – 28 percent versus 10 percent for early stage companies<sup>2</sup>.

On the other hand challenges that decrease over time include cross-organizational support and dealing with policy, process and role changes. More experienced companies also have a better handle on Cloud security issues and tend not to be as concerned as newcomers about the safety of their data and IT assets.

**Going Beyond the Cloud**

One perspective on Cloud computing is that it is simply another method of deployment, but this would be to miss the point. Cloud computing is certainly a new platform but it also imbues organizations with the opportunity to make a step change in productivity and organizational responsiveness by leveraging all of the new applications and capability that have been specifically developed for the Cloud, such as enterprise social media and mobile computing. Additionally, for some businesses the Cloud presents new revenue earning opportunities.

According to a PwC study, *“The cloud creates agility. A good CIO will figure out a way to leverage the cloud to explore business options much more quickly. Faster time to market, incubation—the cloud offers all of these things. From a business standpoint, when you want to pursue a new business strategy or try something, you can very quickly get something up and running in the Cloud. And then once it matures, you can decide whether you want to continue to grow it in the Cloud or whether you want to pull it back in. The Cloud doesn’t force you into a lot of fixed cost.”*<sup>4</sup>

The user experience in the Cloud is very different from the on premise world – and is attractive to ‘Generation Y’, the Facebook generation entering the workplace now. This generation is accustomed to a different style of communication and a plethora of informal processes and tools to support them. For this rapidly growing segment of the workforce, intuitive navigation, embedded social media and unified communications is second nature and essential.

*“iRobot is able to take advantage of some of the innovation that Oracle provides. For example, we were able to implement the cloud monitor solution to monitor the feeds on Facebook, Twitter, YouTube.”*

**– Maryellen Abreu, Director of Global Customer Service, iRobot Corporation.**

Cloud platform providers have introduced new social or “Facebook like” functionality directly into their business applications. It allows users to post or follow conversation streams around information

held inside a business application such as customers, suppliers, general ledger accounts and transactions. Enterprise social media users report reductions in emails, conference calls and IM's because the conversations occur in context of information or events inside the business application. The coalescence of these technologies is redefining the way people work in the Cloud, connecting them to the business and connecting them to each other.

**Managing the Transition**

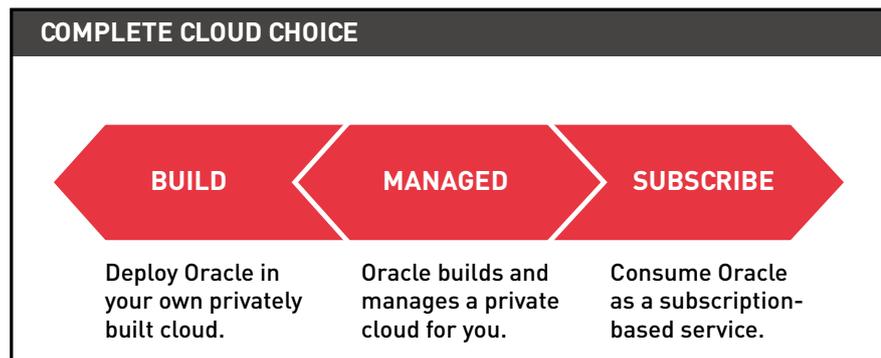
Cloud computing seems certain to feature in most businesses' systems architectures, but for the foreseeable future organizations will need to contend with a blend of on-premise and Cloud computing. However, it is doubtful that the 'Best of Breed' or niche vendor approach is sustainable in the long term. The integration issues highlighted earlier are formidable added to which there is the maintenance burden of managing security, multiple vendors and sign-on's. Fortunately the Cloud landscape is starting to change. Early niche vendors and 'market-makers' are being augmented by more reputable suppliers of software with a long track record in business applications who have developed complete suites of software, for example ERP or HCM (Human Capital Management), specifically for the Cloud.

But most organizations are not in a position to make a wholesale change in the way they work. Nor is the Cloud a panacea for all of their problems. A Cloud based approach may be appropriate for some applications and business units but totally inappropriate for others. In the meantime organizations need complete flexibility of deployment, between private, public or hybrid Clouds and the on-premises world. In practice this is proving challenging since new Cloud vendors tend to be exclusively Cloud based whereas traditional vendors can more easily straddle both environments.

So how can mature organizations benefit from the Cloud without jeopardizing the integrity of their data, reporting and processes?

**How Oracle Meets the Challenge**

Oracle delivers cloud choice. Its users have the flexibility to deploy and consume their applications any way they want, and change their cloud strategy as their business requirements change. So, in addition to traditional on-premise models, users can deploy and manage their applications in their own private cloud, or as managed cloud services. Businesses can also consume Oracle Applications on a subscription basis, i.e. software as a service, or SaaS. Organizations can also choose any combination of these i.e. a hybrid cloud model. The diagram below summarizes the choices.



Oracle users also have the flexibility to change their mind, without the risk of being locked into one particular cloud or deployment model. This is often referred to as having deployment portability—the flexibility to move from a public cloud back to a private cloud or on-premise, and back again. This choice of deployment options combined with the latest social, mobile and business intelligence capabilities provides modern, leading edge capability, in a flexible way to suit individual business needs.

In addition, Oracle offers a comprehensive portfolio of applications that can be consumed in a SaaS model. This includes sales and marketing, customer service, e-commerce, human capital and talent

management, ERP and integrated social collaboration tools. Businesses can also extend Oracle Applications (whether they are deployed in the cloud or on-premise) or even build their own custom cloud applications in Oracle Cloud.

Because Oracle manufactures and designs every layer of the technology stack that its cloud applications run on, it is able to optimize how all these systems work together. This in turn delivers better performance and scalability that meets the requirements of even large and transaction-intensive businesses as well as ensuring the Oracle Cloud applications are secure and reliable. In fact Oracle has offered business applications as managed cloud services to customers across the globe since 1998. Oracle also provides the technology that powers many of the top public SaaS vendors. From the physical security in its global data centers, to the logical security embedded at every layer of the technology stack that supports the business applications, few other vendors are so well positioned to offer such a complete solution.

*"If we're going to have someone outside of these walls manage our operations, then Oracle was an easy solution. They own the hardware. They own the software. They own the database. They own the services. From Oracle, I can buy a business solution and I'm not just buying widgets that fit together. It was a huge advantage for us and an easy decision at the end of the day".*

**- Mark Schissel, Senior Vice President and CIO of Herbalife.**

## Summary

The Cloud computing 'ecosystem' is developing rapidly, spurred on by the widespread availability of inexpensive hardware, improved communications infrastructure, the rapid uptake of mobile devices and a broad spectrum of business applications and deployment options. Most companies have either 'dipped their toes in the water' or are actively considering the benefits of the Cloud.

The initial advantages of the Cloud, such as the ability to cede responsibility for overseeing, managing, operating and supporting the computing environment are well understood by CFOs, but as the Cloud matures, businesses are looking for more enduring benefits. Chief among these is the positive impact that the Cloud can have on a business's ability to respond to change. The Cloud offers the prospect of more malleable processes coupled with scalability, flexibility and agility in the face of constant economic, political and regulatory uncertainty.

But not all organizations are persuaded that the Cloud is the best way forward. Despite the market hype, only a third of organizations report significant cost savings from venturing into the Cloud and others have reservations about the quality of software vendors and the creation of processing silos. Garnering internal support can be a struggle and doubts still surface about visibility and control of applications.

However, perceptions are changing and early concerns about the security and confidentiality of data are abating. As a result many companies are assessing Cloud options in parallel with traditional upgrades of on-premise solutions. But they are wary of the integration issues between Cloud and on-premise solutions and do not want to be locked into a particular approach, say, a niche vendor that can only offer deployment in the Cloud with no way back. For many, the flexibility of deployment holds the key to the way forward, i.e. the ability to adopt public, private and hybrid Clouds as desired and to alter the mix when business circumstances dictate. But very few software vendors can hope to offer this range of choice and even fewer can leverage their own hardware and database technology to optimize performance. Oracle has been offering applications in the Cloud for more than 10 years and is one of the few vendors that can comprehensively support the disparate needs of small, medium and large multinational organizations in the Cloud with flexible, modern and secure applications.

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**Note<sup>1</sup>** Van Decker, John, "Top 10 Findings From Gartner's Financial Executives International CFO Technology Study", May 16, 2012, p.13.

**Note<sup>2</sup>** "Cloud at the Crossroads": 2012 OAUG Survey on Application Delivery Strategies.

**Note<sup>3</sup>** Ovum report, "Exploring Different Approaches to SaaS Integration" June 2012.

**Note<sup>4</sup>** "PWC Technology Forecast, Driving Growth With Cloud Computing" 2010, Issue 4

**Note<sup>5</sup>** Oracle CFO Summit March 2012 Cloud Survey

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