



Stepping Up to The Cloud: *Managing Changes and Migration for Mid-sized Business*

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About This Report

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About Saugatuck Technology

Saugatuck Technology Inc. provides subscription research and management consulting services focused on the key market trends and disruptive technologies driving change in enterprise IT, including SaaS, Cloud Infrastructure, Open Source, and Enterprise Social Computing.

Founded in 1999, Saugatuck is headquartered in Westport, Connecticut, with offices in Boston, Santa Clara, CA and Frankfurt, Germany. For more information, please visit www.saugatech.com, or call +1.203.454.3900.

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INTRODUCTION: REACHING A CLOUD DECISION POINT

Between January 1 and March 31, 2010, Saugatuck Technology heard from more than 700 business management, Finance, and IT executives about moving from their established, on-premise business software and systems to Cloud-based, software-as-a-service (SaaS) solutions. Since early 2008, Saugatuck has surveyed or interviewed more than 5,000 executives regarding their plans, concerns, and investments in on-demand software.

Many, especially firms with between 100 and 1,000 employees, tell us that they are reaching the cost-effective limits of their existing software and systems. Careful spending on IT of all types has kept those systems functional; now, growth and opportunity have combined to push those systems to their limits. These executives see Cloud-based IT, including SaaS, as a means to “step up” to a new level of business management capability and function, without tying up valuable investment capital, and without adding to the complexity and cost of their in-house IT environments.

What more and more business owners and executives are understanding is that the “step up” to Cloud-based business management software is really a strategic decision, one that changes the business and improves possibilities, in addition to enabling lower-cost technology use and expansion. Significant choices have to be considered and decisions have to be made that will affect the organization, and its ability to do business, for years to come. This adds strategic challenges to the strategic benefits of the Cloud.

This paper looks at both the strategic benefits and the strategic challenges of moving to Cloud and SaaS for mid-sized businesses, using insights developed from more than eight years of SaaS and Cloud research among user executives by Saugatuck Technology. We will provide insights regarding SaaS and Cloud IT, and examine the pros and cons of two typical approaches to both. Throughout, we will provide insight and guidance regarding key decisions to be made regarding how to transition to Cloud IT, including the value and risk inherent in selecting not just solutions, but providers.

At the bottom line, the move to Cloud-based software and solutions is a critical choice that can alter, and which should improve, the ability of the business to succeed. Having the right information to make the right decisions will enable that success.

Defining Cloud IT

In Saugatuck’s view, all aspects of user IT and business operations are rapidly melding into an inextricably interwoven, and inter-dependent, series of capabilities that are delivered and used as one or more services via one or more networks. Core business tasks and operations have become software or service-based functions. Outsourced services delivered via Cloud today include traditional business software and IT infrastructure solutions, business functions, and entire departments, from applications to databases to management. We no longer see easily-definable boundaries between IT and business; just as we will soon see the disappearance of boundaries between traditional (on-premise) and Cloud-based business and IT.



STRATEGIC CLOUD CAPABILITIES

In Saugatuck’s research, executives and managers considering and discussing Cloud and SaaS tend to focus initially on very tangible, tactical benefits. According to our fifth annual global survey (conducted in March 2010), executives from businesses with between 100 and 1,000 employees see several very real, immediate benefits to adopting SaaS, as shown in Figure 1.

Figure 1: Cost and Collaboration: Mid-sized Expectations of Cloud-based Business Solutions

Top business benefits expected from Cloud Business Solutions	Percentage Selecting Each*
Simplify software management	30%
Reduce capital and/or operating costs	29%
Improve internal and external collaboration	23%
Improve management of mobile workers and geographically-dispersed business units	23%
Convert fixed IT costs to variable costs	19%
* Percentage of executives from companies with between 100 and 1,000 employees	

Source: Saugatuck Technology Inc., 5th annual global SaaS survey. Total n = 790; sample n for Figure 1 = 150

In reality, the decision to move to the Cloud goes well beyond such important, but tactical, benefits. *It enables fundamental improvement in the business itself.*

We see three areas where Cloud-based solutions enable such strategic change for mid-sized firms:

- Cost-effective flexibility to anticipate and respond quickly.** A key benefit of any quality business management software solution is the ability to find, gather, organize, manipulate, analyze, and present useful and important business information in a manner that enables accurate and timely decision making. The new generation of Cloud-based management solutions utilize the most advanced data gathering and analysis capabilities. They are also able to gather and analyze more types of data from more sources, and in more standardized fashion, without a need for all of the extensive, expensive programming and interface development required by most traditional business management software. Cloud solution providers use their platform capabilities to link much more inexpensively to, and into, a broad range of systems, whether within your business, (including on-premise systems, or any on-demand applications that you may be running in the cloud) or from outside sources such as suppliers, customers, and regulators – again, including both on-premise and Cloud-based systems. The combination results in more information being made available sooner, and more accurately, so that better and more collaborative planning and decision-making can be made.



- **Long-term predictability in technology and business costs.** The cost of traditional software can be relatively predictable; it includes acquisition, implementation, integration, and upgrades or maintenance. But the upgrade and maintenance costs can be quite variable over time, especially as your business grows and changes. With Cloud-based solutions, the costs can be much more predictable, over longer periods of time. The costs of upgrades and maintenance are usually built into the subscription or usage costs of Cloud solutions, thus removing those potentially large and uncertain future expenditures. And those costs are spread out over thousands, if not millions of customers and users, so the direct costs to your business are minimized. And most quality Cloud solutions can be adapted more readily and inexpensively to business changes. Where traditional software solutions can grow or change based on buying and implementing (and integrating) modules, leading Cloud solutions have such modular capabilities already built in. They need only to be switched on (or off) as your business changes, and the costs of such additional functionalities are predictable and managed based on the number of users, levels or frequency of use, and the period of time they are used. Such flexibility and foreknowledge of software costs enables significant flexibility in business planning.
- **Low-risk, constant technological innovation and improvement.** To attract and keep customers, providers of Cloud-based solutions must constantly innovate and improve their offerings. Most Cloud providers issue significant upgrades and releases two times per year, with constant, automatic bug fixes and feature enhancements. Traditional software vendors typically issue new releases, upgrades, or feature enhancements once every two or more years, and bug fixes must be downloaded and implemented, and often must be tested for incompatibilities with the specific system environment that you have in your company. Cloud solutions thus reduce the risk of software-driven downtime to your business while delivering constant improvement as part of your subscription and service agreement – at the same predictable, monthly cost over the length of your agreement.

The Unifying Power of a Cloud Platform

Many firms choose to utilize Cloud solutions in the same manner as they have with traditional IT – as point solutions for specific needs. Point solutions for specific business tasks have been around as long as IT has. They are cost-effective solutions for specific problems or needs. However, they tend to increase the costs of business and IT management well beyond their relatively low acquisition and use costs. They must be integrated with other point solutions, and with over-laying IT and business management systems, security, and data integration, thus increasing their actual cost of ownership to several times the solution-specific costs. Over the past decades, the desire and need to reduce these costs led to the emergence and growth of unified, platform-based enterprise applications and business management software platforms such as SAP's pioneering R/3. This unifying platform approach enabled consolidated and coordinated applications and data, and significantly reduces management costs. Today, Cloud-based platform solutions can deliver similar unifying capabilities at vastly-reduced costs when compared to more traditional enterprise software solutions, making them extremely attractive and cost-effective for mid-sized businesses.

**MANAGING KEY CHALLENGES**

Cloud-based solutions can replace one, some, or all of your existing applications. What will you need to think about ahead of time? Executives considering the move to Cloud-based business management solutions must be able to anticipate and manage a series of key challenges. Some of which are much the same as they would be when considering a more traditional software solution. These include the following:

- **Business Disruption.** The shift to any new technology or means of operating can easily disrupt the flow of business. Careful examination of any expected and possible business disruptions have to be made as part of the decision to move to Cloud-based solutions, just as they would if you were moving to another traditional software solution. Moving to a new solution can even change the organizational structure and roles within the organization. For example: Using a Cloud-based management solution to get more and better information into more places when and where it's needed will change the speed of business operation, and increase the need to make more decisions more rapidly. The roles of resources tasked with information gathering, analysis, and presentation will change as well. Efficiently-implemented and managed Cloud solutions can reduce the number of resources needed, while increasing the remaining resources' span of responsibility and control. How will this affect your organization?
- **Migration and Integration.** With Cloud solutions, as with any software solution, executives must have a realistic plan (and timeframe) to securely implement the new solution, to migrate operations from the old to the new, and then to "turn off" the old solution. *This should be part of a comprehensive business migration/disruption plan, developed in close cooperation with all business managers, IT managers, and IT vendors.* This is especially critical if you have multiple add-ons and customized third party applications that are running alongside your core ERP and which will need to be appropriately migrated as well.
- **The Role of IT.** Cloud solutions will not remove IT from your business. They will change the role and influence of IT, whether you use in-house resources, contracted IT resources, outsourced IT providers, or any combination of these. Saugatuck research shows that most in-house IT executives welcome Cloud solutions, because they tend to simplify software management and reduce overall software costs. Meanwhile, mid- and lower-level IT professionals tend to fight against Cloud adoption and use. This is usually because Cloud solutions are seen as changing the ability of IT professionals to do their work, including reducing or eliminating job security. The adoption and use of Cloud IT of any kind tends to change, and sometimes expand, the roles of internal IT resources. Therefore, education about the expected impacts of Cloud adoption on IT as an organization, and training in new or expanded roles, will be a necessary part of managing the Cloud challenge. Where IT is outsourced or contracted, the challenge includes an evaluation of the contracted responsibilities of both the business and the IT provider.



- **Platform and Provider Allegiance.** In the early days of SaaS and Cloud IT, one expected benefit to users was the ability to switch providers quickly, easily and inexpensively. In reality, Saugatuck research finds that Cloud providers have the same presence and longevity within customer organizations as do traditional IT providers. In short, once the choice is made to use a specific provider and platform, that becomes the *de facto* standard around which to build or add functionality and operations. Business owners and executives need to understand this, and to understand the strategic implications to the business; Cloud solutions are not a monthly rental that can be readily replaced. And which is why it is essential that customers vet their cloud vendors with as much rigor as they do their on-premise ones, if not more. The stability and longevity of a Cloud vendor cannot be underestimated since that can impact the success of the customer in very many ways.
- **Cloud Philosophy.** The first questions, or objections, that business owners and CEOs have regarding the use of Cloud solutions are about data – will the data be secure, will my ability to use it be secure and reliable regardless of the application being used, and what happens to the data should we part ways with the solution provider? Every Cloud solution provider is skilled

What is the Greatest Risk Inherent in Moving to the Cloud? Vendor Selection.

As noted in the previous section of this report, security, reliability, and trust are critical components of any business relationship developed with any Cloud solution provider. You must be comfortable trusting and working with any provider so critical to your business operations. Several factors should be included in Cloud provider selection, but the following two should be chief among them:

- **Vendor Viability.** Cloud solutions will be part of your business for the foreseeable future. Therefore you must have a strongly positive sense of the provider's ability to stay in business, and to continually improve its offerings over the long term. Without continuous improvement and innovation, a SaaS provider's solutions are little better than traditional software. The real keys are their abilities to manage their Cloud business, and to support buyer and user needs. Buyer and user satisfaction are critical factors in Cloud providers' long-term viability; demand and check reference accounts to gauge their overall satisfaction with both the provider and their solution(s). In addition, the SaaS model requires an ability to innovate, and to deliver innovation and improvement on a regular and frequent basis. Look for providers with a track record of both. Every buyer will need to develop and apply reliable, strict criteria of their own to assess a provider's viability. Most traditional business measures, including track record, customer satisfaction, industry reputation, and channel presence, can and should be used to gauge SaaS provider viability.
- **Technology position and ecosystem.** To deliver the most value to the customer's business, Cloud business management solutions are used in context with a variety of adjunct and complementary solutions and systems, many of which use multiple, different technologies. The most viable Cloud providers bring with them strong and wide-ranging ecosystems of partners that provide technologies, solutions, and services developed and adapted to work with the Cloud provider's technologies, to address every customer's unique requirements, including industry-specific and niche microvertical applications. Strong ecosystems also help drive and increase the continuous improvement and innovation that is so critical to the success of users and providers of Cloud-based solutions.



at addressing and resolving such questions, but those responsible for managing the business must be comfortable with the situation, and be comfortable explaining and reassuring any regulators, suppliers, or customers who may have questions or concerns. There is also a need for the business owner or executives to be comfortable shifting significant business capabilities to an outside provider. Even though many smaller firms are accustomed to outsourcing a wide range of IT, such outsourcing tends to focus on management and maintenance. Outsourcing core software and storage of critical data is a new, larger step. Security, reliability, and trust are thus critical components of any business relationship developed with any Cloud solution provider.

PLAN FOR CHANGE

As a business owner or executive, you have reached a point where critical, strategic decisions need to be made about the future of your company's business IT, and therefore about your company's ability to compete and thrive.

If all pertinent long and short terms costs are accounted for, Cloud-based business management solutions enable significant, strategic, and long-term improvement at dramatically lower costs when compared to traditional software solutions.

But beyond cost savings and improvements in management ability, Cloud-based solutions enable powerful and positive change in the organization, in the management of the business, and in the role and management of IT within the business. Such strategic changes require strategic thought and planning.

In this paper, we have emphasized what our research shows are the critical management decisions and challenges when considering the move to Cloud-based solutions. But perhaps the most critical consideration is this: Cloud-based solutions today are as powerful, capable, and useful for your business as almost any traditional software solutions. Therefore, the decision to move to Cloud-based solutions has the same scope and impact as almost any other decision regarding your core IT, *plus the impact of business change*. The keys to success will be in answering the following questions:

- What changes are the most likely to occur in my organization as a result of stepping up to Cloud-based solutions?
- What changes will occur in how my business operates – including the speed of those operations?
- And what changes will occur in how I buy and manage IT – and IT providers?
- How should I look at my business differently to take advantage of the possibilities that are now enabled by the Cloud?

Moving up to the Cloud is less an issue of cost reduction, and more an issue of business management. The rewards are significant, and the risks are minimal, when managed in the context of understanding business change.



SPONSOR PERSPECTIVE: SAP AND THE CLOUD

In today's fast-paced global environment, business users and their companies need to relentlessly streamline business processes, collaborate across departments, receive timely and actionable insights and leverage them to make informed decisions – fast! Often, competitive advantage depends on your ability to manage costs more effectively and increase revenues while scaling and adapting quickly to new market realities. However, at the same time you have to build an infrastructure for sustainable growth and set up the business processes you need to continue to be successful well into the future. Software as a service (SaaS) is an increasingly viable option for companies facing these challenges.

Software as a service is a broadly adopted and reliable means upon which companies can build a unified IT strategy without the large up-front and ongoing capital investments in an IT infrastructure. With a fully integrated SaaS solution, companies can obtain the benefits of the individual business applications and deploy them to address immediate needs such as strengthening their core financial systems or streamlining their supply chains. In addition, with integrated SaaS applications, companies can lay the foundation for a stronger, more agile business with end-to-end processes that cross departmental boundaries. This enables you to streamline business processes, maximize revenue opportunities, improve efficiencies, reduce costs, and build a business that is ready for growth and change. This also means that you can do more with fewer resources and focus on what you are best at—running a successful business—and let trusted vendors, such as SAP, manage your business applications and infrastructure.

SAP Business ByDesign is the most complete, fully integrated business management solution delivered on demand. The solution is a core part of the SAP on demand portfolio and is specifically designed to provide small to mid-sized businesses with the benefits of a large scale business management application - without the need for a large IT infrastructure. It enables companies to implement preconfigured business processes to solve immediate problems, at an affordable and predictable price. Delivered through a single user interface, SAP Business ByDesign provides the best of SAP on-demand through a suite of robust applications for managing financials, customer relationships, human resources, projects, procurement, and the supply chain. It also includes integrated analytics and flexible reporting options that provide timely and accurate information for more confident decision-making. The solution is designed to allow customers to either implement the entire suite or start by adopting only the applications they need to address their current business requirements.

The solution is delivered on demand and managed, monitored, and maintained by SAP experts in world-class hosted data centers. SAP takes care of the maintenance and installation of upgrades so companies can focus on their business and not on IT. In addition, SAP provides Business ByDesign customers with the certainty and trust that comes with being the global leader in business applications. In addition, SAP's on demand business solutions are cost-effective to purchase, deploy and manage and deliver fast time to value. These extensible solutions grow with your business, seamlessly integrate with your on-premise and on-demand systems, and can be deployed to all types of mobile devices.

In addition to SAP Business ByDesign, SAP also offers the following on demand solutions:

- On-demand solutions for lines of business to improve effectiveness and achieve rapid value such as:
 - Strategic sourcing
 - Sustainability analytics
 - Sales
 - Human capital management
- Collaborative, business intelligence and analytic solutions to improve decision-making and personal productivity
- Services to help reduce customers' on-premise systems and carbon footprint by leveraging cloud computing
- The capabilities required to build and deploy process extensions and collaborative applications

If you are ready to become a best-run business, visit www.sap.com/sme and investigate the SaaS capabilities offered by SAP.





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Saugatuck Technology is a strategic advisor to senior executives, information technology vendors and investors, providing strategy consulting, subscription research and thought-leadership programs focused on emerging technologies, key business / IT challenges, and effective management strategies.

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- Scenario Planning
- Competitive Analysis

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