

HEAD IN THE CLOUDS

Moving to the cloud isn't an easy decision to make, but Tim Phillips explores why it could be best for your business

In the past five years a revolution in the way companies use technology has equalled anything that we have seen since the arrival of the personal computer. Companies are redirecting investments they would have made in their own computers and data centres in favour of buying computing power as a service over the internet. Often the users might only be dimly aware that anything has changed. This is a revolution that happens in the back-office, in the way computing is organised, supplied and paid for.

Migration to the cloud isn't an either/or decision - few companies either reject or embrace it for all their computing needs. In the transition to a hybrid architecture, some applications can be kept in-house, others are hosted (supplied as if they were in-house, but from a remote location), some use the cloud as a tactical way to access computing power for a short time, and others supply applications or storage as a service for a rental charge. But there are major questions to resolve including which services are better in which location, how disruptive the change will be and how the cloud enhances or restricts a company's room for manoeuvre. And then there's the cost of moving, retraining and integrating.

This is not an easy financial decision, not least because in the transition to the cloud the working practices of a company will change, as well as the way it measures the cost of technology.

Neil Christie, commercial director of hosting company RapidSwitch, recommends always using a vendor-neutral external consultant to help decide strategy, as well as consulting widely in the business, including providers and users of computing. "Solid diligence has to be done up front because it's





horrific to unpick if you get it wrong,” he says. “A cloud platform like Amazon Web Services might be great for some uses, but the bill could be literally hundreds of times higher if you design it incorrectly and then grow quickly.”

Successful cloud software deployments have two common features: a lower cost of maintenance, and the efficiency of being able to work anywhere. Kevin Salter, partner at north Devon accountancy firm Glover Stanbury & Co, is accountable for his firm’s IT. It migrated to a mix of cloud applications and a hosting provider four years ago and the new working practices have benefitted the business. He uses a mix of cloud accounting systems, in which a single set of books is shared with the client, and also cloud-based practice management. The firm’s tax software is still a desktop version, but is hosted on external servers.

For SMEs, he prioritises the value of flexibility. “You can work in the office, from a client’s office, or from a hotel. I’m on a train to London tomorrow so I can work while I travel,” he says.

The other benefit he picks out is reduced maintenance. Many IT departments don’t measure the cost of upgrading and patching software and repairing hardware, because it is folded into staff and running costs. But a cloud-based system will upgrade and patch automatically. This is especially relevant for back-office systems and regulated industries, which need to be upgraded to respond to regulatory changes.

“You get four to five updates a year, you install it on the server and then 20 or 30 people need to do the update on the desktop. When you take into account the number of hours of billable time wasted, it can be significant,” Salter warns.

Commonplace software such as email and office

applications, which are used by all but rarely integrated at a deep level, are often a first step into the cloud. We can make broad comparisons between the cost of servers, licenses and maintenance for office applications such as email, spreadsheets and word processors. Here's a comparison tool for Microsoft Office on the desktop or in the cloud: comparexusa.com/roi-calculator

The Radicati Group's report, *Cloud Business Email Market 2015-2019* measures the use of cloud software. It reported that "the gap in functionality between on-premises and cloud email solutions has disappeared", and that companies with many locations "find that cloud email services allow them to more easily unify users under one infrastructure, while easing, or totally avoiding, the costs associated with staffing an IT department at each of their organisation's locations".

Radicati points out the value of unmeasured benefits. For example, it cites security built into Google Apps for Work (such as forcing two-factor authentication, ie verifying password and biometrics) or the productivity benefit of high-quality spam filtering.

HOW MUCH DOES THE CLOUD COST?

Asking for a ball-park estimate of the cost of moving to the cloud may be as easy as asking how much it costs to eat out in London - it depends what you want. A company with fewer than 50 employees and a turnover of £20m could in theory pay the same as a company of

250 employees with a turnover of £100m if it has greater processing needs. The way cloud services are set up may also play a part in the deliberations: for example, Google's business cloud services are billed on a per-minute basis, while others insist on charging for full hours.

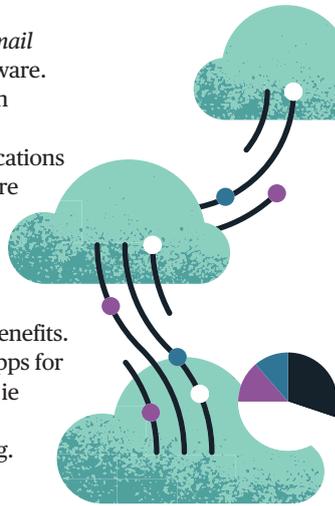
Cloud computing cost calculators should prove invaluable during the research and procurement process; calculators from the likes of Rackspace and Microsoft Azure are easily found online.

RISK AND SECURITY

Back-office systems using the cloud do not always scale easily despite the benefits of being able to keep local ledgers or forecasts and consolidate them (see box, below). But again, many organisations do not quantify the cost of poor forecasting or a lack of ability to predict current financial risk.

Annrai O'Toole, chief technology officer for Europe at cloud finance application supplier Workday, suggests FDs ask themselves fundamental questions to measure their exposure to risk. She suggests asking whether you're certain business apps comply with regulation; how many people work for the organisation; who are the best people to take on this new task; and how to reach them. If you're not sure, he says, this is a hidden inefficiency that the cloud can address.

Reliance on cloud-based data can be a weakness, too. Salter points out that in rural areas internet access will be patchy and add a cost in time and inconvenience.



SPECSAVERS AND ADAPTIVE PLANNING

For any growing business the ability to manage data in multiple silos is challenging. The problems of collecting the data, reconciling it, and having confidence that the consolidated information represents reality, can slow down decision-making and increase risk.

Yet this is the inevitable consequence of multi-location business, for example a chain of retailers. That was the problem faced in 2014 by Specsavers, which managed budgeting and forecasting for its 2,000 locally-run retail businesses using Excel spreadsheets. Matt Buckley, group planning and reporting lead for finance at Specsavers, described the situation as "a world of Excel silos ... a version control

nightmare among numerous stakeholders and contributors". He admitted that "inaccuracies increasingly threatened to throw business goals off course".

The solution was to use a single cloud-based application, Adaptive Planning, supplied by Adaptive Insights. "The quantity of data being produced by finance is rapidly increasing," says Ian Preston, vice president for sales UK & Ireland at Adaptive Insights. "Manually creating a holistic document,

however, can take up vast amounts of time, often includes errors and is likely to be out of date before it's presented to the board. What's worse than a lack of data is inaccurate data."

The cloud-based software has the look and feel of a spreadsheet, but it creates a standardised version of budgets, forecasts and reports that is distributed to all users. Anyone with the correct privileges who logs in can analyse business performance at that moment, across all the locations.

The financial benefit is measured through better, quicker, more accurate planning. The software was integrated with the general ledger and enterprise resource-planning systems, which meant that automated aggregation and

"Manually creating a holistic document can take up vast amounts of time, include errors and may quickly be out of date"

pre-population reduced the planning cycle by 50%. Another process benefit is that many Specsavers senior executives now do their own financial reporting without waiting for consolidated results from 2,000 spreadsheets. As Buckley says: "The company is now all on the same financial page."



SEVEN SINS OF FINANCIAL PLANNING

24 NOVEMBER 2015, 10:00 - 11:00

This webinar may be useful to those interested in knowing more about cloud-based software in a reporting context, and will give some insight into adapting around technology change.

Please register at icaew.com/fmfno2webinar

Christie has worked with many businesses that migrated services to the cloud and are locked into spiralling costs as they grow (cloud providers charge for the amount of resource used, but often the cost grows in a linear way, rather than the diminishing marginal cost of an in-house investment).

Another consideration is security: this year's PwC *Information Security Breaches Survey* found the average cost of a security breach in a large organisation was £3.14m and £311,000 for a small company. However, as well as doing robust research into cloud solutions, companies can also commit to improving security by signing up for schemes such as the UK government's Cyber Essentials certification (from below £500), or the more comprehensive ISO 270001 Information Security Management, to make sure systems have secure firewalls and are patched appropriately.

In addition, cloud contracts may not give customers the right to export their data or move to cheaper services. Many migrations may take six months from planning, through costing to action, and the optimum

service might change, while the contract is inflexible.

Tony Lock, an analyst at Freeform Dynamics, has spent the past six months on a project listening to the views of chief information officers and FDs on how they intend to manage IT in the future. Most measure costs poorly, he concludes: "Few organisations are able to measure the benefit of many cloud services accurately. In fact they usually don't have any accurate idea of the exact value generated directly by internal services today." His advice is never to look only at the prices, but to carefully measure the "soft costs" - the network charges or the cost of keeping users happy with existing systems. Administration and integration costs of cloud all affect operating expenditure and profitability.

Where to start? Christie recommends searching out your peers. Those who have been through the process will have practical insights and be free of the vested interests that suppliers might have. He says: "Build for the future, ask about who owns the data and be wary of long-term contracts. The devil is in the detail." ■

**FUBRA AND CLEAR BOOKS**

Paul Charlton, head of analysis at IT provider Fubra, has been working with various accounting systems since he qualified in 1981 ("I started off with hand-written ledgers using coloured pens," he admits). For him, the value of cloud software can be measured by removing human interaction with the data.

His accounting system, Clear Books, was in place when he arrived and was built primarily for SMEs. Even though his career has taken in financial control for stockbroking firms, interim management and forensic accounting, he recognised its value despite a few problems in getting used to the functionality.

Many back-office systems in recent years were custom-developed extensively to match

business processes for each customer, because IT departments considered this an advantage. But recent research has shown that the cost of keeping bespoke software up to date exceeds the return. Cloud-based systems achieve economies of scale because they have a common architecture which the customers configure without changing any code. Charlton picks out three sources of value from this.

First, reporting processes are

streamlined because the cloud software has been pre-integrated with government systems and bank data, and updates are applied at the time that regulation changes.

Second, collaboration costs are lower because external suppliers can share the software without downloading it. "Our external accountant has a login, so I don't send him a trial balance or a P&L. He logs in and takes it out of our data," Charlton says.

Third, it makes automation less expensive. "We have systems that are open to the public. They subscribe and we account for the money they send us. At midnight the day's transactions get uploaded to the system. Creating a day journal is done by the system: it's

important that you don't have to worry about whether something like that has happened."

Suzy Kerton, chief financial officer at Clear Books, says that the value of a single architecture is that it simplifies processes - the value is in the insight, not the software. She says: "We have a dashboard available as soon as you log in and payroll is integrated. For example, we invite auditors to look at the books and all the invoices are attached to the transactions. We don't need to prepare anything for them."

The cost of migration in time and learning new system is an obvious problem. While there are many benefits, the lengthy process involved in changing the way a business works from top to bottom may prove offputting.

