

DECIPHERING FINANCE

Strategies From Finance Executives



**Reason says:
beware the dark
side of the cloud.**



**Instinct says:
every cloud has
a silver lining.**



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SIIA'S Deciphering Finance

FEBRUARY 2013

**Software & Information
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The Software & Information Industry Association is the principal trade association for the software and digital content industry. SIIA provides global services in government relations, business development, corporate education and intellectual property protection to the leading companies that are setting the pace for the digital age.

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Promote the Industry: SIIA promotes the common interests of the software and digital content industry as a whole, as well as its component parts.

Protect the Industry: SIIA protects the intellectual property of member companies, and advocates a legal and regulatory environment that benefits the entire industry.

Inform the Industry: SIIA informs the industry and the broader public by serving as a resource on trends, technologies, policies and related issues that affect member firms and demonstrate the contribution of the industry to the broader economy.

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SIIA's Software Division serves and represents over 100 member companies and provides a forum for companies developing the applications, services, infrastructure and tools that are driving the software and services industry forward. Through the division, executives of member companies meet to brainstorm, collaborate, and discuss the industry's latest challenges. The division's many programs offer excellent vehicles for companies to develop partnerships, boost their profile, and gain strategic insight on key issues. The division shapes and supports the industry by providing advocacy, thought leadership opportunities, networking opportunities and critical industry information through publications such as this.

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Acknowledgement

Rhianna Collier, VP, Software Division, SIIA

SIIA's Deciphering Finance is a publication cataloging finance strategies and best practices. New technology trends are rapidly transforming our industry, making this one of the most exciting times in technology evolution. Every aspect of business is evolving to meet this changing landscape and Finance is no different. Our goal for this book is to provide solid guidance to help finance executives understand how these new technology trends can benefit finance departments and which new financial metrics are vital to the business. To do this we tapped into the minds of the SIIA member executives driving finance departments today. Our members provide technology solutions or services across a spectrum of industries and their expertise can be applied to many verticals. The depth and breadth of expertise was collected to produce an unparalleled guide to finance.

With articles from industry experts, this book is an excellent resource for finance executives looking to better utilize innovative technologies and trends to keep their companies competitive in the marketplace.

I would like to extend a special thanks to all the contributing SIIA members. We appreciate the time and best practices they shared to produce this publication.

I would also like to give a special thanks to our sponsor, Grant Thornton, for providing their collective review of the articles. As a leading global audit, tax, and advisory organization their overview into the finance industry is a valuable contribution to this publication.



Foreword

Steven Perkins, National Managing Director,
Technology Industry Practice, Grant Thornton LLP

The CFO office continues to assume a more strategic and prominent role in driving corporate performance. The CFO in many companies is finally a full strategic partner in the C-Suite. The traditional roles of overseeing financial operations and risk management remain, though technology has made these less burdensome and accelerated the time to completion and to close. Thus the CFO is free to spend more time on strategy. The cloud is accelerating the expansion of deep functionality to support financial operations, as well as dramatically reducing the time-to-implementation. For CFOs historically mired in spreadsheets, the cloud offers an accurate, scalable platform for global collaboration, which enables strategic insight.

At the same time, technologies such as cloud-based business intelligence and analytics, are placing more business information at the fingertips of the CFO. These technologies are increasing the mining of data from in-house enterprise resource planning (ERP) systems and bridging this internal information with external data sources. CFOs are helping to finally realize the value of very expensive ERP investments by pushing ERP systems beyond operational efficiencies to become tools for increased business insights and subsequent action.

At Grant Thornton, we have observed many benefits from our clients' adoption of the cloud. This includes the finance function. As CFOs strive to adopt leading practices, they look to achieve greater efficiency, transparency and the ability to scale as the business grows. They must also stay abreast of the ways in which a shift to the cloud might impact their financial reporting and tax requirements. In the following essays, CEOs, CFOs, presidents and company founders discuss how they use the cloud in finance and what it means for business. Some of the highlights of this publication include:

Specific finance needs addressed in the cloud

As cloud solutions rapidly evolve, individual corporate constituents, like the CFO, will find that their needs can be addressed at the ERP or solutions level. Many CFOs are aware of cloud-based solutions to support business lines' functions, such as sales and marketing, but too few realize that there are solutions specific to finance. Rene LaCerte, CEO of Bill.com, explains in "For Clarity CFOs Turn to the Cloud." While many companies continue to use manual processes, those that have automated using cloud solutions report that their finance operations are more efficient and their reporting is more accurate.

More accurate ERP systems

One application suite that can greatly benefit from moving to the cloud is the traditional, on-premise ERP system. In "What the Cloud Means to Finance" Ron Gill, CFO of NetSuite, discusses the challenges of traditional, on-premise ERP systems. Traditional ERP models cause data to quickly become siloed within the business, resulting in delays, inaccuracies, and data conflicts. Using the cloud, Gill explains, companies can be more agile, less prone to errors and more accurate with their data because everyone can work with the same real-time information.

In "Focus on Financials: Comprehensive ERP and Financial Management for a Manufacturing Competitive Advantage," Plex Systems explains how the manufacturing industry can gain a competitive advantage through a cloud migration. Plex Systems argues that the cloud is an ideal solution with benefits that include scalable financial management and record keeping, real-time financial tracking, clearer views of margins and better regulatory compliance. All of which lead to improved cash flow.

Clearly, implementing an ERP system is a significant endeavor that will consume significant financial and personnel resources – and require a substantial amount of executive management attention. CFOs should not underestimate the benefits of cloud-based ERP in possibly reducing demands in all three areas.

Addressing industry requirements

In an industry where regulations are far-reaching and constantly changing, such as health care, the cloud-based capabilities can help organizations keep pace. Morris Panner of DICOM Grid discusses how CFOs in health care can leverage the cloud to excel in his essay, “The new role and challenges the CFO in Health Care faces.” Changes in government regulation and new business models are ongoing challenges in health care. According to Panner, one way to keep up is cloud-based health care information technology, which is more cost efficient, easier to use and more accessible to everyone.

The cloud is the CFO’s best tool for strategy

Though many CFOs are increasingly asked to play a more strategic and analytical role, they often don’t have the tools to do this effectively and efficiently. Lauren Kelley, CEO and founder of OPEXEngine, explains that many CFOs have been hampered because they have had to rely on older data to determine budget and performance goals. In her essay she argues that the cloud offers the opportunity to gather third-party data, which unlike anecdotal data, takes less time to collect and provides benchmarking information that has credibility with other executives. Business analytics will become even more critical in the future. Kelley recommends that CFOs actively explore and support adoption of increased analytical capabilities gained through cloud solutions.

New business models mean subscribing to new ideas

One business transformation CFOs must stay abreast of is the movement to the subscription model. Tyler Sloat, CFO of Zuora, suggests that CFOs need to move away from product-centric, single-purchase transaction businesses and consider long-term recurring revenue relationships, which are becoming the hallmark of modern business. The subscription model requires different accounting. A change will be required to capture the dynamic, ongoing revenue relationships that are the foundation of the subscription model. Staying abreast of these new models and evaluating them for adoption in their own businesses will be a focus for the CFO in the coming years.

Moving isn’t easy

With all the advantages, why aren’t more companies considering on the cloud? Robert Hull, founder, president and CFO of Adaptive Planning, says it’s because of abounding misconceptions. In his essay, “What are the biggest misconceptions among finance professionals today?” Hull discusses the push to get CFOs more involved in business strategy and how the cloud can support them. He explains that software-as-a-service (SaaS) solutions are affordable, easy to use, rapidly deployable and don’t require extra IT involvement, making it a no-brainer.

Benefits for everyone

The advantages of the cloud aren’t just for clients. In “Savings on Both Sides: Vendor and Client Perspectives on the Financial Advantages of SaaS,” Jim Emerich, CFO of Avangate, describes how the features—rapid and less costly implementation, closer customer relationships, seamless upgrades, affordable maintenance, and an empowered ecosystem of devoted participants who are all interested in boosting the bottom line—benefit vendors and clients.

Far from nebulous, these essays on the Cloud make this abundantly clear: Companies that adopt these solutions can decrease planning times, increase accuracy, improve company-wide collaboration and alignment and make more informed decisions quickly. All of these improvements will enable finance professionals, and the CFO specifically, to more effectively fulfill their role of strategic advisor within their own companies. We hope that you benefit from the following essays and learn from these front-line professionals.



What the Cloud Means to Finance

Ron Gill, CMA, CFM, CFO, NetSuite

The benefits of transitioning from an on-premise ERP system to the cloud are manifold. In a recent survey that NetSuite conducted with approximately 800 IMA® members, the results closely mirror my experiences at the company. The survey asked finance professionals: “What do you perceive as the single key benefit of moving your financials to the cloud?” The clear drivers were around total cost of ownership; anytime, anywhere access; and business process improvement.

Reducing cost of ownership of the ERP system has a significant benefit to finance. It isn’t just about reducing IT spend. It’s about reallocating the IT budget from maintenance—such as keeping servers running, performing upgrades, and taking backups—to actually improving business processes and delivering innovation to the finance organization. Some years ago, a report from Gartner found that more than 90% of a typical IT budget is spent on maintenance, and as little as 9% is left for actual business process improvement. The result is that a substantial gap has opened up between the goals of the finance organization—such as establishing clear business visibility, maintaining an effective internal control structure and process, and ensuring efficient GAAP conformance—and what IT can provide from the current systems. There simply isn’t any budget left for innovation.

Cloud delivery changes this equation because businesses are able to recoup 50% or more of their IT application operating costs by making the transition. No more servers, databases, backups, failover, patches, and upgrades. It frees up IT resources to move from an operational role to a strategic role. At NetSuite, the systems team supporting finance is completely focused on business process improvement, not maintenance, so, for example, it sped up our adoption of the new revenue recognition rules EITF 08-01 (ASU 2009-13), which was clearly a time-sensitive priority for our finance organization. Project resources could be devoted to building the necessary reports, key alerts, and workflows to support adopting the new rules rather than the on-premise alternative of applying patches or making risky database changes. The result was a timely, less risky, and more cost-effective adoption.

Another key benefit IMA members identified is the ability to access financials securely anytime, anywhere through a Web browser. At NetSuite, our organization is inherently distributed with a significant portion of our back office staff in an offshored location. We also have remote finance staff and line-of-business executives in regional subsidiaries. Depending on the company, a distributed finance organization can yield substantial cost benefits as well as enable you to retain the best staff, especially with the continued growth of globalization. But in order to run a distributed finance organization efficiently, your business systems have to facilitate real-time collaboration. Cloud-based financials shine here.

A traditional, on-premise ERP model hampers a distributed finance organization in a number of ways. At an operational level, it requires IT resources on the ground, and they have to travel to remote locations to make sure client tools and local accounting applications and databases are up and running. Thus the support costs can quickly spiral. But there’s a more insidious issue at play. With traditional, on-premise models, data can quickly become siloed within the business, whether buried in spreadsheets, local databases, or applications. This means finance staff members can quickly find themselves with outdated information, can encounter conflicting data in different places, or will be holding out for a spreadsheet extract. In an offshored model, this can result in substantial latency in the flow of financial information throughout the finance organization and to the executive level.

When your financials are accessible through a browser in real time, everyone is operating on a “single version of the truth,” no matter where they are—corporate, subsidiary, or offshored location. At NetSuite, the cloud enables us to drive key financial processes much faster vs. running traditional accounting applications.

One financial process that demonstrates this is our distributed financial planning process. It’s much more agile, less error prone, and more accurate than it otherwise would be because, with Web-based

cloud financials, our finance and line-of-business stakeholders are operating on the same centralized real-time actuals throughout our business. Corporate also has instant visibility into divisional transactions, enabling either a centralized or decentralized planning process. The result is a corporate level plan and forecast free from version issues and out-of-date spreadsheets—and one with a dramatic reduction in time wasted with financial data being e-mailed between stakeholders. It also frees up financial resources from having to push out financial information and moves the reporting process to a self-service model. Stakeholders can securely make changes through their everyday Web browser, the finance team can collaborate around the same information in real time, and no one ends up making changes to old versions of data.

The Myths Behind Cloud ERP

Despite the accelerating growth of the cloud and its adoption in key areas of business, myths about cloud-delivered ERP still linger within finance departments. Part of this is because cloud-based financials are later in the adoption cycle than sales and human capital management (HCM) applications, where these concerns have already been overcome, but it also stems from finance being the clear custodian of critical operating data for the business.

When we asked IMA members their concerns about cloud computing, some issues were clearly top of mind, including security, data ownership, and the level of customization that a cloud financials application can reasonably allow.

How do these perceptions hold up? Let's start with security. This concern stems from the fact that a cloud datacenter is connected to the Internet and that cloud applications are used over the Internet. But most people already conduct their most sensitive transactions via the Web—everything from initiating bank payments to processing payroll to managing sensitive personal information. The state of the art for Internet security with cloud applications—whether consumer or business—is the use of banking-level 128-bit SSL security. This means that, when using a cloud application, the information is invariably more heavily encrypted than a traditional local area network (LAN)-based, pre-Internet application.

Having your financials hosted in a datacenter rather than in your own on-premise server room also raises some interesting questions. Isn't a cloud datacenter inherently more hackable than its on-premise counterpart? Businesses are connected to the Internet all the time, and the typical on-premise business applications are, too, in some way. Whether locked in a server room or under your desk, they're directly or indirectly connected to the Internet. The vulnerability of in-house systems is most clear in a November 10, 2010, article by James Verini in The New York Times titled "The Great Cyberheist"—where "a crew of hackers and other affiliates gained access to roughly 180 million payment-card accounts from the customer databases of some of the most well-known corporations in America: OfficeMax, BJ's Wholesale Club, Dave & Buster's restaurants, the T. J. Maxx and Marshalls clothing chains. They hacked into Target, Barnes & Noble, JCPenney, Sports Authority, Boston Market and 7-Eleven's bank-machine network."

So the question isn't really about cloud datacenter vs. on-premise datacenter when it comes to security. The question is really about how many resources your organization can dedicate to data and application security to protect your financials and business data and how that compares with the expertise and resources the cloud vendor will deploy. Most cloud vendors have experts focused solely on running your application and keeping your data secure. These people never stop to answer an Outlook question, never have to worry about setting up PCs or fixing a printer. They begin and end each day thinking about security and uptime. Your IT department probably isn't as focused! But because the cloud vendor is operating with a shared services model, it's able to create an entire function focused purely on security, with resources and dedicated budget focused solely on maintaining stringent security standards, such as PCI DSS compliance, that are often cost prohibitive for an organization to achieve and maintain on its own. So a cloud vendor can be more secure than a homegrown on-premise deployment. It's the old question about whether your money is safer under the mattress where you can see it and touch it or safer at the bank.

Another concern with cloud financials is availability of the application. Of course, whenever an application such as Gmail or Salesforce experiences an outage, it always makes the press. But, realistically, how do well-run cloud applications stack up against the availability of in-house applications? A key place to start

is that cloud vendors typically provide a service-level commitment to their users of 99.5% or better. As with any service level, it's about transparency and about penalties if the vendor doesn't meet that level. The transparency comes from publishing the availability online; for example, NetSuite publishes its availability at status.netsuite.com, and Salesforce publishes its at trust.salesforce.com. The penalty typically is a refund of part of the subscription fees if the cloud vendor doesn't meet a target service level. So the vendor is extremely incented to ensure high availability through transparency or penalties and to reduce any availability risk that might impact renewal. Through economies of scale, a cloud vendor can invest in multilevel failover and redundant systems that a typical inhouse IT budget couldn't afford.

The contrast with a traditional on-premise deployment is stark. A finance department typically has no visibility into the availability of its accounting application, and the IT department often isn't held accountable for outages and often can't be because of the lack of any kind of uptime reporting or service-level agreement (SLA). A professionally managed cloud datacenter with multiple levels of redundancy will almost certainly provide a higher level of uptime, better security, and more transparency about both than an on-premise datacenter.

Get Educated About the Cloud

With the dramatic growth of cloud computing, new vendors are rushing onto the scene, and old vendors are frantically trying to reposition their existing offerings as cloud solutions, so it's key to ask the right questions as you do your research. I speak with finance executives frequently about plotting the transition, and it's critical to do your own diligence to answer these baseline questions:

1. What is the vendor's ongoing viability and track record?
2. What are the SLA commitments, and is the availability transparent?
3. What is the procedure for getting my data out of the system?
4. Does the vendor have key certifications, such as SAS 70 Type II and PCI DSS?
5. Is it a real Web-based solution, or is it just a hosted on-premise solution?
6. Will it be one more application silo, or is it a crossdepartmental application?
7. Can it be integrated and customized?

If you find cloud computing is right for your company, it can benefit your finance function in a variety of ways— improved collaboration, easier global delivery, lower total cost of ownership (TCO), and always-up-to-date accounting software. This will accelerate financial process improvements beyond anything you've seen when running your accounting software the old way.



For Clarity, CFOs Turn to The Cloud

Rene LaCerte, CEO, Bill.com

In today's high-pressure economic climate, CFOs and other financial managers are aggressively searching for ways to save money, maximize efficiency, and drive growth. Increasingly, cloud-based financial tools are emerging as a solution that can help them accomplish their daily tasks more efficiently while improving their cash flow management and visibility.

Yet, while most CFOs are aware that other departments are moving to cloud-based solutions, early adopters are just becoming aware that tools exist for the finance department according to a survey we recently completed of more than 350 CFOs. As a result, many CFOs remain stuck in the past, continuing to rely on paper-based processes and Excel spreadsheets to do their work.

While CFOs in general were familiar with the cloud, most were not yet aware that new products were emerging in this space, created specifically to serve their needs. As a result, paper-based manual processes and static spreadsheets remain the standard tools for many financial executives, and managing cash flow continues to be an imprecise, time-consuming task. When asked what system they currently use to predict future cash flow, 72.9% of respondents said they still use their old Excel spreadsheets, 8.5% use an ERP system, and 8.3% said they just do the calculations in their head. The remaining 10.3% said they don't use any tools at all.

CFOs' frustration with this status quo was clearly expressed in our survey. When asked to name the top three challenges faced by CFOs today, respondents cited the inability to forecast results (51.1%) and manage cash flow (47.4%) as their most pressing concerns. These numbers indicate that financial executives could greatly benefit from tools that provide real-time visibility into the amount of money they're paying out and taking in, at any given moment.

The survey, taken in August 2012, includes responses from CFOs and financial executives in a wide range of industries. It is one of the first to provide insight into how CFOs are thinking about cloud-based financial systems, whether they plan to implement the systems, and what they see as the advantages and disadvantages of online tools for managing tasks like accounts payable, accounts receivable, and cash flow.

Early adopters reap results, reaffirm that cash is king

Early adopters who have switched to cloud-based financial systems told Bill.com they have greatly improved both their accounts receivable and accounts payable processes. Saving money and time are significant motivating factors for companies that are considering a cloud-based system. 65.2% of survey respondents said saving dollars and hours would lead them to the cloud.

Indeed, knowing when customers will pay is the number one problem faced by finance departments on a daily basis, according to the Bill.com study. Almost 59% of respondents cited it as a top concern. Other high-level concerns, survey respondents said, are difficulty estimating cash flow (55.7%) and slow action by those employees who are tasked with approving invoices to be paid (46.3%).

This last number comes as no surprise, given the inefficient workflows and approval processes that hobble most organizations. Financial executives have long complained about paper-based invoices and expense reports that take weeks or months to be approved because people put them aside, forget about them, or file them under a pile of other papers. As a result, bills get paid too late and cash flow forecasts grow ever more unpredictable.

The cloud can alleviate many of these problems, say CFOs who have adopted online invoicing and billing systems. For instance, online finance services enable them to better track bills and monitor

the approval process. That's because these payables tools eliminate the inefficiencies of manual processing. Instead, invoices to be paid are automatically routed to the right person for approval and prioritized for attention.

On the receivables side, finance professionals who use cloud-based tools said on average they get paid faster than they did using traditional paper systems. In addition, when asked how much it costs their Accounts Receivable organization to process and send an invoice, 38.7% of respondents said under \$5 and 32.2% said \$5 to \$10.

In fact, the majority of respondents are likely underestimating the cost because they're not fully factoring in the price of labor, materials, and other inputs. According to industry standards, the average cost of processing and sending an invoice is actually over \$22.

However, by using the cloud, companies could reduce the cost of sending invoices, while collecting receivables 2 to 3 times faster. In terms of hard numbers, a small company sending an average of 100 invoices a month would cut their expenses from \$2200 to \$750 per month by using the cloud, according to separate research we conducted.

Similarly, financial executives are discovering that by putting their AP process in the cloud they can cut the work by more than half and slash the cost by 50% to over 70%, a saving that amounts to tens of thousands of dollars for many organizations. In fact, a company with an average of 100 bills a month that uses a cloud-based system can reduce costs from \$3800 to \$309 a month, according to industry research.

Financial executives who have adopted online systems also value the ability to approve bills remotely, wherever they happen to be. One CFO noted that a cloud-based system unchained him from the office and allowed him to approve an important invoice from his mobile phone, while watching his child compete in a local swim meet.

Another priority that was uncovered in the survey is that CFOs are looking to implement systems that can help their business grow. Some 43% of respondents said scalability was one of the factors that would influence them to adopt cloud-based services. Only 24.8% said scalability was not a factor, while 32.2% said they were unsure.

Another incentive for moving to the cloud is the chance to reduce the flow of paper bills and transition to a paperless work environment. The vast majority of survey respondents (85.5%) said reducing paper was either very important or somewhat important to them. Only 14.5% said it was not important at all.

Cloud opens new horizons

There is nothing more important to CFOs than control—control over cash flow, payables, and receivables. At a moment's notice, they need to know what the business is doing and where it's going. They need intelligent financial systems that can accurately predict what will happen and when—systems that give them deeper insight to their cash flow and help them discern looming shortages before they happen.

In fact, when asked the one piece of advice they'd offer as an industry expert, 31.9% of survey respondents recommended implementing business controls, while 26.8% said automating to avoid human error.

As cloud-based financial tools gain wider attention, CFOs will increasingly turn to these solutions to achieve better control, efficiency, and ROI.

For early adopters, deploying cloud-based tools will result in a significant advantage in an increasingly competitive marketplace, which will be driven by more pioneering cloud-based solutions as the cloud business payment space matures.

At Bill.com we run every aspect of our business on the Cloud, from managing our cash flow to managing our 401K program. The clarity and power that the Cloud can bring to CFOs is unprecedented and worth a thorough examination by any organization. And the time to move is now since CFOs who are transitioning to the Cloud are experiencing a first-mover advantage that can be rare in our line of work.



The Subscription Economy CFO

Tyler Sloat, CFO, Zuora

Subscriptions are replacing the traditional product sales models, and are fundamentally changing the face of businesses, industries, and the job of the CFO in the process. I should know because I've gone through this transformation myself. CFOs long-accustomed to product-centric, single-purchase transaction businesses need to get smart on the shift to businesses built around long-term recurring revenue relationships that are becoming the hallmark of the 21st century.

At Zuora, we call this phenomenon the Subscription Economy. You can see evidence of this movement across multiple industries: ZipCar in automotive, Netflix in entertainment, Amazon, HP and Dell in IT and more.

The Subscription Economy is becoming pervasive for a variety of reasons. Customers are demanding a more flexible consumption model. General Managers have the flexibility to test pricing and bring new functionality to consumers at an accelerated pace. Executives are realizing this allows for a longer lasting relationship with their customers. And investors recognize that, if executed well, Subscription Economy companies have fantastic revenue and return models.

As a finance professional, if you haven't already participated in the shift to subscription, you need to know that you will soon. When you do, you need to be aware of a critical difference: finance as you know it is broken. Double-entry bookkeeping – the cornerstone of accounting for 500 years – cannot capture the dynamic, ongoing revenue relationships that are the foundation for the subscription business model.

The fact is that a company with a subscription business model is fundamentally different than a product company. As a CFO of a Subscription Economy company, I've found that the most meaningful metrics for my business are not addressed by GAAP standards. For example:

- You need to value one-time revenue very differently than recurring revenue.
- You need to measure your business across multiple dimensions of time - not just the past, but the future as well.
- You need to manage complex changes that can create chaos in downstream processes, such as mid-month subscription cancellations that can result in credits or refunds thereby impacting revenue recognition.

As a result, the shift to the Subscription Economy can wreak havoc on finance departments that are not prepared. Why? Because every accounting system in existence today – including ERP – was built around the rules of double-entry bookkeeping. That means your accounting system is still great as a general ledger, but nothing more than that.

I've talked to many Subscription Economy CFOs who are struggling with the current systems they have in place. CFOs and their teams are in pain because it takes longer for them to close the books. My revenue team, like many, was drowning in spreadsheets with a row for every customer – spreading revenue across a multitude of columns. I know this has forced some CFOs to maintain one set of GAAP books to please auditors and another to run their business.

On the executive side, CEO and board members demand insights into more than just balance sheets and income statements; they need insights into forward looking metrics, like ARR, Churn, and ACV. I don't know about you, but at Zuora we have to rely more and more on non-GAAP off-balance sheet accounts to explain our success. In addition, many Wall Street investors don't fully understand the subscription business model and often fail to value subscription businesses correctly.

As I said, I know what it's like to go through this transformation, and it's well worth the work involved if done right. Recurring revenue business models deliver greater financial predictability, grant greater insight into what your customers' like, and give much greater flexibility to adapt to your customers' evolving needs. Upsells, cross-sells and upgrades become entirely new revenue streams.

But recognize that making this shift may not be by choice. The Subscription Economy is here to stay, and you need to adapt. Customers from all walks want more control over their relationships with vendors, brands and service providers. With widespread internet access and the proliferation of mobile devices and social networks, more and more customers are taking charge. The customers want you to serve them how, where and when they want. Will your company be ready?



The New Role and Challenges the CFO in Healthcare Faces

Morris Panner, General Manager, DICOM Grid

Business models in the healthcare industry are continually evolving. With these changes comes the need for new information technology solutions. In order to move forward with the right business strategy, healthcare CFOs must take a role in IT in ways they have never done before.

Part of this is due to the ongoing changes in government regulation. Whether healthcare reform continues in its current form, there is no doubt that Federal and State governments are becoming more active in attempting to rein in costs as well as find new incentive systems to improve quality.

One of the most dramatic trends in how we pay and reimburse healthcare is the move toward what are today called accountable care organization (ACO) business models. In the past, payment was based only on the services a doctor provided. Fee-for-services medicine took into account only that the doctor did x, y, or z for the patient. Now, health organizations are being pushed to move away from this model. Instead, in an ACO business model, health organizations are being asked to assume risk for the overall health of the patient and the cost of caring for the patient. The more efficiently healthcare providers manage patient care, the more rewarding the financial outcome. As a result, today we are seeing more and more care providers moving away from a fee for service model, with quality of care and outcomes becoming much more important in the economics of healthcare.

Another major movement in the healthcare industry right now is patient engagement and responsibility. The goal is to empower individuals to become more involved in making their healthcare decisions and managing their care. In order to do this, patients need to have all the information, including their healthcare data. When people are given electronic access to all of their clinical information, they can use it to help manage their care in partnership with their doctor.

The government has made giving patients this access a priority. Some of the most recent Meaningful Use regulations provide doctors incentive to help provide patients with online access to their medical records. The federal incentive program requires that over 50 percent of the health organization's patients have the opportunity to view, download and transmit their health information online. Healthcare professionals are required to send preventive and follow-up care reminders and give patients educational resources in addition to the electronic health record.

Blue Button is another government initiative that promotes easy patient access to their medical data. The program offers patients the opportunity to download their health records and share them. Thus far, more than 1 million people have utilized the program, including veterans and Medicare recipients. It has since been approved for use by the Federal Employee Health Benefits Program. Organizations in the private sector are quickly following suit.

One of the key technologies needed to provide electronic health records to patients is a cloud-based storage platform that can be used to easily upload, manage, and share medical images and other health information securely. Traditional methods of transmitting this data on CDs simply are not an option anymore. The online solution must be one that can communicate and integrate with all PACS, RIS and EMR systems. Cloud-based storage is vendor neutral archiving with uncapped space, so health organizations never have to worry about running out of storage capacity. These online platforms must be HIPAA compliant and provide security.

As a result of new business models and patient responsibility, we are seeing new types of healthcare organizations that can be accountable for cost and quality for a range of patients. Insurance companies are starting to take on increasing responsibility for patient care and some healthcare systems are becoming vertically integrated healthcare systems, taking on the role of the insurance company. Payments and

profitability are often tied to improvements in quality that simultaneously cut overall costs. In order to properly assess the improvement in quality and the cost savings, advanced performance measurement tools are used.

These business models are designed to incentivize savings by giving the health organization more financial responsibility. It also encourages coordination among all the health care providers involved with the patient. For example, in late 2011, the Centers for Medicare & Medicaid Services in the Department of Health and Human Services predicted that accountable care organizations could save a median of \$470 million from 2012-2015.

Accountable care organizations rely greatly on health information technology solutions and infrastructure. These are required not only to securely store and share electronic health records, but to share administrative and claims data across multiple points of care and give patients information about their status and continuing treatment options. Engaged patients are critical to the success of accountable care organizations. This is especially true for chronically ill patients, who spend about 1 percent of their time at their doctors' offices and 99 percent somewhere else, usually at home. When they have online access to all of their clinical information and treatment plans, they can stay on top of their care from anywhere.

All of these changes to traditional healthcare business models have meant the adoption of new information technology. As most CFOs recognize, a revolution in business processes often leads to a revolution in technology. The healthcare industry is currently at a turning point. It is parallel to what happened in the financial sector as they saw a need to build technology into the new business models that have come about in the last couple of years.

We are increasingly seeing a consolidation of hospitals and physician offices, just like the financial industry saw in the recent past. With this consolidation, healthcare organizations gain improvements in budgets while still providing a high quality level of care. However, CFOs must be cautious to ensure that all patient needs are being provided for, while doing so in the most cost efficient way possible.

The key is healthcare information technology. These new technologies will be the link that makes concepts like accountable care and patient empowerment work. They are more cost efficient, easier to use, and more accessible to everyone - that's why they are the key to a successful business model in the healthcare industry today.

What this means for the CFO of a healthcare organization will increasingly find themselves as part of the strategic IT choices made by healthcare organizations. This exciting new frontier will open up new challenges and opportunities for the healthcare CFO. Effective understanding and deployment of technology will become a core competence of today's healthcare CFO.



Savings on Both Sides: Vendor and Client Perspectives on the Financial Advantages of SaaS

Jim Emerich, CFO, Avangate

Saving money can be a major motivator for making the transition to software as a service. But the savings that come with SaaS aren't found only on the client side. Moving to the SaaS model can be a wise financial decision for software vendors as well as their customers. This article offers an in-depth exploration of the financial advantages of cloud services and resulting business practices, considering the savings and benefits for vendor and client alike.

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The Beginning: A Transformative Model

SaaS is often thought of as a major money-saver primarily because the model distributes basic IT costs for servers, storage, and maintenance over multiple clients, which also improves a vendor's ability to offer relatively seamless upgrades and updates. However, there are plenty of other "hidden" ways that SaaS can be financially prudent for vendors and their customers. SaaS not only offers obvious efficiencies in terms of shared server storage and easier updates, but also redefines and improves the entire customer relationship for software companies.

In a departure from the traditional software sales model with large upfront costs and limited ongoing interaction, SaaS offers an opportunity for clients to get started with an offering on a small scale and ramp up usage over time while building a close relationship with the vendor. And there are many additional cost advantages the SaaS model can offer.

Pressure-Free Sales and Painless Onboarding

SaaS redefines the software sales process, removing the emphasis from a large initial license sale with high costs, and transitioning the focus to a close customer relationship that grows over time. While this model can reduce commission for salespeople and diminish initial returns for vendors, it also creates additional opportunity for incremental revenue to accelerate throughout the lifecycle of the client relationship.

The SaaS model makes an ongoing relationship, not an initial sale, the central point of customer interactions. This transforms the traditional lengthy initial implementation engagement into an accelerated onboarding period backed up by regular training, allowing for a shorter time to market and return on investment. Customers benefit by making a fast, affordable transition to using effective new tools, and vendors benefit from more close-knit customer relationships that cost less to initiate and also offer the potential to generate more revenue in the long run. SaaS providers need to deliver reliable solutions to their customers every day, not just intermittently, and have to build relationships accordingly.

- Vendor benefits: Increased lifetime client value
- Client benefits: Rapid onboarding with low upfront costs

Renewals and Upgrades

In keeping with a focus on the customer, contract renewals are the lifeblood of SaaS. The model makes renewals less painful and less expensive than in the traditional software model. With SaaS, there's no need to install (and pay for) a costly, cumbersome new server instance, or deal with complex updates to intricate systems integrations created during a months-long implementation. Upgrades and maintenance are performed "behind the scenes," often involving minimal downtime or downtime only during off-peak hours. SaaS enables customers to wake up and log in to a new and improved system, with all customizations intact. With SaaS, updates also happen more frequently, giving clients regular access to useful new tools. Gone are the days of expensive, involved "upgrades" that cost more than the initial implementation did, as well as "end-of-life" panics where vendors stopped supporting specific software versions and left customers stranded or at the mercy of independent systems integrators.

Relieving customers from the pain of costly upgrades and the panic about version support is a priceless benefit of SaaS.

Renewals can also be automated and made an expected part of the customer's SaaS subscription, relieving the vendor from the pressure to scramble for major contract renewals periodically. It's also easy for SaaS providers to determine how often customers are logging in to use the system, giving the vendor an advantage when it comes to encouraging upgrades or developing strategies to expand client usage. Dedicated customer account managers or customer success managers can work closely with individual clients to promote usage and determine ways to expand and customize the system to meet client needs. This close relationship offers the customer increased responsiveness to their needs and allows for more rapid attainment of solutions. In short, both sides succeed—and save money—when the focus shifts from the transaction to an on-going vendor-customer relationship.

- Vendor benefits: Ongoing revenue, standard version for clients
- Client benefits: Seamless renewals and upgrades

Maintenance and Support

SaaS savings are often envisioned as stemming largely from shared server space. Installing software on a multi-tenant database “in the cloud,” rather than on onsite servers, certainly represents a significant reduction in monthly hosting bills, not to mention server maintenance. A multi-tenant model also enables SaaS providers to maintain and update only one central version of the software, making maintenance less complicated and expensive both internally for the vendor and for external customers. Multi-tenancy may involve some upfront costs to the vendor to create the redundancies and server capacity that will accommodate traffic spikes and enable effective disaster recovery. However, these costs to the vendor will stabilize over time as they are spread out over more and more customers, and having a SaaS software provider manage server capacity is typically much cheaper and more convenient for customers than having to do it themselves.

Using a SaaS provider allows clients to focus on their unique core competency. SaaS vendors that provide responsive services and meet appropriate uptime guarantees can ease a great deal of strain on client IT budgets as well as on employees. And because many SaaS contracts are inclusive of service, upgrades, and support, clients gain multiple benefits at a greatly reduced cost.

In another financially advantageous tactic, SaaS vendors often take a “self-service” approach to support, empowering customers with the tools and APIs they need to accomplish almost anything with the software components provided, and fostering customer interaction to share best practices. This approach allows scaling and saves vendors money in terms of fielding and managing high volumes of support requests, and also eliminates vendor time and availability as roadblocks to customer achievement. However, self-service definitely doesn't mean abandoning customers. Many SaaS vendors use proactive “customer success managers” to train customers thoroughly in the software and coach them personally through the best practices and tactics that will help achieve specific business needs. SaaS companies often also foster large customer communities or “ecosystems” where clients share their strategies and tactics, helping each other along with little or no additional cost to the vendor. This model eliminates the need for vendors to provide “siloe” support to clients developing their own individual custom solutions.

- Vendor benefits: Distributing costs throughout clients, empowering clients with self-service
- Client benefits: Diminished IT obligations, more business tools for success

Standards Compliance

Along with relieving customers of the need to have an internal IT organization or spend lots of money on servers, SaaS providers can also achieve certifications such as SSAE 16 and ISO27001 and maintain uptimes that meet established service level agreements. The ability to use one provider certified under

these standards alleviates the need for individual organizations to scramble for certification, enabling the cost-effective provision of standards-based services. The upfront effort necessary to achieve certification may be a hidden cost of SaaS, but it's also a hidden savings, relieving customers of the burden and cost of achieving certification on their own.

As SaaS systems collect more and more user data, it becomes more and more important for SaaS providers to adhere to data privacy regulations. Approaches for doing so may range from Safe Harbor self-certification to passing involved HIPAA audits. This can involve a great deal of upfront preparation and costly, time-consuming compliance efforts—but it's ultimately more effective for one SaaS provider to spread out these costs of compliance over many customers than for each customer to achieve costly compliance independently. SaaS providers that meet data integrity and privacy standards provide their customers a service that goes beyond mere software tools to encompass information security.

- Vendor benefits: Distribution of costs
- Client benefits: Assurance of standards compliance and data privacy

Relationships with Resellers and Systems Integrators

Even in the SaaS world, channels are becoming more important, not less as they increasingly provide the specific buying context and information that customers need to make a buying decision. Going further, customers not only want to buy in context, but also be supported over time by the channel that sold them - whether providing guidance to get the most from the service, but also finding other add-on solutions and associated services. ISVs therefore need the channel to play a greater role in not only distributing their SaaS solutions, but to own the relationship with the end-customer beyond the first sale.

ISVs need of course to invest in technology to support the channel: portals, APIs, marketing tools, etc. As with vendors' own client relationships, resellers and SIs will benefit from support tools that focus on empowerment, not obstacles, in making best use of solutions. Resellers and SIs thus become partners in building a customer ecosystem, not rivals competing for customer dollars. The better trained a reseller or SI is in the core SaaS system, the more business can be brought in—beneficial for both the initial vendor and these channel partners.

- Vendor benefits: More business from these channels
- Client benefits: More engaged service and better resources from resellers and SIs, better overall solution/ ecosystem

Revenue Recognition

Subscription models can significantly change how companies manage their revenue. While the typical model for on-premise software installation was to charge a large amount of money upfront and recognize the revenue immediately, the shift to subscription-based SaaS models brought with it a need to recognize deferred revenue. Because SaaS works for customers every day, revenue can be recognized on a deferred basis as well. Upfront cash flow, ongoing subscription contracts, and deferred revenue (cash collected and accounts receivable minus recognized revenue) create an attractive financial model for SaaS while clearly recognizing what has already been paid. Offbook backlog (total contract value less collected cash and outstanding accounts receivable) also figures into the total funds coming into SaaS. These accounting models are attractive to SaaS vendors and investors alike, and significant investor interest is often prompted in new SaaS companies or when existing companies switch to SaaS.

Accounting models for SaaS can vary, but many companies find that a standardized 30-day month makes sense for accounting for revenue on a regular basis, rather than dealing with month-to-month fluctuations in number of days. Revenue recognition was previously complex, but now many SaaS solutions exist built specifically to recognize revenue from the SaaS model. And SaaS has positive financial implications for the customer as well, in terms of a more rapid ability to recover investment

in the system. Initial investment is typically lower and time to implementation is shorter, saving money from all perspectives.

- Vendor benefits: Deferred revenue, investor interest
- Client benefits: Ongoing service, affordable prices

Summary

The financial benefits of SaaS extend far beyond shared servers, encompassing more rapid and less costly implementations, closer customer relationships with more resources, seamless upgrades and affordable maintenance, and—perhaps most importantly—an empowered ecosystem of devoted vendor representatives, clients, resellers, and SIs, all interested in building tools, modules, and features that will boost the bottom line, improving vendors' ability to provide better tools and services for all customers.



What are the Biggest Misconceptions Among Finance Professionals Today?

Robert Hull, Founder, President,
CFO, Adaptive Planning

I continue to be shocked by the common notion that it is acceptable to manage FP&A processes today on spreadsheets. Nearly two thirds of businesses still hold onto this idea despite the fact that spreadsheets do not support collaboration or aggregation, are prone to errors, and often create cumbersome and time-consuming formatting and version control issues. Spreadsheets continue to impede collaboration and process efficiency, and thus mire finance professionals in low value data management tasks rather than freeing them for more strategic analysis and collaboration activities.

Another common misunderstanding is that corporate performance management solutions (CPM), including budgeting, forecasting, reporting, and analysis, are reserved for the most innovative, tech savvy businesses. To the contrary, what we're seeing today is that advanced CPM systems have hit the mainstream and are being deployed by some of the most historically slow changing industries, including coal mines, hospitals, insurance companies, and non-profits. As a result of affordable pricing, ease of use, and rapid implementations, CPM is now widely adopted across organizations big and small, in all industries and geographies.

Finally, early fears around the cloud as a secure and viable means of supporting the planning process have largely been overcome. The kind of scrutiny and skepticism that we may have met with several years ago has been replaced with a new demand and even requirement for cloud computing in the finance arena, as even large enterprises are seeing the intrinsic value, convenience, and flexibility that the cloud brings to traditionally static and inefficient processes.

What are the driving forces behind a growing market for corporate performance management and the cloud?

The time has never been better for financial professionals and global organizations to embrace corporate performance management and the cloud. We're at the center of a "Perfect Storm" with business and technology mega-trends reshaping the market in fundamental ways. From a technology standpoint, the cloud has reached the tipping point of mainstream adoption, first in the U.S. and increasingly on a global basis. Big data and data proliferation are prevalent. Organizations are more collaborative, social, and connected. And the consumerization of business software is further driving the adoption of cloud-based models.

From a business standpoint, we are in the midst of highly uncertain economic times, where the need has never been greater for speed, agility, and data-based decision making. A challenged global economy has led to resource limitations and the requirement to do more with less. And finance professionals are increasingly being tasked with providing more strategic value and insight to their organizations.

All of these factors point towards automating corporate performance management with a cloud-based approach. A truly integrated and automated CPM cycle fosters tight collaboration among managers throughout the organization and is facilitated by tight integration between systems – the GL and other enterprise systems, and the software used for planning, reporting, and analysis.

Companies that can achieve this integrated performance management cycle can enhance the strategic value of their finance organizations. They can decrease planning times and increase accuracy, improve companywide collaboration and alignment, and make better-informed decisions more quickly.

Can you identify some best practices in corporate performance management?

Let's take a look at what it takes to build a strong foundation of corporate performance management.

Think of CPM as a cycle that begins with budgeting, or the process of annual goal setting, which may include analysis of various what-if scenarios to assess the appropriate plan. Then on a periodic basis (weekly, monthly, or quarterly), the organization analyzes variance of actual performance against that plan. Reports and dashboards are instrumental in monitoring actual performance and evaluating variances from plan or forecast. Based on the variance analysis, the cycle begins again with an updated forecast that includes recent actuals and may now extend out into additional periods. In order to achieve the best possible corporate performance management, you need a foundation of best practices supported by the best technology.

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Let's talk about technology first. According to a survey by KPMG, CFOs and finance directors see technology as a key to their long term effectiveness, yet express frustration as they continue to battle with dated and misaligned systems. The survey found that more than half of respondents think that the biggest barrier to improving the effectiveness of the finance function is systems that are out of date and inflexible. Similarly, when asked what puts finance at risk for failing to reach its objectives, 73% point to finance technology and systems. However, change may be on the way, with 78% saying that they plan to make changes to the budgeting and forecasting process over the next two years. And this change increasingly appears to be shifting in favor of the cloud.

So what are the best practices that world-class companies have adopted with respect to planning and reporting? First of all, they deliver timely and accurate visibility into variance from plans through the use of dashboards and key performance indicators to facilitate fast and relevant evaluation of what's happening in the business today, and what's likely to happen in the future. Secondly, world-class organizations reforecast frequently. The information on which plans are created becomes stale quickly, and the world in which we operate changes constantly. External factors such as commodities prices and interest rates as well as internal factors such as staffing changes and product delays can have significant impact on an organization's view of the future. Sticking to outdated plans is a sure path to disaster. High performing companies reforecast frequently based on current information and recent actual progress. Many have adopted rolling forecasts to ensure that their outlook continuously extends into the future. By reacting to changing conditions, businesses ensure that the forecasts relied upon by decision-makers don't become unrealistic as the year goes on. With continuous planning, companies are able to make better decisions, more quickly.

Another important best practice is to utilize a driver-based approach to planning. Here, the idea is to set up a model that drives projections based on the key drivers that management can control. Key drivers are typically a combination of both financial measures, such as commodity prices and salary increases, and operational measures, such as product units or call volume. Driver-based planning allows you to (a) create a plan that's integrated across organizations – so that sales is in step with marketing, for example; and (b) pull managers up from focusing on minute details of the business. Most importantly, it allows finance and management to have a model that can be easily updated for what-if scenario analysis, so you can more easily analyze the impact to your business of higher or lower than expected demand, changes in costs or prices, faster or slower than expected employee growth, and so forth. With driver-based planning your forecasts will require less data input and your management team will focus on the most critical elements of the business.

And, finally, all stakeholders should be involved in the financial planning and reporting process and should feel empowered to truly own their forecast. Since all parts of the company are involved in delivering against plans, their viewpoint and influence is critical to both the planning process as well as execution against plan. Too often managers feel that finance owns the forecast and they hide behind this as an excuse for poor performance. Collaboration in the planning, analysis, and reforecasting processes leads to both better alignment across the organization and empowerment among the management team. A cloud based approach makes it easy for non-finance people to participate in planning and reporting, focusing on what drives their functional area and sharing ideas with one another regardless of what corner of the world they live in.



What's wrong with traditional budgeting practices and processes?

Let's start with the forces at work that are driving new thinking in CPM itself. At one extreme of the market there are low-end, personal-productivity tools – like Microsoft Excel. While many swear by Excel as a personal planning tool, it is manual, inefficient, error-prone, not collaborative, and just doesn't scale to the demands of growing businesses.

Over 65% of companies still rely upon spreadsheets for planning and reporting. Spreadsheets continue to dominate planning and reporting processes in most companies because they are familiar and readily available. But spreadsheets cause problems when used to drive a planning process that requires collaboration and management of volumes of data. Finance often spends more time formatting and troubleshooting spreadsheets than providing insights into business performance. Business managers waste time working with outdated spreadsheet versions and often introduce errors into the process by breaking links or formulas. There's a huge cost to all of this wasted time and error-prone process.

In a survey of more than 500 financial professionals that we just completed with the Business Performance Innovation (BPI) Network, three quarters felt that the CFO role has changed in the last 5 years to become more strategic to support overall business goals. And more than half see the use of innovation and technology as key to achieving this. The problem is, many CFO's strategic capabilities and resources are hampered by inefficient methods of planning and budgeting.

The Beyond Budgeting Round Table, an industry research organization, estimates that the average corporation spends four months and 20-30% of senior executives' and financial managers' time on the budget, and that larger companies, with annual revenues over \$1 billion, spend as many as 25,000 person-days per year budgeting.

And to what end? Among many companies, the consensus view is that the cost of budgeting -- in terms of time and resources -- is far greater than the value it creates. And the primary culprit is the inefficient, spreadsheet-based budgeting and forecasting models still used by most companies.

So what does the cloud bring to CPM?

So what is the best technology option for corporate performance management? It is definitely not spreadsheets or large, on-premise CPM applications, such as those offered by Oracle, SAP, and IBM that are typically expensive, complex, take a long time to deploy, and require a huge amount of IT involvement. These two traditional, insufficient approaches are creating a gaping hole in the market. Cloud-based CPM has all the key elements that are missing in the market extremes, combining ease of use and fast deployment with a collaborative and scalable environment that requires no IT. Software-as-a-Service solutions are very affordable (with a total cost of ownership that's up to 75% less than on-premise alternatives), easy to use (even for non-finance staff), and rapidly deployable. And you don't need any new hardware, software, or IT involvement. Constant improvement and enhancement benefits all users, who immediately get access to new features, without the need for ongoing IT support. Web-based, easy-to-learn interfaces mean that even people without strong finance skills can participate in financial planning and reporting processes, which increases adoption and collaboration across the company. Finally, cloud-based CPM solutions are accessible worldwide with nothing more needed than a browser and an internet connection.

In a nutshell, the cloud is more essential than ever and is revolutionizing the software world as we know it. In the CPM realm, the cloud gives companies a profound competitive advantage, fundamentally transforming the way they manage their business.



A Good CFO Understands the Numbers – A Great CFO Influences the Numbers

Lauren Kelley, CEO and Founder, OPEXEngine

For years, CFO publications, conferences and networking events have trumpeted the need for CFOs to move from being the top accountants in a company, to playing a more strategic executive role in driving corporate performance. “Strategic” implies both an ability to influence future performance, as well as a collaborative management role. By contrast, the traditional CFO has focused on tracking performance that has already happened and at best, working towards cutting costs and expenses going forward.

Many CFOs have not played a fully strategic role in their company because by relying solely on internal data and accounting of past performance, they do not have the tools necessary to influence strategy adequately. Often, the CFO’s voice is just one more voice in what can be a chaotic decision making process around determining the company’s budget and strategic performance goals.

Benchmarking Provides the CFO with a Strategic Tool – External Data – to Influence the Numbers

External benchmarks and the benchmarking process overall, give CFOs powerful tools to influence corporate performance goals in a way that is both strategic and collaborative. External benchmarks help identify areas where a company could be more efficient with its resources, and also where the company is more efficient than its peers and therefore should continue to support and perhaps expand investment. Moreover, external comparisons of market leaders can help identify efficient business model changes, which are a given in today’s dynamic business environment. From a collaborative perspective, external benchmarks take much of the conflict out of the decision making process by providing data-based context for difficult business decisions. Financial comparisons provide validation and credibility to corporate performance targets for the executive team. When the senior management team feels the numbers are fair and achievable, it typically leads to better target achievement.

Without good quality benchmarks, developed with current data, everyone will predict the future based on their past experience, which may or may not relate to the current company, the current environment and current best practices. Without external data, the CFO is relegated to tracking and presenting past performance and making assumptions based on previous performance. In this way, future performance assumptions will be based on a trend line determined by the past and aiming towards the same performance. However, today’s business world assumes constant performance improvements, rather than more of the same.

Good Quality 3rd Party Data versus Anecdotal Benchmarking

Companies have often relied on random surveys of industry benchmarks, or anecdotal information collected by calling peers for comparison information. These information sources provided some context for setting corporate performance goals, but typically the data was an aggregation of disparate companies and business models. An industry survey of the software industry might average financial data from Microsoft and a \$1,000,000 start up and several hundred other companies with very different business models, many of which might not really be “software” vendors. Company ratios will obviously vary tremendously between a \$74B public corporate giant founded almost 40 years ago and an early stage company founded 3 years ago. Similarly, gathering anecdotal data based on one’s personal network is useful to provide context and to learn about best practices, but does not develop good quality data, and also does not have the credibility with other executives as 3rd party, external data sources that use established benchmarking methodologies. And it takes a lot of time to gather anecdotal information from peers.

In the software industry, good quality business benchmarking is particularly important given the wide variety and dynamic nature of software business models which range from on-premise software sales, software-as-a service (SaaS) subscription-based sales, transaction fee based revenues, and revenue models which are a mixtures of all of the above. Not only do the benchmarks change based on the business model, but some of the critical metrics for determining corporate performance will be different based on the business model. SaaS companies track subscription numbers, conversion and renewal rates, plus calculations of customer value and profitability. On-premise software models focus far more on pure revenue recognition and revenue to expense ratios. Transaction fee-based models typically track numbers of customers and the revenue processed by customers. Open source and freemium models track downloads, users and other metrics to quantify the potential size of the market and potential for conversion to paid customers.

Getting the Context Right

“If you live to be one hundred, you’ve got it made. Very few people die past that age,” George Burns.

Benchmarks are most useful when the business context being compared is clearly understood. Microsoft’s expense ratios will be far different, given their billions in revenue and 40 years in the market, versus an early stage company with small revenues that is spending a far higher proportion in sales and marketing to identify their target customer and establish their business. This is true even if the startup is selling in the same market as Microsoft, or selling competitive products. Or take the example of SaaS giant, Salesforce.com. Many software CFOs tell me that they always have to compare themselves to Salesforce’s metrics, even though Salesforce is a \$2.3 billion public company with a market capitalization of over \$15 billion. David didn’t beat Goliath by trying to emulate Goliath, but by being the most efficient and focused with the resources that he had at the time.

Defining Your Peers

CFO’s have greater credibility in influencing the numbers when using benchmarks based on credible peers. We find it more useful to compare your company to peer groups made up of companies at a similar stage of growth with similar business and sales models. In any given market, there will typically be competitors that are far larger, and some that are much smaller. Some companies will sell to the same customers but with a different model. Comparing your performance metrics with companies at very different stages of growth is unfair and will not give you an indication of where you could be using the same resources more efficiently. And benchmarking against your peers can also highlight areas where you are using your resources more efficiently than similar companies, and therefore should support and perhaps expand investment for even greater results.

Benchmarking is a great, collaborative management process, not just information.

Finance in general and CFOs in particular are often tarnished with the brush of being the company expense managers and unfairly wanting to increase revenue with fewer resources. By involving the rest of the company in the benchmarking process from the beginning, even if only by sharing and reviewing external data with key executives, Finance can be seen as providing valuable, neutral information to support a collaborative, data-driven process around complex, strategic decisions.

A Best Practices Benchmarking Example

One of our clients, Rally Software, a fast growth, venture backed agile software developer, incorporates benchmarks consistently to drive strong corporate performance and management efficiency. They have participated for a number of years in the OPEXEngine and SIIA annual software and SaaS benchmarking. The Finance organization uses the benchmarks to support the regular budgeting and strategic planning process, by delivering a benchmarking presentation to each executive department of the company, at the start of the annual budget process. Each senior executive is asked to develop a budget in the context of peer benchmarks, and to present their budget and target proposal to the executive team with a discussion of why they feel they should be above or below the peer comparison for their department.

Benchmarking Takes the Friction out of the Budget Process

Rally's executive team says that they find the budgeting and strategic planning process to be quick, efficient and collaboratively fact-based, as compared to their experience at other companies where it typically can be very chaotic and disruptive. In many companies, the budget process is long and drawn out, taking precious time away from daily focus, especially at the end of the fiscal year, to the point where everyone agrees to the numbers just to get the process over. In Rally's case, executive management has even said they enjoy the budget process as they feel personally involved in determining how best to use all the company's resources, and beat their performance. And once management has committed to a budget plan, Rally's finance department uses the 3rd party benchmarks to set the context for efficient board approval. Overall, Rally finds using outside benchmarks extremely useful to drive an efficient, data-driven budgeting process with strong executive and board commitment to the corporate goals. All it took was to provide good quality, 3rd party benchmarks, share them with the management team and ask that budget requests be based on the context provided by the benchmarks.

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Critical Tool for CFOs to Improve Corporate Performance

Benchmarking is not a blueprint for how to run your business. We always advise companies in our practice that you don't always have to beat all the peer benchmarks, it is just important to know how you stand in comparison to your peers on critical metrics and make decisions based on that context.

CFOs who use good quality, 3rd party data to play a more strategic and collaborative role in setting corporate targets, will increase corporate value. Many companies, especially in the fast moving software industry focus purely on just growing as fast as they think they can, without having the time to improve efficiency or decision-making. The most successful companies are extremely metrics and comparison driven. Compare growing a software company to developing world class athletic achievement: the best athletes constantly compare and analyze their peers' numbers. By doing so, athletes consistently improve their performance.

Shouldn't your business do the same? There are many good sources of data available today, and it will only get better. It doesn't take much time to get started benchmarking and sharing the benchmarks. It is a critical tool to being a strategic CFO who influences the numbers, instead of just understanding the numbers.





Focus on Financials: Comprehensive ERP and Financial Management for a Manufacturing Competitive Advantage

**Jim Shepherd, VP Corporate Strategy
and Product, Plex Systems**

Comprehensive Coverage Throughout the Enterprise

The manufacturing enterprise benefits from comprehensive, real-time financial tracking, analysis and reporting of accounts receivable, customer credit management, receipts and other activities. It's a strong disadvantage if the organization uses stand-alone spreadsheet systems to track purchasing, receiving, shipping, accounts payable, collections and other areas.

With stand-alone and manually intensive systems, the challenges include tedious tracking and maintenance of physical documents like invoices; lack of visibility into financial record-keeping such as tracking payables and receivables; a high likelihood of introducing error via duplicate data-entry; and other issues.

For example, if a manufacturer has a contractual agreement with a customer to extend credit up to certain shipping volumes, the accounts receivable system must fully integrate production, shipping, outstanding orders and delivery data for accurate tracking of the contract. If this data is not fully integrated, the enterprise incurs unnecessary risk and high levels of outstanding accounts receivable. How can production know if they should build more products for this customer? When does the shipping department get word to halt deliveries?

Automation and integration also improve collections tracking. An integrated system brings all outstanding credit information together in one easy screen, providing accounts receivable visibility for credit collection management including automated notices based on numbers of days receivables outstanding.

Scalable Financials

Manufacturers face a complex world of multi-plant, multi-company and geographically dispersed operations. Having the ability to scale financial management and record keeping from one plant to across the global enterprise is crucial.

As an example, a small US-based metal stamper recently embarked upon a contract with a German-based tier one supplier. The contract stipulated that the metal stamper meet German accounting requirements when issuing purchase orders and shipping documents. This would have been virtually impossible with a stand-alone PO system. In essence, the metal stamper would have to maintain a separate PO process for this one customer reflecting localized requirements, format changes, and currency.

Fortunately the metal stamper had in place an integrated system that easily incorporates and manages data in multiple languages, currencies, and date formats, including local tax and business mandates and other business requirements unique to specific countries or principalities.

Even though it is only a small company, the metalformer was able to lower administrative costs and improve productivity by accessing real-time, locally customized and integrated business information including manufacturing processes, engineering, sales, accounting, quality, production, purchasing, receiving/shipping, and inventory.

Further, the system can scale across multiple companies should the need arise. Financial reports, such as income statements and balance sheets, combine results for two or more companies. Features include multiple levels of consolidation, intercompany eliminations, currency conversion, and multiple report formats.

Keeping an Eye on Margins

While price cutting helps a manufacturer compete and maintain volumes, as a company lowers prices, profit margins suffer, endangering overall sustainability and financial health. In the end, manufacturers using multiple systems (or manually intensive systems) have no confidence in their data – even in the most basic of information, the cost to produce a product. Keeping an eye on profit margins has everything to do with maintaining accurate costing and bidding data.

As an example, a tier two supplier uses an integrated ERP system to track actual production costs on the shop floor, drawing upon that data for the quoting process.

“Actual cost to bid” directly impacts the company’s profitability. When actual cost is lower than the bid proposed to the customer, companies risk losing business to a lower priced competitor. If the actual cost is higher than the quote, the company loses money on the order.

Because the company’s ERP system tracks and records all physical events (receiving, production, inventory status changes, scrap, subcontract, shipping, etc.) on the shop floor, it’s ideal for tracking cost. How much does it cost to make a certain part? Which parts are more profitable? How low a price can they afford to quote? The company is able to answer the questions with precise data instead of guesses, thereby protecting margins without sacrificing productivity.

Cash Flow Considerations

Automated financial systems also contribute to an improved cash flow situation.

As an example, winning companies improve cash flow by paying only for raw materials or parts as they are consumed, instead of paying for them in advance of production, then assuming costs of storage. This is accomplished by automated supplier consignment tracking where invoices are generated only when the parts are consumed by the manufacturer. This helps companies reduce inventory storage costs, cut premium freight charges, and speed production cycles.

Traditional accounting, ERP or inventory software systems do not handle consignment tracking adequately. Most manufacturing companies can’t take advantage of consignment arrangements, or are forced to track the process manually with double data entry.

The key is to automatically track the movement and accounting of inventory, with the system managing payment only after it is consumed. If an integrated ERP solution offers automated supplier consignment, inventory from a supplier is delivered to the warehouse and consumed and invoiced directly from stock, typically tracked using barcodes that are scanned just as the material is consumed.

Compliance

For public companies, no discussion about manufacturing financials is complete without mentioning the importance of complying with regulatory regulations such as Sarbanes-Oxley.

Manufacturers must implement financial processes and controls for maintaining auditable business transactions and transparency. Manufacturing management must have complete confidence in financial systems and in the accuracy of related reports.

Look for an ERP system that integrates compliance requirements in all functional areas to avoid the need for redundant record-keeping or third-party applications.



The New CFO: Cloud Financial Officer

Mat Ellis, Founder, Cloudability

Traditionally, technology projects have been treated as if all of the features, benefits and costs can all be accurately defined right at the start. Lengthy ROI and business model reviews, combined with the waterfall method of project management have managed to reinforce our belief in this lie. All too often we recognize late in the project life cycle that our technology needs have changed and so we scramble to catch up, resulting in late delivery, lower than forecast ROI, cost overruns and, in the worst cases, abandoned projects. The cost of this inefficiency, both measurable, and in terms of lost opportunity, customers, market share, etc., are significant, and getting higher as we come to rely more and more on technology in every area of business.

The cloud finally provides businesses with a level of agility that's finally coming close to matching their need to fast paced change. This is putting the current approach of 'nothing changes' under such strain that we believe companies will be forced to fundamentally change how they manage their IT investment. Already we are seeing some leading edge companies apply radically different financial control and planning processes in order to apply this newfound agility to their business.

Here at Cloudability, in our meetings with customers and partners, it often feels like the primary limiting factor is that the humans are having trouble keeping up with the new ways of working these improvements in technology have made possible. Finance requires, rightly, a more conservative approach to process than many other departments, and this change will be challenging at first while norms and best practices are defined.

To illustrate this, we will examine a project lifecycle as it appeared to Mark and Jill (the CIO and CFO respectively of the fictional company Acme Corp) and then see how the project might have fared on the cloud.

Jill ran a tight ship, and around the end of every summer, each team was expected to have a good idea of next year's spending plans. This year Mark was under a lot of pressure from customers, salespeople and even his ops team to fund a big upgrade to one of Acme's main products. The new project was code named Pink. Early estimates indicated Project Pink would take a year and cost almost \$5MM.

The product Project Pink was replacing was nearly seven years old now and showing its age. The ops team had done a great job of keeping it going without a big investment, but nothing is for free. Sales had stagnated, and earlier in the year Acme's best sales person had quit. The CEO suspected she was lured away by the prospect of better commissions at a rival, who had a more modern product.

Acme's customers were loyal, but it was getting harder to keep them happy. The system would regularly slow down, and then the Ops guys would be forced to stay up all night to get things unblocked again. Significant improvements were pretty much impossible thanks to the unpredictable impact they might have on the fragile system.

Mark was pretty confident he could persuade the rest of the exec team to fund Project Pink, but didn't relish the months of planning and haggling ahead of him.

The last few months of that year were spent planning and preparing the business case. ROI models were endlessly refined until they became so complex they began to resemble the technical documents. Another project manager was hired to share the load, and a really detailed implementation plan was completed, albeit a little rushed to make the deadline. Hiring requisitions were readied, and vendors put on alert.

Finally, Mark got his budget approved, but slightly reduced. This would mean cutting a few corners but it didn't seem anything too serious at the time to cut back on load testing. When everyone came back to the office after the winter break his team got stuck in. Vendors were picked, equipment ordered, contracts signed and code developed.

By the early summer the project was a few weeks behind schedule. It had taken longer than expected to get all the hardware installed and the bugs worked out at the new data center they had selected. Customers had to look at static screenshots of the new system instead of getting to play with early prototypes.

By the time the preview versions of the new system were in the hands of the customers they were two months behind schedule. While early focus groups had loved the screenshots now they were actually using the new system there were all kinds of real-world workflow issues that urgently needed changes. Another few weeks lost from the schedule.

All these delays ate into the load testing time. The beta test group of customers had waited for a long time to get access, and then waited a bit more while the workflow problems were sorted. This meant that the load tests could only happen at night and over weekends. The big changes the beta group demanded really ought to have been load tested again, but there was the budget nor the time, and so Mark made the decision to take a chance and skip them.

Finally, the big day came to start migrating customers. At first things went smoothly, but pretty soon it became clear that there were some serious scale issues. The new system was a big improvement over the old one, and nobody had accounted for the massive increase in the time customers spent in the system, and the much larger and more complex reports they built as a result.

The migration had to be paused while they figured out what to do. The developers worked overtime trying to optimize the system, but the real changes they needed were going to take months to get right. Ops were run very thin while they supported two high maintenance systems: the old one still had the bulk of Acme's customers on it, but the new one also had a set of very engaged users. Both had many problems to fix.

By the end of the year, the developers had a set of changes that in testing seemed to show a big improvement in performance. It was hard to tell for sure as nobody wanted to experiment on the migrated users, they had been having enough problems these past few months. Mark desperately wanted to add some more hardware to some parts of the system just to be sure, but there just wasn't the budget.

The migration was restarted, and the performance improvements really made a difference. The system was much quicker and after a few months of debugging with the early adopters the rest of the customers had a smoother initial experience.

Finally, by Easter the migration was over. The system was slowing down a little, but it was manageable, and at last the old system could be decommissioned. The overruns were mounting; he had to hire some expensive contractors to temporarily beef out the Ops team, and these guys weren't cheap after 9 months. The data center housing the old system had annual contracts, which Mark was forced to renew when they missed the deadline for decommissioning the old product.

The total cash cost of these overruns was considerable, but paled in comparison to the opportunity costs. The entire technology organization had done nothing else but the migration for 18 months just to get on the same level as their main competitor. In that time their competitor had continued to improve their product, and now the market them as the leader. Some key staff and customers had been lost too.

Now let's rewind, and see how Project Pink might have fared if it had been deployed by a company experienced in using the cloud.

There is still have a significant amount of planning before the project started but the much lower capex requirements reduce the risk significantly, along with the planning requirements.

A commitment to millions of dollars of hardware and software is replaced by a commitment to 6 months of labor and external vendor costs. During this time a much more accurate ROI model can be developed, based on actual data instead of projections.

Mark also doesn't have to wait for contracts to be agreed with hardware, data center and network vendors. His developers can get to work almost straight away and Mark can try several different approaches to find out which combination is better.

In this scenario, the beta group of customers can be given access to the very early mockups almost as soon as the developers have created them. This leads to a much earlier, and importantly, a much more interactive feedback loop with the customers. The workflow problems would have been caught much sooner, way before the rest of the system was built saving development time.

A full load test is rarely possible in a traditional scenario, requiring several times the hardware that you have on hand. But on the cloud the ops team is able to generate much higher and more realistic loads. This not only identifies bottlenecks that before we detected much later but also allows them to plan a more reliable deployment strategy and practice with copies of live customer data.

As a result, the Ops team find the bottlenecks before a single user is migrated, and the developers can much more quickly test their performance upgrades. It's not inconceivable to see the production migration starting in half the time when compared to the traditional approach, and with a much higher chance of success thanks to all the testing Ops did in the load tests.

One thing the extra load testing is unlikely to catch is the changes to user behavior driven by the new system, which resulted in a customer using many more cycles of computer time than before. Again, Mark and Jill's life is much easier on the cloud. Extra hardware can quickly and easily be applied to the problem while Acme staff study the problem and decide what to do, likely a combination of charging extra for some of the new features, suck down some of the extra costs and lean on developers to make the system more efficient.

So far we've focused on the some of the benefits inherent in building Project Pink on the cloud, but what are the new risks and costs?

The first risk is of over spending. If a developer fires up half a dozen large sized 'instances' (a common measure in the cloud, roughly analogous to a virtual server) at a cost of \$2/hr each on January 2nd, Jill's team won't get the bill until February 15th and will likely not get anyone's focused attention until early March. By this time the developer has spent almost \$20,000 without anyone knowing or approving it.

Overruns can be made much worse through security compromises. IT Security is something teams usually focus later in the project cycle, prior to deployment. Hackers can spend an incredible amount in a very short time once they get hold of a compromised set of credentials or a set of servers that have not been locked down. It's not uncommon to see bandwidth charges of \$25,000/day thanks to illegal content being hosted on an insecure server.

Finance teams must put into place new controls to prevent overspending. Changes to control systems should address:

1. Discovery of cloud buyers
2. Access to cost data for these buyers
3. Frequent or automated review of costs, to detect overruns

These basic financial controls address over spending but a second set of controls is required to avoid waste. A simple example would be a large and expensive computer system that is running at 5% of capacity, which should clearly be replaced by a smaller (and cheaper) implementation.

This process can easily be worked into the regular financial reviews most companies already conduct, usually on a quarterly or annual basis, and goes to the root of a CFO asking executives "do you really need this?" Only now the finance team itself can verify the answers they receive by looking at hard data.

At this point, with engineers purchasing only what they need and the necessary protections against accidental overspending in place, you may think things will return to normal. You would be wrong in thinking so.

The next issue is one of budgeting. The cloud has a major impact in two areas here.

First, before the cloud, if a system was suffering from capacity problems, there were usually only very expensive and unaffordable quick solutions. But now the solution is readily at hand: you can just deploy more equipment!

The flip side of this coin is where costs increase simply because sales have increased. Eventually, you will have to move to viewing costs as unit based versus the traditional method of looking at IT costs as “we spend \$x per year on IT”. If a service is costing \$10/month and is yielding revenues at \$100/month per user, it doesn’t really matter if IT costs this year are over “budget” as sales are too.

By linking IT costs to some business action finance teams not only improve budget accuracy. They regain some leverage in discussions with inefficient IT teams. “We can’t switch servers off without affecting performance” can now be countered with “We can’t leave them on without losing money”.

As most cloud services are account based (i.e. you login with a user ID and provision services), it’s possible to make those align with internal product or project codes. IT managers should be given access to the same data as finance staff so they can focus on unit costs as part of their operational responsibilities.

The last part affecting finance is in strategic planning. The current method allows a company to devise and enforce a strategy for IT investment. A typical system goes like this:

- We’re going to spend x% of sales on IT, which is \$yM
- \$zM has to be spent on mandatory projects (regulatory, legal, operational, etc.)
- Rank discretionary projects by ROI and we’ll spend the rest on those until our total spending reaches \$yM

The cloud makes this kind of top down strategic financial planning much harder: imagine your company builds a hit product like Instagram, with millions of users signing up in almost no time at all. Pre-cloud systems simply couldn’t grow at that kind of speed. Post-cloud your strategic decisions on how much IT to invest in division A or division B can quickly be rendered irrelevant.

It is in this area that a forward thinking CFO can play a very important leadership role in a cloud based organization. Once technology teams are held accountable to unit costs instead of overall budgets they quickly adapt their behavior to make the most efficient use of their budgets. We are already seeing leading cloud users do this, and even to break down unit costs into costs-per-feature, so that high use/ high profit features are prioritized over low use/low profit ones.

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