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***Re-Thinking Revenue Sources  
Externalizing Applications via Cloud Computing***

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## Re-Thinking Revenue Sources Externalizing Applications via Cloud Computing

These times call for expanded thinking and creative approaches to growing companies. The traditional approaches to finding new revenue sources are not yielding the kinds of returns seen in the previous generation of business models. Innovative companies are taking advantage of the seismic shift in technology occurring with the rise of Cloud Computing and Software as a Service application delivery models. What was once a sunk IT cost may, under certain circumstances, become a new source of revenue and a new phase in company strategies. But what are the key indicators that propel this opportunity and what actions must be taken to capture revenue?

Cloud computing refers, in various forms, to the collection of technologies that make up the internet and the plethora of service providers that will host and manage an enterprise's applications and databases. The economics of placing computing resources in large provider installations can cut hardware costs in half. With the increase in installation, system management and communication services, the placement of an application in the cloud, and making it available to anyone with access to the internet, has become easier and more reliable. The projections speak for themselves.

Half of all server and storage hardware will be sold to a cloud vendor by 2020. Cloud Computing spending will grow 5 times faster (26% CAGR) than all applications spending (IDC). By 2013, companies will spend \$14 Billion on Software as a Service (SaaS) residing in the cloud (Gartner). Major vendors are ramping spending and investment in cloud computing to ensure a competitive position. Microsoft told this author that in 2009, the company bought almost 1/3 of all servers sold in the U.S. to outfit their Azure cloud computing service offering. As one analyst said recently, "Cloud computing as a new paradigm for computing and is here to stay".

What does this mean to the average company? If you are a technology company your strategy for developing new products and services better account for the shift. If you are an enterprise with significant IT expenditures, you better have moved some applications to the cloud or doing your homework on where the cost advantages are by switching. If you do not consider yourself a candidate for cloud computing there is still an opportunity to leverage the cloud by commercializing internal applications you may have never thought of as a revenue producing asset.

Enterprises that created internal applications to run their business are the majority. Billions have been spent on hiring development teams, external and internal, to create some critical business application that makes a company run faster, cheaper or better. These applications often differentiate the company

and deliver market advantage. Some are even “best practice” in their industry. Not all great software is sold by software vendors! Many of these “best practice” applications are hidden gems. To consider selling that application in the open market has occurred to some companies. PlazaBridge Group hears from them.

The first questions asked are obvious ones: One, what is the competitive impact of offering an intellectual asset to competitors? Your target market for selling is likely to be competitors in some way. Sometimes the answer is obvious. Other times selling an application to your competitor may allow you to keep them just one small step behind (Sun Tzu style). Often competitors gain more than they lose; they are seeking strategic advantage in other ways beyond operations, for example. Second, what revenue can really be expected and will the added overhead justify the effort? If the application is “best practice” exposure to a global, internet-sized market can often lead to major revenue potential. The similar company residing in Spain or Australia may not be a direct threat. Running the numbers and accurately identifying the market potential is critical. Third, what are the steps necessary for a company, unfamiliar with software sales and Software as a Service support, to meet the opportunity? The following outlines some key consideration areas for companies seeking to take advantage of this opportunity.

1. Seek out technology entrepreneurs: There is plenty of talent on the market to help develop, package and market great software. The practice of selling software, speaking the language of IT and meeting the expectations of delivery are critical ingredients to starting. But don't lose the value in having domain expertise. Marrying the two worlds will ensure a firm foundation for success and ensure long term business viability. One of our clients is a very successful distribution company and, over the years, developed a tracking application that was widely viewed as the best. The company had no idea on how to market software but recognized the revenue potential. Competitors accepted the risk of using the software because they understood that competitive advantage came in many forms. What made the opportunity successful was the leveraging of the domain expertise of the company with the delivery of a solid SaaS platform.
2. Plan for a technical development phase: All internal applications require transformation to a SaaS deployment. Some are easier to change than others. Adding payment systems, security, usage analytics and mobile extensions are getting easier with new utility suites. The Cloud infrastructure providers add much of the needed software management services to help with the transition. If the application exists within a network platform already the time and effort is smaller. If not, a redesign on a cloud platform is required.

New startup technology companies are building deployment platforms that make the transition even easier.

3. Define a business and revenue model that supports a sustainable business: Many successful companies have lived on one business model. Pricing assumptions are often taken for granted and presumed to be universal. Working under different business model assumptions can be an insurmountable hurdle for many management teams. The SaaS model is different than traditional business models. Annuity pricing structures, virtual operations, and market leverage strategies (like selling to competitors) can be difficult to grasp. However, this is necessary to achieve success. Cooperating competitors requires flexibility and a solid understanding of strategic positioning, market planning and market segmentation analysis.
4. Develop marketing and sales as a core competency: Enterprises with “best practice” business process applications are typically operationally focused. Their core competency is in process mastery. Selling and marketing is not typically a strength. It must become one with an effort to market software placed in the Cloud. Creating “buzz” is the new marketing; utilizing all the tools of the trade like on-line community development (Facebook, etc.), minute by minute communication (Twitter, etc) and blogging are critical. Market research should prove the application as a best of breed process. It will be the quality of the marketing and sales effort that will create success.
5. Allocate optimum resources to meet support and professional service needs: Placing an application in the Cloud and supporting global users is not for the faint of heart. Offering tiered support services and managing the inevitable call volumes during initial startup of users must be planned. Professional services are often required to supplement the use of the software. These services are the primary vehicle for ensuring the user realizes the benefits of the application. Ask the likes of Salesforce.com or the various ERP vendors what level of demand exists for professional services to setup, configure and manage usage. The good news is that this requirement for professional services is highly profitable.
6. Determine the requirements to partner with other companies: Integration into other Cloud technologies or enterprise applications is certain. Customers will demand data integration with their existing tools. If your application was created in a common, open environment this requirement will be easier. Technology partners can offer significant leverage to help customers and improve the value of your offering. Empirical data on the probability of success is clear: collaboration with multiple partners, focusing on creative problem

solving and shared value creation, significantly increases the probability of success for new enterprises and new product introductions.

7. Plan and architect your application to support emerging technologies: Cloud Computing is revolutionizing IT. Equally impactful is the emergence of the Smartphone (need I say iPhone) and mobile internet workstations. Applications must have a mobile component and be flexible to handle usage whenever, wherever and with whatever user device. This can alter the business process workflow. It can also open up the application to an ever growing user market.

Cloud Computing is here. Enterprises can take advantage of these changes in multiple ways. Cutting costs in hardware and support labor. IT installations can be more flexible and adaptable to changing business conditions. Cloud Computing can also be a new source of revenue to any company with the right vision to expand on how it does business in the 21<sup>st</sup> Century.