Where the Cloud Meets Reality:
Scaling to Succeed in New Business Models

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Executive Summary

Executives everywhere recognize there is money in the cloud and are investing in new “anything-as-a-service” (XaaS) business models. Gartner forecasts that the market for applications, application infrastructure, and systems infrastructure delivered as public cloud services will reach $43 billion in 2015. Yet as technology providers scramble to stake their claim in this new frontier, many of them confront a sobering reality: Creating and implementing the right operating model to build a successful cloud business is far from easy. In fact, many executives acknowledge that it’s one of the most difficult challenges they face today.

To help leaders sort through this challenge and chart a clear course forward, Accenture recently completed a research study with more than 40 senior executives from 30 high tech and technology-enabled companies. These discussions built upon the hypotheses outlined in our paper from early 2011 entitled, “Where the Cloud Meets Reality: Operationally Enabling the Growth of New Business Models,” and sought to understand how companies were operationalizing new XaaS models alongside their traditional, non-cloud offerings.

Our research confirmed that virtually all companies are struggling to deal with the operational complexity caused by XaaS, and by new business models more broadly. The reality is that building the new XaaS capabilities required to succeed and embracing a services-centric mentality is hard work that touches every corporate function. We found that in most cases the launch of new XaaS businesses far outpaces a company’s operational ability to deliver and scale. As the general manager of a cloud business unit explained to us, “We are going 100 mph and the cliff is 10 miles away. We go ‘kaboom’ in just a few quarters unless we get our operations functioning quickly.”

Based on our research and years of client experience, we identified 10 recommendations across four major focus areas that industry leaders should embrace to launch and scale XaaS models successfully (Figure 1).

The logic flow and order of these recommendations is critical. Success starts with achieving business model clarity as the necessary precursor. Second, companies must identify and build distinctive XaaS capabilities and incorporate them into a cohesive operating model; our research identified eight unique XaaS capabilities. Third, companies must develop and agree to a segmented operating model approach at the most senior levels of the company. Finally, companies require a new governance model to handle this complexity. A critical element of this model is the creation of a new role, which we call a Chief Operational Architect.

Collectively, implementing these recommendations requires a dramatic departure from how most incumbent companies are run today. But continuing on the current path is not an option, as customers are deciding with greater frequency that XaaS solutions can meet their needs in a superior manner to traditional models. In technology, growth is king, and every percentage point of growth a company fails to capture results in a measurable loss of shareholder value. As such, the future demands attention to these challenges today, while cash is available to fund investments and create the new capabilities required to compete in the XaaS age.

Figure 1: Recommendations Summary

<table>
<thead>
<tr>
<th>Business Model Clarity</th>
<th>Distinctive XaaS Capabilities</th>
<th>Segmented Operating Model</th>
<th>Effective Governance and Leadership</th>
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<tbody>
<tr>
<td>1. Agree on business models first: Identify the number of business models today and in the future, ahead of operating model design</td>
<td>4. Anchor around the customer experience: Upgrade capabilities to deliver a world-class customer experience</td>
<td>7. Segment the operating model: Agree on the operating model approach at the most senior levels of the company, then develop a capability map and define the “Who, What, and Where”</td>
<td>10. Name a Chief Operational Architect: Name a senior leader to be responsible for timely decisions about operating model strategy, design and investments, for both new and legacy business models</td>
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<tr>
<td>2. Define business models holistically: Get alignment on the comprehensive definition of offering and value proposition, targeted customers &amp; route to reaching them, and revenue (pricing) model</td>
<td>5. Focus on differentiating capabilities: Develop critical capabilities such as product development; customer-centric technology delivery; selling &amp; channel management; pricing, contracting, &amp; billing; and financial management</td>
<td>8. Shrink cycle times by embracing SaaS: Leverage software-as-a-service to develop the technology infrastructure needed to enable the new business models quickly</td>
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<tr>
<td>3. Wrestle with risk early: Recognize that XaaS involves handling sensitive data and greater hands-on responsibility for customer success, and decide if it’s in the “corporate DNA” to manage such risk</td>
<td>6. Pay attention to the blind spots: Anticipate requirements in portfolio management, ecosystem management, and service &amp; support</td>
<td>9. Invest in building blocks to enable future agility: Standardize core processes, establish shared services, get serious about service-oriented architecture (SOA), and view data as a platform</td>
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Section 1: Introduction

In early 2011, Accenture published “Where the Cloud Meets Reality: Operationally Enabling the Growth of New Business Models.” In this paper, we explored how the rise of “anything-as-a-service” (XaaS) business models, driven by the emergence of cloud computing, was challenging traditional hardware and software providers. These companies, we wrote, faced significant pressure to develop appropriate operating models that could enable them to capitalize on customer demands for XaaS solutions while still supporting the traditional product-focused businesses that form the core of their offerings. We noted that it is extremely hard work to understand fully the complexity that comes with providing a service versus a hardware “box” or a software license, and then to adjust capabilities to enable these “as-a-service” offerings.

That initial paper was based primarily on insights derived from Accenture’s extensive strategy and operations consulting work with high tech companies around the world. For this paper, we conducted formal qualitative research, including interviews with more than 40 senior executives in 30 companies that operate or are building XaaS businesses. The companies interviewed came from the high tech, media, and communications industries, as well as other industry sectors where technology is playing a key role in growth. We interviewed executives at both traditional industry leaders as well as pure-play XaaS companies such as salesforce.com.

Our conversations with leaders at these high-profile companies certainly confirmed the enthusiasm that exists for the cloud. They also reinforced the magnitude of the challenge technology companies face in bringing cloud-based services to market within their existing operations. “This is a massive shift in how we manage and deploy resources,” said one business unit executive responsible for XaaS. “If companies aren’t thinking about this, they should be. But the question becomes: Is the business model moving to something you have in your DNA to change?”

The research also confirmed there are lessons to be learned from both companies that are succeeding and those that are struggling to make the move to new XaaS business models. We have distilled these lessons into four major principles (Figure 2):

- Achieve **business model clarity** before making investments
- Assess and address the **distinctive capabilities** required to deliver XaaS in a way that prioritizes the customer experience
- Define and develop a **segmented operating model** approach that will support unique XaaS capability requirements as well as a broader array of business models in a flexible and cost-effective manner
- Rethink **governance and leadership structures** to make better, faster decisions

In the remainder of this report, we expand on these areas with details and anecdotes from the senior executives we interviewed, as well as recommendations for how companies can confidently move forward.

The enormity of the challenge in moving from being a product-centric company to being an “as-a-service” provider is unmistakable, particularly in serving the highly demanding enterprise customer. Building the operational capabilities required to serve enterprise customers seamlessly with on-premise and XaaS offerings, including proper migration strategies and the means to achieve service level and other expectations, is an immense undertaking. In this new world, customers depend on their technology providers much like they do an outsourcer of key business processes – the service must work or there will be consequences. If traditional technology companies are to evolve into these new business models successfully, they need a coherent blueprint for success. This report aims to help technology providers address precisely this challenge.

![Figure 2: Major Focus Areas for Building and Sustaining XaaS](image-url)
What is XaaS?

Cloud computing consists of a wide array of new business models, the most prominent of which are Software as a Service (SaaS), Platform as a Service (PaaS), and Infrastructure as a Service (IaaS). The generic term “X-as-a-Service” (XaaS) is used to describe a range of business models in which almost anything can be delivered as a service (Figure 3).

This paper provides prescriptive guidance to traditional technology companies evolving to include SaaS, PaaS, and IaaS business models. We believe the recommendations presented here apply to all three of these layers of the cloud.

In the future, cloud computing may move beyond pure technology, with companies increasingly considering ways to consume and offer Business Processes as a Service (BPaaS). Although BPaaS is beyond this paper’s scope, Accenture continues to explore the topic in its research and work with clients.
Section 2: Achieving Business Model Clarity

Our research confirmed that business models are rapidly increasing in number—and that the proliferation challenge is real and urgent. As we demonstrated in our initial paper, technology industry leaders such as Microsoft and Cisco have dramatically expanded their portfolios of business models in the past decade, and they each now support seven or more unique models. Based on our recent research, these companies are far from alone, and we predict that most leading technology companies will have five or more business models by 2015.

This growth of business complexity means that companies must articulate and clearly think through the capability requirements of each of their business models as a requisite input into their operating model strategies. Lack of business model clarity can create an operational nightmare, as several executives we interviewed attested. “We need a clear definition of ‘business model’ before we can define the operating model, otherwise we defer to dabbling in trial runs and prototyping and pilots that then get mistaken for full-scale production systems but won’t scale,” said one senior vice president of technology.

It’s important to recognize that the challenges faced in adding new XaaS business models differ considerably based on the type of XaaS model being developed (Figure 4), and that growing in XaaS is now highly strategic for incumbent technology players seeking to evolve from their core business models.

Most software companies have realized that XaaS means “and” versus “or,” and that they must determine how to mix traditional on-premise software with SaaS gracefully to give customers a choice. In fact, despite the growing interest in cloud-based services, software executives are convinced that on-premises products are not going away anytime soon. “We believe a significant portion of services revenue will come from volume licensing as customers choose between perpetual licenses and online services,” said an operations general manager at one software company. “We want to leave that option to the customer, and that strategy is a cornerstone that drives a lot of how we think.” Research from IDC seems to confirm the persistence of the perpetual model, estimating that by 2015 SaaS will constitute only about 13 percent of worldwide software spending.

For hardware companies, the key business model question is particularly pointed, with dramatic implications for the future success of the company and the livelihoods of those making decisions: Should we become the infrastructure-as-a-service (IaaS) provider ourselves, enable the service provider, or do both? Becoming a services provider—a path taken by IBM, HP, Cisco, and recently Dell, most notably—can be quite daunting, as it requires new “everything” for companies that, in some cases, have functioned with a single, large, hardware-centric operating model. Besides having to face the obvious operational complexities this choice can engender, companies making such a shift must have significant conversations with the investment community about the accompanying financial implications.

Other hardware manufacturers have chosen solely to enable service providers,

Figure 4: Business Model Evolution to XaaS

<table>
<thead>
<tr>
<th>Core Business Model</th>
<th>Emerging Business Model</th>
<th>Illustrative Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hardware Manufacturer</td>
<td>Infrastructure-as-a-Service (IaaS) / Managed Service Provider (MSP)</td>
<td>Cisco, Dell</td>
</tr>
<tr>
<td>Software Publisher</td>
<td>Software-as-a-Service (SaaS) Provider</td>
<td>Microsoft, Intuit</td>
</tr>
<tr>
<td>Communications / Infrastructure Service Provider</td>
<td>Managed Service Provider (MSP)</td>
<td>BT, Rackspace</td>
</tr>
<tr>
<td>Consumer Electronics Producer</td>
<td>Content and Service Provider</td>
<td>Apple, Sony</td>
</tr>
<tr>
<td>IT-Enabled Company</td>
<td>Cloud Services Provider</td>
<td>Amazon (PaaS, IaaS), McKesson (SaaS, PaaS)</td>
</tr>
</tbody>
</table>

Note: Examples are based on publicly available information; not all companies listed as examples participated in the research for this publication.

with minimal changes to their target customers and only a few changes to their offerings themselves. But in doing so, they are assuming an inherent risk that the winning IaaS providers will not adopt stripped-down, commodity blade servers and open source stack software in a replaceable unit model, much like Google and Amazon have done. A strategy that relies solely on enabling service providers will be a risky one if an increasing percentage of business customers choose to buy their IT as a service from the service providers, and these service providers choose to “build their own” with less-expensive piece parts.

Hosting companies and other similar service providers perhaps have it the easiest, as the cloud is in many ways just the next generation of services that they already provide. According to our research, however, service providers will require more innovation and a more consultative approach, as their customers must be confident that the performance of these solutions will meet their needs. “We are forced to create an engineering innovation culture versus being operations-focused,” noted one head of the cloud business unit at a service provider. “Now we have to create technologies and embrace open source, and that cultural change causes stress. Ultimately, we end up as our customers’ technology partner. The way they buy switches and routers is through us, and there’s a consultative nature to how trust is built in that model.”

Clearly, each segment of the technology industry has its own unique challenges when attempting to clarify business models. Yet despite these differences, all three segments—software, hardware and services—could benefit from a few common practices.

**Recommendation 1:** 
**Agree on the business models first**

A key starting point is to agree on which and how many business models the company has today, as well as which new business models it likely will add in the future. This sounds intuitive and simplistic, but it was surprising how few executives could say exactly how many business models their company has today. After reviewing a list of potential business models, an operations executive we interviewed commented, “We probably have at least five business models in place today and are adding more. Our executive team does not fully understand the complexity that new business models create for our business.”

An important tool for executives is to develop a common vocabulary and taxonomy up front, particularly regarding what constitutes a “business model” versus an “operating model” (Figure 5). Inconsistency in language can result in key stakeholders (including executive management) talking past one another and, in turn, struggling to make good business decisions. It is one of the key reasons full and useful definitions of both terms often are left on the drawing board. “At our company, there is confusion on the meaning of business model and operating model,” according to one executive who leads his company’s strategy for shifting to XaaS. “It is very helpful to distinguish between the two to get good decisions.”

**Figure 5: From Business Model to Operating Model**

<table>
<thead>
<tr>
<th>What is a Business Model?</th>
<th>What is an Operating Model?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The essence of how a company makes money in a particular market with its product or service</td>
<td>• The holistic set of operational processes, people, and systems needed to deliver the business model</td>
</tr>
<tr>
<td>• Each business model is a unique and logical combination of target customer + offering &amp; value proposition + revenue (pricing) model + go-to-market approach</td>
<td>• A company may have one or more operating models, each having unique cost and service level characteristics</td>
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</tbody>
</table>
One way to help achieve consistency on terms is to separate “business model” from “operating model” when developing a capability blueprint. That way, a company can minimize confusion between the two terms and “sign off” on the business model definition before finalizing the operating model design.

**Recommendation 2: Define business models holistically**

Defining the business model holistically requires identifying the target customers, offer and value proposition, and route to market—in addition to revenue model—as a way to guide operational decisions more effectively. As one executive said, “With SaaS, we’re typically solving for deployment, but it’s easy to get confused on what we’re trying to do and to get wrapped up in ‘everything will go to the cloud’ instead of stopping to think whether the customer really needs it.”

Such a holistic perspective inherently acknowledges that, while for customers a shift to XaaS may be simply a difference in how the product is delivered or used, it is a far more complex undertaking for the technology company providing XaaS that has ripples across the entire enterprise. Different operational approaches may need to be employed, for example, for business models that differ in customers targeted and the route to market in reaching them. Likewise, the offering, its value proposition, and its revenue model may point to a level of service or other distinguishing characteristic the operational approach must take into account.

**Recommendation 3: Wrestle with the risks early**

We heard several stories about management hesitation when realizing that taking on XaaS as a business could elevate the overall risk profile of the company. Moving to a SaaS model, for example, may mean handling much more personally-identifiable information, including credit card data. SaaS also requires holding and manipulating many other forms of the companies’ customer data, a vastly different business risk than exists with a legacy on-premise product. In any case, companies should deal with this “revelation,” and how the enterprise manages this risk, early in the discussions that precede investments in capabilities to operationalize the business model.
Section 3: Developing Distinctive Capabilities

Defining the business model is a critical first step in building a successful XaaS business, but it’s really only the beginning. The next step is defining the differentiated capabilities and supporting operating model required to deliver a winning customer experience, without major disruption to the current core business. The challenge for existing technology companies is that capabilities supporting the current core business need continuous reinvestment too, and while XaaS changes significant aspects of how a provider must operate, many operational aspects should stay the same. What’s key is to know what to keep as is and what to change to enable a mixed environment of existing and new business model offerings.

Our research revealed at least eight capabilities that are critical to success in XaaS (Figure 6). Five are well understood and three appear to be blind spots for executives. In addition, there continues to be an untapped innovation opportunity which most companies have yet to address: applying analytics to create new revenue streams from the vast amounts of data generated by XaaS.

**Recommendation 4: Anchor around the customer experience**

While being customer-centric is generally understood as key to a company’s success, in the cloud world customer experience becomes doubly important. Why? For one reason, customers expect more and depend on the provider more. Rather than simply buying an IT tool, cloud customers are effectively embracing a cloud provider as an extension of their organization. In a cloud-based relationship, customer touchpoints present many more opportunities for a provider to impress customers—as well as to disappoint. The best cloud providers are continually and intensely focused on exactly this point. Accenture’s recent research with the London School of Economics confirms this, with cloud customers saying they expect more of and receive more from XaaS companies compared with traditional IT players. More than 65 percent of business executives, for example, described cloud services as actually driving innovation within organizations.

With XaaS, buyers are also users, and so the sales motion must take into account every customer interaction, from traditional marketing through sales and customer support. And because cloud relationships have no or low fixed costs for customers, the barriers to switching to alternative providers are low, which means unhappy customers can take their business elsewhere quickly and easily. Based on our research, we fear that most companies who come from a transactional, product-based, and channel-centric mindset are woefully unprepared to deliver the world-class customer experience demanded by XaaS models.

**Recommendation 5: Focus on the differentiating XaaS capabilities**

In a typical company, each business model is supported by 10 to 20 value chain processes, which map to 150 to 200 capabilities, which then translate...
into more than 1,000 granular activities with clear inputs and outputs. A critical question for operational executives is which of the XaaS processes and capabilities are either brand new or require major changes from the traditional approach. Based on our research, there are five processes that are the most important to successfully enabling cloud-based businesses:

**Product development**

As a technology company begins to build cloud offerings, it must reevaluate its approach to product development. For instance, SaaS allows software providers to shift from long periods between discrete versions of their applications to more rapid, almost continuous, release cycles. To accomplish this, many software companies move from a traditional waterfall-based development approach—starting sequentially with business requirements and ending with testing—to a more “agile” approach, including smaller breakdowns of the work and a more iterative development process. The agile approach has many benefits, but it also involves a significant learning curve. Cloud customers expect faster upgrade cycles, but they also expect rock-solid quality. Providers must design road maps to allow for customer transparency to manage expectations around upgrade cycles, and quality assurance processes must protect the production environment but enable rapid innovation. New SaaS providers need to find the right balance of QA handled by the development team (including automated QA tools), and code reviews performed by management or adjacent QA teams—keeping in mind the whole idea is to speed up, rather than slow down, the development and release of the product. Some companies may find it’s easy to adopt agile in small parts of the organization, but challenging to scale it. As one senior vice president of technology told us, “One of our groups has the most mature and advanced agile development group, but it’s very small and co-located. They’ve developed a scrum model, but enterprise agile is a different beast.”

**Customer-centric technology delivery**

IT takes on a new importance for XaaS businesses, moving from a back-office support function to the market-facing operational foundation for the entire customer experience. This shift often requires an entirely new set of capabilities, including data center operations, more sophisticated network and backbone connectivity management, and delivery against a much more stringent set of SLAs (typically four or five 9s reliability). Creating (or, in some case, upgrading) these capabilities can represent a significant investment, as well as have major implications for the types of talent and IT leadership required. As they take on these investments, XaaS providers must consider their options carefully, including developing the criteria for when to build versus partner versus buy for a particular capability.

Additionally, as technology delivery becomes customer-centric, the lines blur between both development and IT, and between IT and operations. For instance, it’s not always easy to delineate clearly what constitutes “new” features or upgrades from what is simply
implementing modifications to keep the solution running well. In addition, as IT moves from its traditional role as a support function and cost center to being a critical customer-facing delivery capability, the criteria a company uses to evaluate its technology investments must become more business-oriented, factoring in top-line growth and end-user experience. Coordination among different cloud product lines internally becomes critical to avoiding duplication of investment in IT infrastructure. Shared services also take on a new importance—and a new degree of power—that requires a fresh way of thinking about decision-making. “There is a commitment to using a shared platform, but prioritization across needs of the business units is really tough and there are lots of questions to answer when you’re using a model whereby one group provides the service for the whole company,” noted one software executive we interviewed.

In some cases, a company may need to think creatively about how this transition happens for traditional IT operations groups—a conscious effort to prove out new ways of working. As one cloud business unit general manager told us, “We formed a shadow IT and operations group to take over, on a prototype basis, and to play around with things that the operational group was finding too hard to do. We then proved what could be done and pulled in the main operations group.” We suspect that approach may be repeated many times as technology companies make the transition to XaaS.

**Selling and channel management**

In the cloud, the definition of “target customer” often changes. For example, with SaaS, the center of gravity often moves from IT buyers to business buyers. As such, XaaS providers must adopt a new approach to selling that both addresses a different type of buyer and reflects a more holistic, community-oriented way of building relationships—one built around customer experience and key use cases instead of technical capabilities. Business buyers often turn to XaaS to solve particular problems as quickly as possible, and they are willing to accept tradeoffs such as limited customization as part of moving to the cloud. What’s key is that customers see their XaaS providers as “on their side”—not simply as part of the technology infrastructure, but as a core part of their businesses. Leading cloud companies take advantage of this new type of demand by creating and tapping a highly motivated customer community that extends well beyond the traditional sales call (anyone who has attended a leading SaaS provider’s annual conference knows well the energy and near-fanaticism that exists among the user community, for example).

While this opportunity to assume strategic control of the customer presents tremendous upside for cloud players, it also often requires a sales capability upgrade in three areas. First, cloud providers must move to a more consultative, business-case-driven selling approach. Second, companies often need to move from a “one size fits all” approach to a segmented model to ensure that sales and marketing—as well as the cloud offerings themselves—
can scale up and down. Third, a revised sales compensation model is required to drive more relationship-oriented selling. For instance, in a traditional software company, incentive compensation for sales people is usually an immediate payout when a product is bought and shipped. This approach changes when the product becomes an annual subscription that is billed monthly, and requires careful handholding to show the sales force what’s in it for them and the company over the longer term.

Finally, as cloud operating models increase the prominence of the direct sales team, the role of the indirect channel changes as well. With XaaS, the cloud provider itself can handle follow-on, up-sell, and renewal sales through direct customer contact. Channel partners have several choices when adjusting to this changing role. Some move upstream in the services value chain to provide process redesign, integration planning, and data migration or transformation. Others may try to retain the direct customer relationship by becoming managed service providers (MSPs), offering premium service or private-label versions of their partners’ cloud offerings to their customers.

**Pricing, contracting, and billing**

In our research, we found two dominant pricing models: subscription-based and usage-based. The subscription model, which typically is the most prevalent option in SaaS offerings, is based on the number of users who are licensed to access the solution at any given period of time. Subscription-based pricing generates a steady, predictable revenue stream and enables the provider to grow as its clients do. The usage model, which dominates in IaaS solutions, is based on a predetermined metric such as number of operations performed, records processed, messages transmitted, user accesses, time of use, or volume of data accessed. Usage-based pricing also generates a continual stream of revenue for providers while enabling customers to match costs and value delivered more effectively and have access to software for which a perpetual license would be beyond their means.

Both models require new capabilities to execute, and there may well be additional time and education required before customers truly can deal with variable pricing.

XaaS requires a new contracting capability as well, particularly when the same customers are buying both on-premise and XaaS offerings. Cloud contracts often have payment terms, billing schedules, and renewal clauses that are different than traditional on-premise licenses, and contracting groups must be able to execute both types of contracts in a way that focuses on closing deals quickly and maximizing revenue. In addition, the legal teams that draft XaaS contracts must pay careful attention to data privacy and breach liability clauses, as these are areas about which cloud customers are often quite concerned.

Once pricing and contracting are established, billing systems must be updated to reflect the new operational realities of cloud offerings. For channel offerings, systems may need to reflect joint relationship ownership and accommodate partner pull-through and other distinct functionality. For direct billing, most cloud providers also see
a significant increase in the frequency of customer contact, which presents both an opportunity and a risk. On the positive side, a company now gains the opportunity to up-sell customers, enhance the customer experience, provide differentiated support, and collect valuable customer data that can be used to gain deeper customer insights. On the downside, a company is vulnerable to failing to meet expectations and appearing uncoordinated which, in turn, can reduce customer satisfaction and increase attrition. As our research pointed out, billing in the XaaS world is a significant hurdle for traditional technology players. “If we had to bill customers and collect cash every month like XaaS requires, we’d fall flat on our face today,” admitted one software executive.

Financial management
Independent of the pricing model chosen, revenue recognition for XaaS companies is quite complex, particularly for companies that are accustomed to traditional hardware and software licensing models. In the new cloud world, a sale happens every time a user adds a seat or increases usage, and a whole new set of GAAP accounting rules applies. XaaS subscription or usage models and the complexities of revenue recognition require not only new ways of doing business in the controller’s office, but also transparency and coordination with the investor community to ensure expectations about financial performance are managed appropriately.

Quite often, new capabilities and revenue recognition standards also require new financial management systems—as one software executive making the transition from on-premise to cloud told us. “Simple capabilities like subscription based monthly pricing don’t exist in our financial systems,” this executive explained. “Similarly, you have the whole process of quoting and buying directly from the Internet that doesn’t exist in our traditional world. Buying, procurement, global tax—our current financial systems simply can’t handle the complexity that SaaS presents.”

Beyond the financial management systems, the accounting requirements of XaaS can often lead to stark changes in reported results as the immediate impact of licensing fees is replaced by the deferred revenue of XaaS subscriptions. This move from license-based to subscription-based revenue models can have significant implications on the top line, particularly as customers make the transition from one model to the other. Companies that build XaaS offerings must adopt and communicate new expectations about both the revenue and cost accounting implications of being a cloud provider. They must manage these transition risks and set expectations among their investors and leadership teams appropriately. While entire papers can be written on this topic, one thing is clear: Once they have decided to become cloud providers, companies must invest in the accounting, investor relations, and other capabilities necessary to continue to create long-term shareholder value.

Recommendation 6: Pay attention to the blind spots
While we certainly agree with the executives we interviewed about these five critical capabilities, there are three additional capabilities that are too often “blind spots”: product portfolio management, ecosystem management, and customer service and support. In our research, we found that executives too often overlooked or discounted the importance of these capabilities in an XaaS world.

Portfolio management
Entering a cloud business requires companies to adopt a broader approach to portfolio management, including new ways of calculating risk/reward, defining ROI criteria, and balancing the offering portfolio across payoff horizons. They also must design and articulate a continuum of offerings that can accommodate migration from non-cloud to cloud and back, and can scale as customers grow and increase adoption. Companies have to create integrated road maps and platforms across both traditional products and XaaS offerings to ensure a consistent customer experience. This can be particularly important for software companies that have introduced one or more cloud versions of product while still maintaining a large on-premises customer base. As one software executive put it, “When we first moved to the cloud, we had to challenge ourselves not to view it as a separate business, but really as an extension of an existing product. We saw an opportunity to provide customers with flexibility, and to respond we had to be flexible ourselves. This led to a major shift in our business mix and ultimately success for us.”

Ecosystem management
As part of the shift to XaaS, companies often must develop robust ecosystem management and leadership capabilities where they didn’t have them before. Creating a cloud offering changes the ecosystem in which a company plays, and as such it will need new partners and a new partnership model that moves from a traditional alliance orientation to closer, more service-oriented relationships.

In the new cloud world, ecosystem management ultimately involves creating a seamless customer experience that extends beyond a single provider. Users of a SaaS application, for example, may not even know what functionality comes from a third-party app downloaded from an online application marketplace and what functionality comes from the core application. These online application marketplaces often require an XaaS company to move into an ecosystem leadership role, investing in programs and staff to help partners create new service offerings, for example. As one cloud executive bluntly put it, “We drag partners along...there are probably some things that they just might not know how to do and that we can maybe educate them on and co-develop. Ultimately, we have a real interest in making sure our customers get the end result they want, regardless of who’s involved in providing it.” This sort of leadership role is very different from the transaction-oriented sales alliances many companies have today, but it’s absolutely critical for success in the new cloud world.
Customer service and support

Finally, the cloud demands a new level of investment in service and support. In a traditional on-premise model, service and support typically focus on the technology involved and “fixing” any shortcomings or issues that are preventing the technology from operating in the intended fashion. In an XaaS model, however, the focus shifts to business enablement: helping customers leverage the solution to realize business value. To address this shift, companies require a serious upgrade in service capabilities. With much of the technical break-fix work happening behind the scenes, customer-facing support representatives must be able to have conversations with customers that help them to realize the promised benefits of the solution being provided. Also, in a cloud world, greater adoption leads to greater revenue and higher lifetime customer value, so the support function’s ability to focus on ensuring customer adoption is critical. In many ways, for XaaS offerings all support is premium support, and management must shift from thinking of service and support as a cost center to be rationalized to considering it a core part of the business. The salesforce.com case study on page 14 provides an all-too-rare example of a company that has paid appropriate attention to this critical capability.

Applied analytics – an opportunity for innovation

One last capability that many XaaS companies are considering but few if any have commercialized is applied analytics. SaaS providers in particular are beginning to amass enormous quantities of cross-customer data, and one can imagine a wide range of opportunities to leverage these data profitably. From simple benchmarking to data-driven consulting services to triggers in the software itself that would suggest particular actions based on what a broad user base across instances has done, deep analytics represent a potential goldmine of new offerings. To date, cloud providers have been cautious about developing and offering analytics-based services, in part because they don’t want to raise any doubts about the privacy and security of data in the cloud. As XaaS offerings become more mature and buyers become more sophisticated, however, analytics may very well represent the next profitable frontier. Cloud providers would be wise to begin developing capabilities in this area now.
Harris said the company also knew that rapid development would be important as would a strong operations team. Salesforce.com relies on a version of Agile development that it calls Adaptive Development Methodology, which enables the company to issue three major product releases per year and approximately 500 releases in total per year. Achieving such continuous enhancing and refining requires much more than a solid development team; the operations team in charge of delivering what R&D develops also is critical. Healthy tension is essential, with development teams focused on innovation and pushing new features, while the operations team keeps the service bulletproof and minimizes customer issues.

Such collaboration requires the development team to understand infrastructure well enough to make tradeoff decisions in design to make their service highly available, and the operations team to be able to quickly establish the infrastructure needed to support high availability and the overall customer experience. “Lines are blurring between the two groups, but it’s not about becoming experts in each other’s space,” according to Claus Moldt, global CIO and senior vice president of service delivery. “Rather, it’s having enough knowledge about products or infrastructure to make good decisions. Cross-functional teams have to appreciate and understand the workings of each part of the team.” The company has adopted Agile for infrastructure projects as well, setting a 14-day limit on such efforts and dividing larger projects into 14-day chunks if necessary—even for data center build-outs.

Sales and support when a customer decides regularly to keep or turn off a service

One of the distinguishing factors of a SaaS business from the on-premise model is the ease with which a customer can choose to no longer be a customer. That ease heightens the pressure on a SaaS provider to continually satisfy customers. “We have to earn the customer’s business again and again,” explained Hilarie Koplow-McAdams, executive vice president of worldwide sales.

The SaaS sales model shares some characteristics with on-premise businesses. Salesforce.com employs similar sales roles as most large software companies. It also still must set and retire quotas, design compensation plans and calculate commissions, and establish account plans and manage opportunities. However, Salesforce.com also has developed a relentless emphasis on the success of the customer and has instilled this customer emphasis in its culture, to the point that Salesforce.com’s service and support organization is called “Customers for Life” (CFL)—a moniker designed to emphasize the point that the company’s well-being hinges on customer retention, and that begins with the very first sales call.

In its sales approach, the company “focuses sales teams on delivering value to the customer as opposed to landing the biggest piece of business you can in an upfront deal, like with most software vendors,” explained Linda Crawford, senior vice president for sales strategy and productivity. Sales metrics reflect this focus on customer value, with renewals and multi-year contracts included among those key metrics that are measured and rewarded. As Salesforce.com’s product offerings have expanded, Koplow-McAdams indicated the company’s sales conversations have become more consultative in nature, shifting away from focusing on strictly helping customers address sales force automation challenges to engaging in broader, more strategic discussions about having applications on a common platform or enabling customers to engage more effectively with their customers.
Salesforce.com finds customer service and support also has taken on a different character than what is commonly seen in the on-premise world. In the latter, companies spend most of the time answering technical queries. Conversely, in the SaaS model, with fewer technical issues to sort through, organizations devote the majority of time helping customers run their businesses more efficiently. Customers expect salesforce.com to be prescriptive in its advice, which has additional talent acquisition and development implications for the CFL organization. “Our support people really need to set the tone on driving business value and take the leap that this is what customers now expect from us,” said Maria Martinez, executive vice president of Customers for Life.

A lynchpin in ensuring customers are won over every period is the Customer Success Manager (CSM), who drives day-to-day customer interactions post-sales. The metrics of the CSM focus on adoption and renewals.

Financial management is complex and critical

Financial management may seem like an odd capability to highlight, but the differences between an on-premise software business model and SaaS are striking enough that finance becomes mission critical.

One key element, according to Chief Financial Officer Graham Smith, is managing expenses. “The challenge for software companies that I have worked for in the past has been forecasting revenues, but at salesforce.com it’s relatively straightforward to predict next quarter’s revenues with 95 percent confidence,” said Smith. Conversely, Smith noted, expenses require careful management to avoid surprises, particularly in a high-growth, dynamic environment.

This focus on managing expenses permeates the financial metrics that Smith watches carefully, mostly those that are focused on sales and marketing, including the cost to develop sales pipeline, close rates and sales productivity. Smith also believes it is critical to keep a close eye on all the cost elements of the lifetime value of the customer, including the cost to acquire and the cost to retain.

Perhaps the single biggest difference in financial capability to support the SaaS model is revenue recognition. According to Smith, one of the challenges of running a SaaS business is that the mechanics of revenue recognition are more complicated. Daily recognition is needed, as opposed to simple, up front recognition with an on-premise/perpetual model. That means there are literally 366 different invoice profiles, complicated by the different number of days in each month. Salesforce.com on a daily basis may have to re-provision seats, change entitlements, add product capabilities to each seat, add or change prices per seat and add users – all in the correct order – for revenue to be recognized properly.

One can imagine the accounting system required to handle this complexity, and it’s no surprise that considerable process rigor and discipline are needed. “It has taken many years of systems development work to automate this process and we still have work to do,” Smith said.
Section 4: Segmenting the Operating Model

The previous sections in this report demonstrated both that business models are proliferating and that the new XaaS business models require fundamentally new or different capabilities. In our interviews, we also heard repeatedly about the enormous challenges many technology companies face in determining how to support new business models operationally. “We have rapidly expanded from one traditional business model to at least seven models today,” one executive noted. “Our operations have not caught up and are really struggling.” Another executive trying to build an appliance business model inside a software company lamented, “Operationally, we are forced to have incredible manual processes and work-arounds, which are inhibiting our growth, as we need completely different capabilities for a product business than our core software business.”

Based on our research and client experience, Accenture has found three actions are critical to enabling XaaS models and managing the increasing business model complexity that accompanies them: segment the operating model; shrink the cycle times by embracing SaaS; and make it easier for the next time by investing now to support future operating model complexity.

Recommendation 7: Segment the operating model

In our preceding paper, we posited that four main operating model approaches are possible, as outlined in Figure 7. Our research confirmed that this spectrum of options is logical and that all of the options are feasible. However, there was broad agreement in our interviews that a “one size fits all” operating model (Option A in the figure), is not ideal. Surprisingly, far too many companies still are using the “one size fits all” model today, which essentially forces new businesses to adopt to the standard practices and systems built for the traditional business. This is a recipe for failure, as the “one size fits all” approach will never allow new XaaS businesses to achieve the capabilities, flexibility, and speed they need to succeed. The head of the cloud services unit of a traditional software firm agreed: “We will never succeed if we have to use the traditional processes in areas like product development, pricing or billing. These processes and systems are simply too slow for the cloud world.”

At the other end of the spectrum, every interviewee agreed that once a company exceeded three business models, creating a separate, dedicated operating model for each business model (Option D) is neither practical from a cost standpoint nor realistic from an execution perspective. “Because we have not successfully integrated acquisitions that we have made, we are basically in Option D today, but this is not sustainable,” one executive commented.

Once the two ends of the spectrum are removed, it becomes clear that virtually all companies with multiple business models must migrate to a segmented operating model approach. This is a critical insight that has profound implications. The remaining tactical choice is whether to approach segmentation by creating two or three standard operating models (Option...
B) or by implementing a process-based shared-services model (Option C).

Option B was by far the favored option in our research and is the approach Accenture would recommend for most companies. The key question is which criteria make the most sense for segmenting the business to work with this approach. The best segmentation scheme will vary based on the nature of a company and that company’s business strategy, but examples of logical segmentation criteria our research would endorse include the following:

- **Customer experience**: High-touch versus medium-touch versus low-touch
- **Solution complexity**: Transactional product versus complex engineered product versus solutions (which combine hardware, software, and/or services)
- **Revenue model**: Transactional product versus licensed software versus annuity services
- **Lifecycle stage**: Mature, core business versus cloud-based business

The fourth possible option, Option C, is the process-based model. Accenture strongly believes any company with more than five business models should move in this direction over time, but we readily acknowledge the challenges with this approach. In fact, we found only one company in our research, a major software provider, that came close to operationalizing this option today. This company succeeds mainly because it has a strong, centralized operations group that places a priority on staying ahead of business units’ needs. “Our strength in adopting and enabling new business models is an ability to drive decisions on capabilities needed across business units,” noted one executive at this company. “A strong centralized operations group has been key, along with our commitment to using a shared platform. Even then, we only succeed if we can take the burden off the business units by having the operational capability ready as an à la carte service—a menu of options—instead of force-fitting an operating model.”

After a company determines its operating model approach, the really hard work of developing all the detailed operating models begins. For each operating model, a company should first develop a capability map outlining the 100 to 200 core capabilities required. Then for each area, the company must identify the “who, what and where”: Who performs the capability? Where it will be performed? What tools and systems are required? In other words, for a company to succeed in the cloud, it must define the holistic set of operational processes, people, and systems needed to successfully deliver against the business model portfolio.

This operating model strategy decision absolutely should be made at the most senior levels of the company, as this is truly one of the most strategic decisions for any company. Yet, our interviews found that far too often, operating model decisions are based on a fairly ad hoc exercise that does not follow a clear methodology, typically are led by a wide variety of managers who often are too low in the organization to make enterprise-wide decisions, and are uncoordinated,
with each line of business making discrete, independent decisions about operational approaches. “Organizations often end up with a number of these operating models, usually by inheriting instead of thinking through what’s optimal,” said an operations executive at a leading telecommunications firm. “It’s not a clean, thought-out process; it’s usually haphazard.”

One reason that these decisions are delegated down today is that most senior leaders at high tech firms come from either a sales or an engineering background and are less comfortable discussing operational strategy issues. Consider the comment from the senior vice president of product marketing at one of the world’s fastest-growing software firms: “Product and engineering is still the heart and soul of the company. It is not unusual to have an offsite [meeting] to talk about one software feature, and that is viewed as time better spent than thinking about our operational strategy.” This mindset must change going forward.

Recommendation 8: Shrink the cycle time by embracing SaaS

In the new cloud world, companies simply cannot wait 36, 24, or even 12 months to develop new offerings, create processes, or onboard new IT systems. Yet slow cycle times and high customization costs are the norm at most large companies.

So how does a company decrease the cycle time for new XaaS business models? The previous section covered perspectives on new approaches to product development, pricing, and customer service capabilities. This section will focus on the enabling technology and IT systems.

One point that became clear in our research is that most large companies are forcing their new XaaS businesses to use the traditional IT systems and are unwilling to consider leveraging SaaS-based technologies to support their unique requirements. We believe this is a huge mistake.

One executive relayed the following story: “I am being asked to scale an appliance hardware-based business inside a traditional software company,” the executive explained. “Given all the unique requirements, I decided to explore a SaaS-based ERP system. But the corporate IT department mandated that I only use our standard platform. Then the IT team told me that it is going to be two to three years before my unique requirements are implemented given all the other priorities on their roadmap.” This is a recipe for failure, but unfortunately, this executive’s plight is not unusual; we heard permutations of this same story in many of our interviews. The simple reality is that different business models have different operational requirements, which can and should lead to different enabling technology choices.

The good news is that creating and implementing a new operating model, while difficult, has never been easier in large part because of the existence of SaaS and other XaaS technologies. A startup today can quickly plug into SaaS-based systems from incumbents such as Microsoft and Oracle, or from SaaS pure plays such as NetSuite for ERP, salesforce.com for CRM, and Workday for HR. These technologies
usually offer faster time to market, increased flexibility, and lower upfront cost than traditional platforms. Of course, corporate IT departments typically are still very reluctant to embrace these new applications for a variety of reasons, one of which is the desire to leverage the major investments already made in their existing systems. And in some cases, sticking with a standard IT platform may, indeed, be the best route. The most appropriate option to pursue clearly depends on the situation, but in general, our research indicates more companies should be open to exploring how SaaS-based enabling technologies can help get new businesses off the ground more quickly, more flexibly, and with lower upfront costs (see Figure 8).

During our research we discovered only one case where a start-up division was allowed to implement a different operating model, backed by SaaS platforms. The general manager of this new business unit related his experience: “I have been leading an effort to build a new consumer subscription-based business inside a product company. This is not easy, as all the corporate business models and operational processes are built around the core business. We were able to convince the CEO and CIO that all the customer based IT systems pretty much had to be completely different. We started with salesforce.com as a key customer facing system, then we put in CloudCraze from EDL for eCommerce and integrated with salesforce.com. Then the next piece was a SaaS subscription management platform because, clearly, you don’t get an ongoing management of service relationship when relying on traditional platform providers.”

When asked how he got his internal IT team to go along with this approach, the answer was fascinating. “Within my company’s IT group, there is a set of people who are the rebels that want to do some of this cool, cloud based stuff,” the general manager explained. “We went and found them, and we’ve got twice as much work out of those people as other business units typically get because they wanted to be part of doing something different, rather than just trudging along, maintaining legacy applications.” From our perspective, this story is very instructive, as so few large companies would allow this to happen because operational and IT leaders will typically voice a wide range of objections and concerns and block the project. Yet, we recommend this approach if companies hope to succeed in these new XaaS business models.

**Recommendation 9: Invest in the building blocks to enable future agility**

Our research tells us that the proliferation of new business models will continue. Thus, the challenge for technology companies is to prepare to enable the operational change yet to come in supporting the business models of the future. There are four building block investments that can be made to anticipate and help manage this future complexity in a more agile manner.

**Standardize core processes**

We find companies often bake complexity into their operations by failing to heed the well-proven advice to implement their financial and operational systems.

<table>
<thead>
<tr>
<th>Allow SaaS-Based Systems</th>
<th>Insist on Traditional IT Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td><strong>Description</strong></td>
</tr>
<tr>
<td>• New operating model is allowed to use different enabling IT systems, which would typically be SaaS-based</td>
<td>• All operating models are forced to use corporate standard IT systems (e.g., SAP or Oracle ERP)</td>
</tr>
<tr>
<td>• New SaaS systems then integrate with core IT systems, sometimes in a two-tier model</td>
<td>• New model potentially allows a separate “instance” of standard platform to meet unique requirements</td>
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<tr>
<td><strong>Benefits</strong></td>
<td><strong>Benefits</strong></td>
</tr>
<tr>
<td>• Faster time to market</td>
<td>• Standardization</td>
</tr>
<tr>
<td>• Greater flexibility to unique XaaS requirements</td>
<td>• Consistency of customer/user experience</td>
</tr>
<tr>
<td>• Lower upfront cost</td>
<td><strong>When to Apply</strong></td>
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<td><strong>When to Apply</strong></td>
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<tr>
<td>• Overall, this option should be used for a broader set of circumstances than in practice today</td>
<td>• Too often the default option today</td>
</tr>
<tr>
<td>• Strongest case is for new businesses that do not have shared customers, partners or routes-to-market</td>
<td>• May be required when the consistency of customer/user experience is critical (e.g., the same customer is buying – or the same sales person is selling – offerings from multiple business models)</td>
</tr>
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Figure 8: When to Allow SaaS-Based Systems
using industry standard, “off-the-shelf” core processes. While customization absolutely makes sense in selective areas that differentiate (customer- or partner-facing aspects of quoting and ordering, for example), too many companies have chosen to believe “my business is different” in core areas that truly should be “plain vanilla” installations of industry standards. As time comes around for the next upgrade, we encourage technology companies to adopt the philosophy that far more can be “configured” than needs to be “customized” in their IT systems, providing a solid base for future business model growth and a host of other benefits, including reduced costs for the upgrade itself. As a rule of thumb, companies should look to use industry standard for at least 80 percent of their processes.

Embrace shared services
Along with standardizing the core processes of its operating model, a company can achieve substantial flexibility and agility by making extensive use of shared services. As mentioned previously, Accenture strongly believes any company with more than five business models should move in the direction of a process-based model over time. This process-based model must include a strong element of shared services for capabilities that can be provided across business models. While some companies are making good progress in establishing a shared services framework and putting that framework into action, in most cases the scope of these services is IT, finance, HR, and/or other back-office functions. Yet, a number of technology companies are driving substantial value from shared services in functions such as sales operations – highly focused on enabling top-line growth in addition to reducing operational expense. In our view, continued innovative use of shared services across capabilities will be critical in speeding time to market and enhancing the shareholder value new business models create.

Get serious about SOA
Continuing the theme of standardization, we recommend companies get serious about SOA (service-oriented architecture) if they want to position themselves for a smoother new business launch in the future. Enterprises have adopted service-oriented architectures in their own IT shops more slowly than technology strategists and architects had expected several years ago when SOA came to the forefront. This slow adoption, in some ways, is hindering adoption of SaaS alternatives internally. More aggressive adoption of services standards not only sets a foundation for companies to take advantage of SaaS internally but, importantly, establishes an adaptive environment to enable new XaaS business models in the market. In some ways, adopting SOA is yet another example of how technology companies can set an example for their customers.

View data as a platform
Data also is a significant new platform for many businesses. Unfortunately, the quality of customer, partner, employee, and vendor data is a challenge for many technology companies. Before data can take its rightful place as a platform (and money generator), the data model of most companies needs attention to correct these challenges and improve the integrity of data assets. Although large data warehouse efforts can overwhelm a company if approached poorly, the need for a strong master data model (MDM) is greater than ever, especially with the explosion of data that large companies deal with on a daily basis.

There is little question that making the right decisions about how to operationalize a new XaaS business is fraught with complexity, risk, and not a little bit of angst. However, the lessons we found from the companies that have been through the process can help others mitigate the pain of launching new business models already in process and create an agile and flexible foundation for enabling future business model growth.

One of the companies we studied in our research, RightNow Technologies, faced many of the challenges we explored in this section: determining how to support a new XaaS business model operationally. The company’s rather dramatic decision is discussed in the case study on page 22. While RightNow’s approach, admittedly, would not be appropriate for many enterprises, the company’s experience vividly illustrates the challenges in choosing the right operating model for the business—and the benefits a company can gain by getting that choice right.
Case Study: RightNow Technologies Flips the Switch

RightNow Technologies is an approximately $200 million1 publisher of SaaS customer experience software, offering customer contact solutions across multiple channels. Yet RightNow hasn’t always been a SaaS-only company. When it was founded in 1997, approximately 15% of RightNow’s revenue came from traditional on-premise licensing. As the company grew, though, the complexity of managing two very different business and operating models for the same product became a serious burden for RightNow. So, unlike any of its major competitors, RightNow “flipped the switch” and became a cloud-only company.4

While many companies’ business designs wouldn’t allow them to make as bold a move as RightNow did, the challenges that led RightNow to move entirely to the cloud are broadly instructive in terms of the complexity of operating two different business models in parallel and the business benefits of XaaS models. According to David Vap, RightNow’s chief solutions officer, three operating model issues were top-of-mind for RightNow’s management team: sales strategy and incentives, contracting, and revenue recognition.

Having a mixed cloud and on-premise portfolio led to conflicting priorities for the sales force, and RightNow saw the recurring revenue provided by SaaS as allowing for a more effective sales compensation plan. Vap asked about having SaaS and on-premise offerings, “How do you incent a rep to sell both, and to have an equal incentive to sell on-premise perpetual versus hosted? It’s very difficult to construct a comp plan. Switching to SaaS gave us more power in the sales cycle. If we sell a deal last week versus selling it this week, the revenue that accrues to us is that many days over 365 times the deal size. It’s all ratable revenue. There isn’t as much pressure to do unnatural things at the end of the quarter.”

Moving completely to the cloud also helped to eliminate duplicative contracting approaches, with the contracting group no longer having to maintain two different sets of payment terms, billing schedules, etc., for the same product across both cloud and on-premise licenses. This allowed RightNow’s small staff to focus on closing deals quickly and maximizing revenue rather than supporting two different contracting processes.

Additionally, becoming a cloud-only company simplified revenue recognition for RightNow’s finance teams, while also requiring new ways of forecasting, reporting, and managing investor expectations. “Revenue recognition is very different,” Vap said. “You start to live off of the big hits on the perpetual deals at the end of the quarter.” While this shift presented both technical accounting challenges and a need to “retrain” some executives and board members in how to think about top-line results, eliminating the parallel accounting approach for the on-premise business facilitated a faster transformation within the organization.

RightNow also found that, without the internal distraction of maintaining two operating models, it was able to serve its customers better and improve the overall customer experience. Not having to maintain interoperable on-premise and hosted versions of the core software allowed RightNow’s product development team to spend more time leveraging the power of the cloud to innovate and less time effectively serving as an MSP for its own licensed product. According to Vap, “What maintaining SaaS and on-premise offerings did hinder us on was the ability to do unique things in our hosting environment. We had to have pretty straightforward stacks because that’s all we could ask the customer to do. [The cloud offering] allowed us to do very unique things from a hardware perspective or from a systems integration perspective that you would never ask a customer to do but that you could do yourself.”

To date, RightNow’s transformation into a SaaS company has been a highly successful one. It continues, however, to refine the way it addresses many of the business and technical challenges that running a SaaS business presents. “We pride ourselves on our flexibility,” Vap explained. “We have what’s called a Cloud Services Agreement, which is termination for convenience. We offer customers the ability to rebalance their purchases between SKUs, so they can change at any given time what they have purchased across our entire portfolio. [We also offer] guaranteed pricing for the next three to six years, depending on the contract. We do everything possible to push the envelope on the utility model, within the constraints of reality.”

“Three operating model issues were top-of-mind for RightNow's management team: sales strategy and incentives, contracting, and revenue recognition.”

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1 Annual revenue
22

4 RightNow does maintain a few on-premises installations for government customers that require it, but this represents a very small portion of RightNow's revenue.
Section 5: Governing New Complexities

Earlier in this paper, we established that simply developing new and refined capabilities requires considerable investments of time, money, and management attention. We have just discussed how laying the groundwork for future business model evolution while enabling fast success for new XaaS businesses also demands significant organizational commitment. Yet there is one more set of questions a company must answer to move forward with its XaaS intentions: those involving how to make the governance decisions necessary to operationalize a new cloud business.

Quite consistently, executives told us that governance and decision-making is where the rubber meets the road in building successful cloud businesses. Making complex decisions that impact multiple business units is no simple task, particularly when many of the nuances of managing traditional and newer XaaS models simultaneously have yet to be determined. For example, how should a company set performance expectations for a new cloud business? How should it prioritize resources among core and emerging businesses? The explosion in business model and operational complexity is exerting unprecedented pressure on today’s operationally strained technology company to answer these questions and many, many more.

Quite often, companies establish “advanced planning teams” or “corporate-wide initiatives” to bring new business models to market and, nearly as often, these programs collapse due to their own broad scopes or sluggishness in moving from vision to execution. Typically, the challenge is one of poorly defined decision structures or too many key decisions forced down in the organization to delegates unable to act with sufficient knowledge or authority. In some cases, decisions rest with higher-level executive committees, but typically these committees meet too infrequently to reach well-informed, timely decisions. Decisions, if they are made, tend to drag on through extended analysis, or worse, are continuously “revisited.”

In other words, operational effectiveness is becoming an increasingly strategic priority, but it is typically getting short shift in today’s traditional technology company. Even mid-sized, single-product companies can become nearly paralyzed in making decisions about when to make investments in new capabilities, how to manage the economics of the business during and after the XaaS transition, how to address cannibalization issues, and when to decrease investments that maintain the legacy business. For larger, more diversified companies, however, the governance required to make the transition to XaaS becomes exponentially more complex. At these companies, multiple business units typically have a stake in important decisions and must “play along” in a consistent manner for the greater good of the corporation. The biggest sticking point usually becomes how different points of view among a strong management team are resolved, covering issues from how to maintain a consistent customer experience, to technical and operational strategy, to policies on data security and privacy. Multiple points of view must be weighed and prioritized, and typically more people are involved in the decisions.

Couple these challenges with the dilemma posed in our previous paper—
that, for many years to come, the legacy businesses of technology companies still will dominate in revenues and need substantial investment to keep operating profitably—and all this decision making does indeed become extraordinarily difficult. There is no “standard” solution, but having existing executive operators with real organizational clout does seem to help (particularly strong operations or technology executives). For example, as discussed in the case study on page 25, McKesson is making progress in its relatively new XaaS businesses by tackling governance challenges head-on with the support of corporate and business unit CTO functions and willing business unit leaders. As one of our interviewees cautioned, however, most companies “should expect battles and ‘religious wars’ in tackling the hard decisions needed to bring new business models to market.”

Several companies we interviewed are attempting to speed up the governance process, typically using enterprise architecture frameworks to link business, operational, systems, and technology decisions; councils or governance boards that attempt to tackle big decisions and set direction for business units to follow; or force-fitting new business models to existing systems and processes. These attempts, however, vary quite widely in their long-term success. In our opinion, the progress in operationalizing new business models is too slow for traditional technology companies to be satisfied with their current trajectory. Our research leaves us believing that more must be done for today’s technology players to compete with their new XaaS competitors. The business model proliferation challenge is simply getting too big for companies to reuse the same standard approaches and “form a committee.”

**Recommendation 10: Create the new role of a Chief Operational Architect**

Ultimately, agility in the transition to XaaS is an overarching need that demands new ways of thinking about operating model strategy and execution, and most importantly, leadership. We believe it is time for a new leader to emerge in sorting through the operational complexity that exists in today’s traditional tech company: a senior-level chief operational architect to bridge the gap between vision and strategic execution.

For most companies, the chief operational architect is a new position that should report directly to the COO or in some cases the CTO or CIO. In smaller companies, this role may be played directly by the COO. Regardless of who takes on the job, though, the chief operational architect must set the operating model strategy for new XaaS models, leading the organization in making the externally-facing customer experience decisions and the internal management decisions that hamper today’s migration to XaaS. The chief operational architect also can help to address past ills, such as cleaning up acquisition integration mistakes and streamlining existing operating models that hamper efficiency.

One could write pages more about the importance of governance to XaaS success—and we will do just that in a future paper. Yet one thing is clear: Along with stepping up to the technology challenge of delivering “anything as a service,” traditional technology companies now must turn their executive attention and resolve to changing the manner in which operational decisions to support the business are made, including the operational architecture, capability & process ownership, and resource allocation decisions that are so vital to competing in XaaS.
Case Study: Tackling Governance at McKesson

McKesson, currently ranked 15th on the FORTUNE 500, is a healthcare services and information technology company. It operates a $112 billion pharmaceutical distribution business and it also provides healthcare applications and services through its $3 billion-plus McKesson Technology Solutions (MTS) business.

McKesson acquired many of the assets that comprise MTS and allowed its various business units focused on specific market segments to operate independently for years. That changed with the passage of the American Recovery and Reinvestment Act (ARRA) and the Patient Protection and Affordable Care Act (PPACA). ARRA and PPACA established a new bar for integration and interoperability to modernize health information technology and to create new care models. As a result of ARRA and PPACA, McKesson needed to operate in a more integrated way.

One secret to success: sorting through governance issues that often gridlock large organizations.

MTS’s RelayHealth business is at the forefront of this change with its SaaS solutions and PaaS tools. According to McKesson, RelayHealth began in 2006 to simplify how the business of healthcare is managed while making the delivery of care safer and more efficient. RelayHealth offers secure connectivity solutions to streamline clinical, financial, and administrative communications among patients, providers, pharmacies, and payers.

“RelayHealth has its own business model and operating model, but it is also part of a larger company, so decisions have to be made with an eye toward what’s best for our customers, our business unit, and McKesson overall,” said Jim Bodenbender, president of RelayHealth Connectivity Solutions. “I have to be asking, ‘What do we do to create synergy and better position McKesson for the long term?’ But at the same time, we have to be able to push back on things that slow us down and/or impede our ability to accomplish our goals.”

The answers, or at least solid progress on these questions of governance, are coming along three dimensions:

1. Setting strategy, policies, and standards
2. Organizing to create a healthy tension and collaboration between innovation and scale
3. Creating decision making processes that adjudicate tough problems

As SVP of technology planning and software development within the MTS CTO organization, Robert Hendricks sees the McKesson approach to governance as one of “strategy push and policy pull.”

On the strategy side, that has meant a substantial effort to define strategy for enterprise application architecture, process methodology, data management, testing models, and development tools. It also has meant focusing on quality and risk, including forming governance entities—or as Hendricks calls them,
“strategic collaboration communities”—to deal with hot topics such as open source policy. For Hendricks personally, it has meant setting standards for critical areas such as product release. Hendricks himself determines when a business unit aiming to release a product to customers is “ready.” It has worked well, according to Hendricks, “as long as I’m really clear on what definition I’m using” in making the release decision.

Jeff Felton has witnessed the ups and downs of governance firsthand as president of RelayHealth Pharmacy. “Two years ago the business units within MTS were focused on driving decision-making and innovation to the lowest possible level, with a belief that ‘process’ would grind innovation to a halt,” Felton noted. “But as innovations started to grow, we ran into issues across technology, people and process...we just couldn’t scale if allowed to go on this way.”

So Felton changed the organizational structure to pay closer attention to process and open platforms that needed to scale, and created workforces that could flex to volume yet also drive innovation. That meant forming a product management group to drive innovation and an operations group to drive scalability.

According to Felton, “That organizational change created a healthy tension for us at the intersection points: How much innovation can we handle? How to prioritize all the innovations we could do? And what do we need from operations to make it all happen?”

At the corporate level, McKesson has made significant progress tackling issues that go beyond MTS. “Corporate’s direction and value comes through the CIO Council, which takes a longer term, data-driven approach and gets the right people together to vet and get synergies,” said Felton. “There’s more that we could do and it’s an evolution—another place where we have some creative tension.”

Felton feels this creative tension personally. As chair of the corporate governance board for shared services, he wants to drive for the common good, but he must also run his business with the customization he thinks is needed. “IT and technology have to be a strategic asset, and we have to figure out how to leverage our strengths and combine assets” Felton explained. “We’ll still drive a lot of our own thinking, but design has to be more integrated, without regression to the mean.”

One lesson learned is that the right people must be involved in the analysis and recommendation before the issue comes to the board for decision. “It took some time to get it to gel,” according to Felton. “But when people know that others they respect have been part of the process, and the process is transparent, then trust increases, and the speed of decisions can increase as a result.”

Bodenbender, head of RelayHealth Connectivity Solutions, says getting that creative tension right is important, but speed is also critical in governance and all aspects of running the business. “Speed is a competitive advantage,” he explained. “Why be in SaaS if you can’t leverage it?”

“But when people know that others they respect have been part of the process, and the process is transparent, then trust increases, and the speed of decisions can increase as a result.”
Section 6: Diagnosing Readiness for Success

The 10 recommendations outlined in this paper are backed by Accenture’s research, analysis, and real-world client experience. The preceding sections in this paper have articulated the reasons behind these recommendations, with quotes and stories from our interviewees to bring them to life. We believe technology companies that follow these recommendations for achieving business model clarity, creating distinctive capabilities, arranging capabilities in the proper segmented operating model, and streamlining governance with focused leadership will be better positioned to scale new business models successfully.

In essence, these recommendations form a blueprint for competing successfully as an XaaS provider (Figure 9). While the blueprint looks straightforward on paper, digging in to determine what needs to be done and then getting started on the most critical changes is hard work, particularly for a traditional technology company that has a legacy hardware, software, and/or services business to keep running.

We believe all companies should use these recommendations to evaluate their existing approaches to building and running XaaS businesses. For clients in need of an objective outside assessment, Accenture has developed a proprietary diagnostic methodology to assess readiness to scale. The diagnostic includes questions that evaluate current-state readiness along each key element of the blueprint and identify the critical gaps that need to be filled. To take one example, for pricing, contracting, & billing, the diagnostic assesses the adaptability of the XaaS pricing model, the conversion process for customers moving from on-premise to XaaS, specific partner pass-down requirements, and several other criteria. Similar assessment criteria exist for each element of the blueprint in Figure 9.

It’s an exciting time to be part of the technology industry, grappling with the opportunities and challenges that XaaS brings to traditional technology providers. But it’s important to know how to pursue and capture these opportunities profitably. Companies that continue on their current paths, without adopting the recommendations in this report, likely will find themselves even more challenged than today as customers decide with greater frequency that XaaS competitors meet their needs in a superior manner. In technology, growth is king, and every percentage point of growth a company fails to capture is a measurable loss to shareholder value and employee engagement. The technology world is all too quick to declare traditional companies and incumbents “dead,” even while their operations continue to generate cash flow. The future demands attention to these challenges now, while the cash flow is there to fund investments and create the new capabilities required to compete in the XaaS age.

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**Figure 9: Blueprint for XaaS Success**

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<th>Business Models</th>
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| Distinctive Capabilities | |
|--------------------------| |
| Portfolio Management | |
| Product Development | |
| Ecosystem Management | |
| Customer-Centric Technology Delivery | |
| Selling & Channel Management | |
| Pricing, Contracting & Billing | |
| Financial Management | |
| Service & Support | |
| Applied Analytics | |

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| Operating Model Approach | |
|--------------------------| |
| Segmented Operating Models | |
| XaaS-Based Infrastructure | |
| Standard Core Processes | |
| Shared Services | |
| SOA | |
| Data as a Platform | |
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