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'The Cloud' May Lighten a Company's IT Load

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All too often in both transactions and executive transition situations, due diligence efforts involving information technology (IT) systems are not performed with the rigor this important area deserves. That was certainly true in the final stages of a due diligence process to determine if the author would accept a CEO position.

The recession of 2008-2009 had severely impacted the firm, as it did nearly all business services firms, making it impossible for the company to service its debt. That ultimately resulted in a restructuring that was completed in April 2010 and created the need for a new CEO and management team.

The upfront process to determine the author's suitability for and his interest in the position was performed in a fashion that most would judge to be a fairly comprehensive due diligence process. Multiple conversations and interviews were arranged with all members of the board and the senior management team and with a number of departed employees, key individuals in corporate accounting, several members of the sales force, and investment bankers and private-equity partners who were familiar with the company, plus a number of other individuals. Historical and pro forma financial statements were studied, and key client buyers

were consulted. Sales and delivery collateral were studied, as was the Web site.

After such a process, both sides should know whether the position is a good one for the candidate and the selected individual is a good fit for the company. The candidate should have a good idea of what initial challenges are likely to be encountered, and the company should have a good idea of what it can expect from its new executive. However, as is typical in these processes, certain critical areas were missed in this case, which soon became clear.

Antiquated System

Perhaps as is typical in the selection of a new CEO, the firm's IT director was not involved in the upfront due diligence process. During the new executive's initial visit to the shared service center, the IT director requested a meeting. It quickly became clear to the new CEO that the IT infrastructure and systems were horribly antiquated and that most essential maintenance had been deferred — critical issues that were missed during the initial due diligence. In fact, the CEO learned that all of the company's mission critical applications were running on servers and communications equipment that were more than seven years old — alarmingly old for IT equipment.

Equally disquieting, the company's IT equipment was housed in a closet of a ground floor office suite in Melville, New York. This improvised data center lacked air conditioning to prevent overheating and subsequent failure of the sensitive equipment. There was no backup power and no physical security. In many ways, the capabilities of an iPhone eclipsed those of the company's IT infrastructure at the time. There was a backup site in California, but its ability to function properly if needed had not been tested in quite some time. On top of all that, the IT manager correctly perceived that the new CEO's plan was to move the shared service center and all IT out of Melville and to Chicago, and he promptly resigned.

An inadequate IT system may not impact a company's revenue immediately, but if the file servers were to break down suddenly or fail to power up some morning after maintenance, the company in effect would be out of business. The business would have no access to email or the company's intranet, and it would be unable to invoice clients or pay employees. While the

functionality of business systems is also a serious issue — for example, an inadequate customer relationship management (CRM) system can seriously impair business operations — application deficiencies pale in comparison to the very real possibility of being put out of business at any time by a colossal failure of hardware infrastructure.

The conversation quickly turned to how to address the company's IT issues. Several options emerged:

1. Move the existing hardware to a commercial collocation facility to reduce the potential for colossal failure. Such facilities have proper temperature controls, power backup, network redundancy, etc.
2. Buy new equipment and install it in a proper environment, most likely at a commercial collocation facility, as described in option one.
3. Migrate the entire function to "the cloud" and get out of the business of internal hardware support entirely.

Serious consideration was given to all three alternatives. The first option offered the lowest upfront cost but did not address the fundamental issue of hardware and software obsolescence. The age of the servers and other IT infrastructure presented overwhelming business, functionality, and technology risks, which option one did nothing to mitigate.

Most small and midsize businesses use a scenario similar to option two to meet their IT needs. If the company leases or owns a facility that offers a suitable environment for locating a data center, this makes complete sense. On the other hand, if it would be necessary to build out a data center from scratch, bringing in the necessary backup power, auxiliary air conditioning, and full network capability, it might be more economically advantageous to take advantage of a commercial collocation facility. Either version of option two often looks to offer the lowest cost on paper, and many CFOs and IT managers like the security and peace of mind of owning and managing the company's hardware directly.

The author's firm elected option number three and made the decision to fully outsource all of its IT infrastructure support to a commercial cloud computing outsourcing facility. Cloud

computing is nothing more than a modern timesharing service accessed through the Internet that provides network access to a shared pool of configurable computing resources. The provider ensures that there is adequate capacity, backup, security, and functionality that a company could not easily replicate internally. Most outsourcing facilities provide systems that are fully redundant and have robust physical and virtual security, and all run 24/7.

Cost, Convenience

Somewhat to the author's surprise, this option proved to be the most cost-effective, both from total investment and cash perspectives. Since the move, the firm has encountered several instances in which services provided by the cloud vendor have proved to be especially beneficial.

One of the company's core applications was running extremely slowly before the company switched to its cloud-based provider. It became apparent that central processing unit (CPU) usage on one of the company's own servers was at or at least approaching 100 percent capacity, which has a significant negative impact on speed and user experience. Had the company's IT hardware still been in-house, it would have been necessary to order, install, and configure an appropriate number of additional CPUs to provide for proper capacity for the application.

In working with a cloud vendor, however, the company simply requested to increase the number of CPUs on that server. The process involved a simple submission of a configuration change request, which was followed by a system restart. There was no additional hardware to buy, and no express shipping of computers across the country was necessary.

The company no longer needs to keep experts on staff for hardware configuration, and internal expertise is no longer required for increasing CPU utilization. No additional air conditioning units need to be purchased to maintain the proper environment in a data center. One simply asks the vendor to handle any required changes, and it is done.

Another benefit of cloud capability became apparent when configuration was required for

three identical servers to provide proper load balancing for a particular application environment to function properly. When one of the servers was not initially configured correctly, all that was required to correct the problem was to copy one of the properly configured servers and place that copy on the initially misconfigured server. This took only a few hours and no reformatting or reinstallation was required. For disaster recovery purposes, it is possible to use similar copies to start fresh in a new environment if needed.

In addition, in most restructuring and renewal situations, cash is king. Using precious cash to purchase new IT systems delivers significantly less return on investment (ROI) than channeling those funds into revenue-generating activities. Because of the difficult circumstances in which many businesses find themselves during these challenging times, migrating computing requirements to the cloud can provide a cost-effective alternative to the more traditional approaches of building and managing the necessary capability internally or placing company-owned technology in a secure collocation facility.

Further, by outsourcing many of the tasks that come with managing IT infrastructure, senior management can better focus on activities that are mission critical and drive revenue and profit.

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