The Business Transformation Payoffs of Cloud Services at Mohawk

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Executive Summary

The Mohawk case shows that, as well as reducing costs and increasing efficiencies, cloud services can provide business transformation payoffs. Mohawk (which started out as a manufacturer of premium paper products) designed and implemented a cloud integration platform that enabled it to transition from a traditional manufacturing business model to become a service-oriented enterprise, with significant payoffs in terms of new sources of revenue and reduced internal operating costs.

Mohawk’s story provides important lessons for CEOs, CIOs and other senior IT executives considering adopting cloud services to enable businesses transformation. These lessons arise from four shifts at Mohawk caused by the impact of cloud services: (1) From IT provisioning to a business model platform, (2) From internal integration to partner integration (3), From traditional IS design to a mash-up of services, and (4) From intra-organizational trust to inter-organizational trust.

Mohawk’s Tangible Business Payoffs from Cloud Services

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<thead>
<tr>
<th>Payoff</th>
<th>Pre-Cloud</th>
<th>With Cloud Services</th>
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<tbody>
<tr>
<td>Economic: Increased Profitability</td>
<td>Core business earnings declining by 2%-5% per year</td>
<td>Two-fold year-over-year increase in earnings, 2010-12</td>
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<td>Economic: Reduced Operating Costs</td>
<td>Semi-automated/manual transaction processes</td>
<td>Automated transaction processes, generating staffing savings of $1 million to $2 million per year</td>
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<td>Business: Expanded Market Reach</td>
<td>Next-day delivery service across 70%-75% of the U.S.</td>
<td>Market reach extended to Europe; 95% same/next-day service in the U.S.</td>
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<td>Transformative: Expanded Value Network</td>
<td>Monolithic enterprise with a few strategic partners</td>
<td>Added over 100 new business partners: suppliers, manufacturers, warehouse, logistics and cloud service providers</td>
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<td>Transformative: Moved to a Direct Selling Model</td>
<td>10-15 primary distributors</td>
<td>Many thousands of new direct-sale customers targeted, influenced and sold to using e-commerce and cloud platforms</td>
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<td>Transformative: Launch of New Ventures and Products</td>
<td>4-5 premium paper brands; 1,000-1,500 product SKUs</td>
<td>Three new business ventures beyond premium paper; five-fold increase in product SKUs; new paper grades, premium envelopes, digital substrates, photo books, journals, calendars, labels and consumer products</td>
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Mohawk achieved significant business payoffs from cloud services. Cloud services provided the business technology platform to help the company launch new lines of business and access new markets with an expanded portfolio of high margin products. Mohawk was also able to extend market reach and improve service levels for its current products, while at the same time reducing internal operating costs. At the end of the two-year project, the company’s earnings before interest and taxes had increased by 200%. As important, cloud services provided Mohawk with a flexible platform to continually reshape its partner network in response to business threats and opportunities occurring in a rapidly changing digital print market.

1 The full article is published in the December 2014 issue of MIS Quarterly Executive, available online at www.misqe.org.
Transitioning to the Cloud in Six Cycles

Mohawk's transition to cloud services occurred in six design-build-feedback cycles: (1) Cloud integration platform, (2) Data file integration, (3) Database integration, (4) Cloud API integration, (5) Web services integration, and (6) Inter-Enterprise business process orchestration. The first cycle established the foundation of the cloud integration platform, cycles two to five incrementally delivered increased levels of functionality and usability, and the sixth cycle involved Mohawk's business users creating and deploying several hundred inter-enterprise processes and information flows. This cycle is still ongoing. (The six cycles are described in detail in the full article.)

The two-year project used the action design research (ADR) approach in collaboration with Syracuse University and Liaison Technologies (an integration company). The aim was to design, develop and implement a new type of business technology platform to enable business transformation. ADR employs an iterative design-build-feedback process, where feedback from secondary design activities informed the primary design of the cloud integration platform to deliver ever-higher levels of functionality.

Lessons Learned

Lesson 1. Cloud Services Provide a Dynamic Business Model Platform. The Mohawk case demonstrates that cloud services provide significantly more than just an operating platform to host applications. They become a business technology platform to support dynamic business models. The cloud becomes a dynamic business process hub that enables digital connectivity between a company's internal systems and processes and those of its customers, suppliers, service providers and a growing number of public and private cloud services.

Lesson 2. Cloud Services Enable Business Partner Integration. The emergence of the cloud integration platform and cloud integration brokers has enabled a fundamental shift from traditional intra-enterprise integration to inter-enterprise integration. This shift is in direct response to an increased reliance on more business partners to generate value to customers, the proliferation of the number and types of cloud services available, and the need to seamlessly integrate internal and external resources and digital assets.

Lesson 3. Mash-ups of Cloud Services Enable Rapid Development of Inter-Enterprise Workflows. The power and flexibility of cloud services have enabled a new paradigm and approach to designing and implementing inter-enterprise processes and information flows. Cloud integration platforms provide a suite of adapters in the form of cloud services that can be used to securely connect disparate systems, applications and data with minimal regard for the underlying technology or its location.

Lesson 4. Achieving Payoffs from Cloud Services Means Building Inter-organizational Trust. Mohawk's adoption of cloud services as a technology enabler of its business strategy demonstrated a shift from intra-organization trust toward earned inter-organizational trust. Trust needed to be earned based on sustained performance over time. Based on Mohawk's experience, the full article describes techniques for building trust with cloud partners through incremental successes, leading to a transformational result.

In Conclusion

Mohawk's experience has implications for how CEOs, CIOs and other senior IT executives should view emerging cloud services and how these services can bring value to their organizations. The cloud has become the business technology platform for the 21st century enterprise, where in a digitally connected economy the flexibility and agility of the enterprise and its value network are the basis for sustained competitive advantage. Emerging cloud integration platforms serve as a business process hub through which flexible, shareable, reusable cloud services can digitally connect partners to a value network, with minimal regard to the underlying technology or its location.

The growing adoption of cloud services will have a significant and lasting influence on the role of IT in the organization. The traditional CIO will assume a more prominent role as a Chief Process Officer, and IT practitioners will assume more responsibilities as business process architects. The IT and business roles will converge toward a common objective of designing, deploying and governing inter-enterprise workflows and orchestrating them across a dynamic value network.