Risking it all for growth

Three business leaders discuss how technology helps companies to manage risk – and enables better business decisions

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IBM and the Institute of Directors (IoD) recently hosted a lively discussion on risk and growth. Simon Calver, CEO of Lovefilm International; Julie Meyer, CEO of Ariadne Capital; and John Easton, IBM UK & Ireland Cloud Computing Technical Leader took to the floor to share their insights and experience on how to manage risk through growth, and how technology plays a vital role in this.

John Easton began by looking at how consumers react to technology, and how this is creating new challenges for businesses. "Customers want immediate gratification and that's creating a nightmare for businesses. They need to be able to move quickly and build systems quickly, but all of this requires new investment," he says.

Unfortunately, following the recession, new investment is proving hard to come by. However, Easton has a solution – the cloud. Cloud technology enables companies to scale up or down to meet customers' needs – without having to shoulder the financial risk associated with large capital expenditure on hardware and software, he says.

"Cloud technology allows business to scale, fast. Pre-cloud, the only way to achieve growth was to spend time and money on setting up hardware and software; with cloud you can go to the web, pay with a credit card, and get immediate delivery."

As Easton points out, cloud computing doesn't just enable organisations to scale quickly without committing to extra investment; there are many other benefits too. "Because you pay by the hour you only pay for what you use," he adds. "A client of mine has a team that comes in early and sets up the IT systems for 9am, then switches the systems off at 5pm. That way they get three times the computing power, as they only pay for one third of the day."

While risk means something different to every business, Simon Calver agrees that technology can help to reduce an organisation's exposure to risk. One advantage an online business like Lovefilm International has over bricks and mortar businesses is that "you can switch something off if it's not working", he says.

Risk can also be reduced by learning from your data. Calver uses business analytics to plan everything from the web store's look and feel to its advertising, which de-risked the decision to create a national TV advertising campaign. It paid off. Not only did the campaign generate extra customers for the business, it also brought in new partners as Lovefilm was subsequently perceived as a national brand.

"Inertia is the default setting for business, but to be successful a company needs to overcome its fear of making the wrong decision," says Calver, who also took the brave decision to cannibalise Lovefilm's postal video business with its digital business, reasoning that: "If we don't do it, someone else will."

Of course, growth brings its own inherent risks: if you don't get money coming in regularly then your cash flow will suffer. To solve this, Calver analysed his cash-conversion cycle and extended payment terms so that the company only paid suppliers after customers had paid it. By making this change, Lovefilm was able to grow quickly without having to worry about cash flow problems.

Julie Meyer says an organisation's use of technology is a key consideration for Ariadne when sizing up investment opportunities, as is the business leaders' attitude towards risk. "For an entrepreneur to take successful risks they need a positive attitude," she says. "When I look at potential businesses to invest in, I look for people who have tried and come back, as well as those who have made a difference and who give me solutions rather than problems."

Meyer adds that cloud computing is now becoming a fundamental part of the businesses she backs. When investing, she looks for companies that use cloud as a platform and a base for the business, so they can "hop on the back of Goliath and offload the infrastructure to a third party".

Cloud technology also enables a business to do more with less, she says. For example, when Lastminute.com launched in the late '90s it needed to raise £6m to build its IT infrastructure; Meyer thinks that with cloud computing, the same technology today would cost just £300,000.

Easton agrees that cloud technology is now one of the most effective ways for organisations to mitigate the risks associated with growth. He says: "Cloud gives you the ability to grow as you consume and to try out new things, to scale up or down, and to leapfrog over your competitors."

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