WHITE PAPER

Understanding Cloud Financials Buyers and Providers

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Our Understanding

As organisations continue to realise the benefits of cloud computing, an increasing number are committed to moving as many of their applications as possible away from their on-premises infrastructure. Our research shows that those who achieve this goal can expect to save 16% to 21% in overall IT spending. In addition, buyers rank cloud systems highly for their speed of implementation, scalability, ease of upgrades and agility.

Moving the bulk of an organisation's systems to the cloud means that Enterprise Resource Planning (ERP)—typically the largest single application—also must move to the cloud. Without cloud ERP, an organisation will still be running a significant percentage of its application portfolio on-premises.

This report, based on our experience in Financial Management Software and ERP selection deals, describes the two major categories of cloud Financials and ERP buyers as well as the two major categories of cloud Financials and ERP providers. We conclude with recommendations for buyers looking to make the best choice.

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CHAPTER 1

First-Time Buyers vs. ERP Replacement Market

As shown in **Figure 1**, the market for cloud ERP can be divided into two basic segments: small, young, fast-growing companies looking for their first ERP system and more established firms looking for replacements of their legacy systems. These two types of buyers not only differ in their organisational characteristics, they also differ in how they go about selecting ERP systems.

Figure 1: Two Types of Cloud ERP Buyers

	First-Time ERP Buyers	ERP Replacement Market
Size/Growth	New, smaller, faster-growing	Established, larger, slower-growing
On-Premises	Little or none	Much
IT Staff	Little or none	Incumbent
Top Criteria for ERP	Speed, Agility, Scalability	Functionality, Stability

Source: Computer Economics, 2014

First-time ERP buyers

Tend to be newer, smaller, faster-growing companies. This category also includes newly launched or acquired divisions of larger companies that may be too small to implement the parent company's ERP system. These organisations often have little IT infrastructure, and may have a single IT staff member or a contractor who provides IT support. As a result, they tend to be wide open to cloud alternatives that do not require much infrastructure or internal support. They may be running on QuickBooks or some other entry-level accounting system and looking for their first true ERP system. Their rapid growth leads them to value speed of implementation, agility and scalability for the future—all strengths of the cloud model. They also tend to be cost-conscious, desiring to conserve cash to grow the business. The pay-as-you-go model of cloud ERP, therefore, appeals to them. Buyers in this category do not need much convincing on the value of cloud ERP; they are the ones who "get it".

The ERP replacement market

Includes companies that tend to be larger, more established and slower-growing than first-time buyers. They have significant investments in on-premises infrastructure and IT staff members to support it. This is not their first experience with ERP. They may have been running their legacy ERP systems for years or even decades and, for whatever reason, they are now looking for a new system. Their experience with ERP leads them to put more weight on functionality, fit and vendor viability. They tend to be more conservative and less willing to make compromises to go to the cloud. There is one thing they have in common with first-time ERP buyers: they are also cost-conscious.

Cloud ERP, to date, has had most of its success with the first category of buyers, both with startup companies and newly launched or newly acquired divisions of larger companies. These buyers are used to making quick decisions. They are more nimble and faster-moving. The message about cloud ERP resonates with them, especially if they are in a technology-related business. The vendor selection decision might be made by one or two executives without a long, drawn-out process of due diligence. But first-time ERP buyers are, by definition, a relatively small market.

The ERP replacement market is the bigger opportunity. The challenge is these buyers have longer, more complex sales cycles. There may be existing systems that they need to retain and interface with the new system. The IT staff may be biased toward solutions that leverage their skills and experience, which are rooted in the on-premises world. Their legacy systems may be past their useful life but have functionality that is highly specific to the business. The selection decision is often made by a committee of managers and IT leaders, which defines a long list of functional requirements based in part on what the old system does, and they expect the new system to be able to provide similar features and functions. Whether justified or not, they often need to be reassured about information security, data privacy and vendor viability.

Of course, there are many companies that do not fit neatly into these two categories. Therefore, it is helpful in this analysis to consider these two categories as two ends of a spectrum of cloud ERP buyers and not as an either/or segmentation.

CHAPTER 2

Cloud-Only ERP Providers vs. Traditional Vendors

Just as there are two types of cloud ERP buyers, there also are two types of cloud ERP providers, as shown in **Figure 2**.

Figure 2: Two Types of Cloud ERP Buyers

	Cloud Providers	Traditional Vendors
Size	Smaller, faster-growing	Larger, slower-growing
Business Model	Simple: cloud only	Complex: on-premises, hosted, and rearchitected cloud
Strength	Cloud characteristics	Functionality
Key Challenge	Implementation Services	Ongoing support services

Source: Computer Economics, 2014

Cloud-Only Providers

These are the “born-in-the-cloud” ERP vendors that do not have an on-premises offering and include such companies as NetSuite (acquired by Oracle in 2016), Plex, Workday, Rootstock, Kenandy, FinancialForce, Intacct (now owned by Sage) and several others. Because cloud-only vendors have a single deployment option, they each can focus their entire business—from product development to sales to implementation and ongoing support—on the cloud. As a result, they make fewer compromises and tend to deliver the maximum benefits of cloud solutions in speed, agility and scalability.

Traditional ERP Vendors

These are larger, more established providers such as SAP, Oracle, Infor and Microsoft. They are growing more slowly than cloud-only providers, although in some cases, their cloud offerings are growing at a faster rate than their on-premises offerings. They have more complex businesses as they have to support their on-premises customers as well as their hosted or cloud customers.

Just as there is overlap between the two categories of cloud ERP buyers, there also is overlap on the provider side. For example, Acumatica, a born-in-the-cloud provider, does offer its solution on-premises to those buyers willing to install Acumatica’s cloud stack. At the other end of the spectrum, SAP is the epitome of a traditional ERP provider but it offers a separate cloud-only system, Business ByDesign and SAP Business One.

CHAPTER 3

Cloud-Only and Traditional ERP Providers Have Common Goal

The U.S. National Institute of Standards and Technology's definition of cloud computing outlines five essential characteristics: (1) On-demand self-service, (2) Broad network access, (3) Resource pooling, (4) Rapid elasticity and (5) Measured service.

The cloud-only providers generally display these cloud characteristics to a greater extent because they do not have a legacy of on-premises customers that they need to serve. This gives them a significant cost advantage over traditional providers. Their ability to pool resources of all customers across a single infrastructure adds to their cost advantage. Nevertheless, cloud ERP providers exhibit these characteristics to varying degrees.

The traditional ERP vendors generally take one or both of the following strategies in responding to the needs of cloud buyers:

Hosting

This approach is essentially a managed-services offering where the vendor hosts its on-premises software and takes responsibility for activities such as maintaining and administering the necessary infrastructure, performance monitoring and tuning, backup and recovery, and keeping the system up to date with bug fixes and new versions. These services can be offered directly by the vendor or through partners. Hosting can be done on hardware dedicated to each customer, although today it is most often deployed on a virtualised infrastructure. For the purposes of this report, we consider hosting to be any deployment that has a separate instance of the application software and separate instance of the underlying database for each customer. Because each customer represents a separate installation, this strategy carries the highest cost for the vendor, which is ultimately reflected in the cost to the customer.

Re-engineering

With this approach, the vendor redesigns the architecture of its on-premises software so that it can be deployed—to a greater or lesser extent—as a cloud offering. This approach may be one of partial multi-tenancy, for example, at the application layer, while maintaining separate databases or database schemas for each customer. A vendor also may deploy its solution on an elastic cloud infrastructure, where computing and storage resources are dynamically allocated to customers based on moment-by-moment demand. The vendor also takes responsibility for the application in the same way as with a hosting approach. A re-engineered system can deliver some of the benefits of cloud ERP, although there can be compromises that have to be made to keep the "cloud version" of the software in sync with the on-premises version. As with the hosting option, the vendor can offer these cloud services directly or allow partners to offer them. With a re-engineered product, the vendor can achieve economies of scale that are better than hosting, although they may fall short of the cost efficiencies of cloud-only providers.

Cloud-Only Advantage in Speed, Agility, Scalability, Ease of Upgrades and Focus

Both cloud-only providers and traditional (legacy) providers continue to improve their product offerings but each have historical strengths.

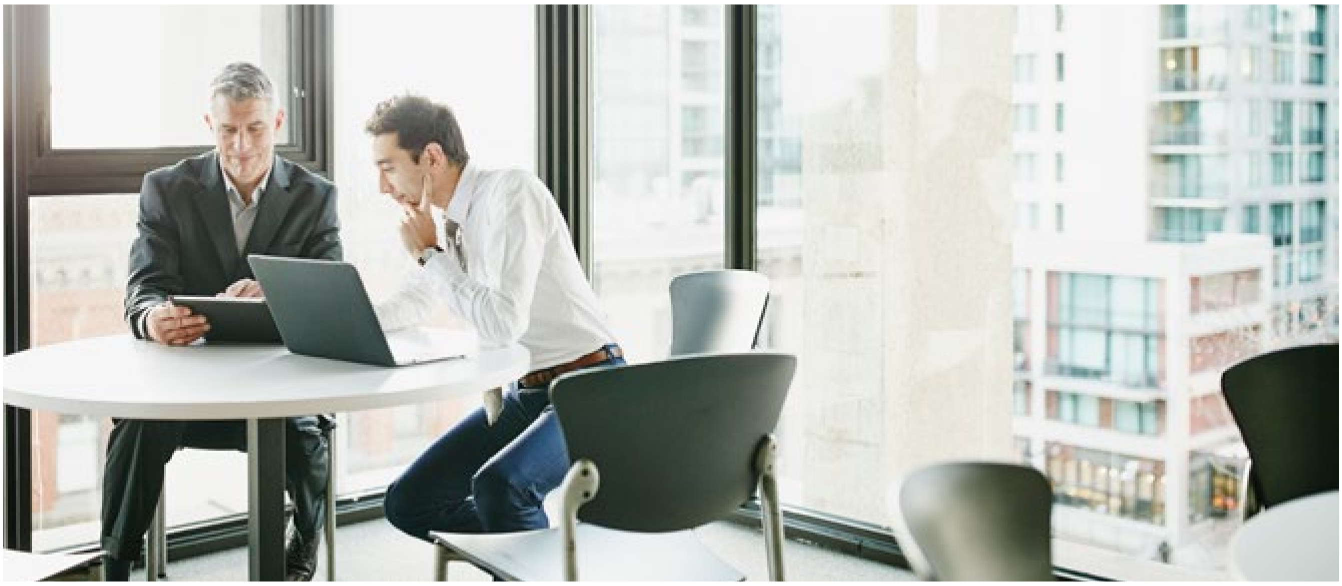
Cloud-only ERP providers often have an advantage in selling to first-time ERP buyers in small, faster-growing companies or new divisions of larger organisations. These buyers value speed, agility and scalability.

The speed and agility benefits of cloud computing are reflected in how cloud-only ERP providers generally handle version upgrades. Cloud-only providers, which most often maintain only a single production version, usually upgrade all of their customers to new versions within a short period of time. In best cases, upgrades are nearly transparent to customers, who can "turn on" new functionality as they see the need. This approach appeals to both first-time ERP buyers and ERP replacement buyers.

In contrast, traditional ERP vendors—even those that have re-engineered their systems for cloud deployment—generally maintain multiple versions of their systems and allow customers to stay on older versions for longer periods of time. In worst cases, they charge customers for upgrade services, creating a disincentive for customers to upgrade. Though the traditional vendors may present this as an advantage (i.e. you, the customer, have a choice on when to upgrade), customers are rarely well-served by being back-leveled on older versions.

Finally, cloud-only ERP providers have the advantage of focus: they only serve cloud customers. Everything they do—product development, sales, implementation and ongoing support—is focused on the cloud. If their cloud offering is not successful, they have nothing else to fall back on. In a positive sense, they have all their eggs in one basket.

Traditional ERP vendors, however, suffer from divided attention. If their cloud offering is not successful, they can continue to make money with their on-premises customers. In addition, most traditional ERP vendors have less than 10% of their customers running under their hosted/cloud offerings. That tempts them to treat their cloud offering as a side business.



CHAPTER 4

Buyers Should Tailor Due Diligence to Provider Type

The choice of a cloud ERP system is a major decision without a one-size-fits-all answer. First-time buyers and ERP replacement buyers should ask some key questions.

- For first-time ERP buyers, is the hosted or re-engineered cloud offering of the traditional vendors good enough to overcome their weaknesses in cloud characteristics? Will the implementation time be fast enough? Will the IT staffing requirements be low enough? Will the solution be flexible and scalable enough?
- For ERP replacement buyers, is the promise of cloud computing benefits strong enough?
- In reference-checking, ask about the implementation experience. Who provided implementation services, the SaaS provider directly or an implementation consulting firm? What type of support did they provide? Were their on-site services adequate? What do they wish they had done differently?

Buyers interested in the cloud or hosted offerings of traditional ERP vendors should also look to mitigate risks.

- In the sales presentation, observe whether the vendor is mostly talking about the software and implementation services, giving insufficient attention to ongoing support after the go-live. This may indicate they are still thinking of themselves primarily as sales and implementation service providers, not as ongoing support providers.
- In reference-checking, ask about the day-to-day experience with ongoing support. Does the provider schedule extensive downtime for maintenance? Are there many unscheduled outages? Do customers have problems contacting the right support person to resolve issues?

Of course, all these questions can be asked of all vendors, but being aware of common weaknesses can help a company focus on areas that may be problematic.

Understanding an organisation's key requirements as well as the different approaches to cloud ERP will help buyers make the right choice and be successful in their implementations.

About the Author

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Frank Scavo is president of Computer Economics, Inc. In this analysis, he draws upon his years of experience helping IT organisations select ERP systems.

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