

Cloud software benefits aren't all in the cloud



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Executive summary

Cloud application software vendors and industry pundits like to talk up the cost savings and benefits of these newer technologies. The benefit areas mentioned are becoming fairly well-known and oft-repeated. The four benefit areas most often touted involve the elimination of:

1. Infrastructure costs
2. Maintenance activities
3. Costly upgrades
4. IT staff headcount

While these cost savings are real, tangible, and occur with most every cloud application software implementation, cost savings alone should not be the all-consuming, exclusive driver of change when implementing these new, cloud-based solutions. Why? As it turns out, underneath some of the newer products are capabilities, functionality and process changes that could deliver significant long-term value to your firm. But, if you approach your next ERP (or other cloud-based application software) implementation as something that must be done fast and mimic your existing on-premise solution's functionality, process workflows, etc., you could be leaving significant benefits and value undiscovered.

This paper discusses these sub rosa business change capabilities found in better, newer cloud solutions and why you must factor these into your next software project. When these new application solutions are combined with enabling technologies like mobile, social, big data, platforms, and the like, transformative benefit potential exists. These benefits are reserved for the companies that treat their cloud software implementation with more care, more planning and more of a full value realization focus.

Background

The most die-hard on-premise software vendors have come around to cloud deployment of their solutions. Even Larry Ellison of Oracle conceded that multi-tenancy, now that it is 2012, is a good thing. Cloud applications are here and here to stay.

The benefits of moving to cloud application software solutions are often impressive. Customers can defer or diminish their spending on IT hardware, systems software and large up-front software licenses. Cloud solutions can scale up and down easily while an on-premise data center is often challenged to scale either direction. Bottom line: cloud application solutions are low to no capital intensive transactions.

Cloud application software products, especially the multi-tenant products, shift the bulk of responsibility of application software maintenance to the vendor and away from the customer. This is a material cost savings for many firms and one that allows IT organizations to re-deploy their IT talent away from low-value-added software maintenance activities to more strategic IT development activities.

The cost of maintaining on-premise versus cloud application software is an important and significant value driver. For example:

- > Frank Scavo, of Computer Economics, found that 60% of the total cost of on-premise systems involves maintaining, patching, and upgrading these applications over a typical 8-10 year lifecycle. Many of these costs go away with multi-tenant cloud application software. For example, a company looking at spending \$4 million over the life of an ERP solution could remove \$2.4 million of these costs just by selecting a multi-tenant application solution.
- > A Vital Analysis report on large firm deployment of cloud application solutions stated: "Let's deal with the big, positive finding first. Every respondent, albeit on a small sample, reported savings of approximately 40-66% when compared to on-premise solutions."¹
- > A quick bit of Internet research will reveal other sources purporting large infrastructure cost savings simply by moving to some cloud solutions.

When cloud business systems came to market in the early 2000's, many of them lacked functional depth and breadth. Thus, they were not capable of delivering much more than basic infrastructure cost savings and simple business benefits. A quick examination of early cloud software products often revealed:

- > Solutions that frequently served departmental or functional requirements in areas such as human resources or sales force automation. Solutions that serve the entirety of an enterprise (e.g., ERP) were scarce and often limited in functionality.
- > Enterprise software products were initially targeted for small businesses or for small parts of mid-sized firms.
- > Functionality to serve multi-site, multi-currency, multi-language and shared services functions did not exist.

Although cloud application software vendors hyped adoption by large recognized brand-name companies whenever they could, the products rarely served enterprise-wide needs. Only the needs of small divisions, or singular functions were served. Some of these examples include:

- > Groupon initially rolled out NetSuite to over 20 world-wide divisions, but only to replace divisional spreadsheets tracking ledger balances.
- > Flextronics was an early adopter of Workday, but only for HR.
- > Salesforce.com's initial growth occurred through thousands of departmental or even single user installs.

¹ "SAAS: Now serving large, complex enterprises," Vital Analysis, pg. 8, 2011

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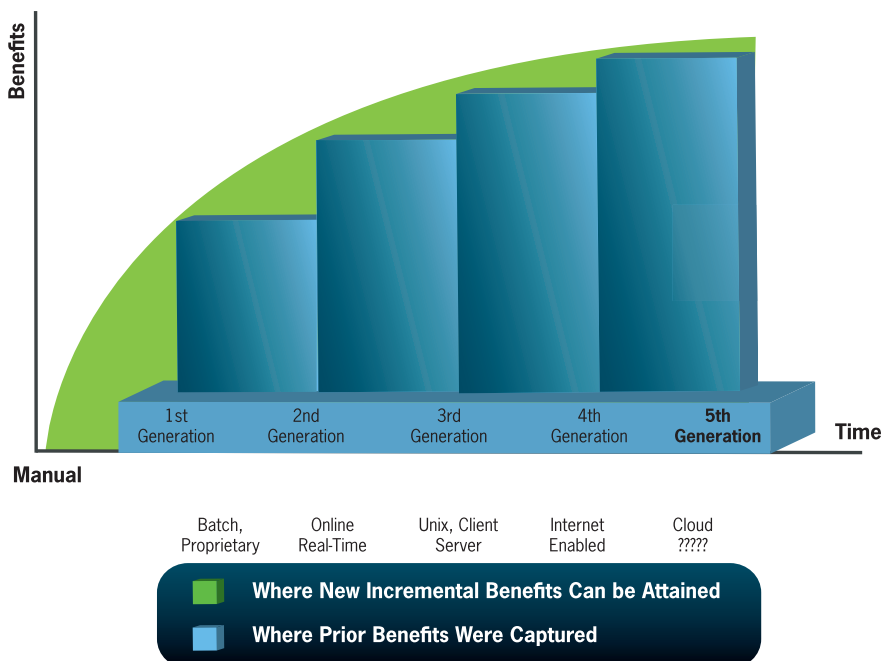
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But this is changing. Cloud applications have matured and added deep capability, particularly in the past few years. Today, more cloud application vendors deliver deep, enterprise capable software products, rivaling or exceeding on-premise vendor capability. The speed with which development is possible in some cloud environments, especially Platform-as-a-Service (PaaS), has enabled vendors to leapfrog some on-premise vendors and cause some buyers to re-think the software leader boards. Leading cloud application vendors such as Plex Online, NetSuite, Workday and others are delivering enterprise level products. Global salesforce.com projects for multi-national corporations are quite commonplace today.

Baker Tilly expects the functionality within leading cloud based ERP vendors to grow substantially over the next 5 years as they open their platforms for extended development by third parties and their community of users.

Many companies are shifting to Cloud software to not only reap the benefits of basic infrastructure savings, but also because the benefit opportunity with on-premise software has atrophied. Although on-premise vendors continue to release new versions, the cost and effort to upgrade to a new version or release is often significant. Unfortunately, the net benefits realized from an upgrade are often minimal and/or diminishing. This point is illustrated in the graphic below.

Graphic courtesy of TechVentive, Inc. – All Rights Reserved



Many of our clients are experiencing this marginal benefits issue as they have implemented successive new generations of ERP and other applications software. When they see this occurring, they logically seek out implementations of new or upgraded products that are: fast, cheap and low risk.

We agree. If the new software is only marginally better than the predecessor solution, then software buyers should find an implementation partner that will install the product fast, cheaply and with a minimum of risk.

But, we are also seeing some powerful new capabilities embedded in these newer solutions. And, we are concerned that new software buyers may be missing out on a whole new level of potential value if they just slam in the new software and make it emulate current business practices.

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New cloud enabled solutions are opening up new categories of value realization. As the above graphic depicts, the avoidance of capital expenditures and application maintenance/upgrading costs are two major cost savings that newer solutions permit.

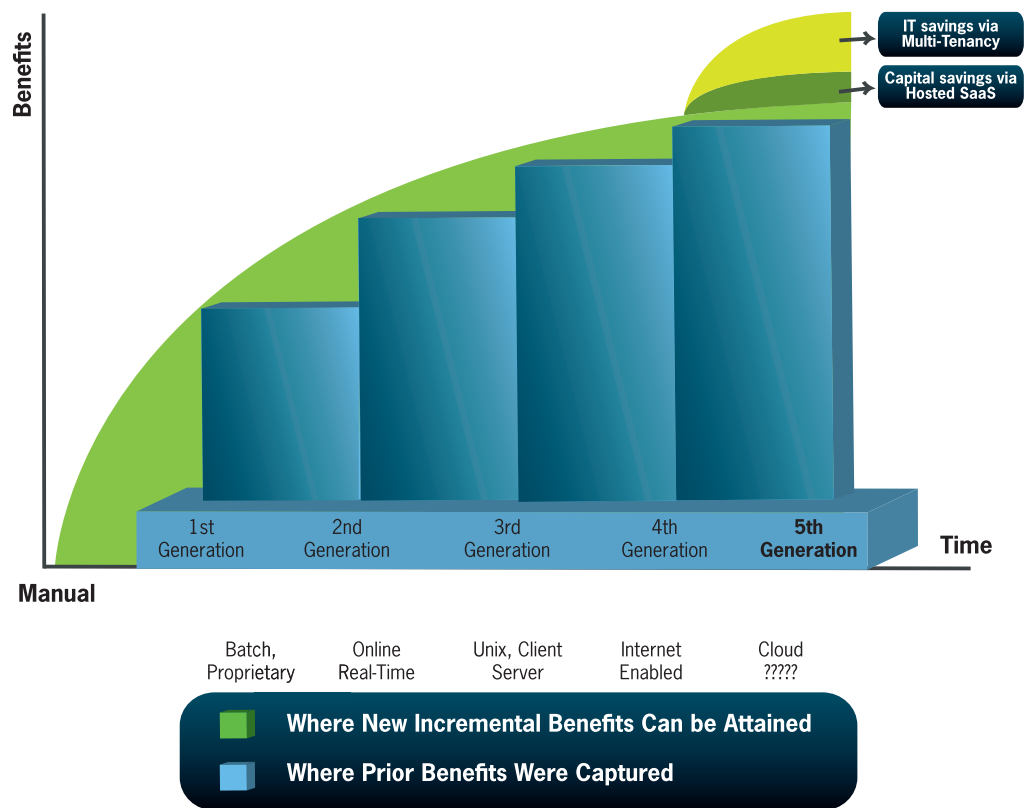
But, there may be much bigger opportunities for your firm to examine.

Some new products possess capabilities like:

> Tags – Workday has developed “WorkTags”. When implemented correctly, these data elements add new levels of richness to reporting, regulation compliance, analytics, operational insights and more. Unfortunately, some implementers and users are using WorkTags as a proxy for accounting code block segments. We believe this to be a gross misuse of this capability and one that users will rue for years to come.

> PaaS – Customers may want to extend the functionality of their new cloud solution. Instead of creating custom code, they could be using the tools within the software’s platform to create these functional extensions as the vendor will continue to apply these platform enhancements automatically into future software versions.

> Workflow and control techniques – Too many small to mid-sized firms have poorly documented processes and equally vague controls. Older software solutions had few tools to document and enforce adherence to policies and controls. Newer solutions have remarkably sophisticated tools that bring new levels of discipline, standards adherence and quality outcomes to businesses. But, these benefits only accrue to those firms that understand and implement the new capabilities.

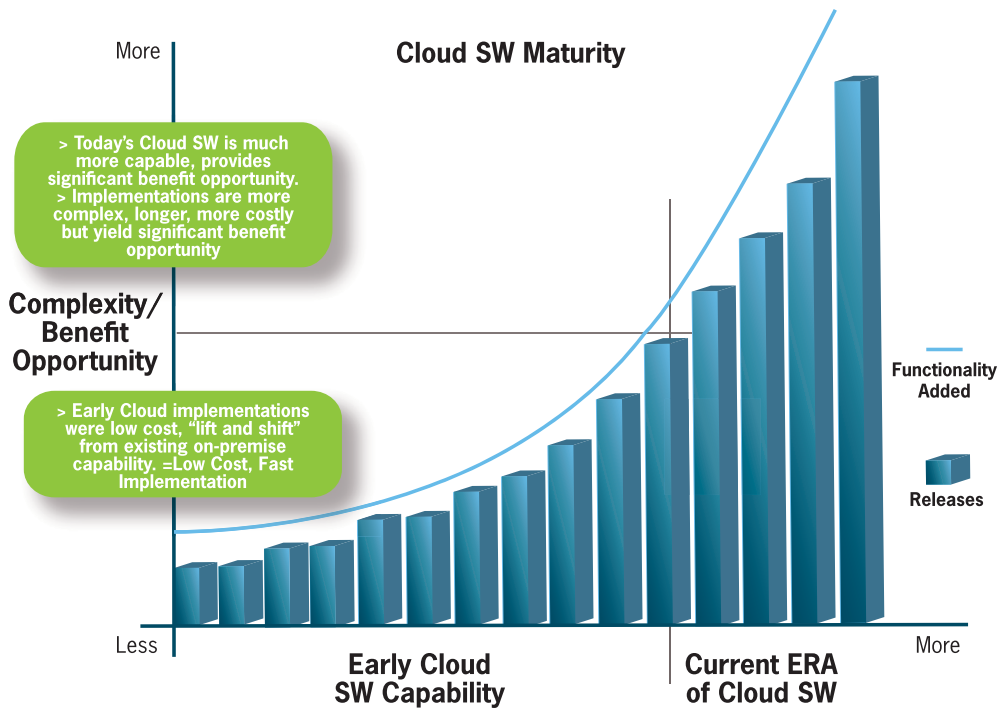


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Cloud application software vendors are growing product capability in leaps and bounds. There are several reasons for this. First, providers of multi-tenant solutions only have to build for one technical environment (i.e., their own cloud environment). They do not need to write additional code to support the varied databases, systems software tools, hardware components, etc. that an on-premise vendor must. This singular technology environment means that they have less code to write, less regression testing to perform and more opportunities to create in a quarter the kind of functionality that often takes an on-premise vendor a year or more to produce. Second, the development toolset for many of these solutions often includes SOA, enterprise service buses, quick integration connectors and more. These allow for speedy product development. Additionally, rich eco-systems of content and solution providers adding more capability to the product set. These are often fuelled by powerful PaaS technology. Finally, these new solutions are being extended and rethought via the incorporation of new enabling technologies (e.g., mobile, big data, analytics, social, etc.). This growth is depicted in the graph below.



This growth in capability does require companies adopting cloud application software to think differently about their implementations if they want to reap the true potential of this modern technology. In the early years, cloud software vendors went to market touting extreme speed and low cost implementations. The value proposition was all about how fast and how cheaply the new software could be implemented. Unfortunately, as cloud software has matured, the speed and low cost message is now the only thing buyers seem to hear/remember. This perception must change to align with the evolution of the software.

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Implications

Companies that treat a cloud application software implementation as being all about low cost and speed:

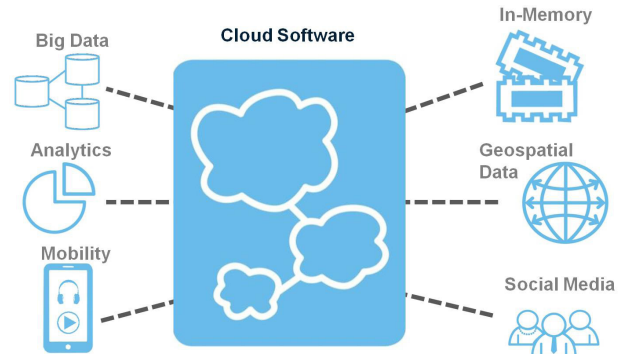
- > miss huge opportunities beyond the basic four areas
- > risk spending even more dollars in the future on re-work and re-implementation, essentially eliminating the basic cost savings cloud application software brings

Before proceeding further, we should mention that there are situations in which a simple, low-cost and fast “lift and shift” installation of cloud application software is a prudent business choice. These situations may include a rapid transition due to a divestiture, rapid start up for an immature business model, expansion into a new market, adding a division with a repeat business model to mention a few.

However, in most situations, the significant cost savings lie not in getting to the cloud, but what you do with the capabilities cloud application software brings. You cannot consider cloud products simply as bolt-for-bolt replacement products for your old software. You must dig deep into the process and data models within the software, as well as consider what the solution enables outside of the core business system.

These benefits simply are not possible with traditional software, as they do not enable:

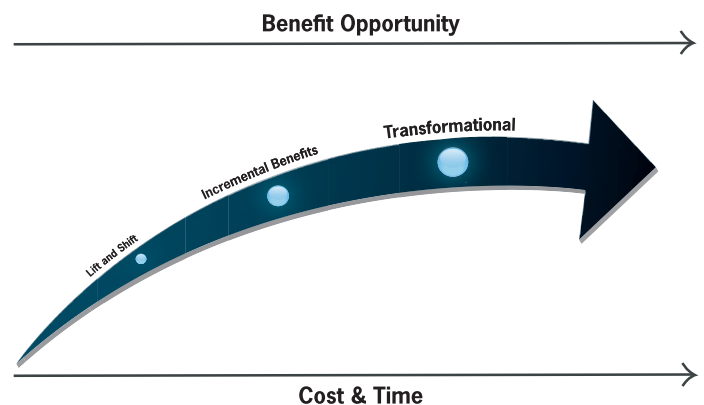
- > complete re-thinking of business processes and even business models
- > leveraging of external data for precise, forward looking insights
- > leveraging platform as a service tools to create unique strategic functionality
- > instant ubiquitous device deployment
- > connection of multiple purpose-built cloud applications providing deep functionality in key areas
- > a culture of continuous improvement be instilled across the enterprise



It is in the above points where significant cost savings and business value exists. Realizing these benefits requires broader thinking and more effort than simple “lift and shift” implementations. The cost savings opportunity when thinking and implementing in this mode is exponential when compared to the 60% basic infrastructure savings previously mentioned.

With today's cloud software products, your lens for thinking about cloud software implementations must change. Although the infrastructure portion of an implementation is still faster and less expensive, the true value of the implementation: business process, data, and organizational change cannot be taken lightly.

Making short-sighted, fundamental decisions around process and data carries a price tag in rework and re-implementation. Companies which do not treat the enterprise class capabilities of today's cloud software with reverence will pay this price. The good news is those companies that do invest the time and resources reap plentiful rewards.



Guidance

To truly reap the benefit opportunity of a modern cloud software implementation, companies should consider the following as they plan and scope the implementation.

- > Define the objectives of your software project beyond simple technical infrastructure change. Project objectives should address business strategy, improvement opportunity, and ultimately where your company seeks to evolve along a transformative maturity scale.
- > The implementation team really needs to understand new process thinking embedded in the design of the new cloud-based software. This requires in-depth understanding and may not be apparent on the surface. This process thinking takes the traditional “best practice” business process models many of us learned for the past 25 years, and reshapes them for the modern world.
- > Process thinking must expand beyond just implementation of the core ERP business processes designed 25 years ago. It must expand to consider external data sources, mobility, and other extended technologies. It is not just the core ERP functionality that can be transformational, but adding these enabling technologies can super-charge benefits. External thinking is required in the implementation.
- > Craft your implementation team around a center of excellence innovation model. Recognize the innovation possible with business processes, your value chain, and even core business model as a result of cloud application software capability. These innovations contain real tangible cost savings and benefits that may not be possible with on-premise solutions. It requires an organizational model for the implementation to enable this level of thinking. Leverage modern cloud technologies as a foundation for continuous improvement.
- > Do not underestimate the cost, effort, and disruption of re-work resulting from short-sighted decisions. Newer cloud software is complex and continues to grow in complexity as the functionality is continuously enhanced. Decisions which are not fully vetted are not simple to just un-do. Rapid, slam-it-in implementations can result in future re-implementation costs - take time to fully consider the implications of any speedy implementation. To realize the full benefits from a cloud-based ERP system, manufacturers need to spend the time to “do it right the first time”

Summary

Implementing cloud application software can produce tangible cost savings over many on-premise solutions. Implementing with care, reverence, and innovation as you proceed, may expand the value realized to exponential levels. More mature, enterprise class cloud application solutions are now available and within them lay powerful capabilities for firms willing to take the time to discover and exploit these capabilities. The best value your firm may derive from new cloud-based solutions will occur with external thinking by professionals who have vetted and adapted cloud and other enabling technologies to re-write business processes, business models, and the rules of competition in their industry.

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About Baker Tilly

Baker Tilly is a professional services firm with a specialized Growth Strategies consulting practice. Our professionals specialize in helping clients achieve their growth objectives through more effective customer and channel strategies. Through a comprehensive evaluation of the opportunities and barriers, we define customer-centric strategies and develop a pragmatic plan to build the capabilities that will better enable sales, marketing, and service organizations to provide differentiating customer experiences and drive sustained growth.

Baker Tilly Virchow Krause, LLP (Baker Tilly) is a nationally recognized, full-service accounting and advisory firm whose specialized professionals connect with clients and their businesses through refreshing candor and clear industry insight. With approximately 2,500 employees across the United States, Baker Tilly is ranked as one of the 12 largest accounting and advisory firms in the country. Headquartered in Chicago, Baker Tilly is an independent member of Baker Tilly International, a worldwide network of independent accounting and business advisory firms in 133 countries, with 27,000 professionals. The combined worldwide revenue of independent member firms is \$3.6 billion.

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