

# Key questions every IT and business executive should ask about cloud computing and ERP

By James B. Mattison and Saideep Raj



**High performance. Delivered.**



Executives involved in managing enterprise operations and optimizing corporate ERP systems increasingly need to evaluate the implications and impact of cloud computing. Asking the right questions is the best place to start.



For executives involved in selecting, implementing, managing and optimizing Enterprise Resource Planning (ERP) systems, the advent of cloud computing may well be one of the more significant and disruptive events that they will see in their careers. As awareness and usage of cloud and software-as-a-service (SaaS) offerings continue to grow, ERP decision-makers are increasingly being asked to assess and communicate the implications and impacts. However, the radical changes promised by cloud computing combined with the emerging nature of many cloud services are making this a difficult task.

In Accenture's view, the benefits offered by cloud computing will ultimately result in widespread adoption. The question is not "if" – it's "when," "by how much" and "how fast." Yet this expectation raises further questions. What will moving to the cloud mean for the existing massive investments already sunk into traditional core ERP systems? What are the risks? And what is the longer-term future of cloud's role in ERP?

## Growing momentum

Leading companies of all sizes and in every sector are already well-aware of the benefits that cloud-based services can deliver to organizations—particularly

in terms of cost, speed and flexibility. The momentum is also building rapidly on the supply side, with virtually all major software companies now taking dollars from on-premise revenues and directing further investment toward the development of SaaS products or variants.

As a result, we believe that the next two to five years will be a pivotal period for the build-out and maturing of the cloud market, and for the emergence of "enterprise-grade" cloud services. In light of this, it is vital that every company—large and small—develops an understanding of cloud computing, and a strategy for how to leverage cloud services to meet their changing business requirements—today and into the future.

## The secret to cloud-based ERP: multi-tenancy, sharing and the community effect

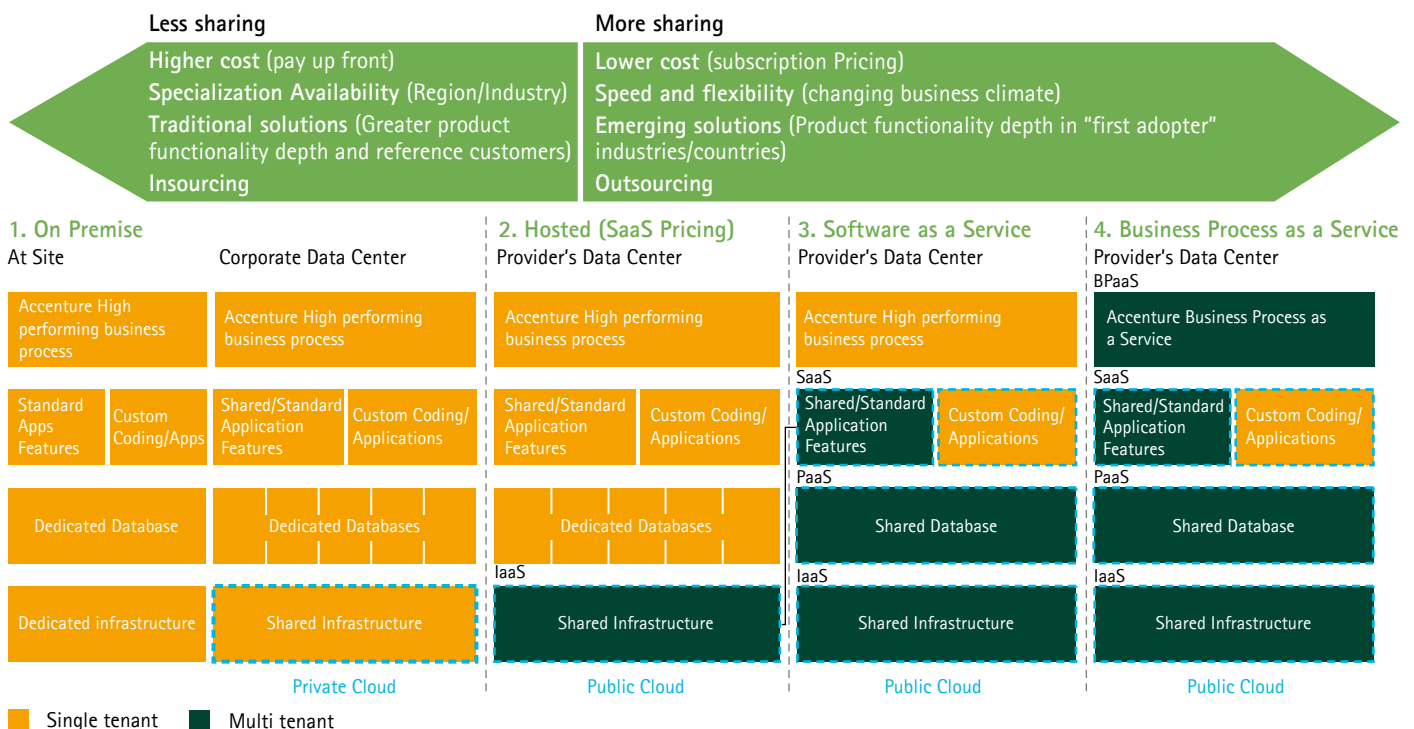
Cloud computing is a growing reality thanks to the pervasiveness of the Internet and Internet technologies, combined with advances in hardware virtualization, and modern—more flexible—software architectures. The additional benefit of multi-tenancy (or sharing) brings tremendous cost savings to software vendors through the enhancement

and support of one version of code. In addition, a key catalyst has been the various introductions of cloud services by companies such as Google, Amazon, NetSuite, Salesforce and Workday, as well as traditional mega software companies like Microsoft, Oracle and SAP.

When companies are assessing cloud-based (or SaaS) ERP solutions, we believe they should first seek to understand which components of the technology stack have multi-tenancy. Then, determine the adequate number of tenants and objectively consider why it will not work. Also, keep in mind that with more components shared and as each additional tenant comes onboard, the SaaS provider's cost per tenant drops. The result is lower price and/or increased product innovation, as well as opportunities for customer-to-customer collaboration within the cloud community.

To illustrate the progression towards multi-tenant cloud solutions, Figure 1 provides the current landscape of SaaS offerings for ERP, ranging from dedicated, on-premise provision via private cloud to public cloud applications hosted at the provider's data center. Investment is shifting at an accelerated pace toward the "more sharing" end of the spectrum, initially from box 1 to 2, and accelerating toward box 3 and 4.

Figure 1: Software-as-a-service trade-offs, and the degree of multi-tenancy. Clients should seek the maximum multi-tenancy/sharing while meeting their business requirements.



Source: Accenture analysis

# Key questions about cloud based ERP:

1. Why cloud for ERP?
2. Is cloud-based ERP really ready for my business?
3. Can I customize and extend a cloud-based ERP solution to my business?
4. Does adopting cloud-based ERP mean throwing away prior ERP investment?
5. What are the risks of moving to cloud-based ERP and how do you manage them?
6. What is the future for cloud-based ERP?

## Cloud-based ERP: Key Trends

We know that the topics of cloud computing and SaaS are rising rapidly within the ERP agenda amid growing interest at the board level. But how can ERP decision-makers keep pace and come to a timely, focused and productive evaluation of cloud's potential and pitfalls? To help them do this, Accenture has identified key questions that we believe executives should ask about cloud-based ERP. By focusing on these questions, they can cut through the hype and identify the real opportunities and risks that result from cloud computing for their ERP systems.

### Top reasons why customers choose SaaS:

1. Speed: Speed to deliver, ease of use and access via any device, anywhere
2. Cost reduction: Reduced demand on in-house IT staff, upgrades included in service, customization does not deviate from upgrade path, always on the latest version, reduction in hardware costs, hardware break fix included, etc.
3. Flexibility: Flexible software, end user configurable, flexibility to try with low up front investment

### Top reasons why customers choose hosted managed service solutions:

1. SaaS-like pricing: Upfront costs deferred
2. Managed service: Lower IT resource demand, support personnel outsourced as part of managed service
3. Credentials/functional coverage: Same code as on-premise so often same credentials and functional coverage apply

### Top reasons why customers choose on-premise:

1. Functional coverage: Functional coverage fits best for particular industry/client needs
2. Credentials: Ability to obtain detailed experience/credentials, comfort with familiar architectures and pricing
3. Prior investments: Desire to leverage owned hardware/software as well as in-house staff skilled in on-premise

# 1. Why cloud for ERP?

As companies increasingly understand its potential benefits, they are asking "Why not" Cloud-based ERP as the preferred option?... Particularly if business requirements are being met.

We have already highlighted the potential benefits of moving to a cloud-based ERP solution. In summary, these include:

- Faster implementation: easier to use and deploy
- Greater flexibility: system configuration, pricing is more flexible
- Lower total cost of ownership (especially start-up cost): savings can be 30% to 50% of TCO compared to on-premise ERP
- Less dependency on IT staff and/or on-premise hardware

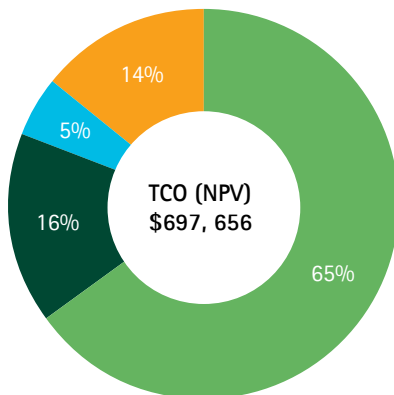
## TCO: A case study – Hurwitz & Associates

The graph below depicts TCO for a new implementation of on-premise ERP vs NetSuite over a 4-year period without factoring major upgrades of software and hardware (typically done every ~5 years). If we add those major upgrades into the picture, the business case for SaaS is even greater. The savings in this example are at ~50%, with 30-50% a typical range. But the details are equally important to consider. Taking a closer look, notice that the licensing costs actually went up with SaaS. This can mislead technologists who are used to comparing just the license costs of on-premise providers. With SaaS, the savings often do not come from licensing, but rather from the inherent lower IT personnel costs and hardware

outsourcing. Investing savings into process improvements as well as driving organizational efficiencies can unlock longer-term benefits. But those that don't factor future upgrades into TCO, own perpetual licences, or have available hardware and IT staff will find the savings much lower, or can reap no savings at all.

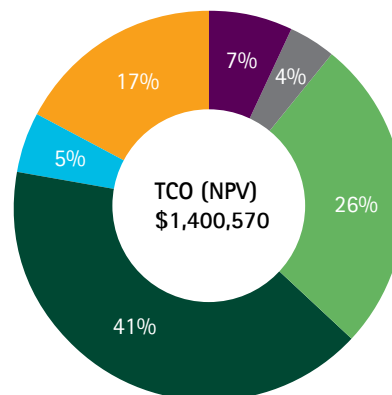
Figure 2: TCO Comparison: On-Premise ERP vs. SaaS ERP

### SaaS ERP



- Application Software \$499,152
- IT Resources \$118,805
- Consulting \$106,070
- Training \$37,436

### Traditional ERP



- Application Software \$381,547
- IT Resources \$613,725
- Consulting \$251,550
- Training \$72,843
- Hardware \$110,088
- Infrastructure Software \$62,455

# 2. Is cloud-based ERP really ready for my business?

The answer to this question depends on your specific business requirements and typically involves some level of fit/gap analysis. However, as a general guide, the size of your company's revenue, the geographical spread of its operations, and the industry sector(s) in which it is active is a good starting point. To establish whether cloud-based ERP is a good fit for your business, apply a three-way decision matrix reflecting these three factors.

## Annual Revenue

### The Cloud-Based ERP Leader Board: Size of annual revenue

- **First movers:** Revenue below US\$750 million
- **Second movers:** Revenue US\$750 million to US\$2 billion
- **Later adopters:** Revenue above US\$2 billion

In terms of size, companies or subsidiaries with annual revenue of below ~US\$750 million have been the earliest and fastest adopters of cloud-based ERP—putting them in the “first mover” grouping.

This is mainly because business requirements are simpler and there is increased cost pressure to keep IT spend in line with revenue. In addition, small and mid-sized enterprises (SMEs) have limited scope for economies of scale which—compared to their larger counterparts—has historically made it more difficult to adopt outsourcing/offshoring and hardware virtualization. Cloud-based ERP offers these smaller and mid-sized enterprises significantly

greater benefits in terms of cost, and they are moving quickly to adopt as a result. It is important to note that much of this market is comprised of subsidiaries or joint ventures of large enterprises. As a result, many large enterprises have collections of mid-sized companies in their ecosystem that fall into this first mover category.

The next tier in terms of size—between US\$750 million and US\$2 billion—is an emerging grouping for cloud-based ERP adoption and can therefore be classified as “second-movers.” While some in this segment are pushing ahead, others are hesitant depending on industry and business-specific factors. As cloud-based ERP becomes more mainstream over the coming two to five years, our view is that companies in this size range will increasingly move to adopt.

The third grouping—the last one to take the plunge—is made up of large corporations turning over US\$2 billion or more. In general, they have already made significant up-front investments in licenses, have outsourced and/or offshored significant parts of their operations, and have also reduced their IT costs substantially through server consolidation and virtualization. Therefore, the business case for adopting cloud-based ERP is less immediately compelling for them than for smaller enterprises. In addition, functionality requirements yield the greatest gaps versus the emerging/new SaaS ERP solutions. However, as functionality is added and enterprises explore SaaS ERP through their subsidiaries, the possible savings for the enterprise can be even greater.

## Regional trends

### The Cloud-Based ERP Leader Board: Regions

- **First movers:** North America, Europe, Japan, Australia
- **Second movers:** India, China, Brazil
- **Later adopters:** Most other territories

These demand-side dynamics bring significant implications for the rate of adoption in different regions. Currently, adoption among small and medium enterprises (SMEs) is driving investment in cloud-based ERP within regions demanding high labor costs, such as North America and Europe, and in developed Asian markets, such as Japan and Korea. As a result, these territories are leaders in cloud-based ERP adoption globally—making them the “first-mover” regions.

In contrast to the SME segment, most large enterprises already have ERP systems from the major global suppliers implemented and running in their traditional businesses in North America and Europe. However, the burning platform is their need for better ERP capabilities in emerging market subsidiaries to enable/support growth they are seeing in those markets. Interest in cloud-based ERP is growing rapidly in places like China and Brazil, and emerging markets will likely be the next territories where adoption will take off. In other regions, take-up is influenced by specific local factors including regulatory and tax regimes.

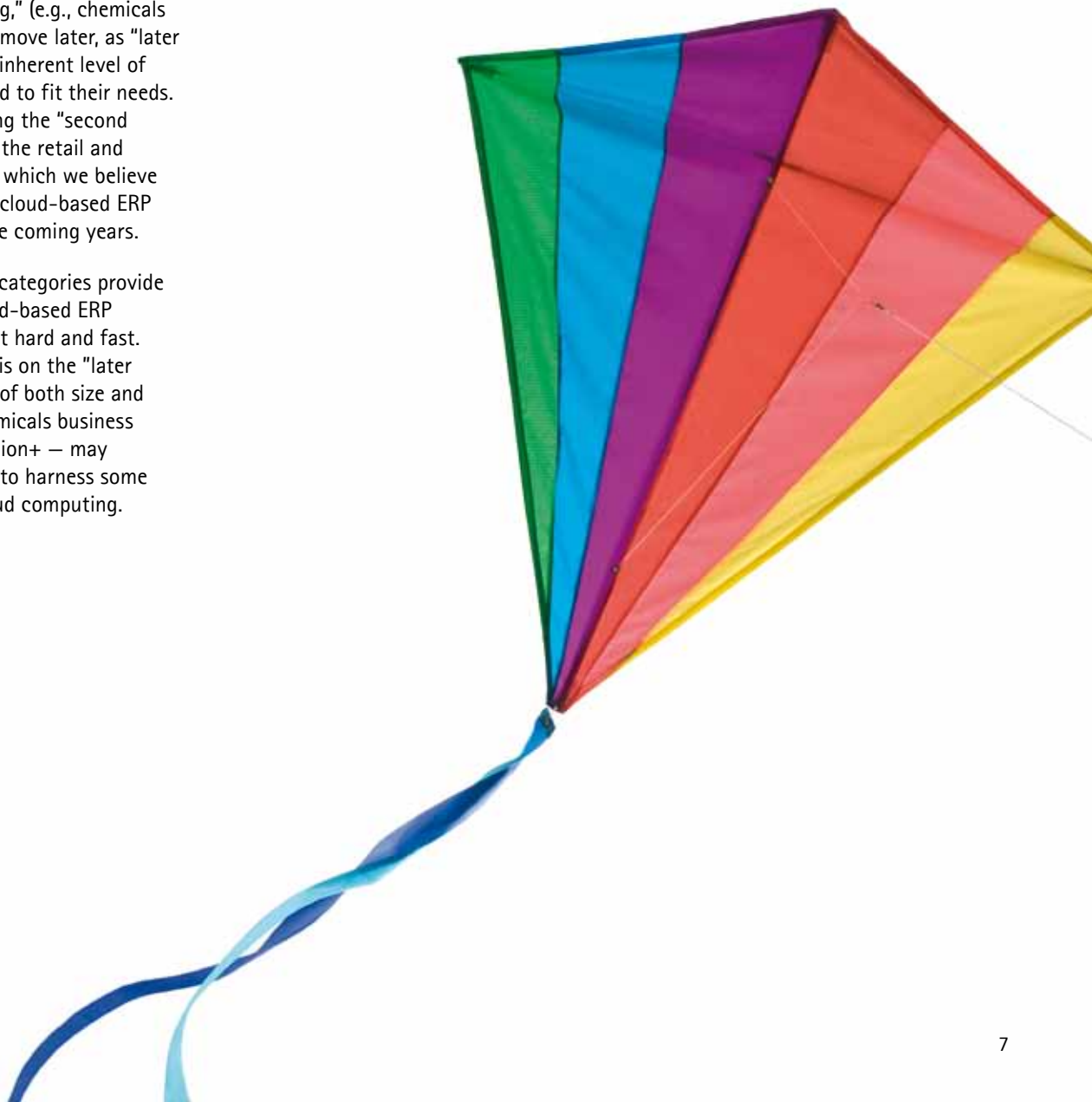
## Sector considerations

### The Cloud-based ERP Leader Board: Sample industry sectors

- First movers: Software, consulting services, supplier networks and light manufacturing
- Second movers: Retail, healthcare
- Later adopters: Continuous process manufacturing

The third factor in assessing cloud-based ERP readiness is industry sector. Software and consulting services businesses are at the forefront of the adoption wave. Within the discrete and contract manufacturing sector, cloud-based ERP services are gaining traction—putting them among the “first movers.” In contrast, those industries requiring highly complex operations, such as “continuous process manufacturing,” (e.g., chemicals industry) are likely to move later, as “later adopters,” due to the inherent level of customization required to fit their needs. Sectors that are joining the “second mover” group include the retail and healthcare industries, which we believe will press ahead with cloud-based ERP adoption rapidly in the coming years.

While we think these categories provide a useful guide to cloud-based ERP readiness, they are not hard and fast. Even a company that is on the “later adopters” list in term of both size and sector—such as a chemicals business turning over US\$2 billion+ — may consider moving now to harness some of the benefits of cloud computing.



# Bringing industry insight to cloud-based ERP solutions

Accenture recently added NetSuite, SAP Business ByDesign, and Microsoft Dynamics AX as strategic components within the Accenture Advanced Enterprise Suite.

The Accenture Advanced Enterprise Suite (AAES) is a patented framework and set of deliverables that industrializes all aspects of an ERP program and related business services. Available for 11 industries, it links Accenture High Performance Business research, industry-specific leading business processes and key performance indicators with a preconfigured ERP platform (either on-premise, private cloud, public cloud or SaaS) that can be leveraged throughout the application lifecycle, from analyze and design through implementation and support.

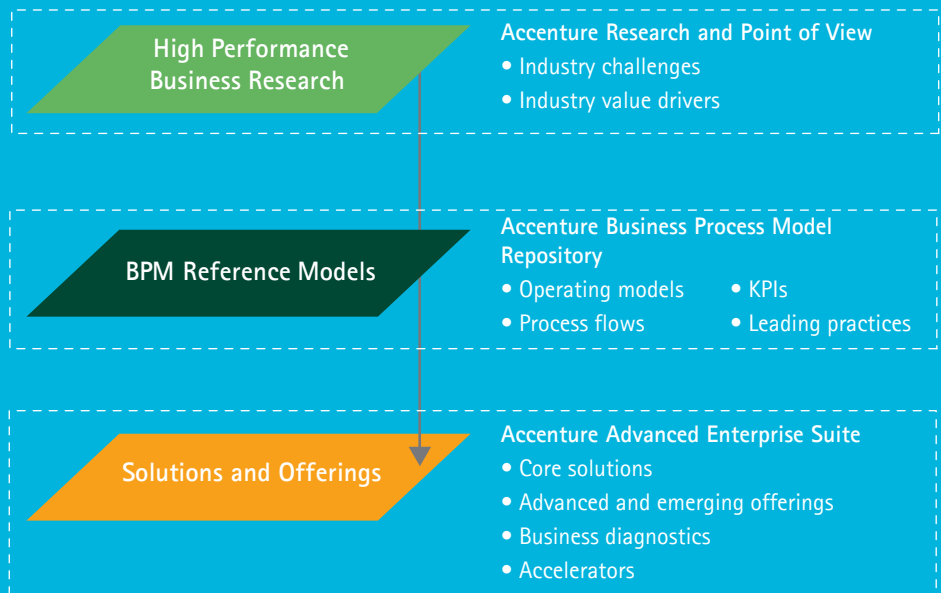
For example, Accenture and SAP realized there were gaps in Business ByDesign functionality that would be required by chemical companies. Drawing on Accenture's 30 years of experience in the chemical industry, we prioritized and filled five key functionality gaps, known as "add-ons," satisfying certain industry functionality foreseen as being required by chemical companies. These add-ons help enable a SaaS ERP system to work toward key functional needs within an industry, and therefore have a direct impact on a company's performance beyond the obvious areas of return such as elimination of hardware, software, data center space and software maintenance.

For companies using SaaS solutions as extensions to an on-premise core, AAES helps ensure there is integration of operations between corporations and subsidiaries within a hybrid IT landscape.

AAES offers clients in all industries accelerated delivery of comprehensive business value. It does this by leveraging our distinctive high performance business models, implementation accelerators, and closely-defined roles and responsibilities, all supported by a powerful and proven offshore delivery factory. AAES is built on top of the leading ERP software, both cloud and on-premise.

Figure 3: Accenture Advanced Enterprise Suite

- A suite of industry-specific ERP solutions—with leading practices, processes and technologies, packaged for rapid deployment
- Codifies over 30 years of Accenture experience
- Used by 140 clients globally; available for 11 industries
- Patented framework for industry business process-based integration with underlying technology
- Overall effort savings in the range of 10-23% in large scale transformation programs
- Built and maintained as Accenture's core ERP solution suite within our Product and Offering Development group





# 3. Can I customize and extend a cloud-based ERP solution to my business?

For corporate decision-makers evaluating cloud-based ERP, one of the most common causes for concern is whether SaaS ERP solutions are customizable to their needs. There is a perception that, by their nature, multi-tenant SaaS solutions tend to drive organizations towards a more inflexible and standardized model with relatively little potential for tailoring to the unique needs of the organization.

As a result, executives are concerned that the costs of customization will outweigh the potential benefits of cloud. They may also worry about how that customization could impact future maintenance and upgrades.

## Different vendors—different approaches

These concerns regarding customization raise several issues relating both to the SaaS ERP solutions on the market and also to organizations' own criteria for selecting them. In terms of the solutions themselves, it is important to appreciate that different vendors have taken different approaches to the degree and method of customization that customers can apply to their solutions.

For example, NetSuite and Salesforce expose their application development platform (via their platform as a service, or PaaS), and, therefore, have a higher degree of customizability than some other SaaS solutions. In addition, they are making their offerings highly configurable by storing the configuration settings in the customer's metadata without needing

to expose the core code. The resulting degree of customization becomes virtually limitless. In contrast, some other vendors do not expose their platform and tend to follow a more standardized model, making changes centrally that may benefit their community of customers.

## A tool for standardization?

Deciding between configurable versus standardized solutions will depend on the organization's specific objectives. For example, the CFO may be looking to use cloud services as a way to remove inconsistencies and duplication across the enterprise or supplier ecosystem, tackle fragmentation in systems and processes and drive greater standardization. In this case, a solution that combines the application and platform in a highly efficient but less customizable way may be ideal. However, a business with very specific needs that require customized systems may opt for a more configurable solution. In general, SaaS ERP solutions are more end-user configurable and—with that—comes responsibility. As a result, governance is important.

Either way, there are trade-offs to be identified and critical, yet challenging, decisions to be made.

# 4. Does adopting cloud-based ERP mean throwing away prior ERP investment?

For large enterprises, the simple answer is "no." A growing number of corporations are retaining their existing core ERP systems while simultaneously realizing the benefits of cloud services at a local and/or subsidiary level. They are doing this by adopting a "two-tier" ERP strategy—one where the company runs a traditional global ERP system at the group level, in combination with separate regional SaaS ERP solutions at the subsidiary level.

The consideration of a two-tier ERP approach is common among companies that struggle to push out the core ERP platform to smaller subsidiaries and joint ventures—especially in emerging markets. This is usually because they face one or more of three main difficulties:

- The core ERP solution is too **complex** for subsidiaries' needs.
- The core ERP solution is too expensive for the local operation, even with cost allocation schemes to remove some of the up-front expense.
- The subsidiaries cannot afford to wait for the next release or wave of core ERP rollout because their business is changing rapidly.

The result is typically a "hub-and-spoke" ERP model which many enterprises already have despite efforts by the central IT function to unify on one system. By looking at the ERP ecosystem, the organization can identify subsidiaries due for an upgrade—or new subsidiaries with few common suppliers/customers, local competition and changing local regulation—as prime "spoke" targets. Establishing SaaS ERP as one of the preferred two-tier ERP solutions for these targets enables the enterprise to gain experience in SaaS capabilities often without the need for an expensive software selection process.

Experience also shows that a two-tier ERP strategy can significantly shorten implementation times while reducing capital and operational costs,

enabling greater agility and speeding up acceptance by end-users. Implementing all the "spokes" on the same two-tier system brings further cost and operational advantages because it is easier and cheaper to link, coordinate and govern the various local ERP instances. Therefore, selecting SaaS as one of the two-tier options also brings benefits in governance and control terms—with the key benefit being greater visibility, since anyone with a browser and a login/password can see, in real-time, what is happening in the subsidiary.

When companies move to a two-tier ERP approach, experience shows that these are based on one of three models:

1. One core ERP, with another solution from the same vendor for subsidiaries and joint ventures (e.g. SAP core, SAP Business ByDesign for subsidiaries).
2. One core ERP, with central IT allowing two-tier ERP from another vendor (e.g. Oracle with NetSuite "spokes").
3. One core ERP, with central IT allowing a limited number of two-tier ERPs (i.e. a limited set of approved vendors).

There is a fourth possibility—one core ERP, with central IT allowing subsidiaries to choose any ERP (i.e., "laissez faire" model). But this is generally not recommended due to the risks of fragmentation and duplication and the challenges around governance and control.

## Case Study: Accenture and SaaS ERP deployments

Accenture is working on global SaaS ERP deployments for large, global enterprises—in two-tier/subsidiary level ERP scenarios. Accenture helped Qualcomm, a California-based mobile technology company, make needed enhancements to its financial systems to support its rapid global expansion efforts. Qualcomm is using a two-tier Enterprise Resource Planning approach with Oracle at the corporate

level and NetSuite for certain subsidiaries. Accenture is implementing a NetSuite-based solution to enable Qualcomm to begin centralizing its subsidiaries' financial systems quickly while continuing to handle complex order-to-cash requirements. With about 140 locations worldwide running on various local software systems, the company's newly enhanced solution will play a critical role in streamlining the management process and supporting the successful expansion of its business. The first instance of this effort went live in early October, 2011 and is enabling the financials for a research and development subsidiary from a recent acquisition. Key drivers of the NetSuite approach have been

1. Speed of implementation—business units can be enabled in a matter of months as opposed to years,
2. Cost-implementation is less expensive than a traditional ERP deployment, and
3. Ability to integrate with the corporate ERP—subsidiaries' financials can be manually and eventually automatically uploaded for corporate financial consolidation.

## Constellation Research: The Case For Two-Tier ERP Deployments

"Subscription pricing, continuous innovation, and rapid ROI continue to drive organizations to consider SaaS and cloud alternatives in two-tier ERP strategies. SaaS and cloud products are best placed to deliver the quickest time to value in a two-tier ERP strategy. When combined with an overall legacy optimization strategy, many clients often apply SaaS and cloud to both a renewal program and two-tier approach."<sup>1</sup>

## Accenture's Private Cloud Solutions for Microsoft

Where traditional on-premise ERP can be seen as too complex or expensive, and pure SaaS ERP doesn't have the functionality, experience, flexibility, or global reach required, organizations find the right balance with Accenture's Private Cloud Solutions for Microsoft Dynamics AX. These solutions offer subscription-based cost models and cloud-based infrastructure while providing additional agility and functionality in areas like Retail and Manufacturing. Customers can also control their deployment model and choose to migrate their cloud solution to on-premise and visa-versa. Users adapt quickly given the familiar Microsoft Office-like user experience.

Accenture and Microsoft formed Avanade, which is a jointly-owned company that provides the deep functional, technical and implementation expertise needed on the Microsoft platform. Accenture, Avanade and Microsoft have collaborated on more than 4,500 projects for over 1,600 clients. Together, these three companies have developed more than 110 industry-specific and cross-industry solutions.

## Accenture helps Oracle customers leverage the cloud for business agility and cost effectiveness

ERP customers today are looking for the best of both worlds—the proven reliability of traditional on-premise solutions with the agility of cloud-based, on-demand services. Many enterprises are choosing Oracle as their flexible ERP backbone that can be used to create a leading-edge hybrid cloud/on-premise environment. Fusion Applications, Oracle's next generation ERP product suite, is offered in an on-demand model. It is a good example of how customers can enrich their core ERP capabilities with cloud applications in an evolutionary way, such as by adding on new capabilities for HCM and CRM. Accenture's private cloud solutions for Oracle offer a range of hosting options as well as industry leading practices, assets and accelerators.

Accenture has one of the largest Oracle practices globally with over 50,000 Oracle skilled professionals, more than 5,400 projects completed and more than 500 clients served annually. Oracle and Accenture work in a close partnership, bringing together the best of Accenture's industry knowledge and Oracle's emerging technology applications. The two companies partner on both solution development and client delivery. For example, Accenture participated in the design and testing of Fusion Applications, including partnering to deliver the first Fusion Applications Finance ERP implementation.

## Accenture's Private Cloud Solutions for SAP

SAP customers are hungry for an infrastructure refresh, having staved off the expense due to a struggling economy. But with competitive pressures mounting, they can no longer tolerate under-performing systems and must address the need for increased performance, greater differentiation and lower TCO. Additionally, business executives need to make key decisions faster and are looking to analytics to help them make better decisions, real-time. Workforces are becoming increasingly mobile and want access to applications and systems from anywhere—on any device.

When a SAP customer is eyeing the cloud, but not ready to move business-critical ERP systems to the public cloud, Accenture has implemented the Private Cloud SAP solution. The solution provides a highly virtualized infrastructure, while allowing the same level of data security and integrity as on-premise technologies. It provides the efficiency, performance and cost reduction of cloud technologies at a fixed price over a fixed duration—leveraging Accenture's deep knowledge and relationships with SAP, Cisco, NetApp, VMware and Red Hat.

# 5. What are the risks of moving to cloud-based ERP and how do you manage them?

## Governance

As customers adopt more end user configuration cloud based ERP systems, governance becomes increasingly important to achieve the benefits of standardization. Certain configurations should be "locked down" to limit this risk. The added combination of end user configurable solutions with the adoption of cloud based two-tier deployment models results in the need for a disciplined yet flexible governance approach.

ERP solutions, each of the different two-tier ERP models brings its own specific risk profile. Hardly surprisingly, the riskiest model from a governance perspective is one with a laissez-faire approach to the subsidiaries' selection of the SaaS ERP vendors for the second tier.

## Integration risk

Companies looking to maximize their return on investment should limit integration. For two-tier ERP implementations this means performing as many of the subsidiaries' tasks inside the second-tier cloud-based ERP. Most two-tier ERP implementations start with an integration strategy focused on limited links such as financial roll-up, and enabling the production and analysis of financial performance at a local and consolidated level. Further interfaces are only added if there is a clear need, since these increase implementation time and reduce flexibility.

## Vendor lock-in

Vendor lock-in is another risk that is top-of-mind for many companies considering cloud-based ERP adoption. When a company entrusts its business-critical applications to a cloud provider, a question that inevitably arises is what happens in the event that it wants to move those applications back on-premise or to another supplier. This question is further pronounced by the fact that the cloud vendor has the ability to "cut off" the supply—something that is not possible with an on-premise solution.

However, the situation with cloud is similar to what we're seeing within the outsourcing market—where a diverse ecosystem of vendors is starting to emerge and where companies have the ability to re-evaluate and change suppliers. Further, as demand increases, we believe that tools will be created to enable easier re-platforming when a customer wants to join or switch to another cloud provider. SaaS vendors are therefore, particularly vulnerable to customers who decide to switch to vendors who might be incenting them beyond the initial sale due to the lack of large upfront cost commitment and to ongoing efforts to keep customers engaged by continuously rolling out new features.

While concerns around vendor lock-in are common, there is another risk that is often overlooked and it is related to situations where the chosen vendor might be experiencing rapid growth, resulting in service disruption. While the technology is set up for massive scaling, the people-side of the service may not scale at the same pace. This risk should be carefully considered by evaluating the vendor's product roadmap, financial health, takeover/acquisition/sale strategy, etc.

## Security and privacy

Key concerns about cloud computing have traditionally centered on security and privacy of data and systems. These concerns have been partially allayed with the advancements and maturity of cloud services and vendor capabilities. SaaS ERP vendors have met or exceeded traditional ERP security compliance requirements, such as ISO 27001 certification, SAS 70 Type II certification, and/or ISAE 3402 certification. In addition, their data centers provide the same security measures as traditional hosting providers, such as physical security, sensors and video surveillance. For these reasons, many cloud service providers are able to offer security that is at least on par with that applied internally by enterprise customers, and sometimes better.

In parallel, an evolutionary shift is underway with respect to the attitude of corporations towards security of multi-tenant cloud solutions. Initially, they were concerned about what the other tenants could or could not see. These concerns are gradually fading away due to maturity of tools, processes and skills in deploying this type of solution.

We believe a future is emerging in which companies will be more willing to collaborate with and learn from each other. For example, they will use multi-tenant clouds as an opportunity to improve profiling, benchmarking and business processes as a result of comparing how businesses in similar industries are managing inventory, cash and other components.

# 6. What is the future for cloud-based ERP?

It is widely recognized that as additional tenants use a SaaS ERP solution, the underlying cost per tenant drops. Often underestimated, however, is the power of the "cloud community effect." Over time, as more tenants are added, cloud-based ERP customers will have the opportunity to collaborate with each other in new ways. In addition, SaaS ERP vendors can provide service in ways not possible through traditional on-premise deployments. SaaS ERP vendors, for example, can update and deploy to all customers in Brazil once to comply with local policy and regulation changes as part of the service—something that would require each customer to do individually in an on-premise deployment model. This method of continuously keeping all customers current on the latest version of code is promoted by the phrase: "cloud-based ERP - your last ERP upgrade."

Cloud services and SaaS will play an increasingly important role in ERP systems. As the traditional vendors launch "pure play" SaaS ERP solutions or expand existing offerings as hosted managed services, and as new pure play ERP providers move up market and reach the number of tenants to be considered "cloud," we will see increasing competition in the SaaS ERP space.

In the future, customers will have even more choices to create a fully SaaS-enabled business, further shifting the technology focus from "keeping the lights on" to supporting customer, process and organizational improvements. Customers may choose a best-of-breed approach like Workday for human resources, NetSuite for finance, Salesforce for sales and Google for email with cloud-to-cloud integration. Others will look for a suite of functionality like those offered by NetSuite, SAP Business ByDesign or Workday.

The key success factor for vendors in this marketplace will be the ability to provide true multi-tenant application capabilities that are invisible to the end-user and supported by world-class service provision. Those providers offering the best user experience and ease of use on a robust platform will be well placed to gain market share as corporations seek to expand the cloud's proven benefits in terms of flexibility, scalability and cost into their core ERP.

In terms of underlying application infrastructure for cloud-based ERP, PaaS ecosystems will continue to mature as more and more providers offer their solutions that surround SaaS ERP and enhance the choice and flexibility for customers. This trend is already being foreshadowed by the concept of an "app store" offered by various vendors running on current PaaS solutions.

## Towards supply-side partnerships...

The move to cloud is rapidly breaking down the traditional boundary between ERP software and service providers. Customers want their solutions to unite the best available software functionality with services underpinned by the best industry solutions and organizational performance skills. However, many SaaS ERP providers started as traditional software vendors and this has resulted in a product-focused culture and has, at times, resulted in shortcomings on the services side. In addition, the ability to scale can be a challenge.

## ...uniting software and services

Put simply, software is more easily scalable than service. But service components—such as people and organizational performance, implementation expertise, and fast, responsive, 24/7 helpdesk support—are increasingly critical if customers are to realize the full benefits of SaaS solutions. To provide these components more effectively, SaaS ERP vendors are seeking to form close, collaborative commercial relationships with leading systems integrators (SI) and IT service providers, such as Accenture, to optimize the service side of the equation for customers.

These collaborations will play an increasingly important role as core ERP systems migrate to cloud-based models. When business uncertainty exists, customers are increasingly taking advantage of Accenture's resale program and BPO-on-demand underpinned by SaaS ERP offerings. In the future, we believe customers for cloud-based ERP solutions should—and will—aim to select those service providers that have close relationships with cloud software suppliers, and vice versa.

# ERP's migration to the cloud: not a question of "if," but "when"

Accenture believes that the capabilities and potential savings from moving to cloud-based ERP are too great to ignore. Beginning the explorative journey early can deliver substantial financial benefits over time and, for several companies, the transition to a cloud-based ERP environment is already well on its way.

In our view, the critical question isn't whether cloud computing will become a fundamental deployment model for ERP systems in the next decade; it is how successfully companies will profit from the capabilities it offers. If your organization's ERP has not yet begun the journey to the cloud, now is the time to start drawing up your roadmap.



## About the authors

James B. Mattison (james.b.mattison@accenture.com) is the global SaaS ERP lead for Accenture and has more than a decade of experience in global ERP delivery with a deep understanding of technology architecture and two tier ERP deployments.

Saideep Raj (saideep.raj@accenture.com) is an executive in Accenture's Technology organization, based in Philadelphia. He leads Accenture's global Software-as-a-Service (SaaS) and North America Cloud Computing practices, responsible for cloud services across functional domains and across technology platforms. He sponsors several strategic alliances with Cloud technology partners and coordinates research and development for SaaS within Accenture.

## Additional Contributors

Laurie A. Henneborn (laurie.a.henneborn@accenture.com) leads the global Technology research team within Accenture Research—an in-house network of professionals who have strong knowledge of various industries, geographies, technologies, and functional domains, as well as research methods and techniques. Laurie specializes in cloud and applications-related topics.

## About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 244,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$25.5 billion for the fiscal year ended Aug. 31, 2011. Its home page is [www.accenture.com](http://www.accenture.com).

This document is produced by consultants at Accenture as general guidance. It is not intended to provide specific advice on your circumstances. If you require advice or further details on any matters referred to, please contact your Accenture representative.

