

Cloud ERP: An Adaptable, Consumable, And Flexible Option For Medium-Size Businesses

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Introduction And Key Findings

In recent years, medium-size businesses (MBs) have become more open to exploring business application deployment models other than on-premises software, in particular software-as-a-service (SaaS) applications.¹ Today's MBs are likely to already be using one or more SaaS applications somewhere within their organization. Firms are also planning to more than double the number of SaaS applications they use, from an average of three applications in 2012 to seven applications in 2014.² SaaS application adoption is outstripping that of on-premises alternatives in some categories of business software, such as customer relationship management (CRM) and elements of human capital management (HCM), notably talent management.

Many medium-size businesses are now considering the merits of more flexible enterprise resource planning (ERP) options, including cloud ERP — the ability for firms to access ERP applications running on cloud infrastructure via the Internet from a variety of devices. This profile examines the specific challenges MBs face and how cloud ERP can help them resolve those issues. The profile's key findings include:

- Medium-size businesses expect cloud ERP to be accessible, to support mobility, and to provide flexibility in data location and moving between deployment options.
- As they consider cloud ERP, medium-size businesses are eager to take advantage of robust and embedded customizable reporting and workflow.
- The No. 1 concern medium-size businesses have about cloud ERP is how per-user licensing costs rise as firms' headcount increases.



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Medium-size Businesses Use ERP To Help Them Deal With A Specific Set Of Challenges

Medium-size businesses struggle with many of the same issues as larger organizations, but they have an additional burden: Striking a balance between the growing and changing needs of their companies and tight constraints on their IT budgets and staffing. A key issue for MBs is whether the current software they use to manage finance, purchasing, inventory, sales, and other core processes is a good fit for the size and functional scope of their operations, particularly in relation to the industries and regions they serve. For many MBs, this is not the case. Some firms find themselves quickly outgrowing the entry-level accounting and other applications they run their businesses on and are looking for more sophisticated ERP software that they can rely on to bring business process rigor to their operations. Other MBs are keen to find ERP software that better reflects the current and future needs of their operations rather than the costly and overly broad enterprise-level applications they currently run.

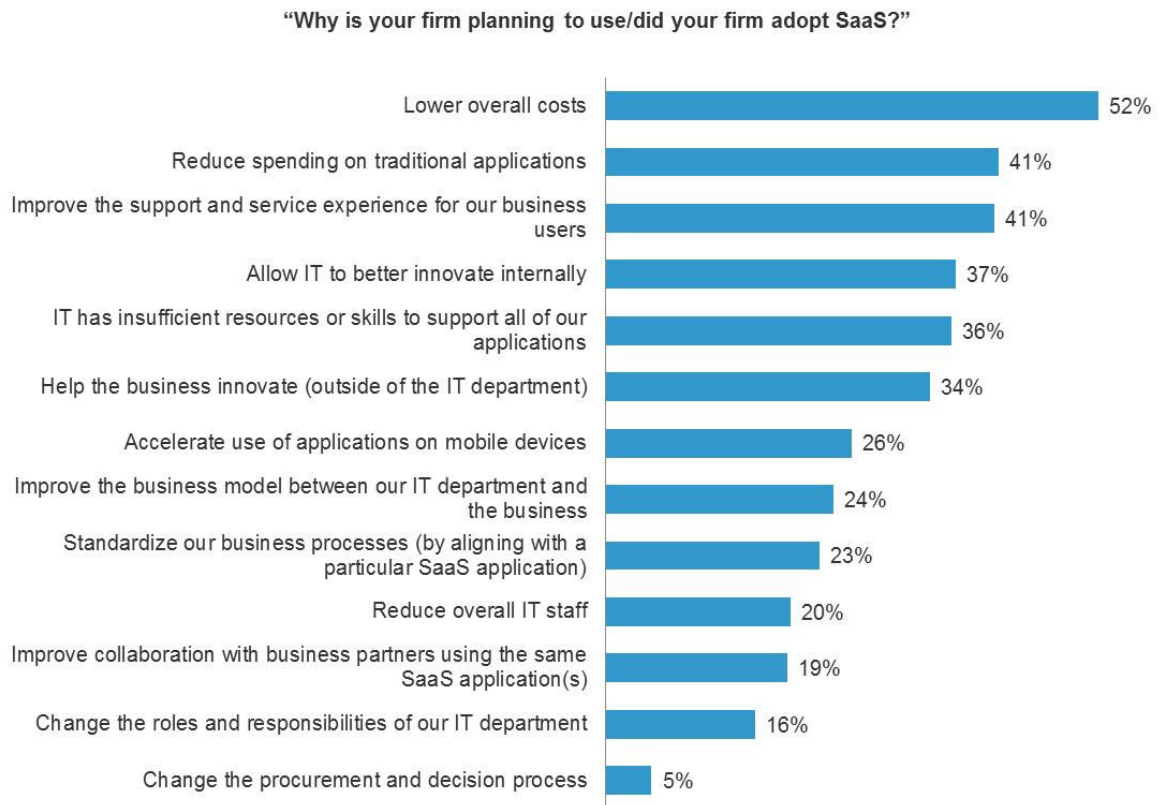
Medium-size businesses need ERP software that will help them continuously adapt to both internal and external change. Within MBs, there is pressure to make ERP data more accessible to and consumable by a wider set of employees and to use that ERP information as the basis for future decision-making. MBs also have to navigate external market shifts, including combating an intensely competitive environment and remaining in compliance with changing industry and government regulations. All of these challenges and pain points are leading MBs to re-examine their current ERP software and look for alternatives that are more usable, scalable, and cost-effective.

Medium-size businesses that have already invested in SaaS applications or are poised to do so have two compelling reasons to make that decision. In a recent survey of software decision-makers at small to medium-size businesses (SMBs) with 20 to 500 employees, Forrester found that these organizations need to:

- Lower their overall costs (cited by 52% of respondents), both in terms of cutting back on IT overhead and reducing current expenditure on running, maintaining, and supporting on-premises applications.
- Open up and improve business user access to and experience of applications (cited by 41% of respondents) to facilitate knowledge-sharing and decision-making.

Additionally, medium-size businesses can use SaaS applications to free up their IT staff and business staff to focus on projects that speak more to business differentiation and to bring those two often divided communities more into harmony with each other (see Figure 1). At the same time, many MBs have particular concerns about the SaaS model — not only regarding data security and privacy (about which 58% of respondents are concerned or very concerned), but also around integration with other applications, be they SaaS or on-premises deployments (about which 55% of respondents are concerned or very concerned). Firms also worry about SaaS vendor lock-in, variable application performance, and high total costs (see Figure 2). They fear that they will not be able to customize SaaS applications and that the pricing of apps is both unclear and overly complicated. MBs that have yet to adopt their first SaaS applications may be encouraged to do so when hearing the positive experiences of their peers. They may also be attracted by SaaS application vendors that can offer a variety of deployment options — on-premises, hosted, and/or SaaS — and flexibility in moving between those deployment options whenever the firms' business needs require such a move.

Figure 1**Lower Cost And Improved User Experience Are Compelling Reasons Firms Cite To Embrace SaaS Applications**

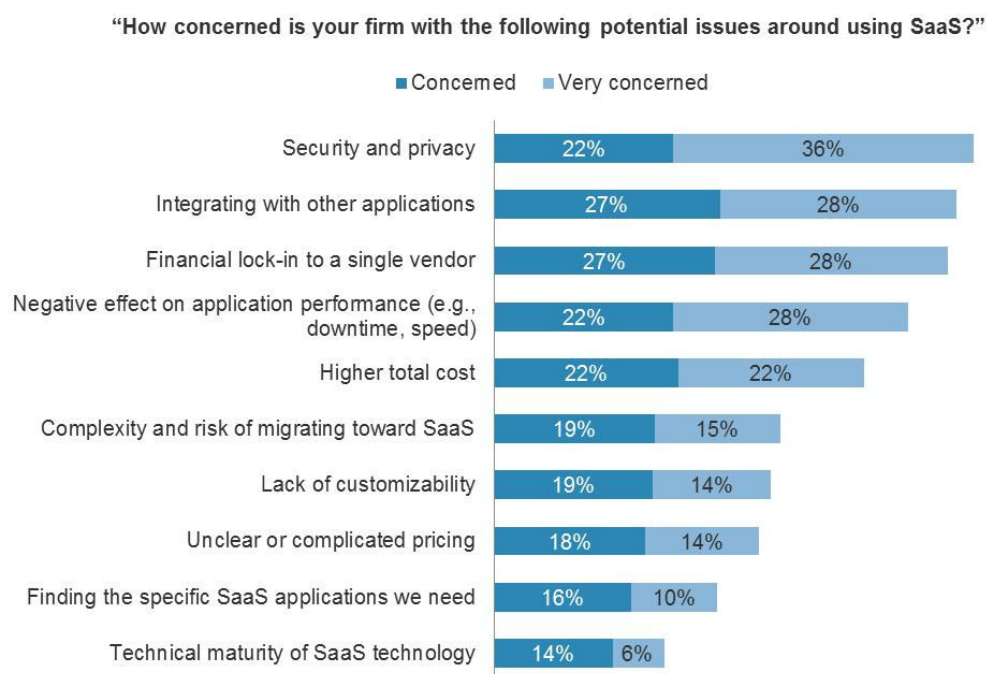


Base: 266 software decision-makers at North American SMBs with 20 to 500 employees
(multiple responses accepted)

Source: Forrsights Software Survey, Q4 2012, Forrester Research, Inc.

Figure 2

Security, Integration, And Vendor Lock-In Are Top Concerns For Firms Considering SaaS



Base: 358 software decision-makers from North American SMBs with 20 to 500 employees
(multiple responses accepted)

Source: Forrester Software Survey, Q4 2012, Forrester Research, Inc.

MBs See Cloud ERP As Particularly Relevant To Their Current Needs

In general, medium-size businesses look to cloud applications to alleviate some of the overwhelming burden they currently bear regarding IT resource allocation — a burden intensified by resource constraints (see Figure 3). Of those firms surveyed, almost three-quarters rated the ability to focus resources on more important projects as an important or very important benefit of SaaS. The firms also see SaaS deployments as offering a way to get their organizations up and running quickly with new applications and so improve their business agility. That speed can be particularly important to MBs that grow via mergers and acquisitions and want to take advantage of the synergies existing between their current organization and the firms they purchase as quickly as possible. The frequency of delivery of new features and functions — on a quarterly or more frequent basis — from SaaS application providers is also a key differentiator for many MBs, compared with their previous experiences with on-premises applications where new versions appeared on an annual or biannual basis.

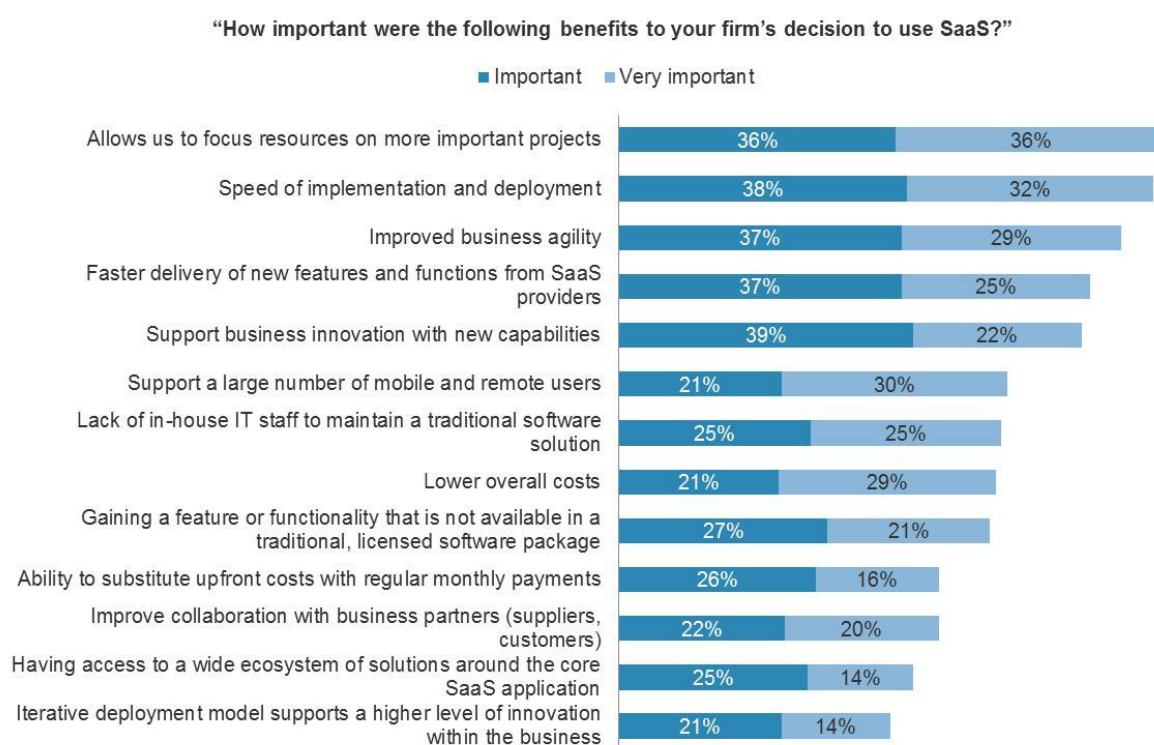
There is a misperception that medium-size businesses tend to focus on one particular region. In reality, many organizations have operations in more than one location in two or more regions of the world. Like their enterprise peers, MBs need ERP software that supports multiple languages, currencies, and financial ledgers and which is accessible at any time by users in any part of the globe. Operating internationally means that MBs must be mindful of regional data privacy legislation, which may lead them to look for cloud ERP that isn't tied to US-based data centers or one particular development platform. Cloud ERP offers MBs that are part of larger conglomerates the

chance to run a cost-effective second-tier ERP which can then hook into a first-tier ERP — the long-standing on-premises ERP — used at their parent company.

To drill specifically into how medium-size businesses rank the drivers and benefits of SaaS applications applying to ERP, Forrester surveyed 52 software decision-makers at US SMBs with 25 to 250 employees. Firms cited accessibility and mobility as the two key functionalities that cloud ERP applications must provide — whether the ability to access ERP from any browser (rated as the No. 1 feature by 33% of respondents) or the ability to access ERP from any device, be it desktop, laptop, or mobile devices such as smartphones or tablets (rated as the No. 1 feature by 23% of respondents) (see Figure 4). Other must-haves for cloud ERP included flexibility around moving data in and out of not only the application, but also the data center where that information is stored. MBs are also keen to be able to choose from a range of different licensing models — whether paying up front all in one go for cloud ERP or being billed at regular intervals in a pay-as-you-go model. Some firms would also like to be able to run a mixed deployment environment, where elements of ERP run in the cloud, while other business processes are hosted or deployed on-premises.

Figure 3

Key Benefits Of SaaS: Freeing Up IT Resources, Speeding Deployment, And Improving Business Agility

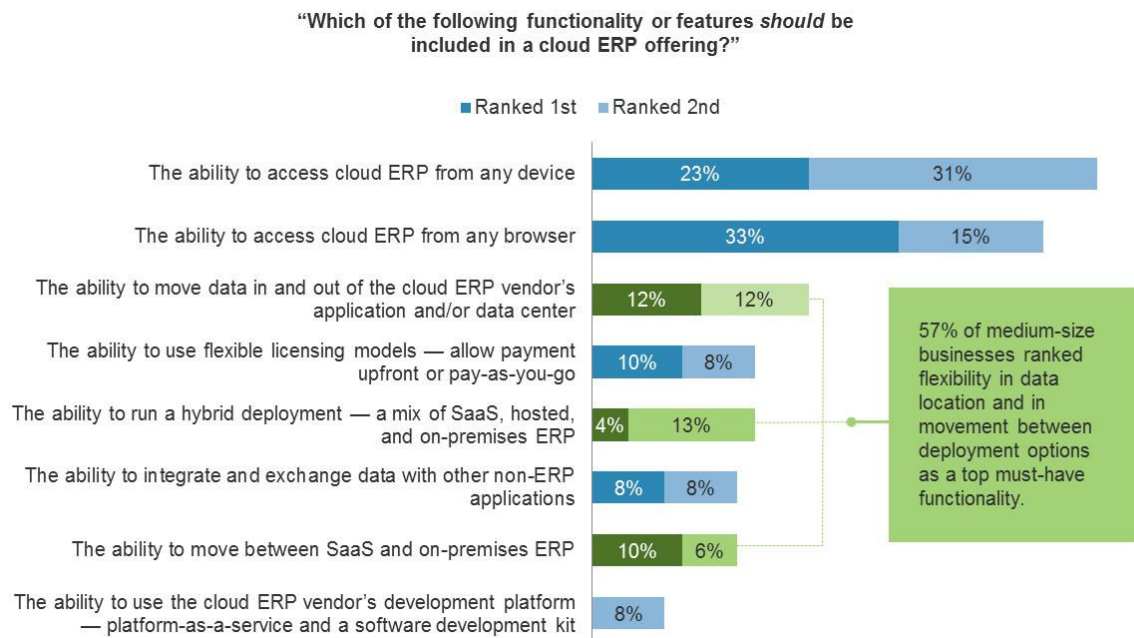


Base: 266 software decision-makers at North American SMBs with 20 to 500 employees
(multiple responses accepted)

Source: Forrester Software Survey, Q4 2012, Forrester Research, Inc.

Figure 4

Medium-size Businesses Rate Accessibility And Flexibility As Must-Have Functionality For Cloud ERP



Base: 52 software decision-makers at US SMBs with 25 to 250 employees
(multiple responses accepted)

Source: A commissioned study conducted by Forrester Consulting on behalf of Acumatica, January 2013

MBs Look To Cloud ERP To Address Reporting And SaaS Cost Issues

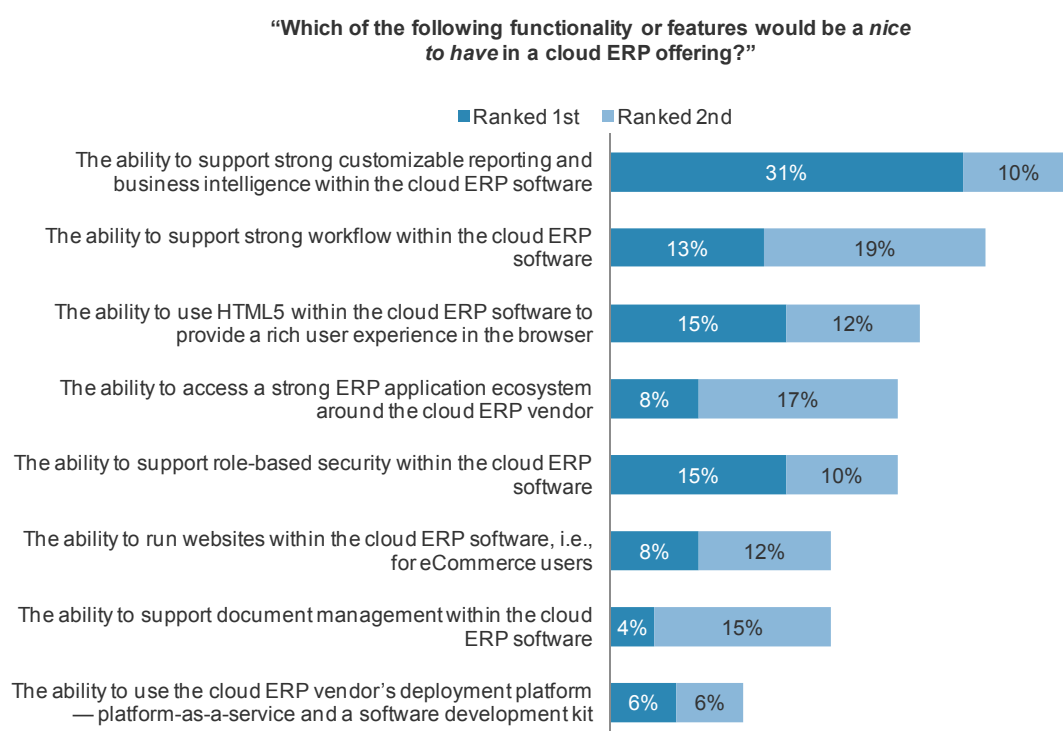
Setting aside the must-haves for cloud ERP, the No. 1 requirement that medium-size businesses would like the software to address is to improve their reporting and business intelligence (BI) capability from within the ERP application (rated as the No. 1 feature by 31% of respondents) (see Figure 5). Firms want to be able to easily customize reports, and BI is not the only area where companies are keen to be able to tailor cloud ERP and benefit from its flexibility. MBs are also looking for cloud ERP to enable them to support strong workflow embedded within the software, which can be customized by employees from both the IT and business sides of the house. One misperception about cloud ERP (and other SaaS applications) that may still persist among some MBs is that customization is only synonymous with on-premises ERP software, not with other deployment options. Other nice-to-have functionality MBs would welcome in cloud ERP is the ability to use HTML5 to improve user experience and the ability to tap into a thriving ERP application ecosystem around the cloud ERP vendor. Such an ecosystem is enabled by partners and customers building customizations and complementary add-ons to cloud ERP on the cloud ERP vendor's platform-as-a-service (PaaS).

While medium-size businesses are increasingly interested in cloud ERP, they do harbor some reservations about the deployment option and what adopting it might mean for their operations (see Figure 6). A key point in the Forrester SMB survey was that respondents rated the rising per-user licensing costs as their businesses grow as their primary concern (rated as the No. 1 concern by 27% of respondents). Typically, MBs rank the security of their business data when it is stored in the cloud as their No. 1 concern about SaaS (top-ranked by 19% of respondents).

Escalating costs of all descriptions — per-user, data storage, per-capacity, functionality-based, integration, and customization costs — are top-of-mind concerns for MBs. One misperception that MBs have is that cloud ERP necessarily charges on a per-user basis. There are alternatives to this pricing model, such as paying a flat fee for unlimited users, which can have a large positive return on investment (ROI). In order to address their security concerns, MBs can gain more confidence in their cloud ERP vendor by digging into the data centers ERP vendors use, the certification levels the ERP vendors and the data centers have achieved, the frequency and extent of outages they have experienced, and how all of these potential issues are addressed in the service-level agreement (SLA) that the MB has in place with its cloud ERP vendor.

Figure 5

MBs Would Like Cloud ERP To Be Highly Flexible, Particularly Around Reporting And Workflow

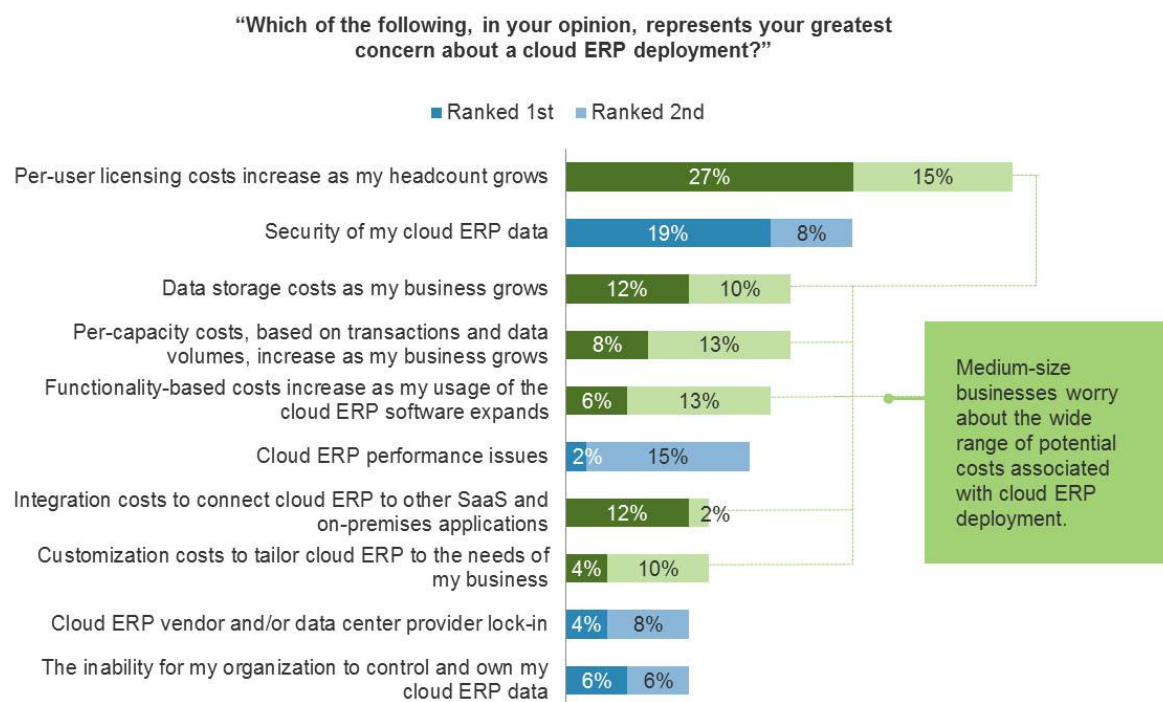


Base: 52 software decision-makers at US SMBs with 25 to 250 employees
(multiple responses accepted)

Source: A commissioned study conducted by Forrester Consulting on behalf of Acumatica, January 2013

Figure 6

MBs Are Most Concerned About The Potential Rising Costs Of Cloud ERP As Their Businesses Grow



Base: 52 software decision-makers at US SMBs with 25 to 250 employees
(multiple responses accepted)

Source: A commissioned study conducted by Forrester Consulting on behalf of Acumatica, January 2013

Cloud ERP Is A Flexible, Usable, And Cost-Effective Option For Medium-size Businesses

Cloud ERP is designed to address many specific issues medium-size businesses are endeavoring to deal with as they struggle to use software that is either insufficient or too overwhelming for their current and future business needs. Cloud ERP provides application accessibility, scalability, and sophisticated functionality at an affordable cost point. Medium-size firms also have the ability to choose from deployment and pricing models and scale up (or scale back) their cloud ERP usage as their businesses respond to internal and external change.

Methodology

This Technology Adoption Profile was commissioned by Acumatica. Forrester leveraged its Forrsights Software Survey, Q4 2012 and isolated responses of North American software decision-makers at small to medium-size businesses with between 20 and 500 employees. Forrester Consulting supplemented this analysis with custom survey questions asked of 52 software decision-makers at US small to medium-size businesses with between 25 and 250 employees. The respondents were asked for their opinion on the drivers, benefits, and must-have and nice-to-have functionality and features of cloud ERP as well as their concerns about the technology. This supplementary survey was conducted in January 2013. For more information on Forrester's data panel and Tech Industry Consulting services, go to www.forrester.com.

Endnotes

¹ Forrester defines a medium-size business as an organization with annual revenue of several hundred million dollars to \$1 billion and employing anywhere between several tens to hundreds of full-time staff.

² Source: Forrsights Software Survey, Q4 2012, Forrester Research, Inc.

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