Mint Jutras

Making Enterprise Business Systems Pay Dividends

May 2015

THE APPEAL OF SAAS ERP

Attitudes towards cloud and software as a service (SaaS) have changed dramatically in recent times, particularly with respect to software that runs your business. While just a few short years ago Enterprise Resource Planning (ERP) might have been considered the last bastion of resistance to SaaS, today the majority of businesses have some sort of cloud strategy that involves ERP and the shift to the cloud has definitely begun. What is it that makes SaaS so appealing and why have those barriers of resistance started to crumble?

DEFINITIONS: ERP, SAAS AND CLOUD

ERP is a key focus of our research at Mint Jutras. While many struggle to define ERP, we keep the definition quite simple. Mint Jutras defines ERP as an integrated suite of modules that forms the operational and transactional system of record of your business. This is a rudimentary definition, which allows for some variability, because the operational needs of different businesses can vary widely. Our definition describes the bare minimum requirements. Most ERP solutions today do much more.

For years now Mint Jutras has been studying perceptions and preferences for deployment options for ERP. We find that in spite of, or perhaps because of the huge volume of discussion around SaaS and cloud computing, there remains much confusion over the terminology. Many use the terms "cloud" and "SaaS" interchangeably, but there are some important differences. So let's distinguish between the two up front:

- Cloud refers to access to computing, software, storage of data over a network (generally the Internet.) You may have purchased a license for the software and installed it on your own computers or those owned and managed by another company, but your access is through the Internet and therefore through the "cloud," whether private or public.
- SaaS is exactly what is implied by the acronym. Software is delivered only as a service. It is not delivered on a CD or other media to be loaded on your own (or another's) computer. It generally is paid for on a subscription basis and does not reside on your computers at all.

All SaaS is cloud computing, but not all cloud computing is SaaS. Traditional on-premise or hosted solutions might (or might not) be accessed via the cloud, although this is more likely to be a private cloud.

ANTICIPATED BENEFITS OF SAAS

For years now Mint Jutras has included a question about the appeal of SaaS in its ERP Solution Studies, which this year evolved into the 2015 Enterprise Solution Study (but we still concentrate on software that runs your business). The question is simple: What do you find appealing about SaaS? Survey participants are given a fairly lengthy list of potential benefits of SaaS and are allowed to select as many of them as they see fit. In fact, they could select all of them, but on average they select somewhere between 3.1 (in 2013) and 3.81 (2011). In 2015 (Figure 1) the average number selected was 3.57.

Figure 1: The Appeal of SaaS
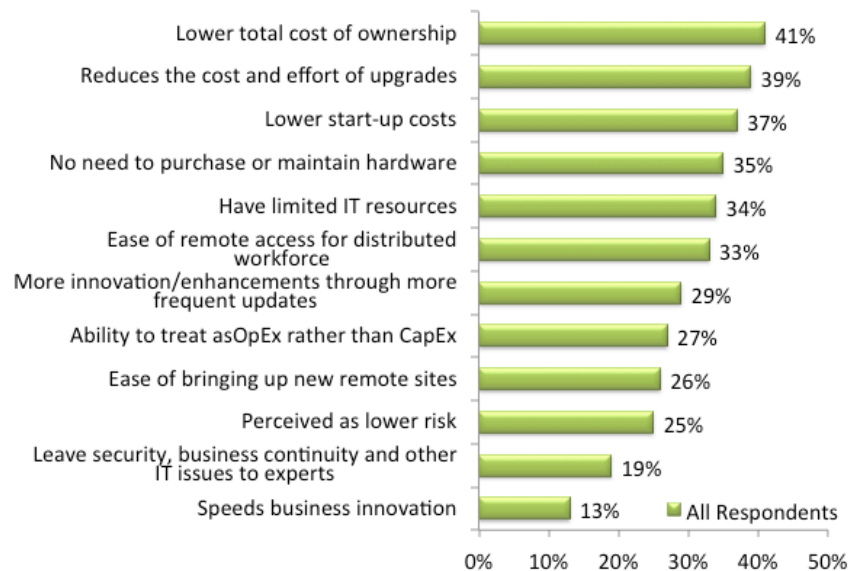
Source: Mint Jutras 2015 Enterprise Solution Study

The acceptance of SaaS has grown dramatically over the past several years while the interest in traditional on-premise deployments has waned.

The acceptance of SaaS has grown dramatically over the past several years. Over the years the options presented to survey participants have evolved, but many are exactly the same as when we started.

So… how much have the perception of benefits changed? The short answer is, perceptions have changed some, but not a lot. But the good news is, the perceived value of benefits that are very important, but have historically been overlooked and under-valued, is on the rise.

The long list you see in Figure 1 can be summarized into the following categories:

- Cost considerations
- Innovation

- Support of distributed environments
- Risk

LOWER COSTS

Cost factors have always been on the top of the list. Figure 1 is sorted by percentage (descending order) of survey participants that find these anticipated benefits appealing. Of course all of them are appealing but participants must also "believe" these are possible. Notice the first five are all related to costs, although some might span a couple of categories. This sequence is similar every year with "lower total cost of ownership" owning the top spot each and every time… in spite of the fact that some industry influencers argue that SaaS is no less expensive.

The middleware costs might be easy for a businessperson to miss as they lie somewhere under the covers. But how can you possibly ignore those hardware costs? And you should look beyond the purchase and maintenance costs and add in an obsolescence factor as well.

These naysayers (consultants, analysts and industry observers) will generally point to break-even points in the five to seven year range. However, we would suggest they aren't looking at the complete picture. Of course if you only take into account the cost of the software and maintenance and ignore the cost of the hardware and the middleware (i.e. database and infrastructure) that supports the application, not to mention the IT staff needed to maintain it, you will definitely reach a break-even point. The middleware costs might be easy for a businessperson to miss as they lie somewhere under the covers. But how can you possibly ignore those hardware costs? This (and subscription-based pricing) also gives you the option of accounting for the costs as operating expenses (OpEx) rather than capital expense (CapEx). And you should look beyond the purchase and maintenance costs and add in an obsolescence factor as well.

Lower startup costs have also been right at the top of the list since 2011 (either in the second or third spot). This is a no-brainer if you include hardware in startup costs, but even if you don't, we have consistently found that SaaS implementations reach their first "go-live" milestone faster. In 2011 the differential was 19% faster and that margin has grown to 32% in 2015.

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Unless you rely completely on outside help (consultants) during this implementation phase, faster has to mean less cost, given the time and effort and possible disruption of an implementation. Those with SaaS implementations were only marginally more likely to employ consultants during the implementation (52% SaaS versus 48% on-premise), and 18% didn't use any consultants at any stage of selection, implementation or post-implementation. So lower startup costs are indeed a reasonable expectation.

IMPACT ON IT
Not having to purchase hardware (or associated maintenance) impacts your costs both directly and indirectly. The direct impact is obvious, but indirectly, you also don't need IT staff to maintain the hardware, except for desktops,

laptops and mobile devices. Of course your IT staff is likely to do more than just maintain hardware, but the more time it spends on just keeping the lights on, the less time it has for strategically adding value. Separately, we analyzed the impact on IT staff experienced by those actually running SaaS solutions and found 60% had not reduced the size of their staffs but had redeployed members more strategically.

In the 5th spot, 34% of our survey respondents selected the option "we have limited IT resources and no interest in building IT staff" as a reason they found SaaS appealing. Of course cost is a factor here, but this is one of those choices that might span a couple of our categories.

Many find themselves in a situation of not being able to attract or retain top IT talent. Some industries and locations are simply not a mecca for IT talent looking to stay at the top of their field. And even if you can attract talent, IT is a fast-moving game. Keeping your existing staff current on technology is both challenging and potentially costly.

Many find themselves in a situation of not being able to attract or retain top IT talent. Some industries and locations are simply not a mecca for IT talent looking to stay at the top of their field. And even if you can attract talent, IT is a fast-moving game. Keeping your existing staff current on technology is both challenging and potentially costly. If you are going to spend that kind of money you want more value from it than just keeping those lights on. And if you don't spend it, you are adding risk. Not only will you suffer the costs of added turnover, but you could also potentially put yourself at a competitive disadvantage by not taking advantage of innovation.

COST OF UPGRADES

Which brings us to the last of the top five (actually number two this year): SaaS reduces the cost and effort of upgrades. This is another cost factor that also falls into another category: Innovation. Traditionally, upgrades have been costly in terms of time, effort and possible disruption of your business.

In selecting a SaaS solution, upgrades should be relatively painless and new features and functions should be "opt-in" so that when you are ready to turn on the new functionality, they will be there.

In a SaaS environment, your staff is relieved of the burden of the upgrade of the software. All bug fixes and regulatory requirements are taken care of and new features and functions are available for use. Of course you need to take advantage of the new functionality, but most often this is delivered in such a way that the customer may optionally choose to take advantage of it (or not). In fact this is a very important consideration if you are going through a selection process now. Upgrades should be relatively painless and new features and functions should be "opt-in" so that when you are ready to turn on the new functionality, they will be there.

INNOVATION

The reduced cost and effort of upgrades is just one aspect of innovation. Our survey respondents have been recognizing this as a benefit of SaaS from the beginning. But another aspect which many companies have been slower to recognize is the fact that you should be receiving **more** innovation in a SaaS environment. However, part of the reason for this aspect being under-valued is the fact that not all SaaS solutions deliver this.

Multi-tenant solutions tend to offer more innovation than single-tenant solutions. And solution providers that offer only a SaaS solution are typically able to deliver more innovation than those that offer the same solution on-premise and SaaS. Those who offer their solutions exclusively as a multi-tenant SaaS solution typically have a distinct advantage of only having to maintain a single line of code.

Solution providers that deliver on-premise solutions are forced to maintain multiple versions of the software. Very often the software is offered on a choice of platforms and databases, and the vendor must support multiple release levels determined by their customers' ability to keep pace with upgrades. For every person-day they spend on innovation, they spend another multiple of that day making sure it works across multiple environments. Those vendors that offer the same solution both as SaaS and on-premise must accommodate these choices, and are also gated by their on-premise customers' ability to accept change. Those offering a multi-tenant SaaS solution exclusively can devote their entire development budget to innovation.

There is definitely a trade-off between these two scenarios. Vendors offering a choice of SaaS and on-premise can also offer portability while SaaS-only solution providers can provide far more frequent and apparently seamless upgrades.

Which brings us to another aspect of innovation: the ability to innovate your business. Forget the software for a moment. Can you make changes to your business as the economic climate changes, as new opportunities occur? Over the years Mint Jutras research has identified the inability to respond to business change as a key inhibitor in getting the most value from your ERP solution.

So does SaaS help speed business innovation? Very few of our survey respondents (13%) recognize this as a potential benefit of SaaS, but we would argue that if you can consume more software innovation faster, this has to put you in a better position to speed innovation of your business. But there is one big "IF" here. That will only happen if your solution provider is really in tune with the changing business climate, is truly engaged with its customers, and is prolific in delivering against those needs. That is a big challenge.

SUPPORT OF DISTRIBUTED ENVIRONMENTS

The third category of anticipated benefits from SaaS is support for distributed environments. We see two major factors at play here. The first is the fact that distributed, multi-location enterprises are the norm today. A full 80% of our survey respondents this year reported having multiple locations (Figure 2) and 59% are multi-nationals operating as multiple legal entities.

Figure 2: Environments Are More Distributed and Remote
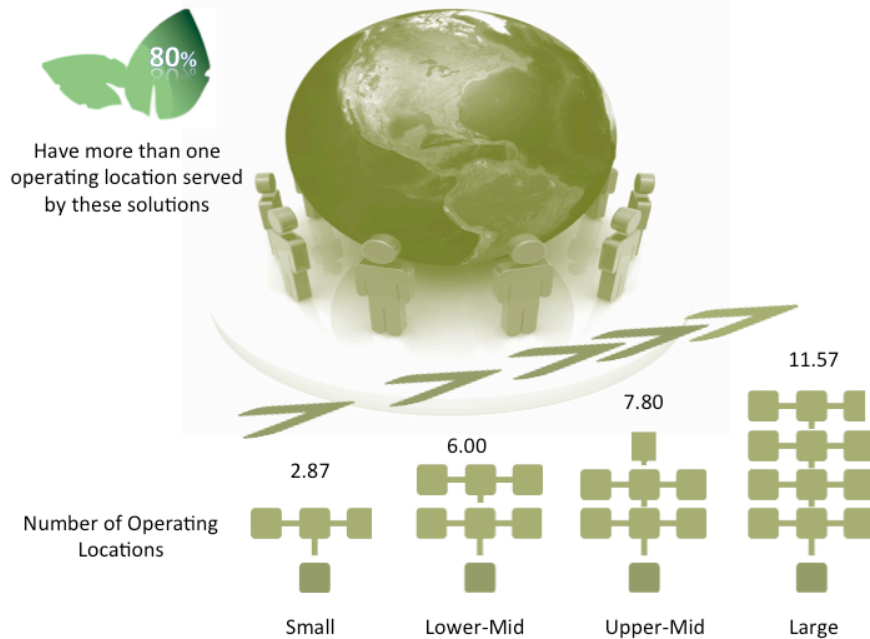
Source: Mint Jutras 2015 Enterprise Solution Study

Companies have been "globalizing" for years now, but innovation, advanced technology and the Internet have combined to open doors to opportunities all around the world. New consumer middle classes have sprung up in countries that were hardly industrialized a short decade ago, creating unprecedented growth opportunity even for small to medium-sized enterprises (SMEs). To capitalize on this opportunity, companies will need to take some chances and be willing to fail, but fail (or succeed) rapidly in order to move on to the next opportunity. They will need to leverage technology in order to simplify, manage, control and reduce risk, but they will also need to move quickly. They might not have the deep pockets or the time needed to build out infrastructure. They can't afford to take years to implement solutions to run the business.

A SaaS solution is the logical response to this challenge. No capital expenditure required; no need to build out a data center, or even put hardware or a huge IT staff in country. The access any time, from anywhere nature of a SaaS solution is conducive to bringing up remote sites rapidly and easily, as well as supporting distributed users – which is the other factor at play here.

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Where are your employees? Do they need to work from your offices? You don't need expensive office space and infrastructure everywhere you have a presence today. People work from anywhere. After many years of languishing

at the bottom of the list of potential benefits of SaaS, more of our survey participants now "get it."

AND FINALLY… RISK

About one in four of our survey respondents recognize the potential value of SaaS in lowering risk. And this percentage has not varied more than a percentage point in either direction for the past several years. What does that one in four see that escapes the other three?

We already introduced the element of risk earlier in reference to expansion and the ability to take chances and fail (or succeed) faster. Eliminating a capital expense and a lengthy build-out process helps to reduce risk whether you are expanding into new territories or just replacing your current solution. Standardizing on a SaaS solution around the world can help you maintain oversight, governance and control, thereby reducing risk.

But there are two other aspects of risk that appear to (still) be grossly under-valued. The first is IT security. Concerns over security still seem to be more of an inhibitor to SaaS than a reason to embrace it.

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And yes, everyone **should be** concerned over security. But they should be concerned regardless of deployment option. Don't make the mistake of thinking an on-premise implementation is necessarily any more secure than SaaS. That is unless your data center is completely contained with no possibility of access from outside the four walls of your building. That means no VPN access. It means no external consultant or guests ever connect their laptops to your network. It means no laptop ever leaves the building to be potentially connected to any other network, then brought back and connected to yours. There aren't too many installations, if any, like this in the world today.

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In fact, if you are a small to midsize company, without a dedicated IT security expert on board, chances are you assume **more** risk than you would in a SaaS environment.

The second most often overlooked benefit of SaaS in the risk department is business continuity. Do you have built-in redundancy? Where is your backup stored? Do you have automatic roll-over in the event of a power outage? A natural disaster? Sadly enough, we have had many disasters around the world in the recent past – both man-made and natural. Could you be up and running your business the morning after a Hurricane Katrina, the flooding in Nashville, a roof collapse? Those running secure SaaS solutions could and did.

SUMMARY AND KEY TAKEAWAYS

The majority of consumers of ERP today recognize at least some of the potential for cost savings SaaS brings. And many are looking forward to being relieved of much of the burden of upgrades and maintenance. More and more are able to connect the dots in terms of the connectivity of the cloud as they expand globally. But many of the potential benefits remain unrecognized and under-valued. The potential for faster growth, with lower risk creates an environment conducive to business innovation, with improved security and business continuity. These factors combine to make SaaS ERP very appealing indeed.

About the author: Cindy Jutras is a widely recognized expert in analyzing the impact of enterprise applications on business performance. Utilizing over 40 years of corporate experience and specific expertise in manufacturing, supply chain, customer service and business performance management, Cindy has spent the past 9 years benchmarking the performance of software solutions in the context of the business benefits of technology. In 2011 Cindy founded Mint Jutras LLC (www.mintjutras.com), specializing in analyzing and communicating the business value enterprise applications bring to the enterprise.