

## IDC TECHNOLOGY SPOTLIGHT

### Cloud-Based ERP: Why Traditional ERP Providers Cannot Afford to Wait

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Adapted from *Worldwide Enterprise Applications 2013–2017 Forecast and 2012 Vendor Shares*

by Christine Dover, IDC #242730

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*According to recent IDC research, more than 30% of organizations expect that within five years, the majority of their IT capability will be delivered through public cloud services. Within three years, these organizations will access 45.5% of IT resources through some form of cloud — public, private, or hybrid. The use of cloud computing as an increasingly business-critical technology is impacting how companies and institutions evaluate, procure, and deploy IT assets. This Technology Spotlight examines the transition to cloud computing to deliver enterprise resource planning (ERP) solutions and looks at the role of cloud ERP software provider Acumatica in this strategically important market.*

#### Introduction: ERP Moving to the Cloud

The way organizations of all sizes are being run today is changing, but unfortunately, many of the systems used to run those organizations have not changed. Mobile workforces are demanding social processes to manage finances and assets. Mobile employees need access to applications wherever they are, not just when they are in the office or factory and tied to a desktop computer. Plus, a generation of workers have grown up with the cloud and expect that is how applications are run. They don't understand why anyone needs on-premise applications and an expensive IT staff to support those applications.

Legacy ERP systems were not built to handle the demands of subscription-based billing, recurring revenue, and the sharing economy. Organizations need to change product prices on the fly, create new service lines and offerings, and add pop-up stores to drive revenue now and not be hampered by a legacy ERP system in the back office that needs to be updated or overhauled before new business strategies can be rolled out. And, increasingly, executives are wondering why they have large IT teams and expenses to manage a lot of outdated hardware and software that no longer meet their business needs.

C-level and IT executives are demanding cloud applications as they look long term to source their IT needs. According to IDC's 2013 *CloudTrack Survey* of 1,109 C-level and IT executives:

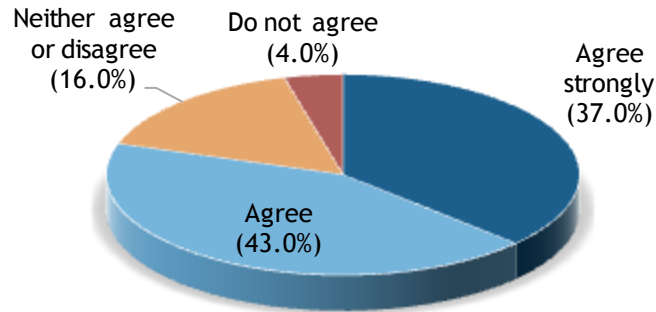
- 80% agree or agree strongly that their organization views public cloud as a long-term platform strategy for sourcing IT needs, as shown in Figure 1.
- 64% agree or agree strongly that they are willing to do business with small and very small cloud services firms if they have an innovative offering.
- 28% say cloud *first* and 66% say cloud *also* when their organization is looking for net-new IT services.
- 35% say cloud *first* and 57% say cloud *also* when their organization is looking to replace existing IT functionality.
- 86% say it is important for their organization to have an established relationship with a vendor to be able to feel trust for it as a provider of cloud services.

This last point is important for traditional ERP vendors, which often have a large install base. Your existing customers know and trust you. When these customers look for a cloud application,

perhaps replacing your legacy application, they want to see what you (as their trusted vendor) have to offer. They want to do business with local companies that keep their data in-country and understand local business practices and regulations. If you don't have a cloud offering available, then customers are forced to look elsewhere.

**Figure 1**

Importance of Public Cloud as a Platform Strategy



Note: Survey participants were asked to respond to the following statement — My organization views public cloud as a long-term platform strategy for sourcing IT needs.

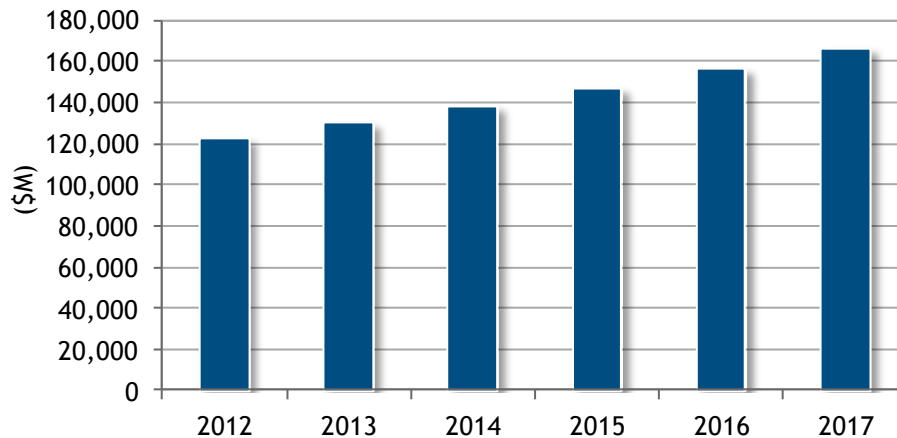
Source: IDC's *CloudTrack Survey*, 2013

## ERP Market Opportunity Growing Rapidly

IDC forecasts that the enterprise applications market will grow from \$130 billion in 2012 to \$166 billion in 2017 — a 6.3% compound annual growth rate (CAGR). This is a big market, with lots of opportunity for smart vendors to grow, as illustrated in Figure 2.

**Figure 2**

Worldwide Enterprise Applications Revenue Growth, 2012–2017



Source: IDC, 2013

A number of factors are driving this growth:

- Organizations of all sizes are looking to replace aging, fragmented, and difficult-to-upgrade systems with more modern solutions that provide agility to move quickly into new markets, typically using cloud-based applications.
- Enterprises are starting to implement applications that either didn't exist or weren't needed in the past, such as commerce applications in all industries — not just retail but also manufacturing, hospitality, food and beverage, and even the public sector (e.g., national archives are selling digital copies of historical documents through digital commerce).
- IDC is also seeing applications in categories that didn't exist in the past (e.g., subscription billing, spend optimization, and revenue management) for requirements that may have been met using custom applications or manual processes.
- The development of applications specific to microverticals (e.g., car dealerships, medical clinics, boutique hotels) is propelling start-ups and established ISVs into new revenue opportunities.

IDC is also seeing the demand for cloud applications in the market share and year-over-year growth statistics. Generally, vendors with a strong cloud offering reported double-digit software revenue growth from 2011 to 2012, while vendors with primarily on-premise offerings reported single-digit or even declining growth figures. But the traditional vendors are not standing still, waiting to be overtaken by the up-and-coming cloud vendors. They are actively and aggressively investing in cloud technologies. Cloud vendors are also investing to deploy their applications globally and adding industry-specific features.

## **Considering Acumatica as a Partner**

There are many ways for vendors to provide a cloud-based application offering. It can be built from the ground up as many organizations such as Workday and salesforce.com have done, but it can take years to get an application into the market. For example, Workday was formally founded in March 2005 and launched its first human capital management (HCM) product in November 2006 and the beta version of Financials in March 2007. As of 2013, Workday HCM is viewed as highly successful with over 500 customers, while Financials, with an estimated 15% of the HCM customers, is sometimes viewed as not quite complete.

Cloud applications can be acquired, as some large vendors have done by acquiring other companies with established cloud offerings. For example, in 2012, SAP was number 23 on IDC's list of SaaS providers, while in 2013 it was in the top 5. How did SAP do it? By acquiring SuccessFactors, Ariba, and Hybris at a cost close to \$10 billion.

Cloud applications can also be hosted, which can relieve the customer of the IT headache, and can be priced in a subscription model. But is it really a cloud application that provides the flexibility and time to value that customers are demanding? No, it is not. Under the covers, it is often just the same old on-premise application that is slow to update.

Another choice is to partner with a platform provider such as Acumatica.

Acumatica, founded in 2007 and headquartered in Kirkland, Washington, is a fast-growing provider of highly customizable, cloud-based ERP applications for small and medium-sized businesses (SMBs). The idea for Acumatica started with one of its founders, Serguei Belousov (who also founded and still oversees the successful Parallels and Acronis software companies), who saw a gap in the availability of financials applications for SMBs.

Built on Microsoft's .NET 4 platform, the Acumatica suites include Financials, Distribution, CRM, and Project Accounting. New releases are available twice a year with new functionality. The most recent version is Acumatica 4.1, which was released in August 2013 with a number of enhancements for reporting and usability. Future product plans include U.S. Payroll. The .NET 4 choice of platform is important to ISVs considering partnering with Acumatica because trained developers are readily available globally.

### ***Use Cases: From On-Premise to Finding Success in the Cloud***

The primary opportunity for ISVs partnering with Acumatica is in developing geography- and microvertical-specific applications. For example, an ISV with expertise working with car dealerships may offer an on-premise application for lease management that it wants to move to the cloud. Lease management requires some of the functionality found in financials (e.g., general ledger, accounts receivable, asset management). In this case, working with a partner such as Acumatica can give the ISV a head start on moving its application to the cloud by leveraging the existing functionality in the Acumatica Financial Management suite.

#### **Visma**

Visma, the leading provider of financial and human capital management solutions to SMBs in the Nordics, realized that it needed to take its solutions to the cloud and selected Acumatica as its partner. With 350,000 customers, over 1 billion euros in revenue, and more than 5,000 employees, Visma is clearly a successful company. But since 2011, it has seen its customer requirements shift as business managers moved from being aware of cloud solutions to mandating cloud solutions for their organizations. Visma could have built a cloud application on its own but instead chose to partner with Acumatica.

Why Acumatica? Visma knew that building a multitenant cloud solution would entail a long project before it had stable code. And many vendors that build a cloud solution on their own never get to the last mile, the seemingly small but essential features that mean the most to their customers. The last mile was very important to Visma since it is very expensive to do business in the Nordics. Consequently, it is critical that the company build very efficient processes so that a customer can be up and running in about 30 minutes. By partnering with Acumatica for the core accounting software and cloud infrastructure, Visma was able to focus its attention on local government taxes, regulations, and reporting. Visma worked with the local banks used by its SMB customers to integrate financial transactions to other Visma applications. In addition, Visma worked on translations and localizations and added single sign-on to create a complete offering.

Now that the Visma.net solution is live and available on the cloud, Visma is looking to add vertical solutions for manufacturing, project management, accounting, and more. Visma is also encouraging its own partner network to add additional industry-specific solutions.

#### **Jamis**

For over 20 years, Jamis has been dedicated to providing DCAA-compliant project accounting, billing, and human resources software and services to project-oriented U.S. government contractors of all sizes. Historically, this software was on-premise, but Jamis recognized that it was very important to offer cloud-based solutions because its customers have employees who could be anywhere in the world (such as a former U.S. Navy Seal officer whose work takes him to remote locations). After looking at several other cloud-based accounting solutions, Jamis selected Acumatica as the platform to take its microvertical (i.e., U.S. government contractor) application to the cloud.

Jamis is currently using Acumatica's general ledger, accounts payable, accounts receivable, and cash management applications as a foundation on which it added job costing and other functionality

specifically required by its customer base. The Acumatica applications are behind the scenes, and customers aren't aware that they are there because they just see the Jamis solution as a fully integrated product. Jamis, believing it should be an early adopter of its own systems, is already in production on the cloud-based application and is working with five clients in the prelaunch period. General availability is expected in early 2014, but demand for the solution is high, and Jamis is already taking orders from customers who want to be next in line to adopt the updated solutions.

## ***Challenges and Opportunities for Acumatica***

### **Opportunities**

The opportunities for Acumatica and its partners are excellent. The enterprise applications market, already large at \$130 billion in 2012, is forecast to grow at a 6.3% CAGR through 2017. But cloud applications are driving the demand for new solutions, and companies with cloud solutions are seeing above-market growth. The demand is especially high for SMBs that need to replace aging desktop-bound solutions as well as manual and paper-based processes.

The opportunity for Acumatica's partners is building geography- and microvertical-specific applications. There are plenty of general accounting systems available, but what about accounting systems that are specific to the needs of home builders, small retail chains, salons, medical clinics, and so on? These organizations all have specific reporting requirements and business processes; they do not want to force-fit a generic application to meet the needs of their business. This is also true of geography-specific systems. Business processes, government reporting and regulations, and taxes differ greatly across borders. A solution built for the German market generally won't meet the needs of customers in Italy.

### ***Challenges***

The primary challenge for Acumatica at this time is brand recognition, as one of its partners said: "We just stumbled across them on the Web and found them to be a real pleasant surprise." Acumatica is working to make its brand known throughout the industry. This is a necessary step because ISVs often want to work with companies that are well-known. Often, such recognition provides a certain comfort level that the board of directors at prospective customers require.

Also, while Acumatica appears to be relatively small company, that assessment is somewhat deceptive. The company's go-to-market strategy is entirely through partners, so it has no direct sales team. All resources are focused on product development, customer service, and operations. However, Acumatica is growing rapidly and adding staff. The decision to base its solution on .NET 4 is a smart one because qualified developers are readily available.

### **Conclusion**

Legacy ERP software providers without a cloud strategy are running a big risk of becoming irrelevant in the current market. A large installed base of maintenance-paying customers can be deceptive; even if revenue continues to come in for a while, customers will start to defect to other vendors providing modern cloud-based offerings. Customer demand for business applications in the cloud that are geography and microvertical specific is the future. IDC believes the enterprise applications market will continue to grow as a result of the demand for cloud-based applications, and to the extent that Acumatica and its partners can address the challenges described in this paper, the company has a significant opportunity for success.

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Global Headquarters: 5 Speen Street Framingham, MA 01701 USA P.508.872.8200 F.508.935.4015 [www.idc.com](http://www.idc.com)