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RESEARCH NOTE **THE ROI OF CLOUD ERP FOR SMBS**

THE BOTTOM LINE

The cloud is gaining traction in the enterprise resource planning (ERP) market and most vendors now have a cloud offering. After examining small and medium companies that have implemented cloud ERP, Nucleus found customers were able to achieve substantial benefits, including reduced IT costs, increased employee productivity, and better inventory management. This report analyzes the benefits of cloud ERP and provides examples of how vendors helped their customers increase return on investment (ROI) and reduce total cost of ownership (TCO).

THE SITUATION

New programming technologies and the internet have revolutionized the business software market by introducing the cloud: a new, more flexible and considerably more affordable delivery model. In business software market segments like customer relationship management (CRM) or human capital management (HCM), the cloud has been adopted rapidly and is now widely used – so much so that most vendors now offer this type of delivery for their solutions.

ERP vendors and their customers have embraced the cloud more slowly than others, mostly due to the complexity of an ERP solution, which cannot be easily replicated in a cloud model, and the concerns regarding the security of the data which is stored outside of the company firewall. The level of the customization of the solution is also limited in the cloud, which makes it a better option for small to medium businesses (SMBs) which are less likely to require customization. SMBs are also likely to have limited or no IT resources and the cloud delivery model is advantageous because it requires almost no technical personnel (Nucleus Research *m167 – Technology Value Matrix Second Half 2012: ERP*, November 2012).

At the enterprise level, cloud ERP is still the exception rather than the rule. Some vendors have developed cloud solutions that can be used as part of a two-tier ERP strategy, which combines an on-premise tier-1 ERP solution used by headquarters with a tier-2 or 3 ERP used by the subsidiaries or only some departments of the company. The ERP solution used by subsidiaries is often delivered through the cloud to reduce IT and maintenance

costs. Some examples are SAP Business ByDesign, which can be used with SAP ERP as part of a two-tier ERP strategy and the announcement by NetSuite that they provide NetSuite OneWorld for the midmarket with Oracle E-Business Suite ERP (Nucleus Research *m160 – Pros and cons of two-tier ERP*, November 2012).

Nucleus Research has reported on a number of ERP vendors that have recently adopted the cloud delivery model, now delivered along with their traditional on premises solutions: Deltek (Nucleus Research *m143 – Deltek Insight updates and announcements*, October 2012), Sage (Nucleus Research *m101 – ERP announcements from the Sage Summit*, August 2012), SAP, and Epicor. Plex Systems and NetSuite focus exclusively on the cloud and started delivering this type of ERP more than ten years ago. Even though cloud ERP only represents 2 to 7 percent of the total ERP market at present, the revenues it generates are expected to double by 2015 compared to 2010. To increase adoption, vendors are offering their customers more guarantees for data security through certification to comply with security standards. Some vendors like Sage even provide the option for clients to move back to on premise ERP if they're not satisfied with the cloud delivery model.

KEY BENEFITS MEASURED BY NUCLEUS

While there are discussions on how cloud ERP can help companies, most fail to provide numbers or real life case studies for cloud ERP. Nucleus evaluated cloud ERP by interviewing more than a hundred companies across a range of industries, including manufacturing, professional services, wholesale and distribution, software, and not for profit. These companies are using cloud ERP solutions from vendors like Acumatica, Intacct, NetSuite, and SAP. Nucleus calculated the ROI achieved by using cloud ERP, ranging from 73 percent to 589 percent, with most companies reporting ROI higher than 150 percent. The payback of the cloud ERP solutions analyzed by Nucleus ranged from 2 months to 1.9 years with average annual benefits from \$72,790 to \$715,603.

The most important benefits of cloud ERP reported in Nucleus's interviews of adoptees were related to IT cost reductions, reporting and analytics, user productivity, accounting, and customer satisfaction.

IT cost reductions

Companies using cloud ERP reported that they were able to reduce their IT costs with hardware, maintenance, and personnel. For instance, an anonymous technology company using SAP Business ByDesign saved more than \$100,000 in hardware and software purchases and avoided hiring at least three full time employees for its IT department. Another manufacturing company using SAP Business ByDesign estimated that their solution costs less than half of other hosted ERP solutions for the midmarket while offering 98 percent of its requirements.

Cloud ERP allowed companies to replace outdated accounting packages like QuickBooks, which, while inexpensive to purchase, were costly in maintenance, integration, and manual data entry. Customers with multiple locations required separate hardware and software at each location, and the cloud permitted one single repository for data, accessible by all employees via the internet. NetSuite customers told Nucleus, *"Now, on IT, we're spending at least 40 percent less"* and *"We've probably saved 50 percent on IT."* One e-commerce company using NetSuite saved at least \$50,000 by avoiding the integration of a stand-alone accounting solution with e-commerce.

Increased visibility and better reporting

All the companies interviewed by Nucleus reported that the cloud solutions facilitated their reporting efforts, either by helping them consolidate data that was spread across multiple data sources (including spreadsheets), or by providing the tools to produce reports more easily and in a more timely manner. For instance, dashboard capabilities and automated workflows for reporting provided by Intacct helped executives from TOA Technologies have greater visibility into financial operations.

A NetSuite customer told Nucleus: *"We have better costing and are able to realize trends in costing. Before it was just a feel, now we know what will actually impact the bottom line, and when I see a trend I do something about it – I can react two months faster than before."*

Increased user productivity

Nucleus found that by reducing manual data entry or the need to consolidate data manually in spreadsheets, companies using cloud ERP were able to increase the productivity of their employees. Employees from departments like accounting or sales were better able to find the information they needed and process it faster, enabling them to focus on other, more productive activities like revenue recognition or customer engagement. Remote personnel such as field service employees or sales people worked more efficiently using cloud solutions like Intacct, which allowed them to generate travel requests and expense reports via the internet and on mobile devices.

One customer told Nucleus: *"We've almost quadrupled in size since we implemented NetSuite, and our staff has grown by maybe 10 percent."* Professional services companies using NetSuite were able to increase productivity by at least 10 percent – those who were previously relying on manual processes achieved even more significant improvements.

Improved customer satisfaction and increased sales

Because all the information is centralized and cloud ERP solutions are easy to use, sales and marketing professionals can more effectively engage with customers. For instance, sales people can instantaneously access information about the customer's financial status, order history and payments, which puts them in a better position to make educated decisions. Also, customer service representatives spend less time responding to customer requests, some clients achieving 30 to 60 percent reduction in call resolution times.

One NetSuite customer told Nucleus that: *"Customer service has grown but our business grows at 50 percent a year and headcount has only gone up by 35 percent."* Another one stated that, *"There is information about the customer and what they ordered. They can see history without tracking people down and see a complete picture of sales, ordering, and fulfillment. That has made us 20 to 30 percent more profitable."*

More accurate accounting, billing, and accelerated quote to cash

Moving from paper, spreadsheets, and accounting packages to cloud ERP solutions helped companies accelerate collections, reduce the quote to cash time, and increase the accuracy of their billing. Monthly or yearly financial close has been simplified as well, due to financial consolidation and the ability to more easily access and manage financial data. A gaming company using multiple currencies and accounting standards to combine three legal entities into one system made monthly close faster and more accurate using Intacct. Nucleus also found that another Intacct customer was able to reduce the time to generate financial statements by 60 percent.

CONCLUSION

Cloud ERP for SMBs can be a good alternative to traditional on-premise ERP solutions. From a functional perspective, cloud ERP for SMBs can provide similar functionality to on-premise ERP but with far greater features than accounting packages like QuickBooks. From a technical perspective, the cloud solution reduces IT costs and makes it possible for remote users to access it from anywhere there is internet access.

Nucleus found that the ROI of cloud ERP can be achieved relatively quickly and that this delivery model brings IT cost reductions and increased employee productivity to the broad range of the companies using it. SMBs can also achieve other important benefits from ERP in the cloud, such as increased inventory accuracy, better customer satisfaction, and increased sales.