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Making Enterprise Business Systems Pay Dividends

EVOLVING CLOUD STRATEGIES

Attitudes towards cloud and Software as a Service (SaaS) have changed dramatically over the past few years, particularly with respect to software that runs your business. As recently as five to ten years ago, Enterprise Resource Planning (ERP) could easily have been called the last bastion of resistance to SaaS. "Cloud" had yet to become part of the business vernacular and "SaaS" was still a relatively new and poorly understood concept. While other complementary solutions such as Customer Relationship Management (CRM) were headed in that direction, entrusting the transactional system of record of your business to the cloud requires a higher level of trust than required for other applications, including those which are often referred to as "systems of engagement."

But now - how times have changed! Today the majority of businesses have some sort of cloud strategy and the shift to the cloud has definitely begun. This assertion is supported by data collected in the latest Mint Jutras 2016 Enterprise Solution Study. But before we report on these most recent results, in order to avoid confusion, we need to clarify some of the terminology that gets thrown around today.

DEFINING THE OPTIONS: "SAAS" AND "CLOUD"

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 and 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 is generally 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.

Each year the Mint Jutras Enterprise Solution Studies reference different deployment options, defined as follows:

- **Software as a Service (SaaS):** 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 party's) computer.
- **Hosted and managed by your ERP vendor:** Software is licensed by you but you pay your ERP vendor to manage and maintain (host) hardware and software.
- **Hosted by an independent 3rd party:** Software is licensed by you but you pay another party to manage and maintain (host) hardware and software.
- **Traditional licensed on-premise:** You license the software and are responsible for managing and maintaining it on your own premises.
- **Hybrid**: Parts are licensed and maintained on premise and parts (e.g. add-on modules) are cloud (SaaS or hosted).

To get a clear picture of how cloud strategies have developed and evolved, we turn to some specific questions in our 2016 Enterprise Solution Study.

WHAT'S YOUR CLOUD STRATEGY?

The first of these questions specifically asked about cloud strategies.

Figure 1: What Best Describes Your Cloud Strategy?

Source: Mint Jutras 2015 and 2016 Enterprise Solution Studiesd

Today the majority (85%) of companies surveyed has a cloud strategy, even if that strategy is to not go there (9%).

Last year (2015) was the first year we asked this question and we found the results were a little surprising – but only a little. The first surprise was that the majority (84%) had a cloud strategy, even if that strategy was to not go there (8%). Those numbers barely moved this year, with both only changing a single

percentage point. That left only 16% last year and 15% this year with no cloud strategy. In a way this is not particularly surprising given all the hype over cloud these days. But notice how we qualified this option: "We don't have a cloud strategy. ***Cloud is just one of many factors we consider***."

We phrased it that way because for years we have been capturing priorities for selection criteria for ERP. Over the years we have always included some sort of reference to deployment option and it has consistently been ranked close to the bottom of the list of criteria, ranking 8 out of 10 in priority this year amongst other criteria like fit and function, completeness of solution and user experience (the top three priorities this year). Since deployment option was not the overriding factor in selecting these solutions, you might also conclude that cloud was not driving strategy. And yet only 15% this year don't have a cloud strategy, and another 9% have no plans to move any applications to the cloud. That means the majority (76%) are moving to the cloud.

Are survey participants sending us mixed signals or do they just view cloud options as a "given" today? Although cloud options may not rank high in priority in terms of selection criteria, this is the strategic direction in which most are moving. It's not a question of "if", but rather "when?"

SLOW AND STEADY WINS THE RACE

Based on the strategies shown in Figure 1, we might conclude that cloud deployments will not dominate immediately. We actually confirmed this conclusion by capturing the percentage of all business software that is currently deployed as SaaS, along with projections over the next two, five and ten years and beyond (Figure 2).

Figure 2: Percentage of Business Software Deployed as SaaS
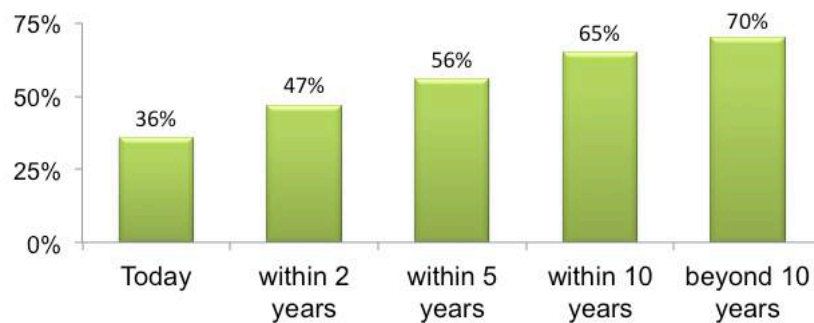
Source: Mint Jutras 2016 Enterprise Solution Study

This steady progression is to be expected largely because of the number of existing on-premise (non-cloud) solutions that are currently installed. These will not be ripped out and replaced overnight, particularly when it comes to ERP. Implementing a solution that runs your business is not a small

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But, no, it won't happen overnight, simply because of the number of on-premise solutions installed today.

undertaking and most will not abandon their current solutions without a very good reason and an expected return on investment. So in that respect, it is not surprising that the most likely strategy is to leave existing systems in place but surround them with cloud-based solutions (27%). Yet the percentage taking specific action to actively move from on-premise to the cloud did jump this year from 8% to 11% while the percentage taking their time shrank from 20% to 14%.

Looking at the same underlying data a bit differently though, we expect the adoption of cloud and SaaS solutions to accelerate quite quickly over the next two to five years, driven by replacements and new purchases. Today 47% of survey respondents have less than 25% of their current solutions deployed as SaaS, and that includes those running no SaaS solutions at all. That percentage is expected to shrink by 36% in the next two years and by 53% within five years (Figure 3). If you have yet to jump on the SaaS bandwagon, now is the time unless you want to be left behind.

Figure 3: Percentage of Companies with Less than 25% SaaS
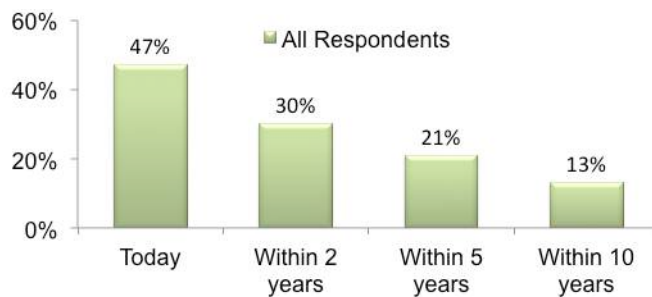
Source: Mint Jutras 2016 Enterprise Solution Study

Benefits of SaaS include cost savings, more innovation, better support of remote workforces and distributed environments, as well as the enablement of growth. This acceleration of movement to SaaS adds a certain level of urgency. Adopting a "wait and see" attitude may be costly in terms of achieving or maintaining a competitive advantage.

Those with a defined strategy of moving to the cloud clearly see the potential benefits. These benefits include cost savings, more innovation, better support of remote workforces and distributed environments, as well as the enablement of growth. This acceleration of movement to SaaS adds a certain level of urgency. Adopting a "wait and see" attitude may be costly in terms of achieving or maintaining a competitive advantage.

BUT REMEMBER, NOT ALL CLOUD IS SAAS

However, if you recall our previous definitions, while all SaaS is cloud, not all cloud is SaaS. So we asked specifically "Which is most important to you in terms of placing any solution in the cloud?" While 13% admit to not really understanding (Don't Know), the dominant preference is for SaaS (Figure 4). However, as long as the solution is web-enabled, even a hosted or on-premise solution might be able to be accessed anytime, from anywhere. But Mint Jutras would contend that without a SaaS solution, you would leave some of the potential benefits on the table.

Figure 4: Which is most important to you in terms of cloud?
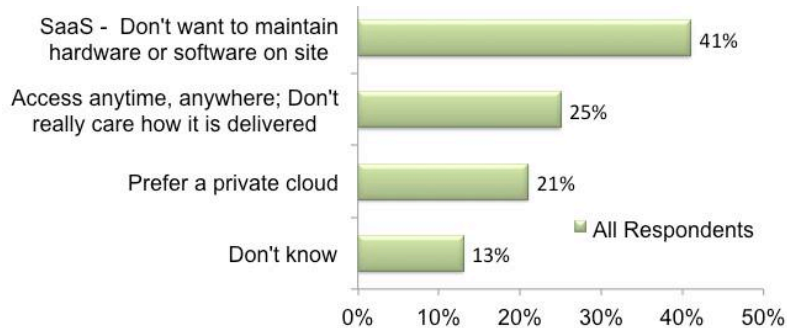
Source: Mint Jutras 2016 Enterprise Solution Study

And as you can see, there is still a significant percentage that prefers a private cloud. This might be because a private cloud is considered more secure (it may or may not be), or because of current or anticipated customization. However, while customizing legacy solutions traditionally meant invasive code changes, today much of the requirements perceived to be "customizations" today are handled through non-invasive configuration, tailoring and the application of externally defined business rules. If you truly require heavy customization, then it may be time to reevaluate whether you have the right solution for the job at hand.

If the overriding desire is to simply move to the cloud, it might be easier to lift and shift existing solutions to a private cloud. Yet in doing so you sacrifice some of the benefits of a multi-tenant SaaS solution (see sidebar). With multi-tenant SaaS solutions, vendors maintain a single line of code. As a result, they can deliver more innovation, at a faster pace. With single-tenant solutions running in private clouds, vendors and their clients still face the complexity and disruption of traditional upgrades.

SHOPPING FOR A NEW SOLUTION?

In order to take full advantage of next generation solutions, enabled by advanced technologies, you may choose to replace your current solutions. The question we have been asking for years now is this: "If you were to select a solution today, which deployment options would you consider?"

In the early days of this question, those that would consider SaaS were definitely in the minority and almost everyone would, of course, consider on-premise solutions. That landscape has shifted dramatically. Figure 5 shows the most recent few years. Interest in SaaS has grown slowly and steadily over the past six years. Last year it became the option most likely to be considered (participants are allowed to select as many options as they want).

Figure 5: Deployment Options that would be Considered Today
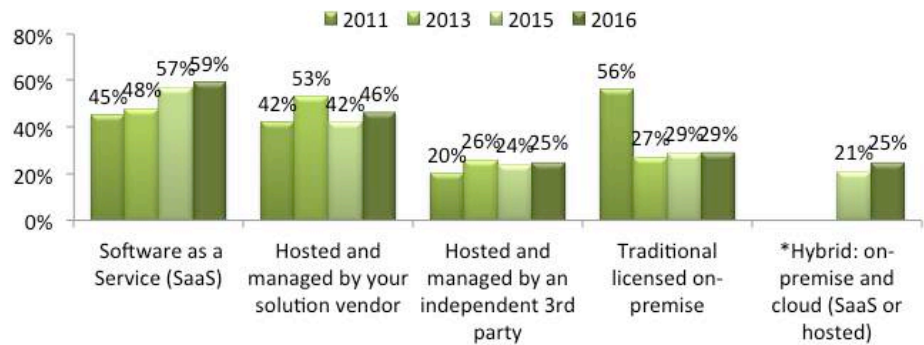
Source: Mint Jutras Enterprise Solution Studies
* Option added in 2015

In prior years "SaaS" and "hosted and managed by your solution vendor" have run neck and neck. In the past, one of the reasons was because the difference between these two options was often blurry and survey respondents didn't necessarily understand how to distinguish between the two. This was substantiated by observing that a significant percentage of participants that were running solutions that are SaaS-only (e.g. solutions like the Plex Manufacturing Cloud, NetSuite, Intacct, etc.) chose this hosted option instead of, rather than in addition to SaaS.

But we're now starting to see evidence of a better understanding of the difference between these options. Not only are more participants actually running SaaS solutions, but also the preference for SaaS is starting to pull away from hosted solutions.

But it was between 2011 and 2013 where we saw a sharp decline in the willingness to even consider a traditional on-premise solution. However, remember the wording of the question. We created a hypothetical situation. This does not mean everyone will just dump their on-premise solutions overnight, hence the slow and steady progression in Figures 2 and 3. Yet, at the risk of beating a dead horse, we have to again point out that the direction is clear.

We also added an option for hybrid solutions last year and we see some growing interest. This option may be simply a short-term solution for those that intend to leave existing systems in place but surround them with primarily cloud-based solutions. This delivers some of the benefits of SaaS, but will lead companies down a more circuitous route in their cloud journeys. In these cases, hybrid solutions might simply be viewed as temporary options and not necessarily the desired final destination. It will be interesting to see if interest in these hybrid solutions continues to grow or decline over time. A lot will depend on whether the hybrid solutions deliver the desired (end) results or serve to whet the appetite for more SaaS.

CONCLUSION

Perceptions and preferences for cloud-based solutions have changed dramatically over the past several years. Early pioneers have led the way and are living testimony to the benefits. The shift to the cloud has begun in earnest. Most companies now have defined a cloud strategy. If you have not, either because of lack of understanding or lack of attention, take a step back and develop one. Educate yourself on cloud and SaaS, along with the potential benefits; research any lingering concerns you might have and investigate your options.

Not everyone will take the same approach. Some will race to the cloud finish line, while others will ease into it over time. If you are currently running your business on legacy solutions that limit your connectivity and interoperability, adding some peripheral and complementary cloud solutions might selectively help you connect to trading partners and customers, but ultimately you will need to replace that old software or run the risk of placing yourself at a significant competitive disadvantage. Replacing it with a cloud-based ERP, deployed in a secure SaaS model might just be the giant step you need to move into today's technology-enabled world and accelerate your own competitive advantage.

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 10+ 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.