

EXECUTIVE SUMMARY

Moving to Cloud Financials: Adoption, Expectations, and Guidance

- Finance needs better ways to deliver enterprise value.
- CFOs see a compelling path toward Cloud solutions—but only if their concerns are addressed.
- Cloud-based solutions fit Finance's changing requirements.
- To run Finance in the Cloud, CFOs must provide leadership.

JUNE 19, 2013

William McNee, President and CEO, Saugatuck Technology

in partnership with



Moving to Cloud Financials: Adoption, Expectations, and Guidance

Overview

In an environment of accelerating business change, Finance's time to move to Cloud-based solutions has arrived. Finance and IT executives largely agree that their existing systems are inadequate and inflexible in meeting their business requirements, and they expect to migrate some or all of their financial management software from on-premise to the Cloud, where offerings are more flexible, adaptable, cost-effective, and secure.

To facilitate the transition and provide greater value to the enterprise, executives must be well-informed advocates within their companies about Cloud-based financial systems and careful evaluators of what existing systems can and cannot do. They must see corporate changes as opportunities to deploy Cloud core and supporting financials.

Context

William McNee, an industry expert on Cloud computing, shared recent findings from a survey among CFOs and IT executives about perceptions of existing financial management platforms and how effectively Cloud-based systems can meet changing needs.

Key Takeaways

Finance needs better ways to deliver enterprise value.

Finance and IT executives see the business environment as changing rapidly. In a 2013

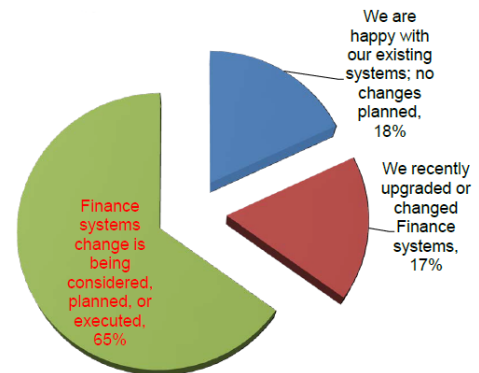
Saugatuck Technology survey of 271 North American CFOs and IT leaders, primarily at companies with 1,000 to 10,000 employees, respondents reported changes along multiple fronts. Respondents said, "My company...

...is impacted by new/emerging regulations."

...has new or evolving business requirements."

...is expanding globally."

...is experiencing rapid growth."



And the majority of Finance and IT executives don't believe that their current financial systems meet their needs. Among respondents, 65% said that a change in core financial systems was being considered, planned, or executed. Another 17% have recently upgraded or changed systems. Only 18% were happy with their current systems and planned no changes.

Moving to Cloud Financials: Adoption, Expectations, and Guidance

The clear message is that existing financial systems are being rethought and replaced. Existing finance systems do not cost-effectively deliver the speed, integration, and adaptability that today's changing business environment demands.

William McNee

In the same survey, they overwhelmingly agreed that *"the value of Finance depends on providing useful business data and guidance,"* as well as *"Finance should be directly involved in all business strategy and planning."*

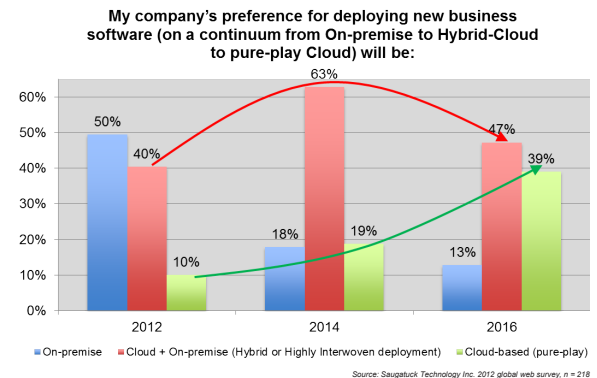
The dissatisfaction of these executives with the status quo becomes clear as they also concurred that their Finance organization should be:

- "More integrated into business operations" (75% agreed or strongly agreed)
- "More strategic" (73%)
- "More visible" (65%)

CFOs see a compelling path toward Cloud solutions—but only if their concerns are addressed.

When asked to rank the top three most compelling business benefits of Cloud and software-as-a-service (SaaS) financial management systems, survey respondents mentioned cost improvements and increased flexibility most often, followed by better resource optimization, geographic reach, and control.

These same executives project a rapid transition from current on-premises infrastructure to Cloud-based solutions. However, this migration will pass through a significant hybrid deployment phase in 2014.



In three years, respondents expect that pure-play Cloud solutions will represent almost 40% of Finance deployments.

Even with this expectation, CFOs insist on a number of key capabilities. To become true advocates, CFOs say that Cloud finance solutions must, in order of importance:

- Address security concerns

Moving to Cloud Financials: Adoption, Expectations, and Guidance

- Offer **cost-savings** without sacrificing key functionality
- Deliver a **proven, efficient, and stable solution**
- **Integrate easily** with existing on-premise systems
- Provide **functional benefits** over current on-premise financials
- Have robust and relevant **advanced analytic capabilities**
- Facilitate easy **upgrades and function/process changes**

Cloud-based solutions fit Finance's changing requirements.

Cloud and SaaS financial management system solutions are quickly moving toward mainstream adoption, as has occurred in other parts of the enterprise, such as Sales, where most new CRM implementations are Cloud-based. For most firms, Cloud-based financial management solutions offer a compelling combination of:

- **Low cost.** Compared with traditional acquisitions and upgrades, Cloud systems are clearly less expensive to operate. They use pre-built, established finance rules and best practices, which are configurable in-house, and customers are automatically upgraded at no additional cost. By outsourcing technological expertise and resources, companies obtain best-of-breed talent while simultaneously cutting internal staffing and training requirements. As data scope, scale, and quality improve, however, companies must invest in data scientists to provide advanced analytical support.
- **Flexibility and adaptability.** Cloud deployments are able to adapt and evolve in real time, as the needs of the business change. This is in contrast to legacy on-premise systems that tend to be frozen after being installed and where upgrades are often painful and postponed. Cloud systems are intentionally architected for business and technological change.
- **Non-disruptive incremental change.** The best solutions adapt to, leverage, and migrate legacy data, but firms—particularly younger, high tech firms—can also opt for “big bang” rapid improvement on a department-by-department or enterprise-wide basis.
- **Architecture for security, reliability, and adaptability.** Even though CFOs’ top expressed concern is security, this is more emotional than rational. Compared with traditional software vendors, the best

For those companies a little further down the curve as it relates to Cloud deployments, cost is there, but where they see the biggest benefits have to do with flexibility and adaptability, which provides them significantly greater business agility.

William McNee

Moving to Cloud Financials: Adoption, Expectations, and Guidance

Cloud vendors have vastly improved architectures and technologies, and they continue to invest in security and redundancy at a rate few companies could match. Unless a firm absolutely needs its own super-sophisticated data centers, Cloud computing vendors will offer superior protection. Amazon recently won FedRAMP (Federal Risk and Authorization Management Program) approval; its first private-Cloud customer is the CIA, at a cost of \$600 million over 10 years. This is a clear statement the government believes that Amazon's Cloud-based services provide adequate levels of security.

Finance is the next major functional domain where we anticipate significant movement toward the Cloud.

William McNee

To run Finance in the Cloud, CFOs must provide leadership.

The first wave of Cloud adoption, which started in 2007, was in Sales, CRM, collaboration, and service management. In 2009, midsize and larger firms began to incorporate human capital management, which includes benefits, payroll, and talent administration. Workday was an early mover in that space and is now a prominent player. As a more

complex and embedded enterprise function, Finance is now migrating to the Cloud as part of the third wave.

Again, Workday's solution eliminates many of the traditional boundaries surrounding Finance. (The fourth wave—for ERP, manufacturing, and shop floor—is in its early stages.)

The move of Finance to the Cloud will be a successful one if CFOs:

- **Educate themselves and others.** CFOs must understand the benefits and the business case of the Cloud, then communicate this to others. Even though the business world's Cloud adoption is still in the "early majority" phase, it affects the entire enterprise and has become a competitive requirement as peers move to the Cloud in greater numbers. It also makes sense for CFOs to learn about the latest tools and technologies in the world of Finance. After initially resisting the Cloud, IT groups are now becoming a solid source of Cloud information and insight.
- **Evaluate.** CFOs need to assess the gap between what they have (their legacy financial systems) and what they need (their business requirements now and in the future). They must ask questions about their existing systems, such as: Do they deliver on the enterprise's changing business needs for management and financial reporting? Do they represent outdated operational thinking? Will they meet management needs in two years? In five years? Can they adapt to growth, adding new products and channels? Can they deal with changing regulations? Do they enable

Moving to Cloud Financials: Adoption, Expectations, and Guidance

predictive business performance analysis, or are they limited to the past?

- **Act opportunistically.** Any significant shift in leadership, goals, organization, or growth is a potential opening for a new tactical or strategic Cloud deployment. An incoming CEO, for example, might be looking for major improvements in financial performance. Existing systems might be at their end of their useful lives, facing major support or upgrade costs.

Other Important Points

- **Getting started.** Companies often begin a Cloud deployment at the division level, prove that it works, and then expand its use.

- **VC investment.** As evidence of where software is headed, over the past few years, almost all venture capital investment in software has been in Cloud-based software, with hardly any new investment in on-premise software.

- **Workday.** Mr. McNee has been familiar with Workday since the company's inception and has seen Workday take the industry by storm. Workday is a leading provider of enterprise Cloud applications for human resources and finance, serving companies ranging from medium-sized businesses to Fortune 50 enterprises. To learn more, visit www.workday.com.

Biography

William McNee

President and CEO, Saugatuck Technology

William McNee is the President and CEO of Saugatuck Technology, a subscription research and advisory firm focused on emerging industry trends and disruptive technologies driving change in enterprise IT. Over the past few years, Mr. McNee has helped spearhead the firm's research into evolving business models as a result of the shift to software-as-a-service (SaaS) and Cloud Computing. More recently, he has been actively involved in launching the firm's CIO-targeted Cloud migration/leadership practice.

Prior to founding the firm in 1999, Mr. McNee spent 11 years with Gartner, Inc., most recently as Group Vice President and Research Fellow, responsible for guiding the firm's overall research strategy. A recognized expert in enterprise software and related business/IT services, Mr. McNee spent five years leading Gartner's

Business/IT Management practice as its Director of Research, focusing on CIO governance, IT sourcing models, and e-commerce management strategies. Prior to this role, he was a lead analyst focusing on enterprise business applications and asset management strategies. Prior to Gartner, he held strategic planning, financial management, and marketing positions at CBS, HBO, Comshare, and the Institute for Social Research.

A frequent speaker at industry conferences, Mr. McNee has published hundreds of articles and consulted with thousands of business and IT executives, and vendor clients around the globe.

Mr. McNee is a University of Michigan alumnus, and has completed graduate work in economics at New York University. Since 2001, he has been a Board or Advisory Board member for the Westport Public Library.