

THINKstrategies



A Whitepaper for Chief Financial Officers



**The Best-of-Breed Advantage for
Financial Management:
*Get the Full Benefit of the Cloud***

Published by THINKstrategies, Inc.

THINKstrategies

Executive Summary

One of the fundamental questions facing CFOs in small and medium-sized organizations is whether to select a ‘best-of-breed’ solution or a software suite as they look to improve the technology foundation for their processes.

Determining the tradeoffs associated with these two options has never been more critical because of today’s increasingly challenging business environment, and the need for organizations to take advantage of more user-friendly applications that also offer unprecedented functionality.

A new generation of innovative Software-as-a-Service (SaaS) applications with more robust APIs is making it easier to tie together multiple best-of-breed SaaS solutions to match the broad functionality promised by suites delivered by independent software vendors (ISVs) of the past and current-day SaaS vendors.

Adopting a best-of-breed approach not only gives a CFO access to deeper functional capabilities, it enables the CFO to rollout the functionality more quickly at a lower cost with less risk.

Given these advantages, it is not surprising that the number of successful CFOs choosing best-of-breed SaaS solutions to meet their escalating business needs is accelerating.

Introduction

Businesses of all sizes, across nearly every industry are facing unprecedented challenges which are forcing them to fundamentally change the way they operate. These challenges include:

- **Escalating competition** as globalization, ecommerce and Cloud-based services are lowering the barriers to entry and making it easier for new competitors to win a share of the market.
- **Rising customer expectations** and **declining customer loyalties** because of a growing number of product choices with more attractive pricing models, such as subscription-based offerings in the cloud.
- **Changing organizational needs** as businesses become more global and their employees become more dispersed and reliant on remote access corporate resources in the cloud.

As a result of these challenges, organizations of all sizes must adopt more robust financial management systems that can enable them to better monitor their performance on an ongoing basis so they can react more quickly to rapidly changing market dynamics.

Fortunately, the new generation of Software-as-a-Service (SaaS) applications delivered via the cloud is enabling a growing number of businesses of all sizes to respond to these challenges.

The appeal of these SaaS solutions is that they are more user-friendly, flexible and cost-effective than their legacy, on-premises predecessors. These powerful SaaS alternatives allow organizations to be more agile and responsive to their evolving business requirements.

Some SaaS vendors offer their solutions to these business challenges in the form of software suites which promise to make it easier to adopt a broad set of functional capabilities in a single package. However, these suites often fail to deliver on this promise because each part of the organization may not get the best tool for its specific needs, and rolling out a full suite often entails greater deployment challenges. These issues defeat the fundamental reasons for adopting SaaS applications – quicker deployment, increased productivity, and accelerated time to value.

Nimble, growing organizations are recognizing the inherent advantages of selecting ‘best-of-breed’ SaaS solutions specifically designed to address a particular business requirement – advantages that speed deployment and adoption, and allow the organization to be more agile, productive, and responsive to changing market and organizational dynamics. This has become especially important for organizations that need robust, yet flexible financial management capabilities to address their escalating business and operational needs.

This whitepaper will identify the business advantages of employing a best-of-breed, SaaS financial management solution based on THINKstrategies’ extensive industry experience, as well as various third-party research studies and perspectives.

Why the Time is Right for SaaS Solutions

Traditional, on-premises software was not designed to satisfy today’s business needs.

Legacy software was architected to primarily support a highly centralized and static business environment that didn’t have to contend with change on an ongoing basis.

The on-premises software of the past required a substantial upfront investment in license fees and put the burden of success on the organization to successfully implement and utilize the capabilities – no small task for a mid-sized organization.

This legacy software also forced mid-sized organizations to dedicate in-house staff or pay for outside services to customize, configure and administer it. Implementing this software often took months, and cost far more than the original software license in ongoing maintenance fees and support services. And, despite this investment, there was still significant risk that the software would not be properly configured to be fully utilized by employees who found it difficult to use.

SaaS solutions are designed to be quicker to implement and more user-friendly, so they can be adopted more easily to ensure a quicker time to value. SaaS solutions also eliminate many of the upfront costs and ongoing complexities associated with legacy, on-premises software.

As a result, Gartner is projecting the SaaS market will grow at a compound annual growth rate (CAGR) of 19.5% through 2016, while the deployment of traditional, on-premises software is declining.¹

The Advantages of Best-of-Breed SaaS Applications

The appeal of SaaS solutions is gaining recognition among a growing number of CFOs, especially those who don’t want to place additional burdens on their limited inhouse staff to deploy and administer complex software applications.

Now the question is – ***should I adopt a best-of-breed SaaS financial management solution or a broader suite solution?***

¹ Gartner Forecast Overview: Public Cloud Services, Worldwide, 2011-2016, 4Q12 Update, <http://www.gartner.com/id=2332215>.

Exercising Your Right to Choose

Our desire to take advantage of best-of-breed applications to satisfy our day-to-day needs has become a common practice among many of us as consumers. It is an intuitive approach of finding the best apps available to satisfy our preferences and match our behavior in our personal lives.

The consumer world outside of work is composed of apps that are optimized for specific tasks and information, such as eBay for auctions, Kayak for travel planning, GrubHub for food delivery, Meetup for organizing groups, Facebook for social sharing, CNN for breaking news, ESPN for sports, and so on. There is no one-size fits all app that contains everything we need for our daily lives. Instead, we get the most out of the best-of-breed consumer apps at our disposal. It's no wonder we enjoy 'personalizing' our app choices to best meet our individual needs.

Likewise, there is really no software suite that contains everything a business needs to effectively support all of its organizational processes. In reality, businesses are best served by utilizing best-of-breed solutions that specifically address their unique combination of needs and don't force CFOs (or other functional leaders) to accept a one-size-fits-all solution that is not catered to their particular requirements.

The Integration Advantage

One of the primary justifications for adopting a software suite in the past was the argument that it reduced the amount of integration necessary to tie together multiple applications. The unfortunate reality has been that suites tend to create greater implementation complexity while providing only modest functional capabilities across their various application areas. As a result, CFOs face greater risks fully implementing these suites while having to accept fewer features to meet their financial management needs.

Meanwhile, today's best-of-breed SaaS solutions include a new generation of common application program interfaces (APIs) which eliminate much of the integration issue, and enable best-of-breed SaaS solutions to interoperate with other solutions from many other SaaS vendors 'out of the box'.

Best-of-breed vendors are taking advantage of the cloud and flexible architectures to offer integrations that are easier and cheaper to manage than ever before. This progress by best-of-breed vendors means that an organization can pick and choose applications from many different vendors, integrate them through APIs or third-party cloud integration services and have the business systems they always wanted within weeks. This simplified, rapid integration among best-of-breed solutions dramatically weakens the primary – and in some cases only – reason that customers were buying applications from the suite vendors.

As a result of modern APIs, organizations no longer have to sacrifice the deep functional capabilities of best-of-breed SaaS solutions in order to attain interoperability.

Taking Advantage of the API Economy

Some industry observers refer to this new best-of-breed approach as creating an "API economy" in the SaaS marketplace. In this new 'ecosystem' of best-of-breed SaaS vendors, CFOs can extend the value of their SaaS deployments by plugging in additional applications via APIs that are supported by third-party developers that offer complementary functionality to their mutual customers.

In many cases, these third-party best-of-breed SaaS solutions are pre-configured and easy to buy 'off the shelf' from an appstore, such as Salesforce.com's AppExchange.

What's Wrong with SaaS Suites

A growing number of independent software vendors (ISVs) are trying to gain a foothold in the SaaS marketplace by offering application suites in the same way ISVs sought to win over customers in the legacy, on-premises software world of the past.

The fundamental shortcoming of SaaS suites is that the vendor is trying to be 'all things to all people'. By offering a broad set of functional capabilities, the SaaS suite vendor is unable to deliver the deepest and most current innovations to meet the organization's specific needs.

When considering a suite, there are three primary areas of risk to assess in order to determine if a suite or a best-of-breed approach is best for your organization.

- Deployment Risk
- Performance Risk
- Long-term Risk

Deployment Risk

The first risk area is around deployment, and the challenges you will face in getting the system up and running in your organization.

Numerous research studies have found that the larger the software deployment, the greater the complexities, and higher the likelihood of failure.

A 2012 McKinsey & Company study, in conjunction with the University of Oxford, found large projects on average run 45 percent over budget while delivering 56 percent less value than predicted.² A similar Gartner study in 2012 proclaimed "Small is beautiful— or at least small projects are easier to manage and execute."³

Suites by their very nature involve more size and complexity than a best-of-breed deployment, because there are more systems to deploy and processes to create in a full suite. To reduce this risk, many organizations start off small, deploying just a single module in the suite, such as an accounting and finance module.

However, by deploying one module at a time, you often run into challenges deploying an entire end-to-end process. Suite vendors design workflows with the assumption that you are using the entire suite. So a quote to cash process that involves CRM, accounting, payments, and other modules requires that all modules be present in order to complete the process. You therefore can't deploy only the accounting module of the suite; instead you have license and configure parts of CRM and payments modules that you did not initially want to purchase, but are required for a complete quote to cash process.

² "Delivering Large-Scale IT Projects on Time, on Budget, and on Value", October 2012. Michael Bloch, Sven Blumberg, and Jürgen Laartz, McKinsey & Company. www.mckinsey.com/insights/business_technology/delivering_large-scale_it_projects_on_time_on_budget_and_on_value.

³ "Gartner Survey Shows Why Projects Fail", June 2012.

http://my.gartner.com/portal/server.pt?open=512&objID=202&&PageID=5553&mode=2&in_hi_userid=2&cached=true&resId=2034616&ref=AnalystProfile

Performance Risk

Even if the deployment process doesn't fail entirely, your problems do not go away.

SaaS suite vendors may be able to provide basic functional capabilities across a wide range of areas, but they can't deliver deep functionality and the latest innovations in specific areas. This means the entire organization, including the CFO and the finance team, must accept something less than the best functionality available and will not be able to take advantage of the latest innovations in each application in the future.

Adopting a suite means that each part of the organization will have to compromise and use the officially-sanctioned solution offered as part of the suite – the accountant can't opt out of using the suite GL for instance.

Limiting choice and providing insufficient tools that lack functional depth leads to employee dissatisfaction and subpar results. Accountants seeking better functionality will create a workaround to get their job done – using spreadsheets and unsanctioned software – and use the functionally-limited accounting system as little as possible. This means you're getting a lower return-on-investment (ROI) from your SaaS suite.

Long-Term Risk

A CFO has to be fully focused on maintaining tight control over their financial management requirements over time. It's essential that systems keep pace with evolving process requirements dictated by changes or growth in the business. Yet, only a limited portion of a SaaS suite vendor's R&D effort is focused on their financial management capabilities when they are trying to satisfy a broad set of operational requirements. A suite vendor has to spread their R&D effort among all the modules of their suite. As a result, there's no guarantee that the finance features of the suite will be enhanced on an ongoing basis to keep pace with the innovations being generated by best-of-breed SaaS vendors.

In fact, a feature gap you experience today will likely grow wider over time without dedicated improvement in the areas of the suite that you need the most – finance and accounting. These functional gaps create long-term risks if the vendor isn't committed to making a significant investment in the financial management aspects of their suite over the long haul. Best-of-breed solution reduce the risk of functional gaps because the vendor is in business to deliver only a finance accounting solution and more likely to make substantial improvements with every release.

Additional long-term risks come from the nature of the suite architecture itself. To make a suite work efficiently, the modules of the suite need to share the same technical infrastructure (database schema, objects, reporting infrastructure). Advances in the suite's features and functionality are dependent on updates and improvements to the shared infrastructure. Therefore, even if a finance module gets updated features, those features are not delivered until the shared resources are updated – a process which can be lengthy because the shared infrastructure changes need to be validated to work with all modules in a suite, not just the accounting or finance solution. This process can further delay the delivery of essential new features for the finance organization.

Ultimately, the lack of total alignment between a suite vendor's R&D priorities and the needs of a finance organization creates a long-term risk that the technology can't keep pace with business requirements.

Avoiding Vendor Lock-In

Suites can often leave the buyer feeling trapped, for a number of reasons. First, in depending so much on a single technology vendor for so many different business applications, buyers lose leverage in price negotiations with the suite vendor.

Betting on a vendor's SaaS suite forces the CFO to make significant financial and resource investments to gain value from the software functionalities. The greater the investment a CFO makes in configuring a SaaS suite to meet their specific needs, the more trapped you become.

Ultimately, the CFO puts their ability to perform their day-to-day responsibilities at risk by being too dependent on a SaaS suite vendor that can't deliver user-friendly solutions and keep pace with customer needs in financial management.

Summary & Conclusions

The choice between best-of-breed software solutions and software suites has been hotly debated for decades.

A best-of-breed approach allows you to choose the best solution for each part of your organization at each stage in your growth. As your business grows and changes over time, a best-of-breed approach gives you the freedom to select the right solution to meet your evolving needs.

While the logic of software suites seems straightforward, the realities of overcoming the complexities and limitations that come with suites can far outweigh their potential value.

A new generation of robust APIs is making it easier to tie together multiple best-of-breed SaaS solutions to match the multidimensional functionality promised by SaaS suite vendors.

Adopting this approach not only gives a CFO access to deeper functional capabilities, it enables the CFO to rollout the functionality more quickly at a lower cost with less risk now and over time.

Given these advantages, it is not surprising that a growing number of successful CFOs are choosing best-of-breed SaaS solutions to meet their escalating business and technology needs.

About THINKstrategies, Inc.

THINKstrategies, Inc. is the only strategic consulting services company focused entirely on helping its clients capitalize on the unprecedented business opportunities created by the technology industry shift from a product-centric to a services-driven orientation and an "on-demand" delivery model, such as Cloud Computing, Software-as-a-Service (SaaS) and Managed Services.

THINKstrategies' mission is to help our clients re-THINK their corporate strategies, refocus their resources and re-align their operations to achieve their business objectives. THINKstrategies helps enterprise decision-makers with their sourcing strategies, IT solutions providers with their marketing strategies, and VCs with their investment strategies.

For more information regarding our unique capabilities, visit www.thinkstrategies.com, or contact us at info@thinkstrategies.com.