

# **FREQUENTLY ASKED QUESTIONS ABOUT CLOUD ERP**

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Many IT industry analysts believe that ERP software stands on the verge of a cataclysmic shift away from on-premise, hosted solutions to solutions hosted in the “cloud.” The hype is alluring: cloud systems are online, subscription-based enterprise solutions that allow organizations to greatly reduce upfront costs and enjoy a greatly simplified implementation process. But, as with any new product, many organizations are hesitant to bite because of concerns including system security and overall information control.

So how is one to decide whether or not to “jump into the cloud”? The key, as Panorama so frequently tells our clients, is to **make sure your attention is focused on your business, not the software**. Most every ERP software offering (and all deployment models) has the ability to at least provide basic functionality for an organization. What makes it the right fit is an entirely different determination, and one that can only be made after comprehensive process-mapping, blueprinting and requirements gathering. No matter how good a system might look on paper, or hyped it might be in the press, if it doesn’t address *your specific needs* then it will be a disaster.

Because Panorama is in the business of helping organizations choose, implement and benefit from ERP systems, we hear questions and concerns about cloud ERP software almost daily. Following are some FAQs we’ve gathered to help you understand the cloud ERP market a bit better.

### **What’s the difference between cloud and software-as-a-service (SaaS)?**

SaaS offerings are typically smaller, niche solutions that are best for organizations with limited complexity, size and global presence. ERP vendors host SaaS applications on their own infrastructures instead of locating the systems on-premise at the purchasing organization. To use a SaaS application, one typically logs into a vendor-controlled website.

Cloud ERP, on the other hand, really means traditional ERP solutions hosted off-site. Its flexibility and scalability are big selling points, as is the capability to access real-time data from anywhere without using complicated and costly remote-access software.

### **What is a “hybrid” cloud option?**

A hybrid option is basically another way of saying cloud ERP. As touched on above, it’s when organizations purchase a traditional Tier I (SAP, Oracle, Microsoft Dynamics) or Tier II (Infor, Epicor, Lawson, etc.) ERP system and have it hosted by a third-party vendor. This can be a “best of both worlds” scenario for some companies as it provides the flexibility of on-premise ERP solutions with the cost and outsourcing benefits of the cloud.

### **Is it really faster and cheaper to deploy cloud-based solutions?**

There’s no question that it’s faster (and cheaper) to implement a cloud-based solution than an on-premise one . . . at least in the short-term. What vendors might not tell you, however, is that an ERP strategy still has to include comprehensive business process

mapping, data cleansing, organizational change management, end-user training and a number of other activities to ensure your organization achieves the highest possible ROI.

The cost structure of cloud ERP also is quite different than on-premise ERP. Rather than paying one lump sum up-front, organizations must pay for yearly subscriptions to their cloud provider. Companies are of two minds about this: on one hand, it's a great way to amortize a large upfront expense over several periods. On the other, if cash is suddenly tight it may be impossible to pay for the subscription going forward (whereas with an on-premise solution, the costs would have already been absorbed). Think of the difference between buying and leasing a car – while scheduled payments can be easier to stomach than a lump sum, buyers who go this route typically end up paying more in the long run.

### **How concerned should I be about security?**

Although cloud outages frequently make the news, the truth is that cloud ERP providers typically provide a more stable environment than internal IT departments. That being said, an organization's data – even when it is “in the cloud” – still has a physical location. And that data has to be shared between the end-user, the server and the database. At any point during transmission, the possibility exists that it might be hacked or compromised. To address that, most cloud ERP vendors encrypt the data, which can work like a charm but can also cause delays and lead to unforeseen upgrade costs.

### **Who are the leaders in the cloud market?**

The cloud market is the place to be right now. Cloud ERP software heavy-hitters include NetSuite, Kinaxis, Plex Systems, Workday and Salesforce. Tier I providers continue to offer on-premise solutions, but are branching out with offerings including SAP's Business ByDesign application, Oracle's Public Cloud and cloud-based hosting for Microsoft Dynamics. As time goes on, it seems fairly certain that all ERP vendors will have to provide the choice of a cloud-based service in order to remain relevant.

### **How do cloud and SaaS solutions stack up against on-premise solutions?**

According to Panorama's **2011 ERP Report**, nearly one out of five companies were using SaaS offerings in 2010 (compared to only six-percent of companies in 2009), 24-percent of companies were using hybrid options and 59-percent were using on-premise ERP. As the cloud market share grew so too did the rate of business benefit realization overall. In 2009, a full two out of three (67-percent) of companies polled indicated they received 50-percent or less of anticipated benefits while in 2010, less than half (48-percent) of the companies indicated the same.

Panorama's **2010 ERP Report** found that SaaS and hybrid solutions were implemented in less time (11.6 months for SaaS vs. 18.4 months for on-premise), at a lower cost (6.2% vs. 6.9% of annual revenue), and at a slightly higher level of executive satisfaction (52.6% vs. 50.0%) than traditional on-premise solutions. However, SaaS implementations were significantly more likely to fail to deliver at least half of the expected business benefits (76.5% vs. 57.1%) than on-premise solutions. In addition, SaaS implementations were significantly more likely to exceed budget than on-premise

initiatives (70.6% vs. 59% for other delivery options).

### **What are the main benefits of cloud ERP?**

While benefits vary depending on the needs of the organization implementing cloud software, they can potentially include:

- Cost savings derived from reduced IT staffs and outsourced data management
- Not having to maintain and secure on-site servers
- Faster implementation times
- Fewer upfront costs

### **What are the main drawbacks of cloud ERP?**

As with benefits, specific drawbacks vary by organization. Potential drawbacks can include:

- Integration between existing processes and cloud ERP applications may be more difficult than integration with on-premise applications
- Surrendering aspects of operational control (e.g., having to wait for system upgrades rather than implementing them on your own schedule)
- Trusting an ERP vendor to safeguard and control access to all of your data and systems
- Less flexibility to change software
- Pricing structures that actually could cost more in the long-run

### **What size company should consider cloud solutions?**

Cloud solutions are appropriate for all sizes of companies, although SMBs have historically made up the majority of the market. Larger companies may find that a hybrid approach (i.e., having some aspects of its system in the cloud and some hosted on-site) give them both the benefits of control and the flexibility of the cloud.

### **What leads to cloud ERP failures?**

Implementing in the cloud does not mean that organizations can take shortcuts. To ensure success, organizations implementing cloud ERP have to be proactive about the same issues as organizations implementing other deployment options (including but not limited to business blueprinting, process-mapping, role definitions, end-user training and organizational change management). There must be formal planning, governance and oversight structures in place and change must be managed from the top-down to ensure end-user buy-in. Challenges may be especially pronounced for organizations implementing cloud ERP as their first ERP system because the change will be so dramatic for employees.

On a side note, it is also advised to carefully negotiate and review service level agreements (SLAs) to ensure that the client and the vendor have the same expectations about their ongoing relationship.

## Conclusion

ERP is a big expenditure and one that is fraught with risk. It's best to talk with the independent ERP experts at Panorama before making the plunge into any software package. Panorama can help cut through the spin and determine which ERP system (and deployment model) best suits the organization you want to become. Because, in the end, it's not about the software – it's about the business. It's about *your* business. Don't lose sight of that. And don't partner with a company or vendor that doesn't respect that.

## About Panorama Consulting Solutions

Panorama Consulting Solutions is an IT consulting firm specializing in the enterprise resource planning (ERP) market for mid- to large-sized organizations around the world. Independent of affiliation, Panorama facilitates the evaluation and selection of ERP software, manages ERP implementation, and expedites all related organizational change to ensure that each of its clients realize the full business benefits of their ERP systems.

More information can be found on its website, [Panorama-Consulting.com](http://Panorama-Consulting.com) and Twitter feed, [Twitter.com/PanoramaERP](https://twitter.com/PanoramaERP).