

Smart. Focused. Done Right.

# Finance Technologies: Buy or Rent

An Overview of SaaS for Finance

December 2013

# Contents

---

- What is SaaS?
- SaaS Benefits and Concerns
- SaaS Maturity for Finance Technologies
- Typical Considerations for SaaS
- When to Consider SaaS

# What is SaaS?

The internet has enabled different delivery models for business software, such as **Software as a Service (SaaS)**. The emergence of this model has led to an important decision for many companies: whether to “buy” on-premise software or “rent” their technologies through a SaaS vendor

- Delivery of business software in the cloud is becoming more prevalent
  - Cloud computing is a general term for the delivery of hosted services over the internet
- The shift to cloud computing has been driven by the following factors:
  - Significant innovations in virtualization and distributed computing
  - Improved access to high-speed internet connections
  - Economic conditions
- SaaS refers to business software that runs in the cloud; applications are hosted by a vendor or service provider and made available over the internet
  - Customers typically pay a subscription fee to access the software versus install and manage it on their own
- There are key differences in software delivery and pricing between SaaS and a traditional on-premise model

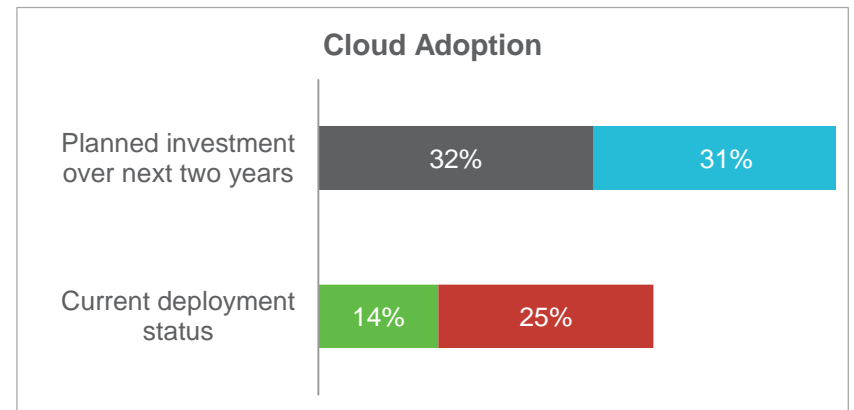
	SaaS	On-Premise
<b>Delivery</b>	<ul style="list-style-type: none"> <li>■ Single software version installed in vendor data center and shared by all customers</li> <li>■ Web-based – browser access to hosted software and data</li> <li>■ Multi-tenant architecture – customer data shared on the same physical servers</li> </ul>	<ul style="list-style-type: none"> <li>■ Customized software installed on company servers</li> <li>■ Data housed on company servers</li> </ul>
<b>Upgrades</b>	<ul style="list-style-type: none"> <li>■ Smaller, more frequent</li> </ul>	<ul style="list-style-type: none"> <li>■ Larger, less frequent</li> </ul>
<b>Pricing</b>	<ul style="list-style-type: none"> <li>■ Subscription pricing structure – volume- or time-based</li> <li>■ Typical implementation = installation, configuration</li> </ul>	<ul style="list-style-type: none"> <li>■ Licensing plus annual maintenance and support</li> <li>■ Hardware to house the application</li> <li>■ Typical implementation = installation, configuration, customization</li> <li>■ Ongoing IT support</li> </ul>

Sources: Information Week, Workday

# What is SaaS? (Cont'd)

## Current trends indicate that the SaaS delivery model will continue to grow

- Industry research indicates growth in SaaS will be strong in the near future
  - According to Gartner, SaaS revenue in North America is projected to reach \$12.9 billion in 2015, from \$6.5 billion in 2010
  - Forrester Research forecasts that SaaS offerings will increase from 7% of total software revenues in 2010 to 17% in 2013
- The top SaaS applications that will drive this growth include:
  - Customer relations management (sales, marketing automation, customer service/support)
  - Human resources management
  - Supply chain management (sourcing, procurement, warehouse management)
- Primary drivers of the increase in SaaS adoption include ease of deployment, decreasing cost of bandwidth, avoided up-front costs, and the success of technologies such as Salesforce.com and WebEx
- Small and midsize firms were earlier adopters of SaaS solutions; however, SaaS technologies have matured in recent years and now can be a fit for large companies
- A hybrid model, which provides an alternative to a pure cloud environment, may help increase adoption of SaaS
  - A hybrid cloud is an environment where some resources are provided and managed in-house, while others are provided externally
  - This model may be attractive for organizations looking to mitigate current or potential challenges related to application fit, integration, and security



Sources: Gartner, Forrester, IBM, ERPSoftwareBlog, searchcloudcomputing.com

# SaaS Benefits and Concerns

Below are the expected benefits and common concerns cited by companies who have either implemented or considered implementing a SaaS solution.

Benefits	Concerns
<ul style="list-style-type: none"><li>■ Lower initial cost – avoidance of up-front expenses for software, infrastructure, and installation<ul style="list-style-type: none"><li>• The implementation costs of SaaS solutions are routinely half or less of an on-premise solution</li></ul></li><li>■ Shorter implementation time – because the software is already installed and operating in a data center, SaaS can typically be configured and deployed more quickly</li><li>■ Scalability – usage and applications can be easily adjusted up or down based on business requirements</li><li>■ Strong data security – this is a common concern, yet SaaS vendors are subjected to audits (e.g., SAS 70, Part II*) to ensure their compliance with strict security standards</li><li>■ Ease of upgrading – software upgrades are included in the service and managed by the SaaS provider; customers are not required to download or install any patches</li><li>■ Identification of best practices – almost all SaaS customers are running the newest software release, which enables sharing of best practices</li><li>■ Business continuity – in case of an emergency, SaaS allows applications to be available again much faster</li></ul>	<ul style="list-style-type: none"><li>■ Security and confidentiality – storage of sensitive data online (or third-party servers) may be an issue for functions such as accounting</li><li>■ Risk of data loss – there is a potential to lose valuable data if the vendor goes out of business</li><li>■ Lack of SaaS versions – some organizations have very industry-specific business requirements for which SaaS solutions do not exist</li><li>■ Less robust functionality – in some cases, SaaS applications may not be as powerful as on-premise versions</li><li>■ Dependence on high-speed internet – a SaaS solution may not be feasible in locations with poor infrastructure and unreliable connectivity</li></ul> <p data-bbox="1102 1242 1869 1307"><small>* Statement on Auditing Standards (SAS) 70 Type II – audit developed by the American Institute of Certified Public Accountants (AICPA) used to determine if a service organization has adequate controls for hosting or processing information</small></p>

**While there are legitimate concerns that must be considered, companies that have implemented SaaS typically find that the benefits outweigh any potential issues. Also, technology advances and increasing familiarity are mitigating these concerns**

# SaaS Maturity for Finance Technologies

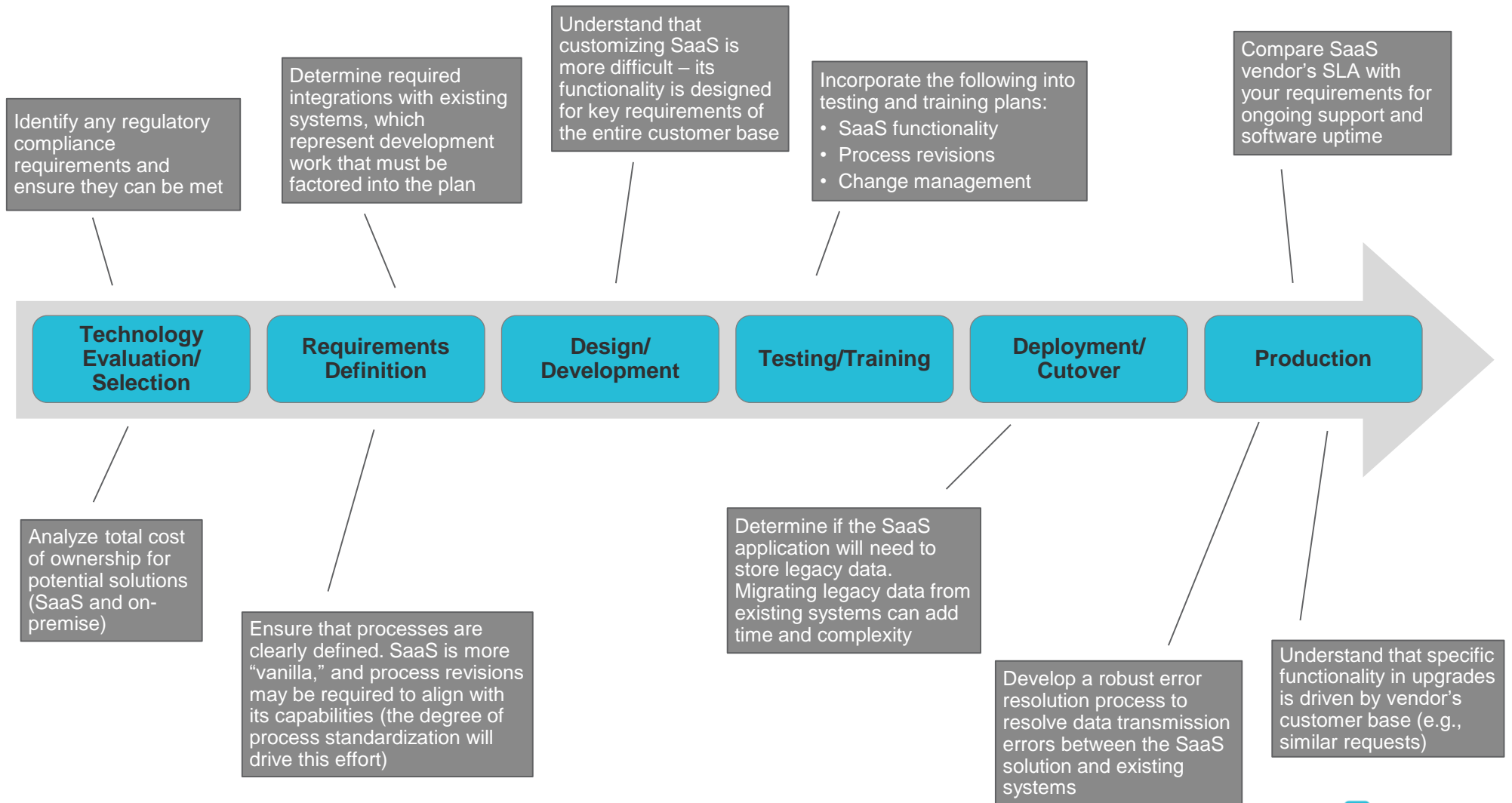
An overview of SaaS maturity for three categories of finance technologies is below:

Category	Findings	Summary Assessment
<b>Enterprise Resource Planning (ERP)</b>	<ul style="list-style-type: none"> <li>■ The Small and Medium Business (SMB) segment is driving a majority of cloud ERP market growth</li> <li>■ Traditional on-premise ERP providers have begun to offer SaaS solutions as a response to dedicated SaaS vendors</li> <li>■ Concerns related to security and information control remain the most significant barriers to adoption, especially among larger companies</li> <li>■ Other issues include:                             <ul style="list-style-type: none"> <li>• Integrating SaaS applications with existing systems and processes is challenging</li> <li>• SaaS application offer less flexibility to customize software</li> </ul> </li> <li>■ Hybrid models may allow companies to realize the benefits of both SaaS and on-premise solutions</li> </ul>	<ul style="list-style-type: none"> <li>■ Many industry observers believe this market will shift eventually to SaaS</li> <li>■ For larger companies, a hybrid approach may serve as a sort of “compromise” or transition between the two models</li> </ul>
<b>Function/Organization Level (e.g., AP, AR, collections)</b>	<ul style="list-style-type: none"> <li>■ SaaS vendors have targeted mid-market firms that want to improve cash flow and decrease costs but cannot make the required investments in technology</li> <li>■ Other common realized benefits include greater scalability and improved data visibility</li> <li>■ Solutions often provide capabilities that are lacking in existing ERPs</li> <li>■ Top concerns are connectivity, downtime, and integrations between systems</li> </ul>	<ul style="list-style-type: none"> <li>■ SaaS is a mature technology with proven benefits and is often preferable to on-premise software</li> </ul>
<b>Business Intelligence and Reporting</b>	<ul style="list-style-type: none"> <li>■ The proliferation of information (“big data”) is driving companies to consider cloud solutions that store, filter, and refine data                             <ul style="list-style-type: none"> <li>• SMB segment is driving adoption due to lower total cost of ownership and faster deployment</li> </ul> </li> <li>■ Ease of use (the top priority for companies) is benefitting from advancements in graphical user interfaces</li> <li>■ In the near term, many IT organizations will maintain multiple BI environments to maximize flexibility and mitigate concerns about data quality and accessibility</li> </ul>	<ul style="list-style-type: none"> <li>■ Maturity of cloud technology continues to grow, but the market is unclear about the benefits</li> <li>■ Perception is that SaaS is a lower-cost and easier-to-deploy technology, but this has yet to be fully proven</li> </ul>

Sources: Panorama, CIO.com, MSPMentor, Gartner, Information Management

# Typical Considerations for SaaS

Below are typical considerations for a SaaS solution mapped to different phases of a technology evaluation and implementation.



# When to Consider SaaS

---

Many companies have learned that SaaS has clear advantages over an on-premise solution. The following are the most important criteria for evaluating a SaaS solution:

- Functional Requirements** Determine whether the SaaS solution can meet your key functional requirements (as with any other software selection)
  - Prioritizing your requirements is key, as customizing a SaaS application is more difficult than on-premise software
- Cost** Confirm that the total cost of ownership is favorable (relative to an on-premise option) by analyzing up-front and on-going costs
- Legal/Compliance Issues** Confirm that your organization has no significant legal or compliance issues that would restrict storing data in the cloud
  - The SaaS provider should have experience supporting other customers with legal and compliance requirements similar to your organization's
- Availability and Response Time** Understand your business needs for application availability and response time, then compare to what the SaaS provider can guarantee
  - Availability and response time depend on the quality of the internet connection, stability of the provider's system, and your network
- Data Security** Ensure that your security requirements (e.g., encryption of application data, access controls for authenticating users) are met or exceeded
  - Typically, SaaS providers must comply with strict security standards that exceed those of their customers

**A SaaS solution makes sense if the above criteria are met**



# Contact Us

---

**T. L. “Trey” Robinson, III**

Partner

ScottMadden, Inc.  
2626 Glenwood Avenue  
Suite 480  
Raleigh, NC 27608  
treYROBINSON@scottmadden.com  
O: 919-781-4191 M: 919-522-1740



**Smart. Focused. Done Right.**

**Jason G. Davis**

Director

ScottMadden, Inc.  
3495 Piedmont Road  
Building 10, Suite 805  
Atlanta, GA 30305  
jgdavis@scottmadden.com  
O: 404-814-0020 M: 678-361-5420



**Smart. Focused. Done Right.**