

Are you paying too much for ERP? How Software as a Service changes the game



White Papers

Are You Paying Too Much for ERP?

How Software-as-a-Service Changes the Game

Presented by NetSuite



Introduction

Many companies now find themselves in an unworkable situation with their business software.

They are paying an expensive bill for Enterprise Resource Planning (ERP) year in and year out. But instead of an asset that increases productivity and efficiency, ERP applications have become a liability that require too much ongoing cost and complexity to run, which offsets much of the value being delivered. ERP is not the only software that falls into this category; many other traditional business applications have become significant overheads for the business as well.

This situation is all too familiar and reveals itself in the following ways:

- Companies resent paying a high bill for software maintenance with little to show for it
- Innovation is stifled because any attempt to add capabilities or integrate the applications requires expensive consulting
- The costs of running private data centers and maintaining the skills to operate the software continue to rise
- Only a portion of the software is being utilised
- Upgrades are avoided because of the risk of disruption to operations and the large consulting and migration expense
- Information is trapped in applications silos, hampering analysis and decision making

Despite their hefty price tag, ERP systems do little to differentiate a business or make it more competitive. Meanwhile, companies face greater pressure to reduce costs and find new paths to revenue.

Seemingly without other options, business executives pour money into IT initiatives, but often don't understand what they are paying for. They ask, why did that \$1 million IT project turn out to be so much more expensive?

Why is it still so hard to get a report? Why is it still taking us so long to close the books? Why is it so hard to launch a new product line or division? And why can't we get consolidated financial information? Wasn't that the whole point of ERP? Indeed it was.

Only 4% of IT leaders believe their ERP systems create competitive advantage, according to a 2008 survey published in CIO magazine.

Nobody intended the effort and expense to implement ERP to end up hurting their business. But that unfortunately is the situation in which too many companies find themselves. The initial benefits from implementing ERP have become commoditised. The defects of ERP have transformed from annoyances to damaging obstacles.

In other words, if most executives were asked, "Are you paying too much for ERP?" they would quickly say yes. Yes, the cost is too high. Yes, the limitations are too severe.

The question is: How can investment in ERP create value today? Many companies are reconsidering how to transform their investments in ERP from a sunk cost to a foundation for innovation. Businesses have learned important lessons about what they really need from ERP. The coming of age of the Software as a Service (SaaS) model and the expanding possibilities of cloud computing has opened an important opportunity for businesses.

Only 4% of IT leaders believe their ERP systems create competitive advantage, according to a 2008 survey



This paper, the first in a two part series will discuss how initial gains made by implementing ERP were overtaken by weaknesses both in the software and in the supporting business relationships. Later it will explain how SaaS-based enterprise software overcomes these problems.

The second paper Why Businesses Run Better with NetSuite will provide a series of business case studies that demonstrate the value that the SaaS model and NetSuite's cloud business management suite has delivered. It will provide insights into a better way to run your business—and how to take the first steps to migrate your business applications to SaaS and the cloud.

According to a CFO Research Services study of 157 senior finance executives, the average company spends \$1.2 million each year to maintain, modify, and update their ERP systems.

The Road to Unreasonable ERP Costs

The road to excessive ERP costs was paved with good intentions. The shortcomings of ERP were not caused by bad decision-making. On the contrary, companies often made the right decisions at a time with no alternatives to the on-premise model. It is also easy to unfairly demonise and ignore the true gains that were achieved. But, most companies are now facing difficult decisions because the gains have been overtaken by the problems outlined in this section. These problems are not historical artifacts; almost all are present in modern ERP implementations. Companies did not pay too much for ERP 10 years ago—they are paying too much now.

Goals and Achievements of ERP

Companies embraced ERP solutions in the 1990s in a drive to boost efficiency and automation and because of concerns about Y2K. Companies added more powerful ERP systems to replace niche solutions, mainframe software, spreadsheets, and other homegrown systems. Without question, ERP brought many advantages, including:

- Automation of manual processes
- Standardised data entry and tracking of financial information
- Standardised processes for inventory management, manufacturing, distribution, and sales
- Automated creation of financial and management reports
- Replacement of systems with possible Y2K problems
- Replacement of homegrown systems with limited functionality
- Customised automation of high-value business processes

One benefit of ERP that drove many implementations was the ability to close the books in days instead of weeks. The standardised data entry and reporting also provided a consistent view of business operations. While in some cases ERP customisations were valuable, many successful implementations rejected any changes and instead adapted their business processes to those embedded in ERP software. In this way, ERP became a way to normalise business operations.



ERP When First Implemented Provided a Set of Benefits that Were in Proportion to the Costs Incurred

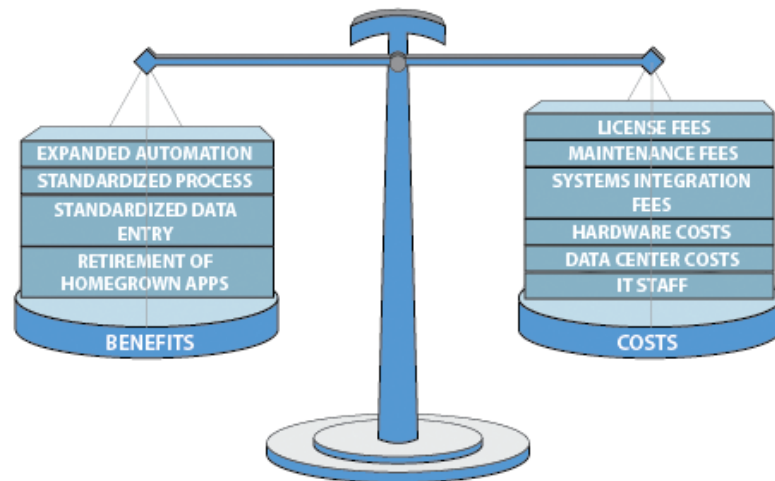


Figure 1. ERP Benefits Were Balanced with Costs

According to CIO magazine, the average cost for an SAP install runs nearly \$17 million, with Oracle at an average of \$12.6 million and Microsoft at \$2.6 million.

Tier II ERP providers average \$3.5 million.

High, Hidden Costs and Misaligned Incentives

Even before implementations were complete, problems appeared, mostly due to systems integration costs running far over budget.

According to a recent article in CIO magazine, ERP projects have only a 7% chance of being completed on time. Most overrun their cost estimates. ERP has consistently remained among the top IT spending priorities at large corporations. According to Forrester Research, ERP spending grows by 6.9% annually and is projected to exceed \$50 billion by 2012.

Systems Integration Overruns

Systems integrations costs, which are generally 4 or more times software license cost, ran out of control for several reasons:

- In many cases, ERP represented first time automation of processes. Introducing automation through software was more difficult than originally thought
- Many customisations were done without a sound justification or understanding of requirements
- Systems integrators did not share the risks. Contracts carried no penalties if they went over scope. As a result, cost overruns were common.



A data center, for instance, requires a certain number of specialties, such as database administrators, network professionals, and security people—but rarely keeps them occupied full-time.

Shelfware

An additional problem occurred when software was purchased and implemented, but never used, becoming “shelfware.” Without fully understanding their needs, companies bought into their vendor’s vision. In many cases, companies pushed enterprise-class software on smaller divisions. As a result, companies wound up with software with huge functional footprints but relatively little use. According to one article in CIO magazine, the chances that enterprise employees will actually use an application are barely better than 50%¹.

For example, they might use SAP for activities like financials and order management but ignore the rest. Despite the fact that “shelfware” sits untouched, customers still pay the full cost of purchase and maintenance.

Total Costs Hidden and Hard to Calculate

In addition, many ERP costs are hidden. Often, companies do not have a clear picture of spending because bills are split up among many components, including VARs, software vendors, and installers.

ERP also includes many ongoing costs that are not so obvious at the outset: licensing, implementation, customisation, annual maintenance, and upgrade costs.

The biggest bills often do not appear on an invoice in the payroll for staff required to manage ERP. A data center, for instance, requires a certain number of specialties, such as database administrators, network professionals, and security people—but rarely keeps them occupied full-time.

On-premise data centers also house an abundance of hardware. Companies need the infrastructure to handle peak loads and provide redundancy, but end up maintaining machines that are rarely used.

Application Proliferation and Fragmented Data

Much of the original appeal of ERP rested on the creation of a single database to synchronise business operations. But the idea of one master repository for business information was short-lived. Riding on the success of ERP, an alphabet soup of software categories emerged, including CRM, SCM, HRM, and PLM. Each application came with its own database, which overlapped with and replicated the ERP repository.

Companies faced a choice between “best of breed” applications for specific functions versus comprehensive suites. Eventually, clients wanted a single vendor to hold accountable—sometimes summed up as “one throat to choke”—and sequentially, on-premise ERP vendors like SAP and Oracle came to dominate the market.

The end result: Companies are paying too much for ERP and other business software that has followed the same pattern of inflated costs and obstructed efficiencies. They have wound up with bloated information technology budgets, too many employees, too many consultants, too many machines, and too many applications. This is the state of most ERP implementations today.

¹See “Why ERP Is Still So Hard,” By Thomas Wailgum, CIO, Sept. 9, 2009



As ERP Became Widely Implemented, the Value of Benefits Dropped but Costs Continued to Rise

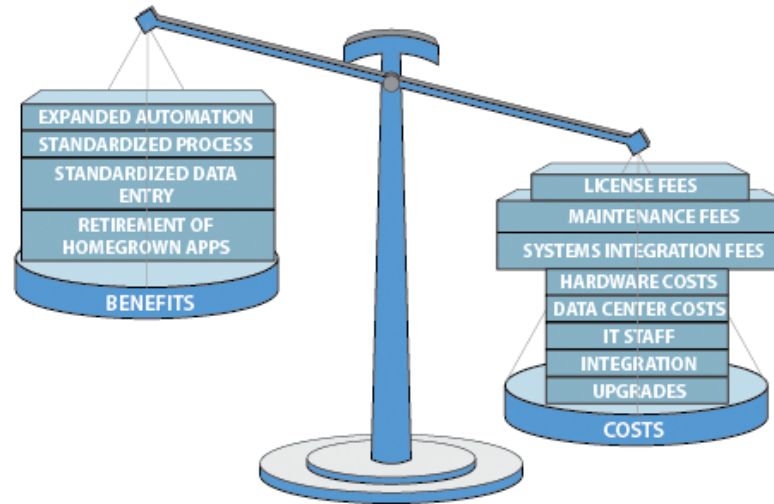


Figure 2. ERP Costs Start to Outweigh Benefits

The Maintenance Outrage

The continuing cost of maintenance has been an especially thorny issue. Oracle charges 22% maintenance and support fees a huge contributor to Oracle's high operating margins. SAP recently tried to hike its maintenance to 22% but received such stiff resistance from its customers that it had to back down. Regardless, the fact is that maintenance is a highly profitable source of revenue for vendors who are able to treat their customers like a captive audience.

Customers are looking for other options. According to press reports, Siemens, one of the world's largest users of SAP, recently canceled its maintenance contract. Siemens also signed a 420,000-user agreement to use a SaaS service for HR functions in 80 countries. This move is particularly significant because Siemens also sells services for SAP software. The on-premise ERP model is losing its appeal even for a company with a strong vested interest.

ERP Straightjackets

As the Figure 2 shows, the benefits of ERP were overtaken by high costs, but, direct costs are just part of the story. Perhaps a bigger problem is the straightjacket that ERP represents for most companies. ERP has become another word for a stifling force that retards progress because moving from version to version is so difficult, expensive, and potentially disruptive to operations.

This straightjacket comes in five forms. The most problematic is difficulty of upgrades.



Straightjacket 1: Traumatic and Expensive Upgrades

Upgrading has become so burdensome that many companies choose to ignore or delay it, particularly given budget pressures in the recent recession. According to research from the Aberdeen Group, some 31% of companies are one release behind, 13% are two releases behind, and another 13% lag three or more behind. As one Aberdeen researcher wrote, "The 26% of midsize companies that operate two or more releases behind run the highest risk of falling behind in terms of innovation, but, even those on the latest release of a product based on old and outdated technology are at risk as well."

As we explore in greater detail later in this paper, the fact that the vendor takes all responsibility for upgrades is one of the most treasured benefits of SaaS.²

Straightjacket 2: Limited User Empowerment

The second barrier to change is the difficulty of adapting ERP to the needs of specific users. While SaaS had a generation of consumer software to learn from, the on-premise vendors did not have the benefit of such learning and the software shows it. User empowerment has always been promised from on-premise software, but not delivered.

As a result, users cannot configure ERP to meet their needs, as they do with spreadsheets and other consumer apps. Adding a field, something that even beginners can do in most SaaS, is a major IT project involving many experts and, most often, consulting fees for development and test cycles.

The difficulty of making ERP software work better has become so great that at most installations people don't suggest improvements unless the payoff is potentially huge.

Straightjacket 3: Lack of Deployment Flexibility

The third straightjacket is the difficulty of deploying on-premise software where it is needed most. Despite the pain and expense, on-premise ERP hasn't kept up with the demands of delivering computing and applications wherever needed. Midsize enterprises now operate more distributed and global operations. As they scale over multiple locations and borders, the business complexities grow exponentially. Companies grow, launch new business lines, shed old ones, add partners, decentralise back office functions, and outsource. They increasingly seek talent across wide geographical areas and have virtual teams working remotely.

Employees demand flexibility to work from home or on the road. While SaaS can be used anywhere through a browser and an Internet connection, extending the use of on-premise ERP is often a much more complicated process. Deploying ERP widely often involves serious security risks because, unlike SaaS products, the software was not created from day one to exist on the public Internet.

Straightjacket 4: Costly and Disruptive Downtime

When on-premise ERP systems crash, the company may go offline for hours or days. These shutdowns can be very costly; in a manufacturing environment, they could bring production to a halt. The firm Precise recently surveyed 700 IT and business professionals and found that 90% of SAP customers have a performance problem at least once a month and more than half had three or more incidents a month. According to the survey, 80% indicated that these problems impacted their business and 39% said they had ongoing, unresolved problems with SAP performance.

²Quoted in Thomas Wailgum, "Midmarket ERP Customers Declining Upgrades, Finding New Risks," CIO magazine, September 11, 2009.

The Aberdeen Group surveyed 313 midsize companies and found that only 28% were using the latest ERP release.



Upgrading and customising ERP systems has become like painting the Golden Gate Bridge: as soon as you get to the end, it is time to go back and repeat the cycle.

Straitjacket 5: Less-than-Optimal Security

Few companies have data security as a core expertise. According to the Ponemon Institute and security company Imperva, only a third of smaller companies have implemented the Payment Card Industry's (PCI) Data Security Standard, introduced in 2005 by major credit card companies. In a survey of 560 US and multinational organisations, 79% reported a data breach involving loss or theft of credit card information, and 60% said they lacked resources to comply with the PCI standard and protect consumer information. Most companies simply lack the resources and expertise to maintain state-of-the-art security.

Where We Are Now

These problems still exist for most ERP implementations. Some companies have long relied on enterprise systems that require extensive customisation, maintenance, and upgrades. Some companies have not kept up with new releases. Inevitably, support contracts expire and customers face upgrading and reimplementing new versions across the company. The towering expense of standing still squeezes out other important IT projects and business initiatives.

Some companies are burdened with multiple ERP systems, often as a result of M&A. Some systems are outdated or homegrown. Many companies are choking on a "software hairball" — an ERP system tangled with a heterogeneous mix of software that does not easily work together. Some companies tried to patch together systems by adding software, which only exacerbates problems of cost, complexity, and integration.

This gloomy picture has one silver lining: using on-premise ERP and other applications has given companies a better understanding of their own business processes. Companies know what they want and are better at using software for automation. A large measure of frustration stems from the fact that their ERP systems do not allow them to put this understanding to good use. Now, however, a new generation of SaaS-based business software for ERP and other applications offers a better solution.

The SaaS Opportunity

Too often, the analysis of the benefits of SaaS is based on a discussion of technology alone. While it is true that the SaaS model represents a revolution in how applications are delivered, the technical architecture is really a secondary benefit. The biggest gains of SaaS come from the new division of labor between the SaaS vendor and the client company.

SaaS relieves much of the pain of the on-premise ERP model by changing the incentives in the relationship between client and software vendor, by shifting responsibilities from client to vendor, and by delivering better software improved from a decade of learning.

Because risk is shared between vendor and client, upgrades are performed by the vendor and users can easily adapt the software to their needs. SaaS has moved from the realm of early adopters and become mainstream.



The SaaS opportunity is particularly appealing in the lean times following the economic meltdown of 2008.

According to Gartner Research, SaaS applications will grow at nearly five times the rate of the total market through 2013. And one recent survey from IDC found that nearly 45% of US firms will devote at least a quarter of their IT budgets to SaaS applications in 2010 - this percentage has doubled in only two years.

But just because SaaS is transforming business software doesn't mean it is right for every business. To determine if SaaS will work for a particular business, it is important to understand the specifics of how it works and how it reshapes the way business software is delivered. This section explains how the fundamental changes in the SaaS model are proving truly beneficial to businesses.

The next section shows how NetSuite extends the SaaS model in a variety of ways to enhance its appeal and transform business software from a liability to an asset.

SaaS Basics

SaaS combines technology innovation with a new division of labor.

The growth of SaaS is spurred by another important technological trend: cloud computing. Simply put, cloud computing uses the Internet to provide infrastructure as a service. Another variation of this model provides software development platforms as a service, which, in turn, enables applications to be delivered as a service.

The big idea of cloud computing is that it doesn't matter where the actual servers, software, or other resources are, as long as you have an Internet connection. Users can access a software application remotely via standard browser technology without having to maintain the hardware they are using.

The new division of labor means that the vendor takes responsibility for servers, backup, software, operating systems, databases, updates, migration, power and cooling, facility space, and staffing costs. The vendor can spread the cost over the entire customer base because all use the same version of software. This approach yields substantial economies of scale and expertise and reduces the total cost of ownership.

The IT burden shifts from company to vendor as shown in Figure 3. This stands in stark contrast to the ERP model in which companies must maintain expensive data centers, buy software packages that they may or may not use, and lock into expensive service contracts. With SaaS, customers can quickly ramp up or down as business demands and pay only for what they use.

But it is important to distinguish between a true SaaS platform—which provides both infrastructure and software—and mere hosting. A hosted legacy application is a halfway step: it outsources the hardware but still maintains the same old ERP package. The only difference is that this ERP is running on somebody else's data center. For example, SAP offers to host SAP R/3 and SAP ERP 2006. SAP recently reached deals to hand over its external hosting business and customers to providers like T-Systems and SunGard Availability Services. Hosting is a way for some legacy providers to try to claim a piece of the SaaS action, but it does not provide the full benefits of a true SaaS package. The customer still bears the full costs of maintenance and upgrades.



In contrast, true SaaS applications provide both hardware and software. The customer does not have to worry about infrastructure, maintenance, or upgrades. SaaS providers rely on modern web-based architecture and can more easily monitor usage, roll out upgrades, and allow customisation. These packages can be more cost effective because multi-tenancy brings economies of scale—and these savings can be passed back to the customer.

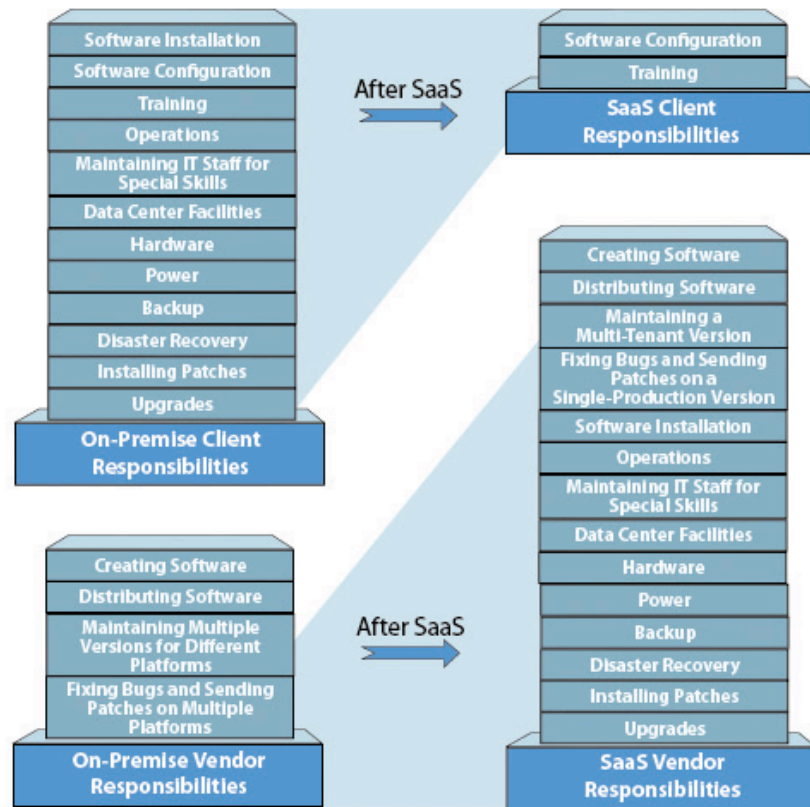


Figure 3. The Transfer of Responsibilities in the SaaS Model

Multitenant Architecture

There is one major difference in the architecture of SaaS and on-premise software. SaaS vendors, especially those who have thousands of clients, use a multitenant architecture, in which many businesses share the same software and data center.

Because many tenants share the same architecture, the vendor is able to achieve greater economies of scale and offer lower rates. In a single-tenant environment, every new stack must be individually provisioned, managed, and scaled. As the application load grows, the provider has to spend more time and money adding infrastructure and less on delivering new applications. In a multitenant environment, costs decrease as usage grows, allowing the service provider to invest in innovation and customer success.

Multitenancy allows providers to more efficiently create environments for development, testing, staging, training, and production. Independent software vendors can more easily monitor usage and fine-tune their applications.

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SaaS Benefits

With the basics of SaaS in mind, it is possible to understand both the technology benefits and the way that the relationships between client and vendor are transformed. The following list of benefits illustrates the massive shift in responsibilities so that the division of labor between vendor and client is more harmonious and removes distractions.

Table 1. SaaS Benefits

Shared Risk of Success	The vendor assumes more responsibility for success of the implementation and ongoing use of the software
Automatic Upgrades	The vendor takes full responsibility for upgrades
Ease of Deployment	The software can be accessed from any computer with a browser
Flexible Licensing Eliminates Shelfware	Per user subscription licensing can be adjusted annually
User Empowerment to Adapt Software	SaaS is easy to configure allowing users to adapt the software to their needs
Transformed Economics	The SaaS model changes software from a capital to an operational expense and eliminates maintenance fees
Centralised Expertise	Special skills are maintained by the vendor in a centralised pool that is shared by all clients
Accelerated Innovation	Because only one production version must be maintained and all usage information is available to developers, innovation is accelerated
Accelerated Innovation	Total energy costs are reduced through efficient sharing of centralized servers and data centers

Let's examine some of these advantages in more detail.

Shared Risks of Success

The biggest change in the SaaS model is related to incentives. SaaS vendors share the risk of success with their clients for several reasons.

- In on-premise installations, most of the money is transferred up front, before the implementation is successfully completed. This creates the wrong incentive because it makes the vendor less motivated to follow through and ensure customer success. In contrast, in most SaaS installations, the subscription fee is not due until the software is up and running. Systems integration fees are a small fraction of SaaS implementation costs. The SaaS provider and the customer share the same motivation: to get the system working as soon as possible.
- The SaaS model is based on a continuing stream of subscription revenue. To succeed, SaaS vendors need customers to renew year after year. Continuing satisfaction must be achieved for a SaaS vendor to thrive.



- Switching from one SaaS vendor to another is much easier than with on-premise software. The sunk costs for the data center and for training specialised staff are much lower. The lower barrier to switching means that SaaS vendors must be vigilant about keeping customers satisfied.

The net effect is a much more cooperative relationship between SaaS vendors and customers. The latent resentment between on-premise vendors and their customers is seldom seen. As Figure 4 shows, the SaaS model restores the balance between the costs and benefits of ERP.

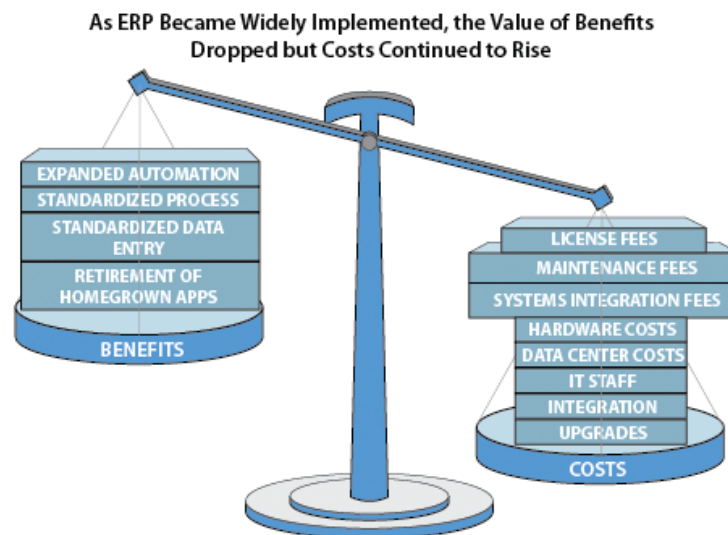


Figure 4. SaaS Restores Cost-Benefit Balance

Automatic Upgrades

One of the most popular benefits of SaaS is the shift in responsibility for upgrades. In the on-premise world, the expenses and execution of upgrades are the responsibility of the client. Sometimes upgrades are forced when on-premise vendors threaten to pull support if clients stay on older versions. These upgrades carry great risk for the client, including significant downtime and huge costs. Indeed, some upgrades like SAP R/3 to SAP Business Suite are essentially a full reimplementation and may cost millions of dollars. In the SaaS model, upgrades are handled by the vendor and included as part of the basic fee. Companies no longer have to plan and budget for expensive, disruptive transitions. They happen automatically without disruption. New features that become available can be adopted at the option of the client.

Ease of Deployment

Companies are increasingly doing business using widely distributed teams of people. Divisions, partners, and suppliers are spread across the globe. Based on the instant accessibility of a browser, SaaS quickly knits these far-flung participants into an integrated whole. A browser-based application can be accessed from anywhere— remote office, home, or on the road. Divisions, departments, franchisees, and partners all have easy access to what they need. Data entry can be pushed out to the people who can do the best job and data access is available to those who need it most.



Flexible Licensing Eliminates Shelfware

The SaaS model allows companies to adjust the number of licenses based on the demands of their business. SaaS is usually licensed on an annual basis and each year the number of licenses can be adjusted up or down. On-premise ERP systems lack this flexibility. Suppose your company purchased 175 user licenses for SAP, and later needs fewer because the division has been reduced. A company can downsize its workforce but not its on-premise ERP system.

User Empowerment to Adapt Software

Perhaps the most popular benefit of the SaaS model for users is ease of configuration. The designers were inspired by successful consumer software. SaaS cannot succeed unless it is adaptable in a way that is easily maintained. As a result, SaaS is more user-friendly and can be adapted by customers, who can easily add a new field. This stands in sharp contrast to ERP systems, whose configuration must be handled by experts at a high cost.

Transformed Economics

The SaaS model makes profound changes in the economic relationship between vendor and client:

- The SaaS model transforms software from a capital expense to an operational expense. Clients pay as they go and pay for what they use
- Upfront costs are dramatically reduced. This reduction of capital expenditures is especially valuable in the current turbulent economy. Clients no longer need to muster huge investments for hardware, software, and systems integration to get started. One study by Hurwitz & Associates compared on-premise installation of Microsoft Dynamics GP and CRM with NetSuite's SaaS solution. For a 100-user enterprise, the Microsoft solution required \$637,000 in infrastructure over four years while the NetSuite's SaaS model required virtually none
- SaaS reduces total expenses by transferring capital costs for hardware and operational costs for data centers to the vendors. Clients no longer buy and maintain computing machinery to handle peak loads and provide redundancy and backup
- The SaaS model also allows companies to flatten staffs, bringing savings in payroll. Instead of retaining and underutilising expert staff for database administration and storage systems, companies can put money and people where they are most effective.

Centralised Expertise

With SaaS, vendors maintain a centralised operational brain trust with far more expertise than the typical in-house IT staff. Clients always have the best experts at their disposal—all as part of the basic subscription. This shows up in a variety of ways:

- The SaaS vendor has centralised expertise that most on-premise companies can only dream about.

The SaaS vendor can retain A-list talent for specialties such as backup administrators and systems administrators—specialties that are essential but too expensive for the average enterprise

- Because running a data center is a core competence, SaaS providers maintain better uptime than most in-house server rooms. With on-premise software, when problems arise, internal IT staff may or may not know how to fix them
- One area where core competence is vital is data security. Data often is safer with a cloud provider than when stored on an enterprise's own systems. SaaS vendors pay close attention to data security, with key certifications such as PCI DSS, EU-Safe Harbor, and SAS 70 Type II (these certifications will be discussed in greater detail below). For many in-house deployments, this level of data security carries a significant cost and may require significant upgrades of internal systems. As a result, it is often simply not done.



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Accelerated Innovation

In the SaaS model, only one version of software is maintained in production. All development and innovation resources are focused on maintaining that version and adding features to the next version, which accelerates innovation. In the on-premise model, development and engineering resources are spread across all versions that are maintained for each computing platform. In a multitenant SaaS model, the vendor can see usage patterns among many customers. Developers and designers can see which capabilities customers are using and how they are using them and focus on improving what customers need. If a problem or weakness is found, it can be fixed once for everyone.

Simpler Integration

Integration of SaaS is much simpler because only one version of the software is in production. A wide variety of vendors have made SaaS integration a focus, including CastIron, Pervasive, and Boomi. For NetSuite, connectors allow data to move back and forth between NetSuite and all of the major business software packages.

Greener IT

The SaaS model encourages energy efficiency and more environmentally friendly computing. IT is a major consumer of power, especially for enterprises that operate their own server rooms. According to Oliver Wyman Consulting, the energy bill can consume up to 30% of the IT budget. In 2007, the EPA estimated that, if then-current trends continued, data center energy consumption would nearly double to more than 100 billion kWh per year by 2011.

According to McKinsey & Co., the data center is the number one source of greenhouse gas emissions for most service industries. The problem is especially acute for companies that maintain infrastructure for peak loads that far exceed their average usage. Indeed, the study cited the example of a media company where two-thirds of the servers had utilisation rates below 10% and one-third had rates below 3%.

Companies can reduce their energy use and carbon footprint by opting for SaaS. They also can reduce e-waste from disposal of servers, batteries, and backup media. As the McKinsey study concluded, "the greenest datacenter is the one that you don't have to build."

The Bottom Line: SaaS Cost Savings

While SaaS has many benefits-and NetSuite adds even more-the biggest driver is cost savings. While most observers and adopters acknowledge that significant savings are usually obtained, quantifying them entails understanding the total costs you are paying for ERP and the costs you will incur under the SaaS model.

How Do You Calculate Your All-In Costs for ERP?

One of the first steps to is to calculate all your ERP costs. These costs go far beyond just maintenance and include many line items that are not immediately obvious. These costs might include:

- Data center, including hardware costs
- Consulting and VAR fees
- Staff
- Downtime from service outages
- Excess user licenses



At first glance, the difference between a SaaS subscription and ERP maintenance may not seem dramatic. But, license fees and maintenance costs are just the tip of the ERP iceberg. Looking at all the hidden costs of ERP makes the case for a subscription model much more compelling. With NetSuite, all costs are apparent. All business applications are rolled up into one bill. Costs remain level from year to year.

One study by Nucleus Research found that NetSuite customers could reap a positive ROI within nine months. Customers compared NetSuite with traditional on-premise ERP systems such as Microsoft Dynamics, Oracle E-Business Suite, and SAP. These companies estimated that on-premise ERP would have cost up to ten times as much for initial licenses and implementation consulting.

Moving to NetSuite yielded substantial savings. In one case, a customer moved from Microsoft Dynamics GP to NetSuite and eliminated a \$55,000 IT staff position, \$20,000 in annual license maintenance, and three servers. The NetSuite licenses averaged \$5,000 annually for this company. This tradeoff resulted in a net savings of \$71,000.

The Nucleus Research study also found that:

- The typical company deploying NetSuite increased sales productivity by 12.5%
- Companies can expect to improve productivity by up to 20%
- Customers migrating from un-integrated legacy and custom accounting systems can accelerate financial close times by 20% with NetSuite. Some customers accelerated time to close by nearly 50%.

NetSuite and Nucleus Research developed an ROI calculator that allows companies to enter information about their hardware, software, personnel, consulting, and training expenditures, making it easy to build a business case for shifting to NetSuite.

Hard Numbers about SaaS Savings

The second task in understanding SaaS savings is creating a side-by-side comparison. As the following analysis shows, NetSuite brings significant savings and frequently allows customers to cut ERP bills in half-while simultaneously providing additional capabilities.

Savings are particularly dramatic when companies examine the TCO of their ERP systems. TCO is a measure of the total cost of purchasing (or in the case of cloud computing, subscribing to) and operating a technology solution over its lifetime. According to one study by Hurwitz and Associates, the TCO for NetSuite's package is 50% lower than a comparable on-premise solution of Microsoft Dynamics GP and CRM for a 100-user enterprise.



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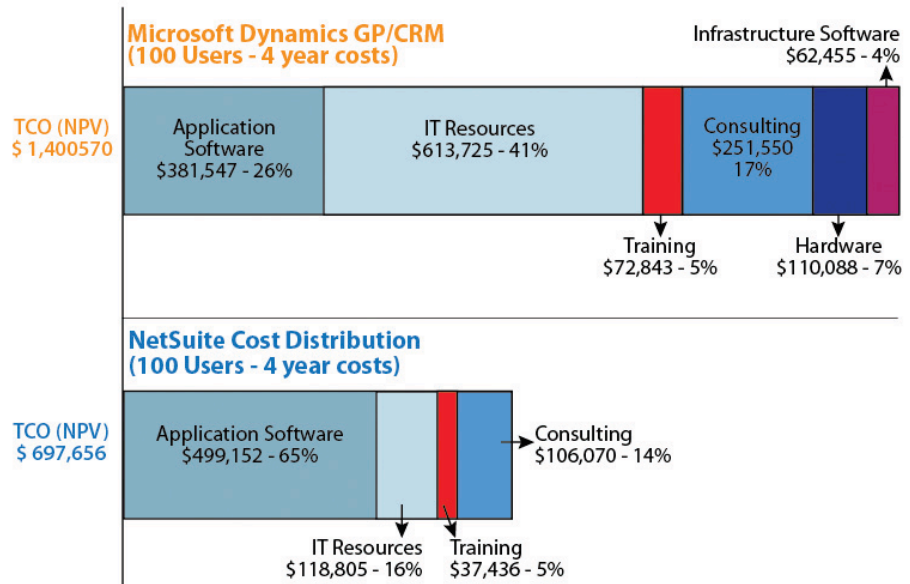


Figure 5. Four-Year TCO Distribution-NetSuite and Microsoft Dynamics GP and CRM

Conclusion: The Migration to the Cloud

The move to SaaS and cloud business applications is accelerating. Early on in the adoption cycle of SaaS applications, businesses deployed them within specific business departments. While fruitful, businesses have still suffered somewhat from customer and data fragmentation that results from multiple application silos despite the advances in application integration from Service Oriented Architectures.

But regardless, the costs and ROI benefits have still been substantial. As SaaS adoption matures, and with businesses more fully understanding the benefits of SaaS, they're evaluating how SaaS can transform operating core business processes such as ERP - but with an eye to ensuring that their ERP systems stay tightly integrated with the broader business.

But to run your company on a SaaS-based ERP, the SaaS application must be both mature, and extensible. For the past 10 years, NetSuite has been focused on delivering just that, providing SaaS ERP and broader business management to companies of all sizes. The result is 6,600+ businesses successfully making the transition and running their core business processes in the cloud.

In the second paper of this two-part series, Why Businesses Run Better With NetSuite, you'll learn about the benefits businesses have achieved from actual case studies, understand key, and find out how to take the first steps to take your ERP processes to the cloud.