

Why Cloud Computing Matters to Finance

By Ron Gill, CMA, CFM

When was the last time you upgraded your ERP system?

If the answer is “not in recent memory,” then you aren’t alone. About two-thirds of mid-sized businesses are running old versions of their enterprise resource planning (ERP) system—in some cases, it’s software that’s three or more versions old. This is the legacy of decades of on-premise (in-house) software deployments, incremental releases that never seemed worth the pain of a major upgrade migration project, and fear of losing critical customization.

But in the midst of rapidly changing revenue recognition rules and a constantly evolving regulatory environment, it's more important than ever to have your business systems reflect the current business environment. At NetSuite, at the time of this writing (December 2010), we're running the company on the current version of NetSuite's cloud ERP solution—2010.2—that was released in October 2010. In fact, every other business running its financials on NetSuite's cloud ERP—from the smallest business that started using it more than 10 years ago to the largest enterprise that signed up last quarter—is also running on the latest version of the software. In contrast, the fact that the bulk of finance organizations are running traditional, on-premise accounting systems that are too painful to upgrade is just one data point that the era of cloud computing promises to transform for the finance organization.

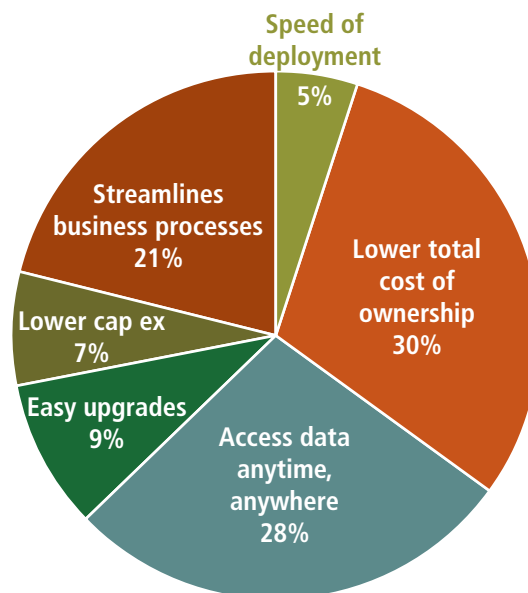
What Is Cloud Computing?

No doubt you've heard the buzz about cloud computing. It's a way of using business applications over the Internet, just as you use online banking or Gmail. No more expensive, capital-intensive hardware and infrastructure and no more expensive, time-consuming, staff-intensive upgrades. You pay as you go and get your finance, human resources, sales, or service applications through a Web browser. According to IDC, this software delivery model is experiencing dramatic growth, and the market for cloud-based solutions is set to grow six times faster than the overall software market.

More than likely your sales organization is running a cloud-based sales force automation application, such as one provided by Salesforce.com. Or maybe your HR function is deploying an employee performance management cloud application, such as SuccessFactors. These applications were designed from the ground up to run in the Internet era. This not only transforms how employees who use them collaborate, but it also significantly lowers the costs to deploy, run, and maintain the applications. For some types of applications, software-as-a-service (SaaS) is already the default architecture. When was the last time you heard of a monolith on-premise Siebel CRM (customer relationship management) implementation? No modern enterprise writes a request for proposal (RFP) for CRM today without considering a cloud-based solution.

Now the cloud application wave has reached the finance organization where it promises the same impact—lower cost, easier collaboration, and faster inno-

Figure 1: Benefits of Moving to the Cloud



vation. But as with any new technology, preconceptions and myths abound. At NetSuite, a \$1 billion+ market cap public software company, we run all of our business applications in the cloud. From tracking a sales opportunity to a sales order, through to invoicing and revenue recognition, and from management reporting and generating GAAP (Generally Accepted Accounting Principles) financial statements, through to managing the most complex service and renewal processes, everything is done through a Web browser. The impact on finance and our broader organization has been profound and far reaching—and a sharp contrast to companies where I've worked that ran traditional financial applications such as Oracle Financials, SAP R/3, or Microsoft Dynamics.

So why would a finance organization move its financial processes from on-premise ERP to a cloud-based model? Before I answer that question, it's key to define what cloud computing or software-as-a-service is (I use these terms synonymously). In a nutshell:

- ◆ There is subscription licensing of applications rather than the traditional upfront capital acquisition of the software license.
- ◆ The solution is hosted and operated by the provider on equipment owned and maintained by the provider. All of your transactional and customer data is housed at the provider's data center together with all of the hardware and infrastructure to run it. All you need to access it and

run your financials is a Web browser.

- ◆ The system is completely Web based. No Windows clients, no Citrix logins, no virtual private network (VPN) tunnel. Instead, there's an ability to access the application securely from anywhere—home, mobile device, on any operating system (whether Mac or PC), across remote locations—all through any standard Web browser such as Internet Explorer, Firefox, or Chrome.

- ◆ The system is designed for multi-tenancy. The provider is able to achieve economies of scale by running the application for thousands of customers across a shared infrastructure and achieve a cost structure that would be impossible for an individual accounting or IT department to achieve on its own. The result is that a cloud multi-tenant financials application can be more than 50% cheaper to run than its on-premise alternative.

- ◆ There is a single version of the application. This means that the finance department is able to get automated upgrades and functionality (such as support for the latest accounting changes) without having to go through a patching and upgrade process. It also generally means that any customization done via the system is automatically upgraded, and no one has to reimplement customizations. The result is an upgrade process whereby, for example, a finance department will be running on the latest software and hardware (at the vendor's data center), even though it never upgraded anything.

What the Cloud Means to Finance

The benefits of transitioning from an on-premise ERP system to the cloud are manifold. In a recent survey that NetSuite conducted with approximately 800 IMA® members, the results closely mirror my experiences at the company. The survey asked finance professionals: "What do you perceive as the single key benefit of moving your financials to the cloud?" Figure 1 shows their answers. The clear drivers were around total cost of ownership; any-time, anywhere access; and business process improvement.

Reducing cost of ownership of the ERP system has a significant benefit to finance. It isn't just about reducing IT spend. It's about reallocating the IT budget from maintenance—such as keeping servers running, performing upgrades, and taking backups—to actually improving business processes and delivering innovation to the finance organization. Some years ago, a report from Gartner found that more than 90% of a typical IT budget is spent on maintenance, and as little as 9% is left for actual business process improvement. The result is that a substantial gap has opened up between the goals of the

finance organization—such as establishing clear business visibility, maintaining an effective internal control structure and process, and ensuring efficient GAAP conformance—and what IT can provide from the current systems. There simply isn't any budget left for innovation.

Cloud delivery changes this equation because businesses are able to recoup 50% or more of their IT application operating costs by making the transition. No more servers, databases, backups, failover, patches, and upgrades. It frees up IT resources to move from an operational role to a strategic role. At NetSuite, the systems team supporting finance is completely focused on business process improvement, not maintenance, so, for example, it sped up our adoption of the new revenue recognition rules EITF 08-01 (ASU 2009-13), which was

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clearly a time-sensitive priority for our finance organization. Project resources could be devoted to building the necessary reports, key alerts, and workflows to support adopting the new rules rather than the on-premise alternative of applying patches or making risky database changes. The result was a timely, less risky, and more cost-effective adoption.

Another key benefit IMA members identified is the ability to access financials securely anytime, anywhere through a Web browser. At NetSuite, our organization is inherently distributed with a significant portion of our back office staff in an offshored location. We also have remote finance staff and line-of-business executives in regional subsidiaries. Depending on the company, a distributed finance organization can yield substantial cost benefits as well as enable you to retain the best staff, especially with the continued growth of globalization. But in order to run a distributed finance organization efficiently, your business systems have to facilitate real-time collaboration. Cloud-based financials shine here.

A traditional, on-premise ERP model hampers a distributed finance organization in a number of ways. At an

operational level, it requires IT resources on the ground, and they have to travel to remote locations to make sure client tools and local accounting applications and databases are up and running. Thus the support costs can quickly spiral. But there's a more insidious issue at play. With traditional, on-premise models, data can quickly become siloed within the business, whether buried in spreadsheets, local databases, or applications. This means finance staff members can quickly find themselves with outdated information, can encounter conflicting data in different places, or will be holding out for a spreadsheet extract. In an offshored model, this can result in substantial latency in the flow of financial information throughout the finance organization and to the executive level.

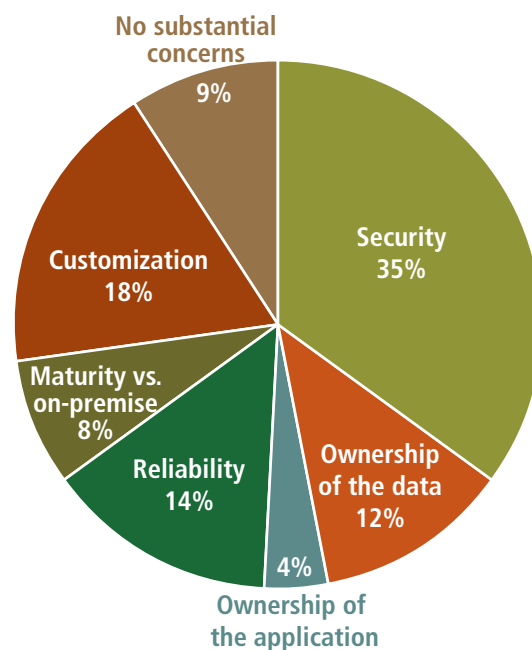
When your financials are accessible through a browser in real time, everyone is operating on a "single version of the truth," no matter where they are—corporate, subsidiary, or offshored location. At NetSuite, the cloud enables us to drive key financial processes much faster vs. running traditional accounting applications.

One financial process that demonstrates this is our distributed financial planning process. It's much more agile, less error prone, and more accurate than it otherwise would be because, with Web-based cloud financials, our finance and line-of-business stakeholders are operating on the same centralized real-time actuals throughout our business. Corporate also has instant visibility into divisional transactions, enabling either a centralized or decentralized planning process. The result is a corporate-level plan and forecast free from version issues and out-of-date spreadsheets—and one with a dramatic reduction in time wasted with financial data being e-mailed between stakeholders. It also frees up financial resources from having to push out financial information and moves the reporting process to a self-service model. Stakeholders can securely make changes through their everyday Web browser, the finance team can collaborate around the same information in real time, and no one ends up making changes to old versions of data.

The Myths Behind Cloud ERP

Despite the accelerating growth of the cloud and its adoption in key areas of business, myths about cloud-delivered ERP still linger within finance departments. Part of this is because cloud-based financials are later in the adoption cycle than sales and human capital management (HCM) applications, where these concerns have already been overcome, but it also stems from finance being the clear custodian of critical operating data for the business.

Figure 2: Concerns about Cloud Computing



When we asked IMA members their concerns about cloud computing, some issues were clearly top of mind, including security, data ownership, and the level of customization that a cloud financials application can reasonably allow (see Figure 2 for all the results).

How do these perceptions hold up? Let's start with security. This concern stems from the fact that a cloud datacenter is connected to the Internet and that cloud applications are used over the Internet. But most people already conduct their most sensitive transactions via the Web—everything from initiating bank payments to processing payroll to managing sensitive personal information. The state of the art for Internet security with cloud applications—whether consumer or business—is the use of banking-level 128-bit SSL security. This means that, when using a cloud application, the information is invariably more heavily encrypted than a traditional local area network (LAN)-based, pre-Internet application.

Having your financials hosted in a datacenter rather than in your own on-premise server room also raises some interesting questions. Isn't a cloud datacenter inherently more hackable than its on-premise counterpart? Businesses are connected to the Internet all the time, and the typical on-premise business applications are, too, in some way. Whether locked in a server room or under

your desk, they're directly or indirectly connected to the Internet. The vulnerability of in-house systems is most clear in a November 10, 2010, article by James Verini in *The New York Times* titled "The Great Cyberheist"—where "a crew of hackers and other affiliates gained access to roughly 180 million payment-card accounts from the customer databases of some of the most well known corporations in America: OfficeMax, BJ's Wholesale Club, Dave & Buster's restaurants, the T. J. Maxx and Marshalls clothing chains. They hacked into Target, Barnes & Noble, JCPenney, Sports Authority, Boston Market and 7-Eleven's bank-machine network."

So the question isn't really about cloud datacenter vs. on-premise datacenter when it comes to security. The question is *really* about how many resources your organization can dedicate to data and application security to protect your financials and business data and how that compares with the expertise and resources the cloud vendor will deploy. Most cloud vendors have experts focused solely on running your application and keeping your data secure. These people never stop to answer an Outlook question, never have to worry about setting up PCs or fixing a printer. They begin and end each day thinking about security and uptime. Your IT department probably isn't as focused! But because the cloud vendor is operating with a shared services model, it's able to create an entire function focused purely on security, with resources and dedicated budget focused solely on maintaining stringent security standards, such as PCI DSS compliance, that are often cost prohibitive for an organization to achieve and maintain on its own. So a cloud vendor can be *more secure* than a homegrown on-premise deployment. It's the old question about whether your money is safer under the mattress where you can see it and touch it or safer at the bank.

Another concern with cloud financials is availability of the application. Of course, whenever an application such as Gmail or Salesforce experiences an outage, it always makes the press. But, realistically, how do well-run cloud applications stack up against the availability of in-house applications? A key place to start is that cloud vendors typically provide a service-level commitment to their users of 99.5% or better. As with any service level, it's about transparency and about penalties if the vendor doesn't meet that level. The transparency comes from publishing the availability online; for example, NetSuite publishes its availability at status.netsuite.com, and Salesforce publishes its at trust.salesforce.com. The penalty typically is a refund of part of the subscription fees if the cloud vendor doesn't meet a target service level. So the

vendor is extremely incented to ensure high availability through transparency or penalties and to reduce any availability risk that might impact renewal. Through economies of scale, a cloud vendor can invest in multi-level failover and redundant systems that a typical in-house IT budget couldn't afford.

The contrast with a traditional on-premise deployment is stark. A finance department typically has no visibility into the availability of its accounting application, and the IT department often isn't held accountable for outages and often can't be because of the lack of any kind of uptime reporting or service-level agreement (SLA). A professionally managed cloud datacenter with multiple levels of redundancy will almost certainly provide a higher level of uptime, better security, and more transparency about both than an on-premise datacenter.

Get Educated about the Cloud

With the dramatic growth of cloud computing, new vendors are rushing onto the scene, and old vendors are frantically trying to reposition their existing offerings as cloud solutions, so it's key to ask the right questions as you do your research. I speak with finance executives frequently about plotting the transition, and it's critical to do your own diligence to answer these baseline questions:

1. What is the vendor's ongoing viability and track record?
2. What are the SLA commitments, and is the availability transparent?
3. What is the procedure for getting my data out of the system?
4. Does the vendor have key certifications, such as SAS 70 Type II and PCI DSS?
5. Is it a real Web-based solution, or is it just a hosted on-premise solution?
6. Will it be one more application silo, or is it a cross-departmental application?
7. Can it be integrated and customized?

If you find cloud computing is right for your company, it can benefit your finance function in a variety of ways—improved collaboration, easier global delivery, lower total cost of ownership (TCO), and always-up-to-date accounting software. This will accelerate financial process improvements beyond anything you've seen when running your accounting software the old way. **SF**

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