

Have you looked at Finance & Accounting in the Cloud? Perhaps you should.

Why should you? ERP in the cloud is practical, simple, powerful and ready



Does it seem like everything today is overly complex? A turbulent economy, increased global competitiveness, and changing regulations are giving CFOs and their teams a lot to deal with across process and technology. Add the business discontinuities of mergers, acquisitions and spin-offs and you can be certain that your 20-year-old ERP system is having a tough time keeping up. In 1993 there were 623 websites worldwide - today there are an estimated 620 million sites, Mosaic was a breakaway browser – today we browse the web on our mobile devices, the European Union was formally established and one of the most significant changes to financial regulation in the US was passed – Dodd – Frank. Times have certainly changed, but has your ERP system kept up?

Today's shifting business requirements are creating pressure on yesterday's systems. In many CFO conversations, we hear the same themes over and over again:

- We anticipate doubling our size, and we need sustainable processes to support our growth
- It's taking too long for IT to implement new capabilities into the ERP system
- We are expanding into new businesses and countries, how do I make sure my finance infrastructure is ready for that?
- My accounting close is too long and the financial information may be compromised
- How do we address and automate changing revenue recognition rules?

What's happened lately?

The ERP vendor landscape has been stagnant for years as the top players have aggressively acquired their competitors. Many companies have engineered ERP installations with major customization to meet their business requirements. In some cases, systems have been so customized that their original best-practice advantages have been lost. But like the legacy systems they replaced, ERP systems are the core of financial information for most companies around the world. They aren't going away and it's inevitable more customizations will happen to address changing regulations and globalization digging a bigger and bigger hole.

The only alternative has been to implement manual workarounds outside of your existing system resulting in inefficiencies and potentially financial statement risk. This lack of flexibility and increased requirements have caused leaders in finance organizations to consider alternative approaches that fundamentally change the way they view the finance function. The emergence of new providers and solutions powered by a Software-as-a-Service (SaaS) model is giving finance organizations options that previously did not exist.

These new solutions are driving the traditional ERP players to change their approach to the marketplace. But it is not just about new providers and new solutions. It is about establishing a vision of the finance organization, a future "target operating model," to assess how these new solutions can power financial transformation, whether as a financials replacement or with a best-of-breed approach.

“KPMG Research indicates that many are ready and willing to move finance and accounting related systems and applications to the cloud. When asked about the practicality of moving these functions to the Cloud, the vast majority of respondents said it was either “very practical” or “somewhat practical.”



The SaaS model is important because it addresses some of the challenges with today's financial systems; specifically, their lack of agility and dependence on back-office IT for basic or complex changes. Solutions built on the SaaS model take advantage of the new computing paradigms that have arisen over the last few years; new user interfaces, better collaboration through social interactions, new technology platforms increasing access to data and performance. All of these offer the finance organization an opportunity to 'outsource' the back-office IT functions of the solution without giving up control of the front-office, value added components. Finance can now be in control of its own destiny.

The third wave

SaaS models have been around for a while now. Customer Relationship Management (CRM) and Collaboration platforms were the first wave of SaaS solutions. Driven by sales, this was on the periphery and not a core process area. The second wave focused on Human Capital Management (HCM) has driven SaaS deeper into the enterprise impacting all employees and core business process areas. These solutions have been established and are now commonplace in many large organizations. The third wave will see SaaS moving even further into core business process areas in Finance. This natural progression includes point solutions within finance for functions such as revenue recognition and subscription billing as well as core finance processes including record-to-report and procure-to-pay.

Getting out from under the typical ERP implementation cost that is dragging down my balance sheet, gives me more flexibility with working capital and better future financing options.

Cloud's ability to support Software-as-a-Service has lowered the barrier of entry for new players like NetSuite, Workday, RevStream, RevPro and Zuora as well as the traditional players like Oracle and SAP that are looking to enhance their existing platforms. These new players are bringing much more than just a new delivery model for ERP software but also targeted point solutions that can improve business processes and performance. They are built for today's business that operates 24 x7 across the globe, pushing the envelope on how companies execute their financial processes today.

Cloud simplifies

Your organization is likely overwhelmed with complexity. In many cases this complexity resides elsewhere in the organization but finds a home in the financial systems. Recently, we've heard of cases where new CFOs have reinstalled ERP systems in their native state, having their companies adjust to the leading practices inherent in the systems rather than "fixing" the muddled legacy their ERP systems have become.

ERP in the cloud can be a quicker solution to many of these types of business issues, if the company is ready. ERP in the cloud does more than simplify the cost structure (imagine not having that \$25M 'asset' on your books); it can be transformative to the financial functions and organization without major upheaval. If you don't understand what business rules and logic reside in your systems, and you're not sure about compliance issues or you are unwilling to wait for updates, think about cloud.

Even though cloud can be easily obtained, IT should stay involved both on a strategic and practical governance standpoint. Cloud can simplify finance solutions by allowing business and IT to focus on value added capabilities, rather than the back-end technology operations. IT should also provide sound advice when it comes to security, risk and interfaces with corporate systems. Any new solution will need to fit into the overall technology ecosystem at your organization.

ERP in the cloud also simplifies costs. Rather than an internal chargeback based on some kind of formula, Cloud / SaaS vendors issue invoices detailing actual usage. While we no longer think in terms of SaaS being 'cheaper', it is a much different cost model that can give finance better control over its balance sheet.

Triggers for Cloud Adoption

Moving to the cloud, like any thoughtful business and technology challenge, isn't a black-and-white, one-size-fits-all proposition. But certain events may be the triggers that set your cloud strategy in motion:

- Facing an inevitable upgrade to your ERP system?
- Standardization of business processes?
- Working on a merger, acquisition or spin off?
- Rebuilding the business with a new CFO?
- Reinventing finance at your corporation?
- Building a start-up company or organization that needs to rapidly deploy?

This is about more than simply moving your ERP to the Cloud. It is about modifying and/or replacing a core system that you have probably been using for many years. There are two key areas of focus when looking at this transition. One is whether you have truly bought into the idea of leveraging a new ERP solution. The other is if you are ready to do this with a cloud-based solution.

It is not an all or nothing proposition

While the emergence of SaaS ERP offers the opportunity to move core financials to the cloud and truly transform Finance, there are other options that do not require a wholesale change of the financial processes or underlying systems. A best-of-breed

approach allows Finance to simplify the current portfolio by taking complex business requirements out of the current ERP solution and replacing them with purpose-built, point solutions delivered in a SaaS model.

With SaaS some of the traditional obstacles to best-of-breed go away. There is no need for internal infrastructure. There is no need for additional IT resources to support this underlying technology. Process and data integration still exists, but is that any more complicated than complex customizations that exist in your ERP system to support these capabilities? And wouldn't you rather spend that time and effort around a solution that actually meets your business needs?

Many ERP systems try to address the least common denominator that maximizes their opportunity across industries. Areas like revenue recognition or dynamic, usage-based billing are good examples of business processes that do not have the required flexibility in today's ERP systems. To address this, finance teams tend to develop large, complex, and mistake-prone spreadsheets or databases to address some of these shortfalls. As a result, during the period close, finance resources allocate their time performing non-valued added reconciliation activities, researching or remembering the assumptions that were made into a particular calculation, and continually revising management reports rather than performing analysis and understanding the data. SaaS solutions offers

standardized processes, controls, and automation that will help transition finance resources from the mentality of just getting the books closed or number crunching to more effectively supporting Finance's internal and external customers.

Integrating the financial close process across business units and ERP is another good example. SaaS solutions also focus on governance around the close process that enables Finance to manage the close process proactively so efficient and timely period closes occur. A best-of-breed approach can allow Finance to take advantage of new solutions, simplify the current processes and technologies and ultimately better support unique finance requirements.





Changing business models

One of our clients, a global technology company, was looking for ways to move from a B2B model to B2C model with standardized business processes and technologies. KPMG worked with them in designing a catalog of common business processes and a future target operating model for this new line of business. As such, we assessed multiple SaaS solutions for agility, cost effectiveness and the ability to integrate with the legacy ERP system. The cloud-based ERP provided an option for growing this line of business without a huge investment in the legacy ERP system.

Another client, a media advertising company was looking to enhance their billing processes due to a change in business models, specifically changing from per-use billing to a subscription-based billing environment. The company unsuccessfully tried to customize their existing systems to support subscription billing and as a result ended up implementing manual processes that were time consuming and resource intensive. KPMG partnered with them to evaluate the right solution to enhance their core financials system with best-of-breed, SaaS-based solutions for revenue recognition and subscription billing. SaaS simplified the selection and implementation, but did not require a large upfront investment in dollars and time.

Optimistically cautious

Even with the considerable advantages, moving all or part of your financial processes to the cloud is a business challenge and often an emotional challenge. Governance, risk, control and security are always top of mind when discussing cloud. While most of these issues have been addressed by vendors and proven by the market, resistance is still pervasive. Finance itself is typically a late adopter of new technology. Many within the IT function are reluctant to move to the cloud as they don't control the platform, software, data and security. This, in turn, creates great concern over governance, risk and controls. However, most of these concerns are not founded with today's cloud solutions judging by the relatively clear conscience companies have putting sensitive operations, such as Sales and HR, in the cloud.

How to get started

Once you have clarified your perspective and the desired outcome, it's time to tackle the challenge head on. There are many ways to tackle the challenge of finance transformation. Having a clear vision and strategy with the right executive sponsorship will provide the overall governance required whether looking to migrate from your current ERP platform, upgrade your current platform or move to a best-of-breed approach.

Transforming your financial processes and leveraging new software delivery models can be a daunting task. With proper planning, great communication, and strong organizational change capabilities, moving ERP to the cloud can result in break-through accomplishments for your finance organization and your business at its core.

To find out more, please visit <http://www.kpmg.com/US/en/services/Advisory/management-consulting/Pages/default.aspx> or contact Keith Mattioli at kmattioli@kpmg.com or Calvin Liu at cliu@kpmg.com.

Consider the checklist below as you determine the right solution for your organization.

- Assess your current operating model to baseline costs, processes and staff to identify opportunities for improvement
- Evaluate your current ERP application portfolio to understand what systems are in the portfolio, how they support your current model and the costs and complexity of keeping these systems aligned with the strategic direction of finance
- Define your future state operating model
- Evaluate SaaS solutions to support this model, both all-in ERP solutions or a best-of-breed approach
- Develop a business case and facilitate the vendor selection process (e.g., RFPs)
- Provide a SaaS readiness assessment as well as an ERP upgrade assessment—defining requirements and customizing accordingly may create undo complexity
- Understand the roadmap of future releases and establish a project readiness playbook
- Establish a robust project governance structure to manage releases
- Establish a change management framework and tools that enable effective collaboration with Finance's internal and external customers
- Adhere to strong governance, which includes services management, decision and authority rights, and operating structure
- Practice strong vendor management, not just through procurement, but as part of the ongoing business practices

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