



Changing Times, Changing Business:
Why Finance Management is Moving to Cloud

A research report prepared by:



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About This Report

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The research and analysis presented in this report includes research from a dedicated survey and interview program with ongoing Saugatuck Technology research programs, including our global survey and interview work with user enterprise business and IT leaders, briefings with providers, and analysis of publicly-available market information from multiple sources.

The dedicated research for this report, and publication of this report, were sponsored by Workday.

About Saugatuck Technology Inc.

Saugatuck Technology, Inc., provides subscription research and management consulting services focused on key market trends and disruptive technologies driving change in enterprise IT, including Cloud, Mobility, Social and Collaborative IT, and Advanced Analytics. Founded in 1999, Saugatuck is headquartered in Westport, CT, with offices in Falmouth, MA, Santa Clara, CA and Frankfurt, Germany. For more information, please visit www.saugatucktechnology.com or call +1.203.454.3900.

**DOES FINANCE FACE A COMPELLING NEED FOR CHANGE, AND CLOUD?**

“We need more and better abilities and solutions, because the business is demanding that from us. The biggest question then, is ‘How do we make the best business case for change and investment?’ and, ‘Where is that going to come from?’ ” – VP Finance, US-based manufacturing firm

In early 2013, global IT business research firm Saugatuck Technology surveyed more than 270 Finance and IT executives in North American firms about their experience, expectations, and attitudes toward their existing Finance management systems, and toward the potential of Cloud-based solutions improving what Finance can do to deliver business value to the enterprise.

Our net results: Finance and IT executives alike see a need for Cloud-based Finance management solutions, because:

- Finance needs more and better ways to deliver value to the enterprise;
- Legacy Finance systems are seen by both Finance and IT leaders as unable to keep pace with current business demands, let alone adapt cost-effectively to expected market, compliance, usage, technology, and management changes;
- Consideration and use of Cloud for core Finance is growing much faster than had been previously seen; and
- Finance and IT leaders have clear expectations regarding how Cloud can and does deliver value – and what Cloud solutions and providers must deliver

This paper analyzes Saugatuck’s 2013 research to provide insights as to where and why Finance and IT executives see a need for change to Cloud, what benefits should be expected from Cloud solutions (and providers), and what must be included for Cloud-based solutions to truly deliver the value needed by Finance organizations, and to improve the value that Finance delivers to the enterprise itself.

A MAJOR CHANGE IS AFOOT

“What we have traditionally used, and how we have used it and managed it, is just not going to get it done the way it needs to get done today.” – CIO for Finance Office, US-based aerospace firm

First off, our recent research confirmed a trend that we first identified several years ago, with the initial rise of software-as-a-service (SaaS) for business management. That trend: even the most core and critical Finance functions and capabilities will move to Cloud.

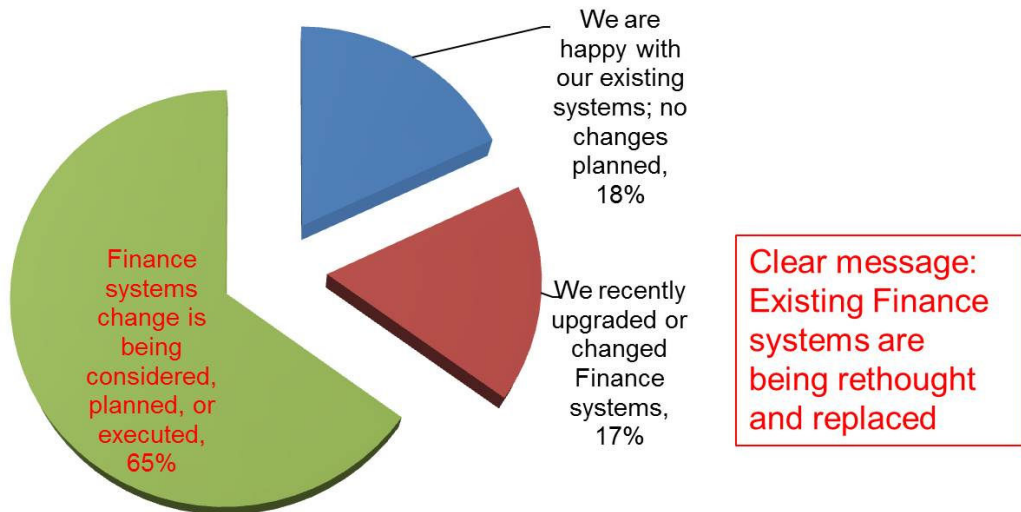
What our survey and interviews this year showed was how broad and accelerated that move looks to be. The data, as presented in Figure 1, makes it clear that a shift



toward Cloud, whether in thinking or in action, is already underway. More than 80 percent of the Finance and IT executive participants in our survey indicated that they need to change, or have already changed, their Finance management systems.

Figure 1: Enterprise Financial Management — Major Changes Underway?

Survey question: Please select the answer that best describes the status of your current Financial Management System(s)



Source: Saugatuck Technology Inc. 2013 North American web survey, n =271

PRIMARY FACTORS DRIVING FINANCE SYSTEM CHANGE

“We had reached our existing systems’ limits regarding reporting, analysis, and anything else that was valuable.” – Managing Director, global financial services provider

“Our CEO just stood up and said, ‘We’re going to fix this.’ ” - VP, Technology Planning for Finance, US-based manufacturing firm

Financial management systems are not at all trivial or small, either in terms of investment in them, their overall complexity, or their core role in the ability of the enterprise to survive. Knowing that so much change is underway (or actively considered) to another, relatively new, and very different form of Finance management solutions begs the question, “Why?”

Our survey and interview research gives us three sets of factors driving the need and desire for change. These are as follows:

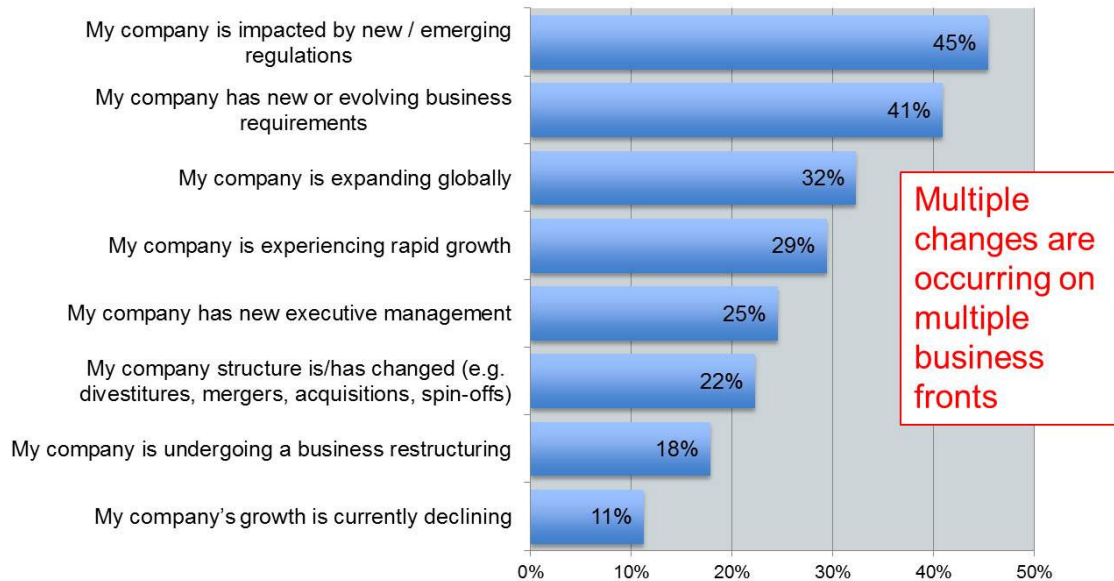
- **Finance Must Deliver More Value to the Enterprise.** Executives overwhelmingly indicate to us that the Finance organization does not deliver up its potential, and up to its true nature as a strategic enterprise asset. They believe that Finance, and its operations, should be more integrated into enterprise business strategy, planning and management; that the value of Finance depends on providing useful business data and guidance; and most tellingly, that existing systems limit the ability of Finance to deliver value.



- **Finance Systems Are Not Up to Today’s Needs.** When we ask how, where, and why those existing systems hinder Finance’s abilities, we find that systems are too fragmented, disassociated, and expensive to maintain or upgrade; they lack speed and timely access to financial and performance information, which results in a lack of visibility and insights along with a growing lack of flexibility that prevent Finance from adapting and improving as the business grows and changes.
- **Meanwhile, the Business Changes.** The types of business growth and change that are most likely to drive Finance (and IT) leaders to re-examine their existing systems, and to look for new and better solutions, are market changes due to competition or regulation, recovering and accelerating business growth, and structural changes as the business is affected by growth and market changes. What we found is that significant business change, either internal or external in origin (e.g., emerging regulations, restructuring) is closely correlated to the consideration of and switching to Cloud-based systems. The relative frequency of the top changes driving most enterprise Finance groups to rethink what they have, and how they use it, are presented in Figure 2.

Figure 2: Business Changes Triggering Finance Re-examination

Survey question: Please select up to three (3) of the following statements that best describe your company



Source: Saugatuck Technology Inc. 2013 North American web survey, n =271



BOTTOM LINE: IS FINANCE’S FUTURE IN CLOUD?

“It’s important to note that the lack of flexibility, and fragmentation, contribute to a lack of vision into what the company is doing, can do, or should do.” – Controller, multinational travel services provider

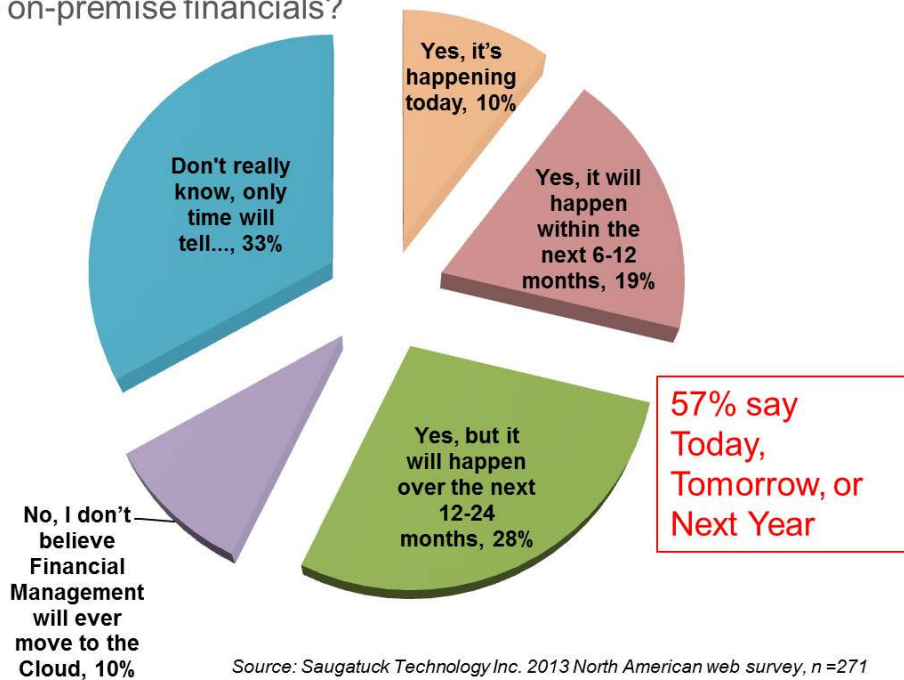
“We brought in a new CEO and a new CIO, and they expected some major value improvements from Finance, very quickly.” - VP, Quality & Information Management, traditional manufacturing firm

The short answer is definitely “Yes.”

Saugatuck’s survey research, supplemented by our interviews with Finance and IT executives around the U.S., indicate a general and relatively near-term migration of most Finance organizations and systems to the Cloud. Figure 3 illustrates very clearly that only 10 percent of Finance and IT leaders do not expect Cloud-based solutions to replace traditional, on-premises solutions.

Figure 3: Cloud Will Replace Traditional Finance Management Systems

Survey question: Do you believe Cloud / SaaS Financial Management Systems will eventually replace on-premise financials?



To test the veracity of our survey participants, we pressed them regarding what their own plans are. More than half said that their Finance organizations plan to implement and use core financial management capabilities in the Cloud by the end of 2016. This indicates significantly-increased interest and activity compared to Saugatuck’s previous research—including our 2012 survey work.



WHAT ABOUT THE IT DEPARTMENT?

Since the advent of widespread Cloud-based software, infrastructure and similar services, common wisdom has held that IT leaders and their organizations either resist moves to Cloud, or are behind the curve when it comes to what Cloud can do for the business.

In our early 2013 survey, we found that IT executives indicate more near-term willingness to adopt Cloud than do Finance executives. This reinforces a shift seen in previous Saugatuck research in IT attitudes and approaches to Cloud. Further investigation shows us that IT as a group today tends to be significantly more educated regarding Cloud than most enterprise business leaders and groups, mainly because of its ability to reduce the IT resource workload, and to enable them to better allocate and optimize resources toward other innovative projects.

In a rapidly increasing number of enterprises, the IT group has become the “go to” Cloud resource, effectively leading different business groups (including Finance) either into Cloud, or deeper into Cloud than was previously considered to be possible and prudent. In short – IT is Finance’s ally today when it comes to most things Cloud.

WHY CLOUD FOR FINANCE?

“Cloud is ready now with the security, flexibility, adaptability/integration, and scalability that we need.” – Controller, multinational travel services provider

What is it about Cloud that attracts experienced Finance and IT leaders, and makes them expect to improve the value that Finance delivers to the enterprise? Saugatuck’s research indicates that just a handful of business benefits do most of the talking: Cost, Flexibility, Visibility, and Control.

Reduced cost dominates when it comes to the business benefits expected from Cloud-based Finance management solutions. But it’s not only about acquisition cost. CFOs and CIOs alike tell us that the greatest business benefit they expect from Cloud is the reduction, or even the potential elimination, of such significant ongoing costs as software maintenance, upgrades, security patching, and so on. Even customization costs are expected to be reduced, given the inherent flexibility and configurability of today’s leading Cloud-based Finance management solutions. The key result is an improved cost profile of both Finance and IT departments.

Flexibility dominates our research as a secondary consideration – indicating that this benefit is gaining mindshare among potential Cloud adopters. This directly addresses a key need and desire for Finance leaders and groups who report that their current systems, and the dependent processes and operations, are far from flexible enough. Leading Cloud-based Finance management solutions are architected and developed to adapt to a variety of situations, but more importantly, enable faster and flexible responses by Finance to changing business environments.

Finally, Cloud-based Finance solutions also enable significantly-improved control and visibility when it comes to business data. There’s no shortage of business data feeding into Finance operations, but too much of it is non-standardized, increasing in volume, incomplete, and potentially inaccurate. Cloud-based, suite-style solutions include the scalable power and speed to aggregate, cleanse, and integrate a wider variety of data types than traditional systems were designed to accommodate. And the low-cost, reach-everywhere nature of Cloud solutions enables the



same user interfaces and the same data in more areas of the business, significantly improving data quality and timeliness – and enabling Finance to analyze, plan, and report more rapidly and more accurately, as well as enabling real-time reporting. Executives moving to Cloud-based Finance management systems report reductions of as much as 95 percent in the amount of time required to simply close the books, mostly due to vastly increased and improved standardization of data and user interfaces. When we have the data we need, where we need it, and how we need it, Finance can build a great deal more value for the enterprise.

CHECKLIST: WHAT FINANCE MUST HAVE FROM CLOUD SOLUTIONS

“Our CFO buys into this [Cloud] program wholeheartedly, to the point where our goals are primarily around shutting down systems, and not letting our core IT and Finance environment costs escalate.” - CTO, global media services firm

If moving Finance management systems to Cloud is going to happen, and happen relatively quickly, what do we need to look for in Cloud-based Finance solutions? We’ve assembled the following list from our work with Finance and IT executives who have gone to Cloud or are planning their Cloud moves right now:

- **Reduced Cost.** The solution must reduce the cost and complexity of running the Finance organization and operations.
- **Flexibility and Adaptability.** Any solution must be designed and built to enable the business to more easily and rapidly adapt to change, and to enable Finance to anticipate and act, rather than react too late.
- **Real-world Finance.** Any solution must be built using established, standardized Finance rules and practices, and be able to utilize legacy Finance data - while being configurable in-house by Finance and/or IT groups.
- **Optimizing Resources.** As part of its overall flexibility, a Cloud Finance solution must enable the business to shift resources to focus on strategic initiatives.
- **Minimal Disruption.** The solution (and provider) must enable non-disruptive and incremental change and improvement; i.e., when upgrades or other changes occur, they must not disrupt business, and must be deployable either simultaneously or sequentially across departments and systems.
- **Geographic Reach.** The solution must be able to serve as a business hub, uniting geographically dispersed user groups.
- **Control & Compliance.** Any Cloud-based Finance solution must provide better Financial data controls and auditability, enabling immediate and complete compliance with regulations.
- **Insights.** The solution must allow the enterprise’s executive team to operate with a complete picture of the business for improved decision making.
- **Quick Payback.** The solution must not only reduce Finance’s operating costs, it must enable rapid deployment and onboarding that makes productivity benefits immediately available.
- **Architected for Security and Reliability.** The solution must take advantage of vastly improved software architectures and technologies vs. traditional software which, combined with solid provider platforms, must deliver security and reliability greater than the enterprise could deliver on its own.



LEADERSHIP ACTIONS TO TAKE

While we are certainly in what could be called the “early majority” phases of Cloud-based enterprise software, Cloud truly is “real” for the entire enterprise – including Finance. And the research very clearly indicates that Cloud-based core management capabilities are becoming more and more a competitive issue. More and more Finance groups are moving to Cloud more quickly, and in increasing numbers, building business advantage by enabling improved reporting, analysis, flexibility, and control via Cloud-based Finance management solutions.

Given the speed of market change, and the still-emerging, still-evolving nature of Cloud for enterprise-class management solutions, relatively few Finance executives today are up to speed and ready to make the Cloud decision. Saugatuck suggests the following actions for Finance leaders and their groups on the benefits and business cases of running Finance in the Cloud.

First, evaluate your existing systems vs. your management priorities and needs to identify areas of needed change and improvement. This will provide you with a customized solution evaluation checklist for anything considered or proposed. Saugatuck has developed and refined a very simple, yet very effective, three-step “Effectiveness Gap” model for accomplishing this, as follows:

1. **Determine the handful of highest-priority business and performance goals for the organization.** What are the most important business priorities for each functional area within your group? This can readily be done on a 1 – 5 scale, with 5 being Critical, 4 being Very Important, and so on.
2. **Assess the relative effectiveness of existing systems to help fulfill those priorities.** For example: What tasks need to be done using multiple systems? What important functional gaps are encountered while performing priority operations? What requires significant, additional, manual work? In short, how effective are your current applications, systems, and capabilities at fulfilling your core priorities? Use another 1 – 5 scale for this, with 5 signifying a system completely capable of satisfying the business goals for which it is used, and 1 signifying a system that is practically incapable for whatever reason(s).
3. **Compare each priority against the assessed capability of the system(s) used to fulfill that priority.** Typically, there will be a gap between the number rating of each priority, and the number rating of the relevant system(s)’ ability to fulfill that priority. The greater the gap, the less suitable the system, and the greater the need for improvement/replacement.

This is a very simple approach used by Saugatuck clients worldwide to identify not only “effectiveness gaps,” but to identify also specific system deficiencies that can then be included in requirements for new systems.

Next: As this exercise is executed, apply the following key questions to each system being scrutinized:

- Do these existing systems really deliver on business needs for management and financial reporting?
- Can these systems meet your business management needs in 2 years? In 5?



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- Can existing systems adapt to growth/expansion, adding new products and channels, or new regulations?
- Can you analyze future business performance, or are you analyzing the past?

Finally, look for the right time and opportunities to make your move. Saugatuck research shows again and again that there are several “triggers” that not only signify a need for system change, but which require and drive changes. These include the following:

- New CFO/CEO looking for dramatic increase in Finance performance
- Significant business growth, expansion – including Global
- Facing end-of-life or end-of-support for existing systems
- Facing major upgrade, maintenance, and/or support costs

A situation involving any of these will indicate a good time to prepare and present a case for Financial management improvement via Cloud; situations involving more than one of the above triggers are likely to accelerate the Cloud case and execution.

To reiterate our beginning position: Finance and IT executives alike see a need for Cloud-based Finance management solutions, because:

- Finance needs more and better ways to deliver value to the enterprise;
- Legacy Finance systems are seen by both Finance and IT leaders as unable to keep pace with current business demands, let alone adapt cost-effectively to expected market, compliance, usage, technology, and management changes;
- Consideration and use of Cloud for core Finance is growing much faster than had been previously seen; and
- Finance and IT leaders have clear expectations regarding how Cloud can and does deliver value – and what Cloud solutions and providers must deliver.

Saugatuck’s view, based on years of research with Finance leaders and organizations, is this: Cloud-based solutions can deliver the value needed by Finance organizations, and can improve the value that Finance delivers to the enterprise itself.

IT leaders and groups can be a powerful partner to help lead Finance – and the enterprise at large – into a more powerful, adaptable, and cost-effective future via Cloud. Delay prolongs the current challenges, costs, and risks, and it provides an advantage to those competitors moving to and benefiting from Cloud-based Finance management solutions.

“We wanted to pick a solution that we could live with for another 9 – 10 years if we need to. The flexibility, adaptability, scalability and cost of [Cloud] financial management does that. We don’t need to use it all, but it’s there and available.” – Managing Director, global financial services provider

**SPONSOR PERSPECTIVE:****WORKDAY, FINANCE, AND THE CLOUD**

Traditional ERP accounting systems have reached a level of maturity where many organizations are now facing impending upgrade or replacement decisions. Workday thought it beneficial to gain additional perspective on the challenges and aspirations that organizations face regarding their current systems.

To this end, Workday is pleased to sponsor this Saugatuck research among senior finance and IT executives. What we uncovered during this study was quite telling:

- Many organizations have reached an inflection point where existing systems no longer meet the needs of finance or the business at large.
- 58% of businesses are planning to upgrade/replace their existing systems within the next 24 months.
- More than half are planning to move finance to the cloud due to the inherent advantages of this model, including increased flexibility, reduced cost, better visibility and more control.

Workday anticipated this shift to the cloud when we embarked on building our Workday Financial Management application. That's why we started from scratch and created a financial management application that is transforming enterprise finance and empowering CFOs today and into the future.

We hope you find this research as insightful as we do, and we invite you to explore Workday Financial Management and Human Capital Management applications by visiting us at www.workday.com.

About Workday

Workday is a leading provider of enterprise cloud applications for human resources and finance. Founded in 2005, Workday delivers human capital management, financial management, and analytics applications designed for the world's largest organizations. Hundreds of companies, ranging from medium-sized businesses to Fortune 50 enterprises, have selected Workday.





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