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# 8 WAYS LEGACY ERP HARMS BUSINESSES

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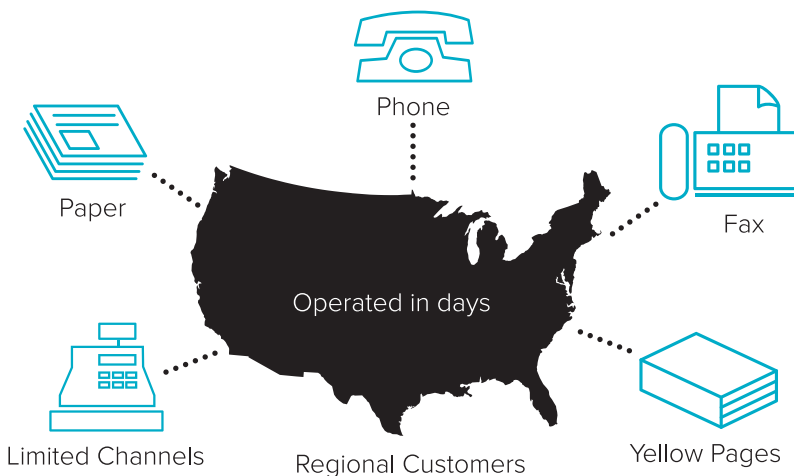


# 8 Ways Legacy ERP Harms Businesses

## Today's Outdated State Of ERP

When was the last time you upgraded your ERP system? Not just patched, fixed or tinkered with it—but implemented a substantive upgrade that enabled real business innovation, generated excitement and unleashed a wave of ideas and productivity from your users? You know—the same kinds of enthusiasm that greets web or iPhone apps like Instagram, Spotify, Netflix, etc.?

Remember when your business environment was like this? Is your ERP still stuck in the Stone Age?



If you're like your peers, then the answer is "not in recent memory." In fact, according to Forrester, "approximately half of ERP customers are on releases that are two versions behind the current release, which may be four years old or more."<sup>1</sup> In today's fast-moving environment, that may as well be in the Stone Age. More than likely, your ERP was designed in an era where fax machines were still relevant, channels were slowly grown over time, and going global meant owning expensive global infrastructure to support growth.

The fact is that the world is innovating faster than ever, but ERP installations seem to stay frozen in time. It's hard to believe that an outdated, five-year-old ERP system can be relevant to a business in a hyperactive world in which last year's smartphone is passé and GoPro can explode from a start-up to \$1 billion in annual revenue in just a few years and make an IPO with a valuation of close to \$10 billion.

Technology has transformed the broader world of business software and consumer applications. Workers now interact through mobile devices and social media, and applications are increasingly connected together over the Web. But many ERP deployments have remained oblivious to these tectonic changes—it's as if the iPhone was never invented, social media was a futuristic concept and connecting ERP to web channels was a kooky concept for the dabbling few.

It's no wonder, according to a survey published in CIO magazine some time ago, that only 4 percent of IT leaders believe their ERP systems create competitive advantage. The competitive advantage vanished long ago.

The business environment is changing faster than ever before. Is your ERP keeping pace?



On-premise ERP systems like Sage, Microsoft Dynamics GP (Great Plains), SAP and Oracle Financials have locked businesses onto a treadmill with annual maintenance fees of more than 20% for the right to make a support call and download the latest software—but what good is it if you can't upgrade your ERP deployment to take advantage of change and keep your business running efficiently?

## **The Danger Of “Version-Locked” ERP**

The sad reality is that for almost every business, “version-lock” is the Achilles heel of their on-premise ERP. Customizations to an ERP that seemed so innocuous at the beginning of an implementation years ago have built up over time like silicon plaque. Gradually, your ERP becomes hardened to change because an upgrade to on-premise technology means re-implementing and testing those custom schema changes, integrations, workflows and reports.

Faced with outsized risk, cost and resource requirements for what may seem like an incremental upgrade, your company can be effectively forced into “version-lock,” with an aging ERP system that’s increasingly out of alignment with the needs of the business. Your users begin working around your system with unproductive manual processes and spreadsheets to fill in the functional gaps that have grown over time.

With businesses already spending an average of 5 percent of their revenue on IT operating and capital budgets, there’s little appetite to further erode margin by growing the IT budget without delivering sustained transformational value and real competitive advantage.<sup>2</sup>

Does running an aging, out-of-date ERP really damage your business? Does it matter if your ERP is “version-locked?” After all, isn’t it simply automating the same old accounting processes that haven’t changed in decades? The reality is that the damage is real, and while your ERP has your business stuck in quicksand, your competitors are not standing still. Your business needs ERP that supports real transformation, and that outdated ERP system you’re running simply isn’t aligned with the business environment in which you and your competitors operate.

## **The Eight Ways “Version-Locked” ERP Damages Your Business**

Back in the early 1990s, change happened less rapidly. Product cycles were slower, communication occurred mostly by telephone and fax, and email was still a novelty. If you wanted to boost sales, you hired more sales personnel. Let’s just say you could afford to move “a little slower.”

But over the last few years, the pace of business and innovation has accelerated dramatically. Today’s speed of change places stresses on business process. Worker expectations have changed on how they want to engage with your business systems. And your customers have changed the way they want to engage with you. Businesses can now go global in an instant, ecommerce has opened up new sales and customer service channels and the last decade has seen the birth of several hyper-growth companies.

**Fact: Between 50% and 90% or more of a typical IT Budget is spent on maintenance, not innovation.**

Owning an ERP system that can only be upgraded every four or five years (at best) is simply not enough to maintain competitiveness with your peers. Business and technology are now moving so quickly that even if you do invest six months and \$1 million in an ERP upgrade, the end result will be out of date by the time it's completed. Worse still, old ERP is fundamentally incompatible with the way companies need to be structured for success.

It's time to explore the eight ways that your aging ERP system is holding back your business.

## **1. Legacy ERP Drains the Innovation from Your IT Budget**

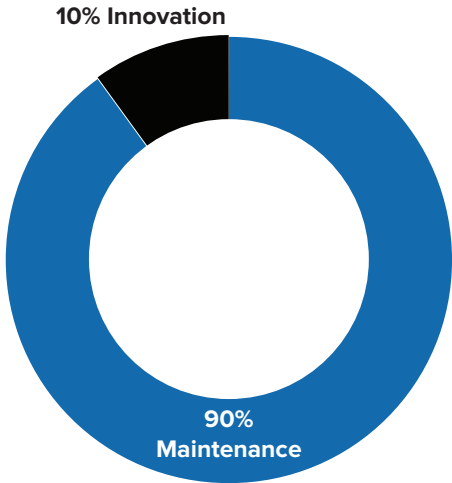
The key to knowing how aligned your ERP systems are with your business imperatives is measuring how much of the IT budget is devoted to innovation rather than maintenance.

How much of IT's time can you devote to addressing new business requirements, rather than day-to-day operations such as patches, fixes, support calls and otherwise managing your infrastructure? Take a hard look at the aging, version-locked ERP system you are running right now, and do the math.

Analysts from Forrester to Gartner measure this allocation closely, and find that maintenance spend can range from 50 percent to more than 90 percent of a typical IT budget. Only a fraction is left over for meeting business needs. It's no wonder, considering the average cost of an Oracle or SAP deployment can be between \$12 million and \$17 million, according to CIO magazine.<sup>3</sup> Subsequent recurring maintenance fees, infrastructure upgrades, integrations and ongoing IT maintenance can quickly consume the IT budget.

Simply changing the equation and reallocating the IT budget from maintenance to innovation is almost impossible with old ERP, because every costly old on-premise ERP upgrade, patch and fix is “opportunity cost” —money and time that isn't spent on tailoring ERP to meet the needs of the business. Worse still, businesses have little left over for managing core areas such as security and reliability. For example, does your business have budget left over to manage a second data center?

Does your IT budget allocation look like this?  
Blame your outdated on-premise ERP.





But your competitors are already changing their budget allocation—and cloud computing is the tool that enables them to do it, by cutting IT costs by 50 percent or more.<sup>4</sup> They're able to reduce spend on maintenance, and increase spend on such value-added activities as creating new cross-functional workflows and reporting processes, adding sales channels, entering new markets and improving connectedness between internal and external systems. That adds up to a decided competitive advantage, while the company gains enterprise security, redundancy and data recovery that would be cost-prohibitive as internal company initiatives.

In 2013, Shaw Carpets, a \$4.5 billion subsidiary of Berkshire Hathaway and manufacturer of flooring and turf products for commercial, residential and institutional markets was looking to expand its manufacturing facilities into China and needed a new ERP solution to support China and subsequent subsidiaries that would be created in the APAC region. Faced with the reality of an aging on-premise ERP solution and the associated pain of maintaining the customizations, the company was faced with the problem of version lock. Shaw Carpets had to choose between retooling the customizations with every upgrade of the core ERP system (and burning their IT resources in the process) or staying on outdated releases. While staying on older releases was 'safer' it prevented the company from taking advantage of the latest and greatest functionality from their on-premise ERP vendor.

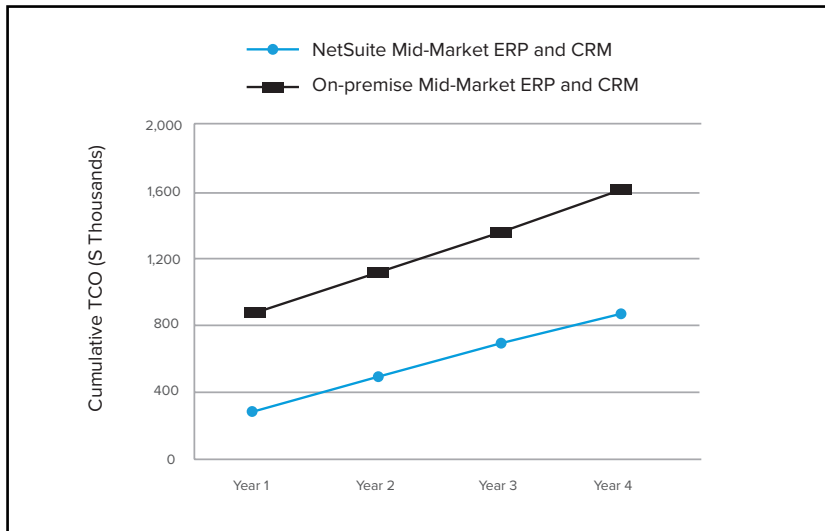
“We were spending 3 percent of our revenue on SAP. By switching to NetSuite, we reduced that cost to 0.1 percent of revenue.” – Asahi Kasei, Spandex America

One of the company’s key requirements was a platform that guaranteed that their customizations would work with newer releases of products, without killing their IT resources in the process. Shaw Carpets ended up choosing NetSuite and is now enjoying the benefits of zero upfront capital expenditure, rapid deployment across 11 subsidiaries and counting. Most importantly, Shaw is taking advantage of the latest functionality that NetSuite offers every six months WITHOUT worrying about any customizations.

## **2. Business Regulations Demand Fluidity; Brittle and Outdated ERP Fails to Keep Pace**

The accounting and regulatory environment is in constant flux as governments tighten fiscal policy through sales and corporate tax changes, or accounting bodies implement more stringent requirements such as FASB’s ASC 605-25 rules governing revenue recognition for “multi-element” products and services. These kinds of changes place enormous pressure on finance organizations. An out-of-date ERP is simply not designed with change in mind. How could your SAP R/3 install circa 2005 ever have known about revenue recognition changes that would be hitting in 2014?

TCO for NetSuite cloud is 50 percent less than legacy on-premise.

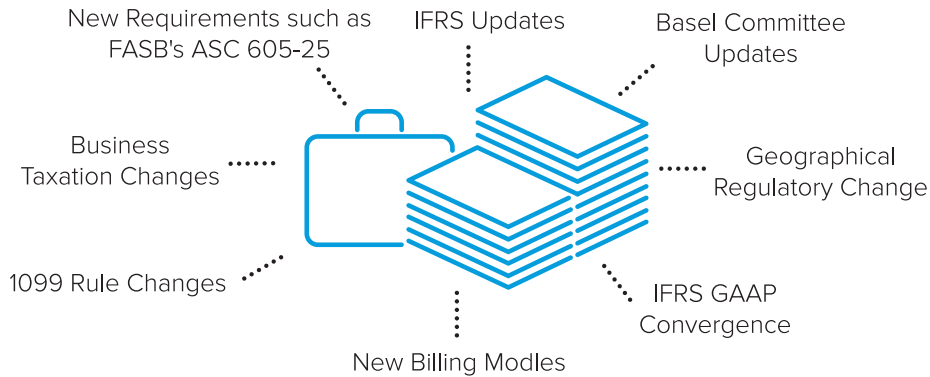


\*Source: SMB Group, 2013

The gulf between your ERP and your current business operating environment is filled with spreadsheets and headcount. This is the “putty” that fills the gap that your ERP was meant to automate. Revenue recognition schedules suddenly migrate to spreadsheets, local geo tax reports get massaged through CSV exports and manual entry, and sales tax calculations suddenly start becoming error-prone affairs.

The fact is that your on-premise ERP will never track with change—because on the rare occasion you upgrade it, the operating environment will already have changed, and spreadsheets and personnel once again rush to fill the gap.

Has your operating environment changed but your ERP stayed the same? Welcome to spreadsheet hell.



In contrast, cloud-based ERP aligns continuously with your operating environment. It applies the same philosophy to corporate ERP that's behind web-based applications like TurboTax Online—you're always up to date to adhere to the latest accounting rules, tax regulations and compliance standards. These upgrades are rolled out regularly by the cloud ERP vendor as necessary and while you sleep, your ERP is updated with the latest regulations and requirements. The result is less risk, less headcount and more time spent on strategic rather than operational tasks.

### 3. Aging ERP Is a Drag on Business Velocity

The web enables business to go global instantly—reaching many millions of customers in a year or two, whereas it used to take a decade or more to make that type of progress.

Some of today's fast growing publicly traded companies like GoPro are growing because they are not shackled to their on-premise ERP systems. Had these companies relied on an upgrade to the installation of their on-premise ERP system to take advantage of innovation, who knows where they'd be today? For example, GoPro has been able to expand into new distribution partnerships to maintain its growth by extending its core systems into portals and connections that process orders, manage stock and deliver up-to-date information to suppliers and distribution partners. And the most important thing is that they have been able to build this infrastructure in the space of just two years because they went with a flexible cloud-based ERP platform that supported and aided their rapid growth rather than relying on an on-premise system that would have hampered their growth.



“We’ve build a very internationally reaching business from a sole headquarters here in California. I think what made a lot of that work was our ability to push out real-time information to our distributors and to customers that were in different time zones.”

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**Stephen Baumer**  
CTO, GoPro

Your ability to compete is diminished if you're running an aging install of Microsoft Dynamics NAV or Epicor that was designed for when businesses grew incrementally—country by country, market by market, over years and decades. The old way of doing business meant deploying multiple ERP instances and databases for each market. It meant hiring IT in each location, setting up offices, procuring software and hardware, and enduring onerous setup processes. IT budget, resources and time were the constraining factors for business growth.

Cloud applications like NetSuite provide the engine to drive growth, enabling businesses to lay down an applications footprint for each country and subsidiary in weeks—not months or years. Cloud ERP spares businesses from having to worry about scaling up expensive IT resources and large capital expenditures on IT infrastructure. The result is velocity that creates true competitive advantage.

#### **4. Mobile Workforce Battles Immobility and Outdated ERP**

The millennial generation entering the workforce demand easy-to-use systems that mirror social tools or online shopping and increasingly blur the lines between work and home life. At the end of the day, putting the right person in the right place with the right tools remains the best way for a company of any size to stay competitive. According to Gartner, worldwide devices (the combined shipments of PCs, tablets and mobile phones) are on

**“NetSuite requires as little as 10% of the implementation effort normally associated with an ERP deployment.”** – Nucleus Research

pace to reaching more than 2.9 billion units in 2017. But your ERP system was designed for when work was done in the office cube, and consumer computing and business computing were clearly separated. Using outdated ERP means either completely giving up on accessing your information from anywhere outside of your office, struggling for access over sloth-like Citrix connections or enduring painfully slow client-server experiences over virtual private networks (VPNs)—not to mention the associated IT and maintenance costs. It also means having no visibility into business operations when on the road, or having to drive into the office to approve a sales order. The result is your employees are simply less productive than they could be and you make decisions more slowly based on outdated information.

Old ERP was never designed for the post-PC era of the anytime, anywhere workforce, but cloud applications are. In fact, no matter how much you upgrade your old PC-era ERP system, it will never be easy to access over mobile devices because it was not initially architected with the web in mind and, in some cases, was engineered before the Internet was invented. On the other hand, web-based cloud ERP applications are optimized for bringing the world of mobile computing together with ERP, enabling your employees to monitor and manage the business from anywhere on any device. For example, without any



IT setup work, NetSuite cloud ERP can be accessed from anytime, anywhere via any web browser, whether IE, Chrome, Safari or Firefox, and any mobile device, whether iPads, iPhone, Androids or whichever device hits the market next.

## **5. Centralized Old ERP Hampers the Increasingly Decentralized Business**

It's not just workers that are becoming mobile. Businesses as a whole are becoming more distributed.

To compete, businesses are looking to achieve agility and fluidity in their business structure. In a globalized world, businesses need to be able to choose where work takes place based on cost, timeliness and the ability to maintain and adapt an elastic workforce.

Today's businesses are running operations in multiple locations and maximizing efficiency with offshoring and remote workers. But last generation's ERP was never designed with this in mind, requiring hefty Windows clients and heavyweight software in each location. Old ERP forces you into an expensive centralized structure, unless you can afford to dispatch IT teams to every corner of the globe. It means maintaining desktops at multiple locations, upgrading clients and dealing with information fragmentation across local desktops. Businesses want to decentralize while maintaining visibility and control, but old ERP holds them back from achieving those goals.

A good example of how a business can compete in this newly globalized environment is Sundia Corporation, a multimillion-dollar fresh produce brand based in Oakland, California. With customer support in the Philippines, accounting in India and the executive team in California, Sundia needed to get operations up quickly while maintaining an efficient ongoing cost structure. Cloud ERP is the foundation for Sundia's modern, global and decentralized operations, enabling its personnel across the globe to access, manage and even innovate the ERP system in real time.

It's an organizational structure that would have been untenable with old centralized ERP. Brad Oberwager, Founder, Chairman and CEO, observed that Sundia "simply wouldn't be in business with the old way." Sundia is able to leverage the power of cloud to drive innovation further, with remote application development and customization based in Asia taking place in real time on the cloud platform.

Cloud computing enables the distributed "elastic" business—enabling the extended workforce to access applications from anywhere across the globe, offshore as it makes sense, and scale up and down easily whenever needed. They can easily operate on a true "follow-the-sun" model and not be limited by the constraints of centralized ERP or be dependent on local IT resources.

## 6. Legacy ERP Fails to Satisfy the Appetite for Real-Time Information

If you're running legacy ERP like Sage MAS or Microsoft Dynamics GP, you know the drill. Your business is running on spreadsheets, and management reporting is an onerous and error-prone exercise. You've got employees dedicated to the job of simply reporting, or reporting consumes the lion's share of their day.

More often than not, it takes days to assemble bookings, billings and backlogs reports, or complete the periodic budgeting and forecasting process. You're constantly struggling to unlock data that's buried in the ERP (or other disconnected systems and spreadsheets). Amazingly, while businesses can today measure ad performance, marketing campaign responses, and the number of unique visitors to their website in real time, core financial management reporting remains measured in weeks and business days.

According to a survey by Forrester research titled Key Prevailing Trends in ERP, more companies are interested in adopting the following trends and Analytics is one of the top three priorities.<sup>5</sup>

- **SaaS:** Deployments are complementary to on-premises apps.
- **Mobile:** Running ERP apps on a variety of smart devices.
- **Analytics:** Broadening their organization's use of BI and reporting.
- **Collaboration:** Taking on technologies as part of a push for app usability.
- **Business Processes:** Embedding processes within ERP apps.

\*Source: Gartner (May 2013)

And for good reason—there's a gulf between what financial managers need and what their ERP is delivering. Custom ABAP reporting in an SAP ERP system, static Crystal Reports or out-of-date spreadsheets emailed among managers just aren't enough. Your ERP is starving your business of information, forcing you to make strategic and tactical decisions based on out-of-date, incomplete or simply erroneous data.

To compete, businesses need modern ERP designed for today's needs, not the needs of yesteryear. BI and analytics should be part and parcel of the ERP experience. BI has to empower every employee with personalized key performance indicators (KPIs) in real-time, enable them to get down to the invoice behind that days sales outstanding (DSO) threshold metric, gain visibility across the complete business and create and share their own reports with self-service tools.

Combining the mobility and distributed access enabled by the cloud with real-time analytics puts your company firmly on the path to true competitive advantage—enabling workers across the extended business to collaborate and achieve alignment, no matter where their location and without days of delay. Modern cloud ERP like NetSuite eliminates the gap between the demand for analytics, your business processes and the decisions you need to make based on both of those items.

## **7. Stone Age ERP Walls Your Business Off from Suppliers, Channels and Customers**

Everything has become connected through the cloud. Your customers are no longer content to wait on the phone to check an order; they want to browse your website to get their order status right now. Your suppliers stand ready to drop-ship your orders in real time rather than forcing you to tie up capital in inventory.

Channels like Amazon are ripe to drive additional sales. Your website is increasingly your principal storefront, and customers judge your business by the level of service it provides. Your operations have to be interconnected with customers, suppliers and partners, enabling real-time information exchange on demand.

But your out-of-date SAP R/3 or Microsoft Dynamics AX deployment was never designed for such an interconnected world—forcing you to deploy expensive adapters, third-party applications and CSV exports. In short, Stone Age ERP was never designed to be

connected across so many touchpoints and with so many external stakeholders—they're simply not service-oriented systems.

As the Web increasingly becomes the medium for information exchange, your on-premise ERP is increasingly an anathema, a silo—disconnected and out of sync. The impact is multi-faceted. Your customers are frustrated if they can't easily view pricing and inventory information on your website, or check the status of orders or returns. You're frustrated if you can't switch suppliers on demand, because the effort requires yet more expensive integrations.

In contrast, cloud ERP applications were designed to connect with other platforms and web applications within your enterprise and beyond. Designed from the ground up to be service-oriented and always-on, cloud ERP makes it easy to synchronize your back- and front-office with your website in real time and connect to the extended enterprise. Your customers see their orders and returns in real time. Your suppliers are able to fulfill your customers' orders as they process in your ERP. Your stock levels are always up to date, providing visibility for your sales and service reps as well as customers browsing through channels like eBay and Amazon.

## 8. Old ERP Is a Barrier between Your Employees and Self-Service

Are you part of a self-service business? Can your employees enter time and expenses themselves into the ERP, or does someone need to rekey it for them? Can an accounting manager quickly implement a new purchase order process, or do you need to wait weeks for IT to do it? Can your finance team easily change the invoice template, or add another field to a customer record themselves? If none of this rings true, don't blame your co-workers—blame your ERP.

Stone Age ERP was designed when businesses were top-heavy in general administration—when it was standard practice to have someone assigned to rekeying purchase orders or time and expense entries. Back then, a manager could offload his reporting to the finance staff, and you could hire another IT guy to make an ERP process change.

Cloud ERP is designed for lean businesses and uses the power of the web to drive employee self-service, just as the Web has securely transformed online banking and customer self-service systems. As banks have known for years, empowering customers with self-service through the Web increases profitability and reduces waste that goes straight to the bottom line. Employees who use the cloud gain self-service efficiencies that aren't possible to achieve with old ERP. They can submit time and expense reports or purchase orders, even enter receipts directly into the ERP anywhere from a web page or mobile device. Once these transactions are submitted, it's just a matter

of online approval. Managing change is also self-service, with graphical workflows, forms and schema changes that require no delay or IT involvement. Even reporting—a function long offloaded to “reporting analysts”—can be performed by managers themselves.

## **From “Version-Locked” Outdated ERP to “Version-Less” Cloud ERP**

Cloud ERP frees businesses from the brittle, inflexible and change resistant ERP of the past. With the cloud, businesses can run on ERP that is “version-less.” It means that businesses get the latest innovations automatically, from new features to support for the latest regulations. No more waiting, no more costly upgrades, no more upgrade risk. No more outdated ERP.

“Version-less” cloud ERP enables enterprises to experience ERP innovation as fast as consumers experience innovation in the enhanced web applications they use every day. It continuously aligns your ERP with your business operating environment.

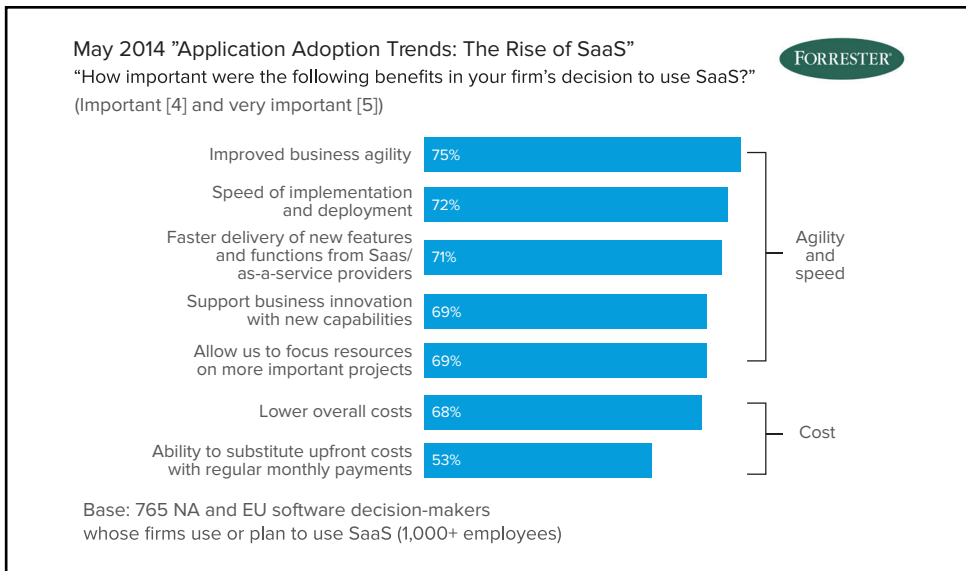
Better still, enterprises no longer have to live in fear of customizations acting like “silicon concrete,” hardening their ERP to change and slowing their business to a crawl. They can finally customize their ERP with confidence, because with cloud ERP, customizations migrate automatically with every new release. Customization no longer becomes a barrier to innovation.



## The Competitive Advantage of Cloud ERP

A recent Forrester Research Forrsights survey found that the top four reasons that businesses move to the cloud are improved business agility, speed of implementation and deployment, faster delivery of new features and functions and to support business innovation with new capabilities. At NetSuite, we couldn't agree more—we've seen the 24,000+ companies and subsidiaries that run on the NetSuite cloud, experience the same benefits.

### SaaS Benefits Emphasize Agility and Speed



\*Source: Forrsights Software Survey, Q4 2013

Why make the move now? Consider the alternative. Remaining on Stone Age "version-locked" systems means high ongoing cost, distraction from focusing on what matters and a continuing drag on business agility. And ultimately that means falling behind your competition.

“NetSuite is the most successful ERP suite SaaS provider operating in terms of active customers, international presence and functionality offered across the product.” – Gartner

In today’s business environment, businesses can’t afford to ignore these competitive factors and advantages:

	COMPETITIVE ADVANTAGE	NETSUITE CLOUD	ON-PREMISE ERP
1	Realign towards innovation focused IT spend	Yes	No
2	Reduce risk and resources through continuous regulatory alignment	Yes	No
3	Enable business velocity without scaling cost structure	Yes	No
4	Empower the mobile workforce	Yes	No
5	Create a distributed, decentralized business	Yes	No
6	Close the “analytics gap”	Yes	No
7	Drive the “connected” business with suppliers, channels and customers	Yes	No
8	Equip your employees for self-service	Yes	No

## About NetSuite

NetSuite Inc. is the industry’s leading provider of cloud-based financials/Enterprise Resource Planning (ERP) and omnichannel commerce software suites. In addition to financials/ERP and omnichannel commerce software suites, NetSuite offers a broad suite of applications, including financial management, ecommerce and retail management, Professional Services Automation (PSA) and Human Capital Management (HCM) that enable companies to manage most of their core business operations in its single integrated suite. NetSuite software allows businesses to automate operations, streamline processes and access real-time business information anytime, anywhere. For more information about NetSuite, please visit [www.netsuite.com](http://www.netsuite.com).

