ENABLING THE MODERN BUSINESS THROUGH IT

How Cloud ERP Can Help Meet Rapidly
Evolving Business Needs

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As the pace of innovation accelerates, customer needs change
and industries converge, many companies find it challenging
for their information technology to support the rapidly changing
needs of the business. To maintain relevance and drive growth,
companies must innovate through new products, new lines of
business, new customer-enabling and supply chain capabilities.
Many companies are testing and innovating with new business
models (including acquisitions), new services, new markets
(including global expansion), and new pricing strategies such as
freemium. To accomplish these goals, businesses need flexible,
agile technology services to support them.

Unfortunately, many organizations are faced with managing
highly complex and inflexible legacy IT systems as a result
of mergers, restructuring, tactical investment decisions, and
changing business priorities. This complexity creates pressure
on IT to lower cost through simplification and automation.

In the first 6 months of 2014, global M&A deal volume surged to $1.75 trillion, a seven year high and up 75% over the same period in 2013.

At the same time, as businesses emerge from a period of focusing mainly on cost management to focusing much more on growth, the requirements of IT to support growth and innovation are substantially different. For example, a company may acquire a new business that operates very differently than its acquirer. Legacy systems may make it difficult, expensive, and time consuming to bring that business into the company's core reporting infrastructure. Customers might be asking for self-service and mobile apps yet core systems may not be flexible enough to make such changes. A company may want to start a new venture and be able to quickly shut it down if it is not successful. But, the time it takes for IT to start, change and stop the systems to support that venture may prohibit the business from being agile in the market. For these and many other reasons, pressure is mounting for IT to find ways to support modern business innovation and agility as board of directors and management teams take a strategic look at how technology is shaping or hindering their company's future.

Evolving IT Architecture to Support the Modern Business

Accenture High Performance IT research shows that 67 percent of CIOs want to position IT as a strategic asset that will help the business grow through the use of innovative technology, products or processes. Unfortunately, many IT operating models that were built around cost management cannot sufficiently support the agility, change and innovation needed for a growth-oriented agenda. Adding to the challenge, uncertainty about future growth is forcing many businesses to hedge their bets about where and how to invest. Many are following a strategy of making small investments to execute trials and pilots with the expectation that they will have to respond rapidly to unanticipated market or customer shifts and quickly shut down experiments that don't work.

There is no one-size-fits-all approach to building the IT infrastructure to support the modern company. Only with a clear view of business requirements can the CIO make the right technology choices to address legacy complexity and inflexibility. The most effective approach is to start not with IT itself, but with business' needs and then plan for change, making IT decisions on a 6 to 12 month horizon instead of a traditional 5 to 10 year horizon. Any program to renew the IT environment must take into account the business' evolving strategy—or it will miss the opportunity to "future proof" by creating systems able to support growth now and in the future.
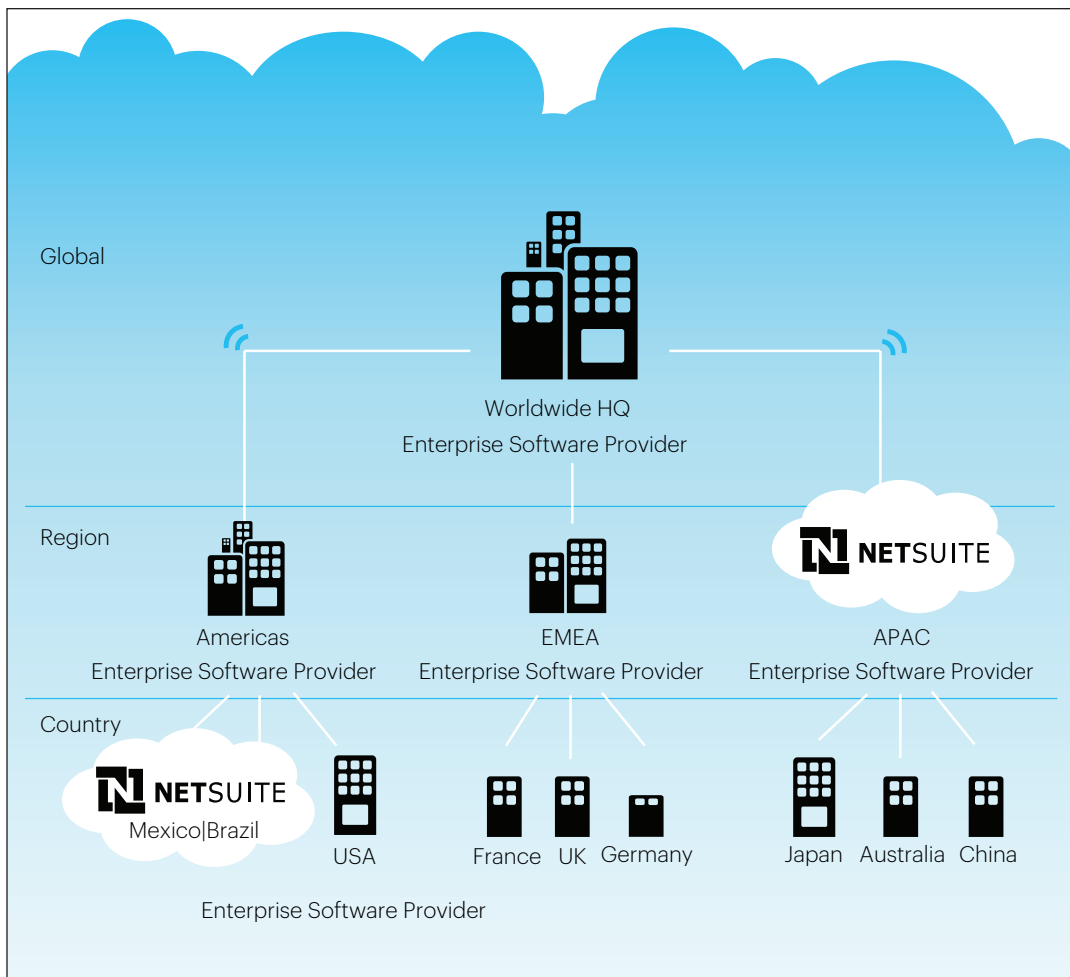
Figure 1: Two-Tier ERP Strategy

Source: NetSuite Inc.

The CIO's drive for IT agility is leading to a strong focus on how IT services are structured. On the supply side, the quest for simplicity is mirrored by the increasing maturity of standard solutions, both in licensed application software and increasingly via Platform-as-a-Service (PaaS), Software-as-a-Service (SaaS) and Business Process-as-a-Service (BPaaS) solutions. To capitalize on these developments, CIOs need a clear view of how these elements can be integrated into systems architecture and what changes they imply for the operating model.

Traditional approaches, such as consolidating around a single enterprise platform, are quickly becoming outdated as IT organizations seek more flexible IT sourcing models. High performers have mapped out transition plans that take into account business needs and then match the right architecture components to those needs.

A New Strategy for the Enterprise

The cloud opens up exciting new possibilities for CIOs and CFOs to think differently about their IT infrastructure, and how they can increase flexibility and agility in support of the modern, innovative business. One such opportunity is two-tier Enterprise Resource Planning (ERP), which can both enable business growth and optimize costs (Figure 1). A departure from the traditional ERP consolidation strategy, it is an extension strategy that enables organizations to create the agility required to add new business models, integrate acquisitions and support innovation.

A "two-tier" ERP strategy is one in which the company runs a traditional global ERP system at the group level or for the existing business in combination with separate SaaS ERP solutions at the subsidiary or new business unit level. The two-tier strategy enables the company to shift how it approaches business model integration, preventing it from needing to consolidate new and different entities into one solution while still enabling consolidated financial reporting. The result is a "hub and spoke" ERP model.

As companies evaluate their options for meeting business needs, experience shows that in situations where a two-tier ERP strategy is a good fit, it can significantly reduce capital and operational costs, enable greater agility and speed up acceptance by end-users while providing the flexibility to support growth and innovation (Figure 2).
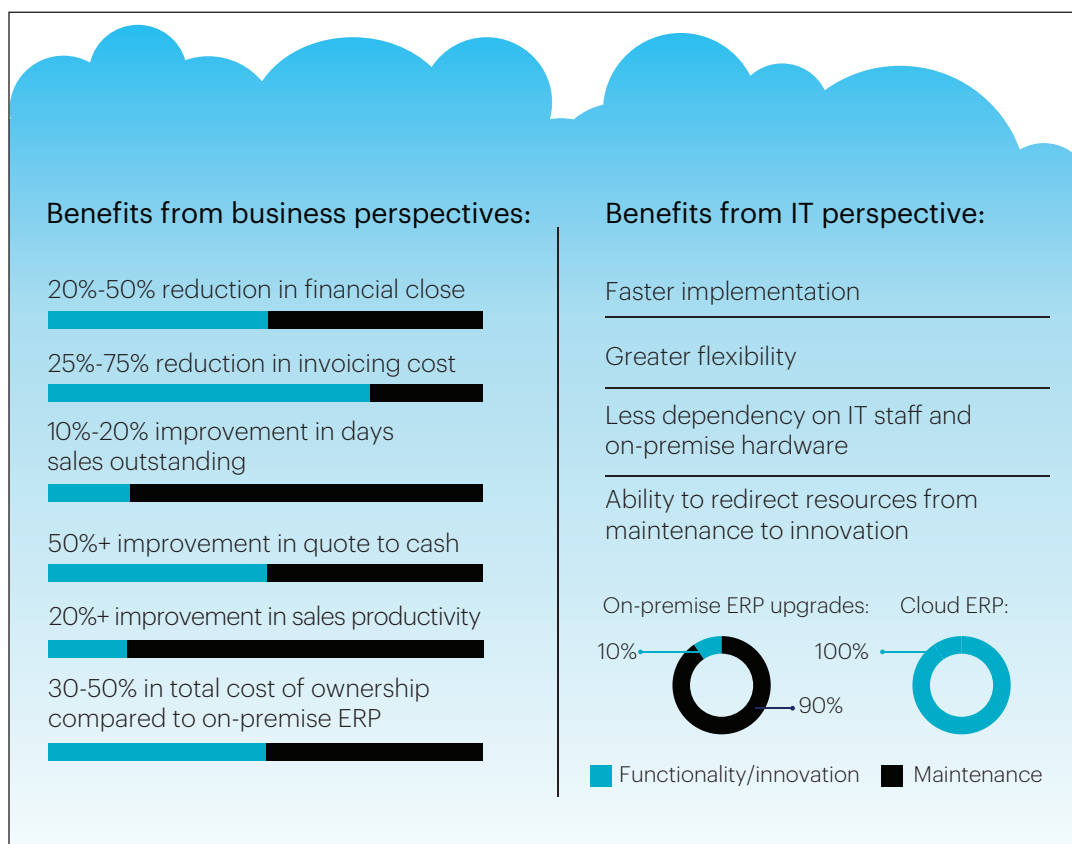

Figure 2: Benefits of Two-Tier ERP

Source: Calculating the ROI of Cloud-Based ERP is no Simple Task; SL Associates, NetSuite, November 2013; Nucleus Research: NetSuite's Impact on E-Commerce Companies, March 2011.

Two-tier ERP gives companies the flexibility to preserve the IT infrastructure supporting the core business while having a separate cloud ERP innovation platform when business needs are different such as for new business models, pricing strategies, distribution methods and other innovations. For example, a rental

car company that has grown through traditional multi-day rental from central locations has a very different business model than a new venture that rents cars by the minute that are mobile in a local market. These operational differences suggest two-tier ERP may be a good fit for the new venture. Or consider a retail grocery store chain launching a digital ordering and home delivery service. Again, these fundamentally different business needs might best be supported through two-tier ERP. Such an approach provides a faster way to support new business needs and doesn't risk business disruptions while making changes for innovations. Acquisitions and joint ventures are also prime "spoke" targets along with startup businesses. Implementing all the "spokes" on the same two-tier system brings standardization at the subsidiary level and cost and operational advantages because it is easier and cheaper to link, coordinate and govern the various local ERP instances.

Frequently Asked Questions When Modernizing IT

As CIOs and CFOs evaluate whether two-tier ERP and various other types of cloud solutions meet their business needs, there are some common questions that they face when at the crossroads.

What does the company gain by moving to the cloud? Cloud solutions are easily scaled up and down in support of growth and business cycles since they are purchased based on the number of users or transactions and don't lock the company into fixed costs and perpetual licenses. By taking advantage of the cloud, companies benefit from the pace of product innovation and investments being made by SaaS and PaaS providers. They also mitigate risk as the cloud service provider

takes responsibility for making sure application upgrades happen seamlessly. Furthermore, they benefit from being part of a multi-tenant community where customers are increasingly helping other customers address technical and business support issues before they ever occur within their organization. In many situations, cloud solutions are easier to get up and running than on-premise solutions and are more easily integrated as cloud providers have an ecosystem of applications with which they readily integrate. IT organizations don't need to increase IT headcount proportionally to support new solutions. By increasing staff leverage, IT organizations can redirect data center resources to maximize value for the organization.

Is the enterprise ready for SaaS? Why now? Now is the time because, quite simply, the very real cost of inaction can be greater than the perceived cost and risk of taking action. Questions from key stakeholders can sometimes slow the decision to act. Frequently asked questions by stakeholders include:

- Can SaaS support my performance needs?

- Can SaaS meet the needs of mission critical applications when the availability is not within our control?

- Can the cloud give me the assurance that my sensitive data is secure?

- Can I avoid introducing technical skills into my organization that are expensive to manage and maintain?

With the right solutions, the answer to all of these questions is 'yes'. However, there are fundamental impacts that arise within the enterprise that need explicit consideration in determining if the enterprise is ready for SaaS. The switch from a capital investment model to an operational expenditure model changes the way that new IT projects are planned and implemented, enabling more frequent, incremental changes that flex with the business. On-demand application infrastructures deliver real-time information on the state of the business that allows management to make faster, better-informed decisions, which the business must be prepared to leverage. CIOs must make sure the necessary integration and governance infrastructure is in place to connect to, monitor and coordinate on-demand assets. On-demand platforms allow for faster prototyping, closer engagement of business managers during the development process and more incremental, agile development styles. Upgrades occur more frequently, allowing the organization to absorb new technology and functionality as continuous improvement. The ongoing, incremental pattern of implementation and development requires new management disciplines, both within IT and across the enterprise.

In summary, becoming a more agile, adaptable organization requires active, skillful change management. Modern businesses and CIOs welcome and embrace these changes, and proactively manage the process of getting the enterprise ready for SaaS.
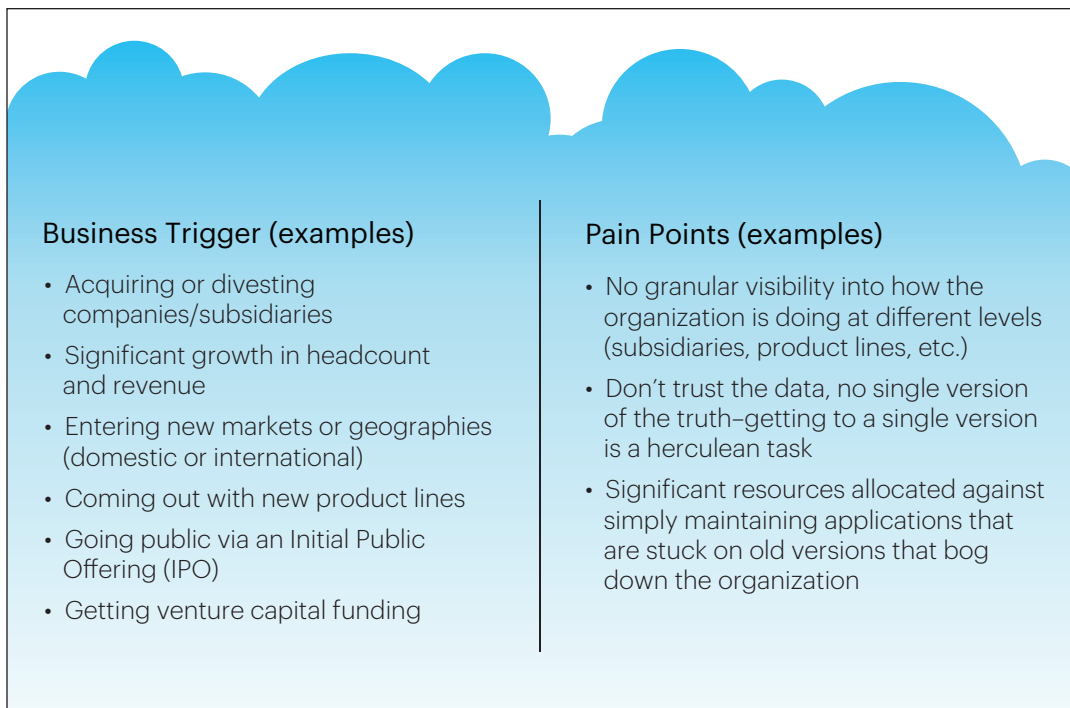
Business Trigger (examples)

- Acquiring or divesting companies/subsidiaries
- Significant growth in headcount and revenue
- Entering new markets or geographies (domestic or international)
- Coming out with new product lines
- Going public via an Initial Public Offering (IPO)
- Getting venture capital funding

Pain Points (examples)

- No granular visibility into how the organization is doing at different levels (subsidiaries, product lines, etc.)
- Don't trust the data, no single version of the truth–getting to a single version is a herculean task
- Significant resources allocated against simply maintaining applications that are stuck on old versions that bog down the organization

Where might SaaS be a good fit? For many organizations, the inflexibility of their IT infrastructure is centered in legacy ERP systems, and the "hairball" of point to point, custom integrated applications connected to their ERP backbone, all of which serve as many points of failure during upgrade cycles. Thus, cloud ERP may be a very attractive option for creating the agility needed to enable the modern business.

A simple way to determine where cloud ERP may be a good fit for the company is to assess the major events that will force change within the organization and the key pain points the business is facing (Figure 3). These are useful indicators of where the company needs to act versus deferring a decision and where cloud ERP as part of a two-tier ERP may be a fast and logical solution.

How does the organization get started? The journey begins with getting a commitment to change from key stakeholders. Once executive support is secured, the team should embark on understanding the business and technical requirements in detail and gathering additional insights on how others have solved the specific business challenge. This is all critical context for determining which vendors and solutions can best help address the situation.

The growing popularity of SaaS and similar cloud-based services has led many vendors to adopt SaaS or cloud labels. Determining which vendor or solution is the best choice involves evaluating providers of on-demand services across several relevant factors. First and foremost, the company should assess the business requirements against the SaaS solutions on the market to determine which set of SaaS solutions best fit its business need. An understanding of the product roadmap and whether or not these solutions can be customized is important, as is the implementation approach of the vendor. Another primary consideration includes the integration and development capability of the firm and the service delivery infrastructure supporting the solution. Multi-tenancy helps to achieve many of the economic and technology advantages SaaS offers. Companies should consider the provider's financial resources to evolve the solution and commitment to SaaS as an operating model.

What are different deployment options for cloud ERP? The on-demand nature of the SaaS model provides substantial flexibility and consideration should be given to different implementation scenarios. Companies may start with a small trial or by proving the value of the solution in some limited application. Ultimately those companies successful with SaaS are iteratively transforming their business. Our experience has shown that this iterative approach, when done correctly, unlocks the most value, and maximizes the ability to do things differently and evolve for the future.

Common deployment patterns for cloud ERP include:

- Deployment to domestic operations first, then to international. This is useful for having core IT staff get familiar with the application before rolling it out further afield.

- Rolling deployment on an "as-needed" basis to subsidiary businesses. This is suitable when bringing improved ERP capabilities to smaller or more tactical business units, or when IT has limited resources for implementation work.

- Phased functional deployment means implementing first at the point of greatest need. For example, roll out core financials first, then roll out inventory, supply chain management, customer relationship management, and so on.

- Rapid parallel deployment across several business units, which avoids complex interim integrations when retiring a patchwork of interconnected legacy systems.

Making it Happen

The need for agile technology to support business innovation is now a boardroom discussion as businesses take a strategic look at how technology is shaping their company's future. Many CIOs are being asked to help enable business innovation. If it's taking too long for IT to be ready to support a new product launch pricing model, or to enter a new market, technology is a roadblock. Leading performers in many industries have adopted the cloud to realize the competitive advantage it offers as well as gain speed to pursue new growth opportunities.

The most effective place for CIOs to start is by partnering with the business to understand needs and evolving business strategy and then re-considering how IT services are structured. The incorporation of a cloud-based two-tier ERP strategy into a company's approach provides the benefit of optimizing costs for growth and gives the business the flexible technology it needs to operate new businesses and in new markets. It is a lower cost, agile solution to support the modern business.

WHAT THE MODERN COMPANY LOOKS LIKE

A company that has created the IT infrastructure to support business innovation and agility possesses a core set of characteristics. The modern company is able to scale rapidly, is extremely responsive to market dynamics and customers, is data driven and innovative.

Scalable

Not only can a modern company scale to meet customer demand, but it is able to scale globally while staying in compliance across global subsidiaries without scaling headcount at the same level. It easily manages a distributed workforce and has automated wherever possible to replace manual processes. It has an infrastructure that can flex with growth without complex integrations bogging it down.

Responsive

It is extremely responsive to market dynamics and customers and, therefore, able to execute to outrun competition. It learns from fast failures and hustles to create small and big wins. It is able to adapt to new geographies, new market opportunities and new business models.

Data Driven

A modern company is a data driven organization with real-time visibility anytime, anywhere, across geographies and subsidiaries. It maintains one version of "the truth" about customers, financials and compliance. It sees growth as a science not as an art and has a culture of rapid testing to generate data, determine what works and discard what doesn't.

Innovative

A modern company has a deep understanding of its customers needs and pain points and is able to generate meaningful insight based on that customer understanding. It is able to bring multiple disciplines together to design a unique solution and to differentiate itself from competitors based on customer responsiveness and ease of use.

WILLIAMS-SONOMA: FUNCTIONAL TWO-TIER ERP

Williams-Sonoma, a high-end American homeware empire with $4 billion in revenue, expanded into Australia with four of their brands opening stores in Sydney's Bondi Junction: Williams-Sonoma, Pottery Barn, Pottery Barn Kids, and West Elm. With leases already signed and a short runway to the opening date, a combined ecommerce, point of sale (POS) and ERP system couldn't be delivered on time or within budget using the existing systems Williams-Sonoma was running in the U.S. But, using NetSuite's SuiteCommerce and Two-Tier approach, Williams-Sonoma developed what was needed for launch within the required timeframe: all four stores' POS systems, and all four ecommerce websites in pixel-perfect form in about seven months.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 305,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$30.0 billion for the fiscal year ended Aug. 31, 2014. Its home page is www.accenture.com.

About NetSuite

NetSuite Inc. is a leading vendor of cloud computing business management software suites. NetSuite enables companies to manage core key business operations in a single system, which includes Enterprise Resource Planning (ERP), Accounting, and ecommerce. NetSuite's patent-pending "real-time dashboard" technology provides an easy-to-use view into up-to-date, role-specific business information. Learn more at: http://www.netsuite.com/portal/solutions/cio.shtml.