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# CLOUD ERP SYSTEM FOR ENTERPRISES—KEY CONSIDERATIONS

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## Executive Summary

In the past decade, companies have increasingly been opening factories and offices in China, India and other countries in an endless chase for lowest-cost, high quality labor and to enter new markets. The result has been mergers, acquisitions, consolidations and new subsidiaries. In the midst of this global expansion, enterprises have turned their focus to global efficiency, cost reduction and regulatory compliance, pursuing uniform and consistent process strategies including shared services. While doing all this and more, enterprises want to be flexible, agile and swift to respond to today's ever-changing, unpredictable and hyper competitive business environment. They want to be able to achieve all this and still focus on their core competencies.

Almost all major companies rely on ERP systems to manage just about every business process in every part of the enterprise, mostly legacy on-premise systems. These legacy ERP vendors claim that a single ERP instance spanning the enterprise and subsidiaries is the best solution. Among their rationale is the contention that a single instance allows companies to

reconcile business processes and data, providing significant value in improved integration and decision making. There is also a presumption that any unique requirements met by third-party solutions will be significantly outweighed by the value of integrated processes and data. Those arguments are compelling, but caveat emptor! The pain and expense of legacy and on-premise ERP implementations are well known but often underestimated until the deployment is well underway. Take the recent decision by leading global beauty company Avon to halt the rollout of SAP's new Order Management system, with the cosmetics giant having to take up to a \$125 million charge for the failed project.<sup>1</sup> In another recent example, a newly released audit report has found that the price tag for troubled SAP project will skyrocket to nearly \$1 billion.<sup>2</sup> There are many more such examples of large projects that not only fail more often but also deliver less.

That brings us to the million dollar question—if an enterprise is stuck with on-premise ERP at the corporate level but does not want to go through the painful experience and costs at the subsidiary level, what are its options? What is stopping it from pushing the on-premise ERP system at the corporate level out to its subsidiaries? From harsh experience, enterprises know that such a step would require enormous resources in servers, software and network infrastructure, IT personnel, training and maintenance costs, just to manage local ERP systems. Implementing the system and integrating it with the corporate office could take months if

not years. Equally undesirable is letting each new subsidiary keep their own legacy systems or allowing them to choose their own solutions—a certain recipe for operational chaos, disintegration, inconsistent governance, and lack of visibility and control into finances and key performance indicators—requiring more resources to patch and maintain the hairball of systems.

The answer? Deploy a cloud-based ERP system at the subsidiary level, which can sidestep the proverbial Morton's Fork.

However, selecting a cloud ERP vendor can be challenging and making the right decision for your business is key to a successful ERP implementation. There are several factors that need to be considered beyond evaluating just the functionality offered by the cloud ERP solution. A thorough evaluation demands making sure that the cloud vendor has the capability to support your business needs as they evolve over the course of years and decades, essentially future-proofing your business.

This paper proposes several evaluation criteria as a starting point for what you, as a business leader, should be looking for in a cloud ERP vendor.

## **Cloud ERP System for Enterprises**

A cloud-based ERP system at the subsidiary level lets companies run the equivalent of two ERP systems at once: one at the corporate level and one at the division or subsidiary level. It enables organizations to keep existing ERP investments at the corporate level while empowering divisions or business units to innovate with a second ERP system.

Cloud-based solutions for ERP, financials, CRM, ecommerce and supply chain are increasingly being implemented at subsidiaries, divisions, and geographic locations of multi-entity companies. This hybrid approach, also known as a two-tier model, gives organizations lower cost, faster time to value and the cross-enterprise transparency of a cloud solution, while enabling the company to preserve its investments in on-premise ERP at headquarters.

Cloud ERP systems can be quickly and affordably implemented, rolling up financial data through pre-built connectors to a SAP or Oracle system at headquarters.

Although this hybrid ERP architecture can be created with a combination of systems, a model that enables a third-party cloud-based ERP system at the subsidiary level excels because of the inherent advantages of rapid and scalable deployment. The end result gives headquarters the real-time visibility it needs, at a much lower price. This model enables subsidiaries to configure ERP to their own special needs and support their local requirements. It also ensures that a remote subsidiary does not end up with a cumbersome, hard-to-maintain on-premise ERP deployment.

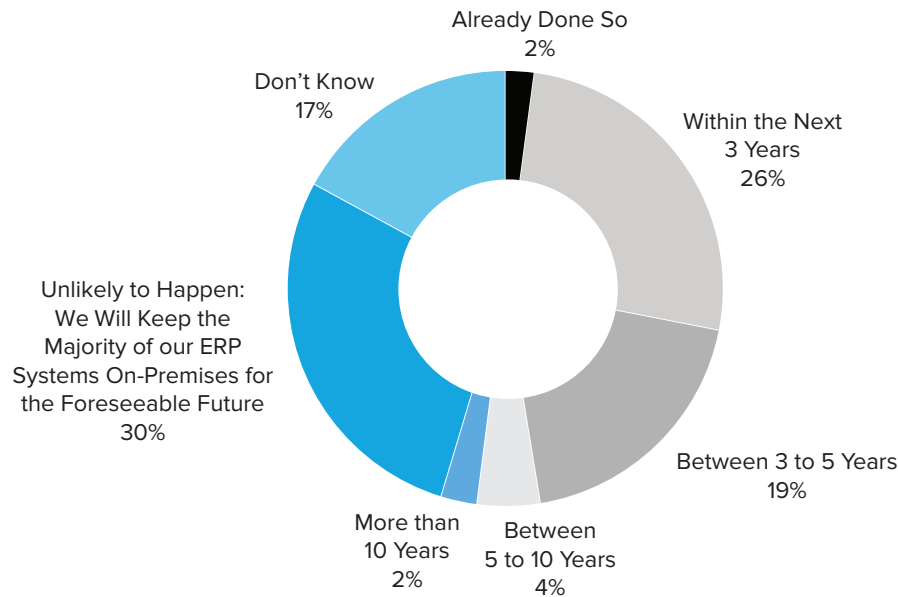
The model offers other benefits such as lower capital and ongoing IT costs, greater operational efficiency and visibility, increased speed and flexibility, support for regulatory and geographic requirements and getting acquisitions or new subsidiaries up and running faster and ensuring local operations can be productive quickly. This puts forward the case for large enterprises standardizing on a single cloud-based ERP at the subsidiary level, enabling more rapid deployment with less overhead. Implementing all the subsidiaries on the same cloud-based system brings further advantages because it is faster, easier and cheaper to link, coordinate and govern the local ERP instances.

## **Growing Popularity of Enterprise Cloud ERP**

Enterprises in the market for ERP solutions are increasingly considering a cloud strategy at the subsidiary level.

- A recent study completed by Gartner titled “Survey Analysis: Adoption of Cloud ERP, 2013 Through 2023” published in January 2014, advises CIOs and application leaders of financial services institutions to “consider cloud ERP as a potential replacement for aging core ERP systems that are out of support or running on an old technology platforms (such as mainframes)”.

Figure 1. Cloud ERP Adoption Plans. All Respondents

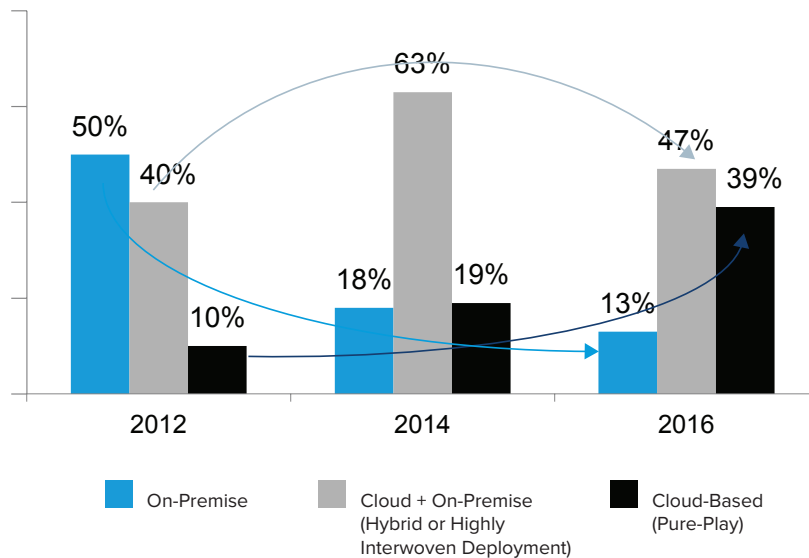


Source: Gartner (January 2014)

According to Louis Columbus, a Forbes.com contributor and CRM, Cloud Computing, ERP and Enterprise Software expert, two-tier ERP is the Trojan Horse of cloud ERP. If Gartner had asked their respondents about if and how cloud-based ERP systems are being considered and used in two-tier ERP strategies globally, their survey and previous forecasts would have been significantly different i.e., cloud ERP adoption is faster than Gartner predicts, he suggests.<sup>3</sup>

- Saugatuck Technology’s 2012 Cloud Business Solution Survey predicts that through 2016, “hybrid” cloud deployments will become the enterprise platform of choice, with at least three quarters of new enterprise IT spending involving hybrid or cloud platforms. Much of that hybrid focus will shift toward pure-play SaaS/Cloud within just a few years, suggesting a challenging transitional period for enterprise IT leaders and organizations.

My company’s preference for deploying new business software (on a continuum from On-premise to Hybrid-Cloud to pure-play Cloud) will be:



Source: Saugatuck Technology Inc., 2012 global SaaS survey



## **Drivers for an Enterprise Cloud ERP Platform**

At a high-level the following scenarios make the most sense for enterprises to deploy a cloud-based ERP system at the subsidiaries.<sup>4</sup>

**Standardize Subsidiaries** – When enterprises want to standardize divisions, subsidiaries and regional operations on a single solution with global consolidation and rollup capabilities thus increasing agility and getting better visibility into subsidiaries.

**M&A, Divestitures** – Cloud-based ERP system offers a strategic response to quickly integrate new companies or business units and efficiently manage joint ventures and divestitures.

**New Markets** – When establishing a presence in new and emerging markets, a cloud-based ERP system helps automate and integrate complex business processes, extend global reach while meeting local needs and gain entry into new markets faster and more affordably than ever before.

**New Business Models** – In order to make the shift to support new business models such as new billing models (recurring and subscription-based revenue), services companies selling products and vice-versa, a cloud-based model optimizes existing investments while easily launching new business models.

**New Channels** – As companies experiment with new revenue models, cloud-based ERP facilitates the entrance of new sales and distribution channels such as ecommerce (examples: manufacturers going direct to consumer, B2B going B2C and vice-versa) as companies need technology that can support the new channels.

## **Cloud ERP Evaluation Criteria**

If an enterprise is considering a cloud-based model, how should it go about selecting the right vendor? Here is a good start for what they should be looking for in a cloud ERP vendor.

### **A True Cloud Solution**

Cloud technology has not only changed business practices, but seriously disrupted the vendor landscape. Many established software providers have still not caught up in this increasingly sophisticated market.

It's important to make the distinction between a true cloud solution and a hosted service with a 'cloud' label slapped on it. While on the surface these cloud whitewashed solutions may seem like good value, their shortcomings will be quickly exposed.

A true cloud solution must be a real-time, multi-tenant, single source application, with unlimited access from any web device. Vendors should not require customers to ever manage upgrades or infrastructure. Very few cloud companies today can offer this, especially for complex systems that operate an entire business on a single application. Trying to tie together numerous, disparate technologies into a central system may

seem like a good idea initially and promoted as such by the traditional ERP vendors, but ultimately leads to a hairball on which your business will eventually choke. Additionally, fake cloud systems often impose an additional fee for the privilege of being hosted in the fake cloud. These hosting fees mean that the system is even more costly than it would be to maintain internally without most of the benefits a true cloud solution would offer. These are exactly some of the problems enterprises are trying to get away from in a cloud-based model.

### Flexible Configuration

Managers are often called upon to think globally and act locally. In other words, somehow marry the best aspects of centralization and decentralization. Thanks to Service Oriented Architectures (SOA), cloud computing and orchestration, enterprises today are able to deploy ERP strategies that harness the advantages of both centralization and decentralization in real-time. The enterprise application should enable a combination of decentralized and centralized configurations, where some of the processes are managed by the local cloud-based system and the remaining processes are managed by a centralized ERP system. Whether the business unit is a sales and marketing operation or includes distribution, the application should be able to comprehensively model the business processes that need to be supported in a cloud framework.

## Full Financial Roll-Up

The enterprise application should enable a multi-tier organizational hierarchy and consolidation, where the information from local business units can be rolled up into one or multiple levels of hierarchy. For example, Hong Kong operations might roll up into the Far East business unit, which rolls up into the APAC business unit—all on the cloud enterprise application system, which eventually rolls into the corporate ERP system.

## Integration Capabilities

The cloud application should have the ability to integrate with corporate ERP and roll up transactional data into the parent system such as invoices, purchase orders, shipments, inventory adjustments, invoicing, sales orders, receivables and payables, etc. Transaction-level data integration should support a model in which a number of such processes must be centralized within the corporate ERP instance. Roll-up level integration should support a decentralized model in which the division or business unit is fairly autonomous and rolls up consolidated statements to corporate.

Additionally, since many organizations need to integrate standard ERP functionality with vertical industry applications and other in-house apps, the cloud vendor must support a wide variety of integration options ranging from flat file import/export to dynamic web services and published APIs.

## International Capabilities

The cloud application should support multiple languages, currencies, taxation rules, sales commission structures and reporting requirements. At a minimum, the system has to be adaptable to the applicable national currency and local tax rate. Adapting the system to the country-specific financial and payroll accounting regulations would require a more intensive localization effort.

## Customizations

There is no industrial strength ERP system that will work for every business out of the box. Most enterprises build custom extensions on top of their ERP platforms. Customizations are a way of life. A cloud-based ERP system should provide a comprehensive cloud customization environment, whether extending the system to fit business needs or developing completely new applications. Tools should include workflow management, scripting capabilities, analytics, web services and more. Customizations must automatically migrate with every upgrade, enabling you to customize with confidence. Ideally, a company should choose a platform with superior extensibility that enables IT resources to easily transfer skills.

Your experience with on-premise vendors and the shackles of version lock may have you shying away from customization but with a true cloud platform that migrates all your customizations forward automatically with every release, customization is how you build in your very own secret sauce, which keeps you ahead of the competition. So remember, customization is not a dirty word: only the way to tailor your last mile.



## Upgrades

Upgrading an on-premise ERP package can be a multi-year endeavor (and sometimes a career-ending project). One of the key benefits of cloud-based ERP is that upgrades are applied automatically by the vendor in a manner designed to minimize disruption. You need to explore the upgrade process and assess potential landmines and adaptations that may be required. You should never have to worry about version lock because customizations should carry over automatically with each new release.

## Ecosystem

Many enterprises have augmented their on-premise ERP environments with point solutions specific to their industry, business or target markets. For example, functions such as résumé processing, recruiting, payroll and tax processing, ecommerce integration and more. Companies need to verify and ensure that third-party applications implemented in their current environment work with a cloud ERP solution, and size up the cloud vendor's partnerships with ISVs offering complementary applications.

Additionally, the vendor's cloud ecosystem should include applications, consultants, integrators, partners, third parties and anything in their environments that has a bearing on the other components that enable their services to participate in an ecosystem. The collective set of capabilities from multiple organizations and services spanning multiple platforms and cloud environments together should form an ecosystem that feeds and builds upon each other and generate best practices and reusable processes and communities.

After purchasing a new ERP system, it must be implemented—that is, configured to work in your organization. This process of implementation is the bridge between new ERP software and a go-live point, where it can be used to perform real work.

Here is a checklist when selecting consultants to assist with your cloud implementation:

- Demonstrated expertise in the solution you are buying.
- Expertise in your specific vertical.
- Complementary solutions – some partners have deep expertise in specific vertical segments that they develop specialized software add-ons that could benefit you.
- Global implementation expertise.
- Cloud integration skill – ensure your partner knows how to leverage “cloud-to-cloud” integrations using web services.
- Hire a company you like and trust.

## Security

Most organizations don't invest enough in ongoing routine maintenance of their systems which leaves them vulnerable to security threats. With a cloud-based solution, companies no longer have to worry about whether they are adhering to routine maintenance schedules or not. Look for high levels of security when evaluating potential cloud vendors, ranging from secure data center facilities and data management practices, to product security such as role-level access and operations security practices including 128-bit data encryption and system monitoring. Vendors should also meet security standards such as, but not limited to, SAS 70 Type II audit, PCI-DSS and the US-EU Safe Harbor framework.

## Uptime

As part of the SLA (Service Level Agreement), your cloud vendor should supply uptime guarantees and explanation of the redundant systems in place to protect against major system failure. To put this in perspective, if your cloud provider guarantees 99.9% uptime this means in the worst case scenario your system would be down less than 8.76 hours per year. Likely if you carefully tracked the uptime of your on-premises system, you would find it is down more often than you realize.

## Global Services and Support

Professional services and support (either from the cloud ERP vendor or its partners) must have a global footprint and customers should be able to source skills locally. This is a critical requirement since the customer is likely to implement the cloud ERP system in divisions that are operating in smaller markets, and any inability to access local resources significantly reduces the benefit of a cloud ERP model's lower cost and risk.

## Referenceable Clients

Whether you are purchasing ERP software directly from the vendor or from a reseller, take the time to check the references. And don't just check the ones the vendor/partner gives you—but ask around. These references should be companies that the vendor has provided a similar product to. When you contact the references, you should ask them if the software met their needs as expected, if they are happy with the service provided by the vendor, how the vendor reacts when problems arise, how the overall efficiency has increased as a result of the software, and if the employees are happy with the software.

## Vendor Stability

After you've determined which vendors are industry leaders, evaluate each vendor's financial stability including its available cash, its ability and desire to continue product investments and upgrades, its outstanding obligations, and company profile and credit ratings. Review annual reports. Read industry and analyst opinions. Ask for company statistics. Read their product release information. The more information you have available, the more informed decision you can make.

Find out how long the vendor has been in business. How large is their install base? ERP vendors that have been operating for a number of years and have a larger install base are much more stable than those that have only been around for a few years. Experienced vendors can also teach you new and efficient ways to operate your business. Also, look for any negative or critical reviews of the vendor—it's best to look at not just the positive, but the negative reviews as well in order to get a good feel for the strengths and weaknesses of the vendor.

You want a vendor-partner that would be viable over the long-term, that is focused on the ongoing development of its product and that understands and is in sync with your expectations of a partner in terms of support, requirements and flexibility.

## **Key Takeaways**

It can be said with certainty that cloud is reshaping the ERP landscape. The revolution is well underway in businesses of all sizes and across all industries. The question business leaders should be asking is if they are prepared to lead the transition.

Getting information on questions like these is the first but critical step in vendor evaluation for a cloud-based ERP model. A detailed analysis should follow, which should include interviews with key stakeholders, an evaluation of the cost of various cloud ERP options and a detailed analysis, external and internal, to assess the move forward towards ERP selection process.



The flexibility and simplicity inherent in cloud-based systems enable enterprises to adapt to new ways of work that were previously expensive or difficult to attain such as seamless mobility with wireless devices, anytime, anywhere access, embedded analytics and the ability to serve a globally distributed organization with great ease.

By using a cloud-based ERP strategy, organizations with multiple subsidiaries stand to gain from comprehensive, highly customizable solutions, lower costs, as well as greater innovation and agility than they could achieve using a single, large-scale traditional, on-premise ERP solution throughout their organization. However, they need the right cloud ERP solution that provides comprehensive functionality, is highly flexible and adaptable, and offers robust, easy-to-configure and maintain functionality that reduces TCO and can fully deliver the benefits of a cloud-based ERP strategy.

## **NetSuite—Your Cloud ERP Solution**

You may want to consider NetSuite to standardize on subsidiaries. NetSuite has helped multi-entity, multinational companies in a range of industries capitalize on the benefits of the cloud-based ERP model at the subsidiary level. Used in over 160+ countries, featuring built-in support for 190+ currencies, 19 languages and out-of-the-box tax reporting covering more than 50 nations, NetSuite OneWorld enables efficient financial consolidation at both global and local levels while powering front- and back-office operations on a worldwide scale.

Highlighted below are some examples of companies that have achieved success by deploying NetSuite for ERP/financials, CRM, ecommerce, supply chain and more at their satellite operations, and synching with on-premise ERP at headquarters.<sup>5</sup>



# **SIMPLER CONSOLIDATION THROUGH SHARED INTEGRATION – LAND O'LAKES**

For Land O'Lakes, a leading US agricultural cooperative, implementing NetSuite OneWorld across several subsidiaries and joint ventures in the US, Mexico and China allowed it to standardize on a shared, multicompany ERP system that integrates to a core Oracle ERP platform at corporate headquarters. The deployment eliminated a number of disparate systems currently in use in the second tier, together with the various consolidation processes associated with them. The 9,000+ employee organization gained from a more consistent process and better consolidation and reporting that helped streamline its operations and provided a platform for growing its international business.

A slightly different example comes from global consumer brand owner Procter & Gamble, which uses SAP for its corporate ERP. It has implemented NetSuite to provide a consistent platform through which its distributors interact with the company.



# ALLOWING RAPID, COST-EFFECTIVE ROLLOUTS – JOLLIBEE FOODS

Fast-food restaurant chain Jollibee Foods, headquartered in Manila, Philippines, used a two-tier approach to enable an accelerated rollout initially to Vietnam, where it brought 10 stores live in the space of two months, and then to 256 stores in China. Although Jollibee's corporate headquarters uses Oracle for financial management and reporting, the company decided it would be too costly and resource-intensive to expand Oracle to its international operations. Before implementing NetSuite in place of a patchwork of legacy systems with no real integration, it had managed reporting and consolidation via email. This inevitably prevented Jollibee from acting as a truly coordinated international entity, making timely and informed decisions difficult.

The introduction of NetSuite OneWorld to its subsidiaries has enabled real-time visibility across territories and optimizes operating, purchasing, and expansion decisions. In addition, it has allowed Jollibee to consolidate international financials and enforce corporate governance standards.



# INTRODUCING NEW TECHNOLOGY-ENABLED CAPABILITIES – MAGELLAN GPS

Portable navigation device maker Magellan GPS implemented NetSuite to upgrade its online commerce capabilities in 20 different countries of operation. Replacing a home-grown ecommerce system put an end to extensive customization work that used to be necessary to add new product lines. Integration with the company's core Oracle ERP system enabled real-time order processing, improving efficiency and reducing operating costs. The new platform also made it possible to add a mobile commerce site, keeping the brand a step ahead of its competition.





# **WORLD'S LARGEST CARPET MANUFACTURER LAUNCHES NEW CHINA FACTORY WITH NETSUITE ERP – SHAW INDUSTRIES**

A Berkshire Hathaway subsidiary, Shaw Industries turned to NetSuite for its launch of a new 210,000-square-foot manufacturing plant in Nantong, China to produce carpet tile for Asian markets. Shaw Industries needed an ERP solution that could scale across a complex global environment with a lean IT footprint, low capital expense and swift deployment. The \$4.5 billion company wanted a solution that also supported the Mandarin language and multi-currency conversion and featured manufacturing capabilities. With its China plant, Shaw sought to reduce by several weeks the time required to deliver product to Asian markets, vs. shipping U.S.-made carpet tile overseas.

Shaw selected NetSuite as a critical element of its strategy for global growth by producing carpet tile for Asian markets from its China factory. Due diligence and evaluation of leading ERP applications led Shaw to conclude that NetSuite OneWorld was best suited for its international initiatives. NetSuite's repeatable deployment model positions Shaw to quickly equip new global subsidiaries with ERP as international business grows.

NetSuite OneWorld gives Shaw visibility and control over the China plant and 10 international subsidiaries in countries including China, India, Luxembourg, Hong Kong, Singapore and Australia. In a two-tier ERP model, Shaw links OneWorld for international operations to on premise Oracle and custom-developed systems at its headquarters in Dalton, Georgia.

The real-world success of these NetSuite customers testifies that cloud ERP is not some future-state vision—it's a practical and proven solution that is driving quantifiable business benefits today.

## **About the Author**

Anand Misra is a Sr. Product Marketing Manager at NetSuite. He is responsible for driving messaging and positioning through white papers, presentations, website and sales collaterals. Anand also develops content to assist marketing, lead gen, lead nurture, and for cross-sell/up-sell campaigns at NetSuite. With over 14 years' experience in product marketing and product management, Anand has helped launch multiple new products over the years. Prior to joining NetSuite, Anand was a Sr. Product Marketing Manager at ADP. His work experience also includes roles at Thomson Reuters, Wolters Kluwer and start-ups. He holds a BS in Biology, MS in Communication and Journalism and MBA in Banking & Finance.

[www.netsuite.com](http://www.netsuite.com)



Chat with an expert.

[info@netsuite.com](mailto:info@netsuite.com)

877-638-7848