



White paper

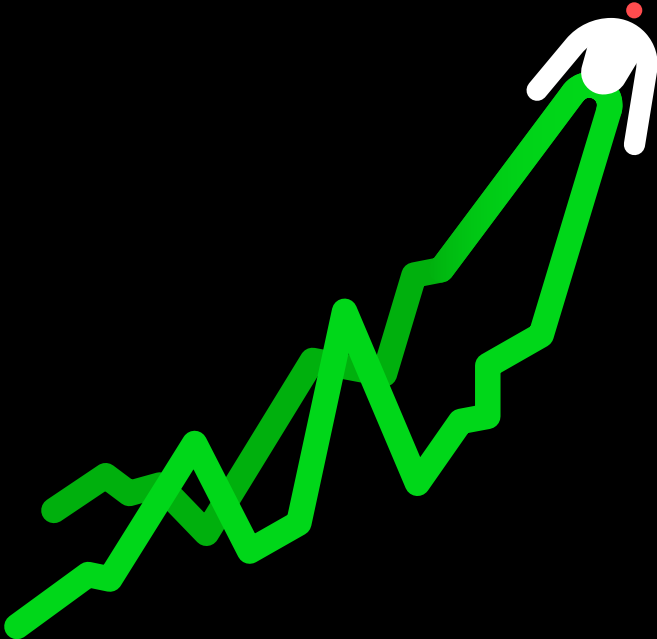
Financial Agility in the Digital Era

On-premises or cloud

Sage

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Introduction

Your on-premises technology is working fine, so don't touch it, right? This approach may be fine for now; however, the world has gone and is going digital. Moving forward with a digital strategy is prudent if you want to stay ahead of your competitors and to meet the demands of an increasingly digital-first economy. For businesses of all sizes, but particularly for small and medium-sized businesses (SMBs), digital technology has been paramount to navigating and to succeeding during the pandemic. According to PayPal, digital SMBs saw 25% year-over-year (YoY) growth in Q2 of 2020, compared to a publicly reported 9% drop in revenue for overall SMBs.¹

The pandemic has exposed the differences between leaders and laggards in their digital transformations (Figure 1). Organizations

that experimented with new digital technologies and those that invested capital expenditures in digital technology were twice as likely to report outsize revenue growth than executives at other companies.² Furthermore, laggards have a higher risk of:

- Falling further behind competitors who have gone digital
- Spending more time and money on maintaining aging systems
- Increased workforce frustration that may lead to attrition and failure to attract new hires

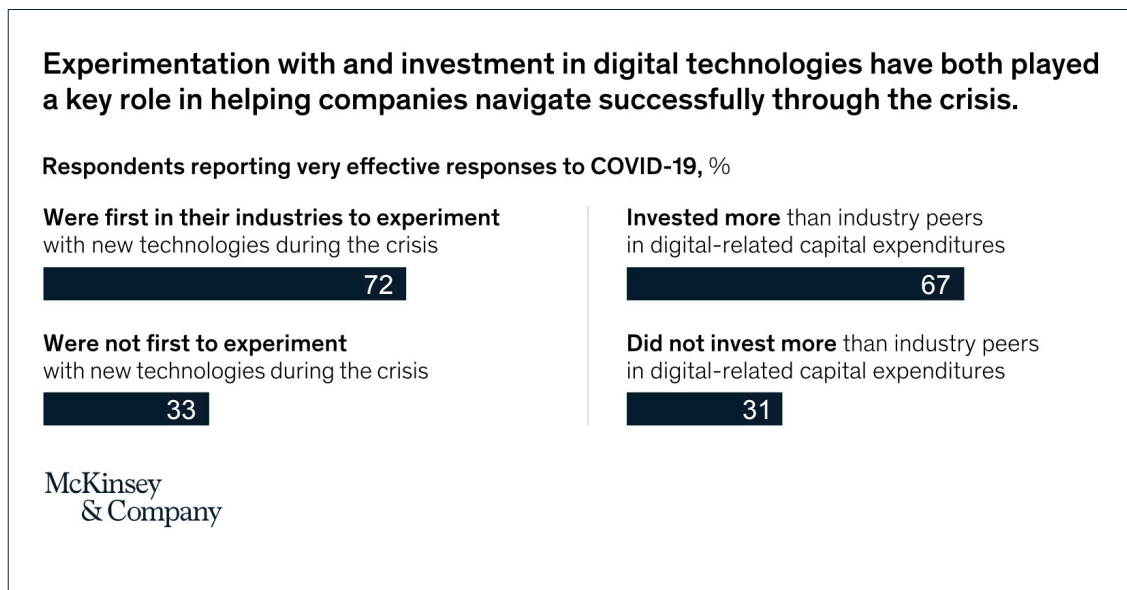


Figure 1 – Digital leaders and laggards report different responsiveness during the pandemic. Src: McKinsey

1. *Resilience and Growth During the COVID-19 Pandemic: A Study of Digital Small Businesses*. PayPal 2020

2. <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-covid-19-has-pushed-companies-over-the-technology-tipping-point-and-transformed-business-forever>. Oct 2020

Going digital starts with a cloud-first strategy

Gartner Research reports 85% of organizations will have a cloud-first strategy by 2025.³ Cloud increases business agility, both operationally and financially. Furthermore, cloud deployments deliver 4.01x the return-on-investment (ROI) compared to on-premises deployment.⁴

Why move to the cloud

For many of you who are buying a financial and Enterprise Resource Planning (ERP) system for the first time, choosing a cloud-based system over an on-premises version makes sense. Compared to on-premises offerings, cloud-based solutions generally have lower upfront costs and capital expenditure, faster deployment, and easier administration.

If you have an on-premises system, you will need to decide if you should stay on-premises for now and move to a cloud-based system at a later date. There is no simple right or wrong answer to this question. Every organization has different requirements that will determine their deployment strategy: on-premises, public or

private cloud, or hybrid cloud. There are a few questions to ask before deciding. Some common questions are:

1. Can I afford the additional capital expenditure (CapEx), customization costs, and ongoing maintenance costs required for an on-premises solution?

While on-premises and cloud-based system costs converge over time, upfront costs for on-premises deployments are higher and are generally considered capital expenditure. On-premises systems can be customized at additional costs to meet your exact needs; though generally you are responsible for their maintenance and future changes. Smaller firms may also have more difficulty accessing onsite resources that are available to larger organizations, including the latest technical and subject matter expertise.

2. Can I access my data and my applications when I need them?

Reputable cloud providers offer system availability of 99% or higher and 24x7 support which means you can access and analyze your financial and customer data at virtually any time, and get support when you need it.

3. Can your on-premises application fully support remote working?

In the U.S. alone, 87% of employees who have been working remotely during the pandemic would prefer to continue working from home at least one day a week, post-Covid. 42% of current remote workers say that if their current company doesn't continue offering remote work options long term, they will look for a new job.⁵

“Remote work is a huge selling point when I’m hiring new people because most companies don’t have that flexibility just yet. I’m thrilled and the team is thrilled. Sage Intacct is such an updated and modern system compared to Microsoft Dynamics GP. It’s simple and user friendly, whereas in our old system you had to click through three different screens just to figure out what was going on.”

~ Melissa DuVall, Finance Team Lead, Epitex (moved from Microsoft Dynamics GP)

3. *End-user spending on public cloud services will reach \$332B in 2021 from \$270B in 2020, a 23% year-over-year increase. .”Forecast: Public Cloud Services, Worldwide, 2019-2025, 1Q21 Update.” Gartner*

4. <https://nucleusresearch.com/research/single/cloud-delivers-4-01-times-the-roi-as-on-premises/>, November 2020.

5. *Pulse of the American Worker Survey: Is This Working? A Year In, Workers Adapting to Tomorrow's Workplace*, Prudential, March 2021

Even if your organization doesn't currently offer remote work, you may want to offer it in the future. In the same survey, more than a third of employees say they are now more productive, and an even higher percentage of executives polled, 52% to be exact, say employees are more productive now than they were before the pandemic.⁶

To successfully work remotely, the CPA Journal, a publication of the New York State Society of CPAs, identifies key technology pieces that likely need to be in place. They include "a cloud enterprise resource planning (ERP) system, a centralized file depository management system, video conferencing software, and various financial and project management product."⁷ In fact, Gartner predicts that SaaS-based ERP systems will reach \$35.8B in 2025.

"My team is over 35% more efficient, which means they're doing more value-add work, learning new finance skills, and providing more support to other functions. We also lowered our TCO by \$300,000, and greatly appreciate the benefits of being able to work remotely during COVID-19."

~ Sean Mintz, CFO Banyan Treatment Center (moved from QuickBooks)

4. Can you scale up and down operations on demand?

During the pandemic, many organizations saw their cash in-flow slow down. In the U.S. alone, 47% of small organizations reported increasing delays in cash in-flow due to the pandemic, with 44% saying that this has affected their operations.⁸ With cloud, you have fewer fixed IT expenses and can scale up or down your resource consumption more quickly to match your anticipated cash in-flows.

"Sage Intacct being cloud-based really helped in moving accounting to home-based work without a hiccup... It's given us the ability to

see information more quickly in better ways, and we're able to scale and grow with the software. We're accomplishing a lot more in less time in terms of accounting and finance."

~ Jenafer Elin, Director of Finance, Optimum Employer Solutions (moved from QuickBooks)

5. Do you have resources in place to prevent, detect, and recover from data breaches—both intentional and unintentional?

With well-publicized data breaches over the past years, security is top-of-mind for firms of all sizes. In fact, the differences between large enterprises and SMBs with regards to data breaches have narrowed to the point of near identity. While most data breaches are financially motivated and perpetuated by outsiders, 85% of data breaches were due to a human element e.g. fat finger error, losing a memory stick with unencrypted data, falling for a phishing scam, or failing to install the latest software updates. With regulations like GDPR, firms who fail to adequately protect data are subject to financial penalties that can be significant, in the case of GDPR, up to 4% of your firm's global annual revenues. Beyond penalties and potential ransoms, your firm's reputation, trusted relationships, and long-term revenue become at-risk.

Reputable cloud vendors have strict standards in place to keep your data safe by implementing a zero-trust security model or comparable and by continuously investing in the technology and personnel to proactively protect your data at-rest and in-transit. To further allay fears, prospective buyers can request a third-party security audit of a prospective supplier if the supplier does not publicly list key certifications e.g. HIPAA, PCI, and SOC 2.

"The multi-factor authentication gives us assurance that our data is safe and secure without having to worry about a data breach or other problems."

~ Jenafer Elin, Director of Finance, Optimum Employer Solutions

6. Note: The number of workers who can work remotely as the percentage of total workers in the industry. Source: OECD calculations based on European Labour Force Survey (2019), American Community Survey (2019), Canadian Labour Force Survey (2019) and Occupational Information Network data (accessed in March 2021)

7. <https://www.cpajournal.com/2021/06/18/successful-remote-work-arrangements-for-finance-teams/>

8. <https://www.businesswire.com/news/home/20210512005058/en/Late-payments-by-large-firms-are-%E2%80%98deliberate%E2%80%99-and-harm-recovery-say-small-businesses>

Why choose cloud-native

If your current financial and ERP software meets your current and near-term needs, then moving to cloud hosting may be the best option as this approach does not require new user training, lowers CapEx, and improves security. If your current solution lacks the capabilities that you need or the ability to support your projected growth, then it may be time to explore cloud-native solutions in the near future if not today. According to Gartner Research, 70% of mid-sized organizations by the end of 2024 will have a cloud-native financial management system, up from 54% in 2020.⁹

Why? In general, cloud-native systems are highly modular. Their loosely coupled, multi-tenant architecture makes them more future-proofed and cost-effective to deploy than traditionally designed single tenant systems. As a result, cloud-native applications are generally easier to maintain, develop on, adapt, and integrate together resulting in respectively:

1. Seamless bug fixes and system upgrades.
2. Shorter periods between major feature releases.
3. Faster support of new standards and technologies like artificial intelligence (AI).
4. Ability to automate workflows which are increasingly important for firms of all sizes.

“The demand for more advanced features such as intelligent automation, touchless processing, digital payments, real-time benchmarking, and predictive analytics has driven buyers to forgo on-premises solutions. These advanced features are directly tied to the power of a multitenant cloud deployment model. The current pandemic has only accelerated the trend. Businesses of all sizes have turned to the unique aspects of SaaS financial software to survive.”¹⁰

~ Kevin Permenter, Research Manager,
Enterprise Applications, IDC

⁹ *Critical Capabilities for Cloud Core Financial Management Suites for Midsized, Large and Global Enterprises, Gartner, May 2021*

¹⁰ *The Value of ERP Systems Tailored to Professional Services Organizations, IDC Analyst Connection, Dec 2020*

6. Is it important for you to have the latest functionalities and digital technologies and to future-proof your technology investments?

Beyond remote access, firms, particularly growing firms with multiple entities, are seeking to automate workflows and leverage cognitive intelligence to improve productivity and decision making. Case in point, 60% of professional services groups are looking for AI in their financial management solutions.¹⁰ Open APIs, standards, and technologies inherent to cloud-native applications simplify major functionality upgrades and expand access to third party tools and libraries that can help SMBs streamline collaboration, automation, and reporting across entities. If you or your team have crafted numerous workarounds to accommodate your legacy financial and ERP systems' shortcomings, then it's probably time to consider moving to a cloud-native financial and ERP software.

“Previously, we had disjointed finance operations and high turnover, because every community had its own bookkeeper, and they each did things their own way. This often led to inconsistent workflows, inaccurate information, and duplicate vendors or invoices across our properties... Our financial processes are now cookie cutter for all 25 properties, 50 entities, and almost 100 bank accounts—including intercompany transactions, multi-entity allocations, accounts payable, accounts receivable, payroll, and the month-end close.

~ Alicia Summers, Corporate Controller, Agemark Senior Living (moved from on-premises Sage 50)

7. Am I or my colleagues spending too much time gathering data and running spreadsheets?

It may be time to change your legacy system if you are augmenting your system with multiple Excel spreadsheets and other reporting tools. If you rely on spreadsheets because your current system doesn't provide the insights and reporting that you need, then you likely have inconsistent and potentially outdated versions of the original data. Various studies have

shown that almost 9 out of 10 spreadsheets contain errors, the majority due to human errors.¹¹ These differences are then propagated internally leading to different analytical outcomes and decisions. In addition, you may want a deep dive into your expenses and processes, particularly for organizations with multiple entities and chart of accounts for better decision making. A financial and ERP system with a wide range of reports and dashboards with features like forecasting and visualization will be better suited for this task than a spreadsheet.

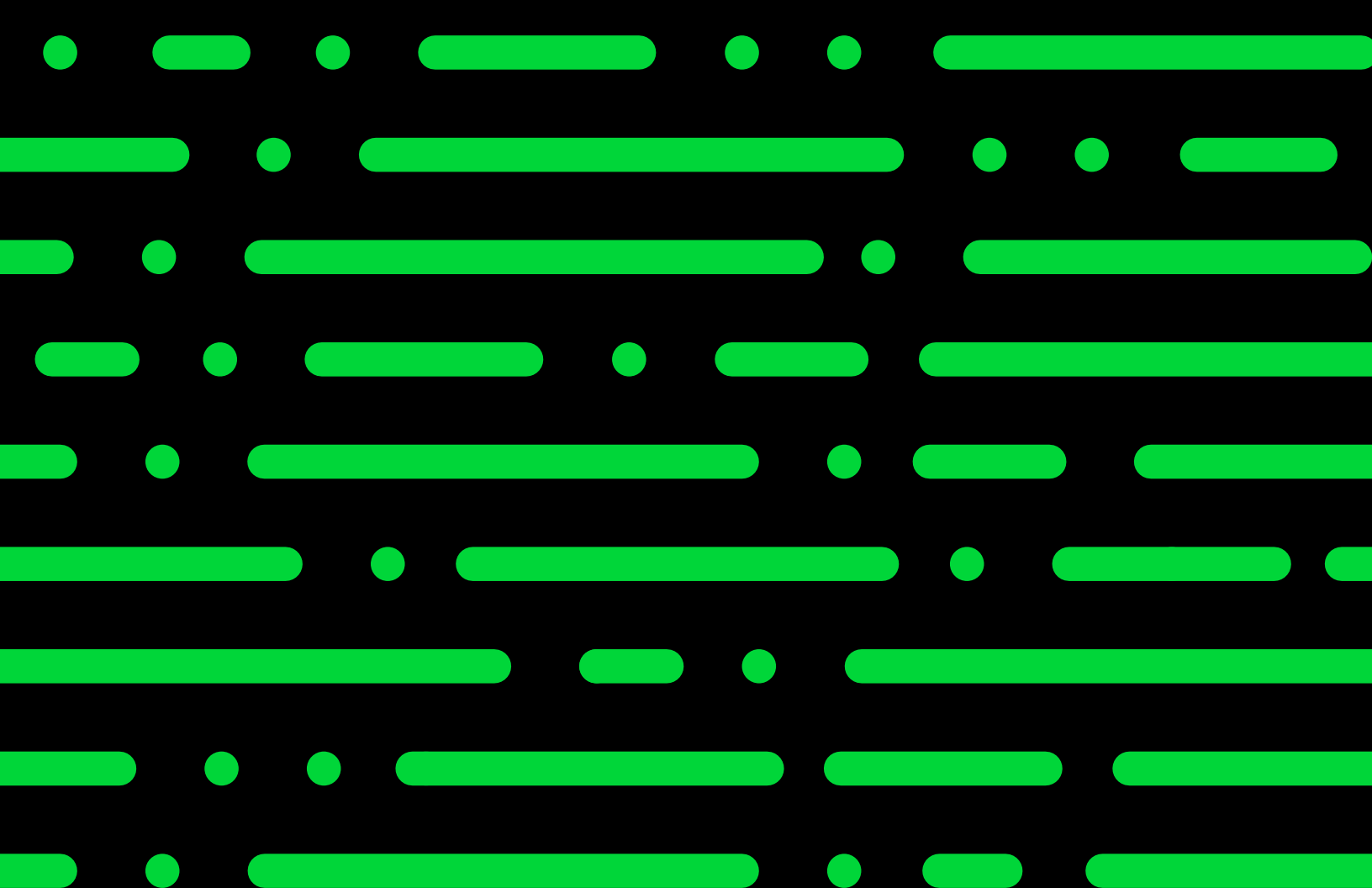
“We wanted to provide real-time reporting to our managers so they could make faster and more informed decisions...In order to track attributes like state, region, and department in our old system, we had to create 60 new revenue and expense accounts every time we won a new customer. In addition to the extra effort, this complicated reporting as we tried to parse out the accounts to get to the underlying data we were after...By using Sage Intacct dimensions to represent attributes like state and region, we shortened our general ledger account numbers from 11 digits to four and freed up report preparation time to spend on analyzing the data.”

~ Tim Nese, CFO, HUGS Healthcare, Inc. (moved from on-premises Sage 300)

11. <https://www.forbes.com/sites/salesforce/2014/09/13/sorry-spreadsheet-errors/?sh=5758b4656ab2>

Conclusion

Ultimately, the decision to stay on-premises or move to a cloud-hosted or a cloud-native system depends on the needs of your firm. On-premises financial and ERP systems offer advantages in customization and in control, making them particularly well-suited for organizations with custom requirements and strict privacy controls. However, they are generally more expensive upfront and resource-intensive to maintain and change when compared with cloud-based offerings. When it comes to choosing a cloud-based financial and ERP system, there are options for businesses of all sizes. Cloud-hosted financial and ERP solutions combine the customizability of an on-premises offerings with the 24x7 access, higher security, and lower maintenance of public cloud. Cloud-native solutions deliver the full benefits of the cloud due to their use of cloud technology, de facto standards, and open APIs. As such, cloud-native offerings are easier to integrate, scale, and adapt, delivering you the confidence and a flexible system to meet your future needs.



[sageintacct.com](https://www.sageintacct.com)
877-437-7765

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