

# Vendor Landscape: SaaS ERP Applications, 2017

The Shift To SaaS ERP Accelerates As Businesses Adapt To Digital Transformation

by Paul D. Hamerman

January 23, 2017

## Why Read This Report

Software-as-a-service (SaaS) enterprise resource planning (ERP) is accelerating as a mainstream delivery model to help companies gain flexibility and leverage modern cloud technologies. The market landscape is evolving as pure-play SaaS ERP providers battle traditional ERP vendors that are repositioning their offerings for the cloud. Application development and delivery (AD&D) leaders and their business partners should assess the viability of their current ERP deployments and consider the rapidly changing ERP landscape as you plan a transition path to the cloud.

## Key Takeaways

### **The Digital Disruption Of SaaS Is Transforming The ERP Software Landscape**

Demand for cloud-based ERP solutions is growing rapidly as midsize and enterprise clients explore alternatives to legacy on-premises systems. Pure-play SaaS vendors are seeing increasing traction, while most traditionally on-premises vendors are moving rapidly to transition their business models from license-plus-maintenance to subscription.

### **The Market Is Delineated Between SaaS-Only And Mixed-Mode Players**

ERP deployment models vary significantly, from SaaS-only to single-tenant cloud. AD&D leaders and their business partners must weigh the benefits of systems designed specifically for multitenant SaaS deployment against mixed-mode versions of traditionally on-premises ERP offerings.

### **Adoption Patterns Vary By Industry And Company Size**

Midsize and smaller companies in services industries are adopting SaaS ERP rapidly, but the adoption level lags in manufacturing and larger enterprises. We expect adoption to scale up as more robust offerings from leading vendors gain customer success, and vertical-specific offerings will expand as well.

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Forrester surveyed 17 ERP vendor companies on their SaaS ERP offerings and interviewed 12 vendors for this report. In addition, we spoke with dozens of user companies via Forrester client inquiries related to their ERP needs.

### Related Research Documents

[Application Adoption Trends 2016: SaaS Expands Across The Enterprise And Across The Globe](#)

[Brief: Oracle's NetSuite Acquisition Signals A Shifting ERP Landscape](#)

[The SaaS Customer Success Life Cycle](#)

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## SaaS ERP Increases Speed And Agility For Digital Transformation

The disruptive forces of the digital age are changing how we engage our customers, generate revenue, manage our people, and deliver high-quality products and services. The transition to SaaS delivery models is an essential part of this, as companies migrate from costly and cumbersome on-premises software to SaaS models that are more user-friendly, more agile, and easier to scale. The rapid adoption and success at scale of SaaS solutions for many business functions — from customer relationship management (CRM) to human resources and procurement — is now transforming the software consumption model and the software industry.

ERP systems are an essential part of the transformation. They enable AD&D leaders to better integrate operational execution with financial processes — and ultimately create positive outcomes for customers by accelerating value delivery. With core business systems like ERP, leading companies are turning historically batch processes into real-time processes; automating planning and reporting cycles; and integrating the entire revenue stream and procure-to-pay processes seamlessly in the cloud.<sup>1</sup>

### SaaS Benefits Range From Efficiency To Speed And Agility

The benefits of moving ERP systems from on-premises or hosted deployments to SaaS are significant. Systems built for SaaS typically offer better business flexibility, rapid deployment, and the ability to assimilate new features and technology improvements as soon as vendors release them (see Figure 1). With SaaS as a design point, ERP applications offer more advanced analytics and simplified, mobile-ready user experiences when compared with on-premises systems built a decade or more ago. For example, Microsoft's SaaS ERP offering, Microsoft Dynamics 365 for Operations, features a touch-enabled user experience and advanced analytics via Microsoft Power BI.

With SaaS ERP, AD&D leaders can expect to realize the following key benefits:

- › **Higher business agility and faster delivery of new functionality.** Applications built for SaaS tend to be quicker to deploy and easier to configure, accelerating time-to-value and enabling agility for growth companies. In addition, several SaaS ERP products (e.g., FinancialForce, Oracle Cloud ERP, Oracle NetSuite) offer a native extensibility (i.e., platform-as-a-service [PaaS]) environment to enable customers and partners additional flexibility to customize the applications.
- › **Less complexity in platforms and infrastructure.** By standing up the applications in the cloud (whether SaaS or hosted), the technology management organization will be able to rely upon the software vendor or its cloud infrastructure partner to manage virtualized resources and free itself of hardware and infrastructure upgrades. Virtualized infrastructure in the cloud reduces ownership costs related to running the applications and frees AD&D professionals to focus more on business outcomes related to the ERP solutions.

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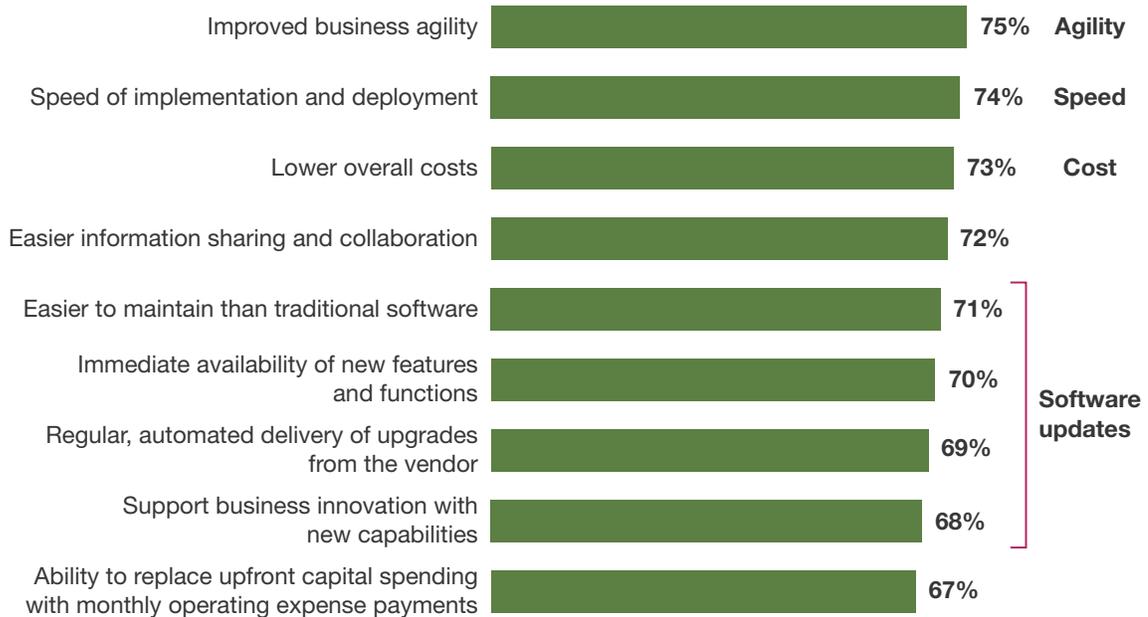
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- › **Persistent versioning of applications software.** Application upgrades are a bane of AD&D professionals, who can rarely justify the effort and resources to keep ERP systems on the most current software release. With SaaS ERP, it becomes the software vendor’s job to keep its customers on the latest releases, minimizing the upgrade headaches that lead to systems’ obsolescence and freeing AD&D resources from maintenance chores to drive business improvements.

**FIGURE 1** SaaS Adoption Benefits Include Agility, Speed, And Software Updates

**“How important were the following benefits in your firm’s decision to use SaaS?”**

(4 or 5 on a scale of 1 [not a factor] to 5 [important factor])



Base: 1,350 business and technology decision-makers in organizations with 1,000 or more employees

Note: Not all response options are shown.

Source: Forrester’s Global Business Technographics® Software Survey, 2016

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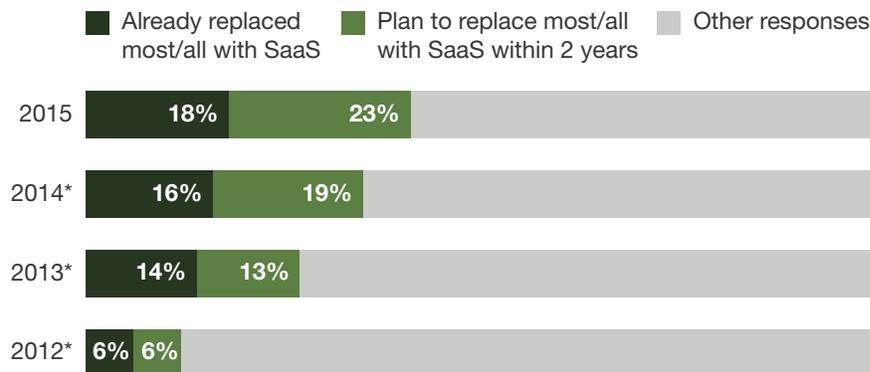
**ERP SaaS Adoption Is Accelerating Decisively**

Software-as-a-service adoption is expanding rapidly in ERP as the market landscape adjusts to support this increasingly popular deployment option. In Forrester's Global Business Technographics® Software Survey, 2015, and in the three prior years, we found that actual ERP adoption via replacements grew from 6% to 19% (see Figure 2). Even more growth is evident in planned replacements, from 6% planning to replace ERP systems with SaaS in 2012 to 26% in 2015.<sup>2</sup>

Planned replacements within two years is a predictive measure of market demand to swap out aging on-premises ERP systems for SaaS equivalents. We see the demand for SaaS ERP as consistent across companies of various sizes, with some drop-off at small companies (under 500 employees) and at very large enterprises (20,000 or more employees).

**FIGURE 2** ERP SaaS Replacements Are Accelerating Rapidly**“What are your firm’s plans to use software-as-a-service (SaaS) to complement or replace the following applications?”**

(Enterprise resource planning [ERP] software)



Base: 1,272 North American and European software technology decision-makers whose firms are planning to or have implemented the specified software (20+ employees)

\*Base: 770 to 1,056 North American and European technology decision-makers who are significantly involved in packaged application software decision-making and whose firms are planning to or have already implemented ERP (20+employees)

Source: Forrester's Forrsights Software Survey, Q4 2012; Forrester's Forrsights Software Survey, Q4 2013; Forrester's Business Technographics® Global Software Survey, 2014; and Forrester's Global Business Technographics Software Survey, 2015

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**Several Business Growth Scenarios Favor SaaS ERP**

SaaS ERP is well-suited to companies that need the flexibility to respond to growth and digital disruption in the age of the customer and to companies able to assimilate more frequent and regular software updates as they replace obsolete on-premises systems that have proven difficult to maintain. We recognize, however, that SaaS ERP is not for everyone. Large multinationals, certain regulated industries (e.g., life sciences), and companies with complex operational requirements may find SaaS ERP too constraining or not mature enough in the near term.

As SaaS ERP adoption accelerates, the following deployment scenarios are common:

- › **Adding functionality within fast-growing digital enterprises.** Digital companies, including software, digital content, technology-based services, and other contract- and subscription-based businesses, are among the most likely to adopt SaaS ERP. These types of companies are well-represented in the customer lists of leading ERP SaaS pure-play vendors (e.g., FinancialForce, Intacct, NetSuite). For them, SaaS ERP solutions support revenue stream functions (e.g., subscription billing, pricing, and revenue recognition) in addition to accounting and expenditure functions.
- › **Quickly supporting spin-offs, new ventures, and foreign subsidiaries.** Companies looking to rapidly deploy ERP capabilities to support a new business venture — or enable a spinoff entity to become self-sufficient on its own applications — are increasingly likely to opt for SaaS ERP. Similarly, SaaS ERP is often used to support foreign subsidiaries cost-effectively, a strategy known as two-tier ERP.<sup>3</sup> SaaS ERP enables rapid implementation without the technology management costs of standing up an internal technology infrastructure to support the applications.
- › **Supporting strategic technology initiatives at enterprise scale.** Larger businesses often find themselves handcuffed by multiple legacy ERP systems and instances that evolved over a decade or more. As part of an overall technology strategy, it is essential to shed this complexity and inefficiency in core business systems, including ERP. For example, we worked with a large financial services company to assess their legacy ERP environment and determine the feasibility of a SaaS replacement as part of a broader initiative to move key business systems to the cloud.

**Vendors Play A Nuanced Game In Positioning Cloud And SaaS ERP**

In the strictest sense, a SaaS application is: 1) sold on subscription; 2) hosted and managed by the software vendor; and 3) delivered in a multitenant mode, which ensures that virtually all customers are using the latest version of the software (i.e., persistent versioning). Several pure-play (SaaS-only) ERP software providers do largely adhere to this philosophy of true multitenant SaaS (see Figure 3).

On the other side of the figure, a variety of historically on-premises ERP vendors muddy the waters in terms of strict SaaS adherence. They offer SaaS ERP solutions and also support single-tenant cloud hosted, partner-hosted, and on-premises deployment. For these vendors, the SaaS offering is typically

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the same codeline as the on-premises and hosted versions, but the timing of software updating may vary across the different deployment modes. The difference in approaches between SaaS-only vendors and mixed-mode vendors raises some interesting questions that software buyers should consider:

- › **Is “cloud” ERP the same as SaaS?** It is not. Cloud is much broader term that encompasses infrastructure (IaaS), software development (PaaS), and various other technology services delivered on a metered consumption basis, but there is not a strict adherence to deployment definitions in the business applications market. When software vendors refer to “cloud” ERP offerings, they may in fact be referring to a SaaS. Alternatively, the cloud ERP offering may have only some elements of SaaS (e.g., subscription pricing, cloud infrastructure hosting) without software multitenancy and persistent versioning.

**What it means:** Customers looking for SaaS ERP benefits, including persistent versioning and rapid deployment, should be diligent in evaluating architectural differences between solutions. Others that want more upgrade-timing flexibility and customization may prefer a hosted private cloud deployment mode.<sup>4</sup>

- › **Why don’t most historically on-premises ERP vendors offer SaaS-only products?** Preserving the vendors’ valuable stream of maintenance revenue is the principal reason why few on-premises vendors are building and offering SaaS-only solutions. Coexistence between SaaS and on-premises (or hosted) versions could allow a customer to switch deployment modes in either direction, and avoid a disruptive migration. Oracle’s recent acquisition of NetSuite means that Oracle now offers a SaaS-only ERP solution. SAP continues to offer its internally developed Business ByDesign SaaS ERP solution.

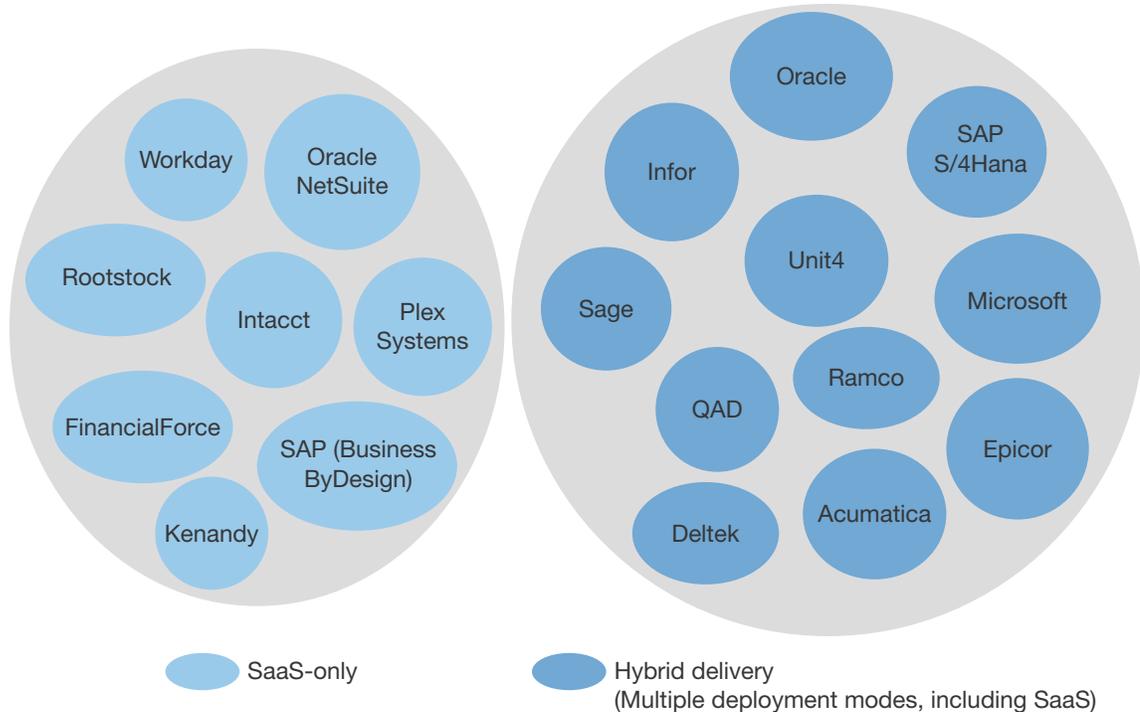
**What it means:** Your incumbent on-premises ERP vendor may offer an attractive migration path to SaaS, but take care to understand the benefits and costs of such a project — and whether the new SaaS offering delivers relevant architectural, flexibility, and usability advantages similar to products natively built for SaaS.

- › **How does multitenancy benefit the software customer?** Application multitenancy lowers the vendor’s costs, since all updates can be applied to a single technology environment. Multitenancy also benefits the software customer by enabling a less disruptive and persistent versioning process, reducing software obsolescence, and making upgrading easier. Minor updates such as compliance updates and bug fixes are also easier to propagate, and the multitenant environment can also share data and content that benefits multiple customers.

**What it means:** If you buy into multitenancy at the application level, be prepared to assimilate software updates as delivered by the vendor. Also consider that large ERP vendors with infrastructure assets (e.g., Microsoft, Oracle, and SAP) provision multitenancy in different ways within their technology stacks, potentially affecting versioning and data isolation methods. These nuances may be significant to some software buyers, particularly in comparison to pure-play multitenant SaaS ERP providers (e.g., Intacct, Workday).

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**FIGURE 3** The SaaS ERP Landscape: Pure-Plays Versus Multimode Vendors

## The Transition To SaaS ERP Is Driving New Levels Of ERP Competition

SaaS is clearly causing a major disruption in the economics of the ERP software segment as traditional vendors migrate revenue streams from license and maintenance to subscription. This transition is well underway. Oracle's \$9.3 billion acquisition of SaaS ERP leader NetSuite in November 2016 will add more than \$700 million in annual SaaS revenues<sup>5</sup> (based upon trailing 2016 results) to Oracle's rapidly growing SaaS and PaaS business, offsetting declines in license revenues. Other traditionally on-premises vendors, including Deltek, Epicor, Infor, QAD, Sage Software, and Unit4, are seeing significant organic growth of cloud revenues as license revenues decline. These vendors face increasing competition from SaaS-only ERP vendors, which overtly target customers ready to switch to SaaS from older on-premises ERP systems that are often customized and lagging behind on upgrading to the latest versions.

### The SaaS ERP Market Is Evolving Along Three Strategic Dimensions

The SaaS ERP market is maturing rapidly along three primary strategic dimensions — industry focus, enterprise scale, and geographic focus, including both global and localized opportunities (see Figure 4). Our analysis of 17 key vendors indicates significant differences in industry, geographic, and customer-size focus. As the market for SaaS ERP expands, vendors focus on one or more of the following strategies:

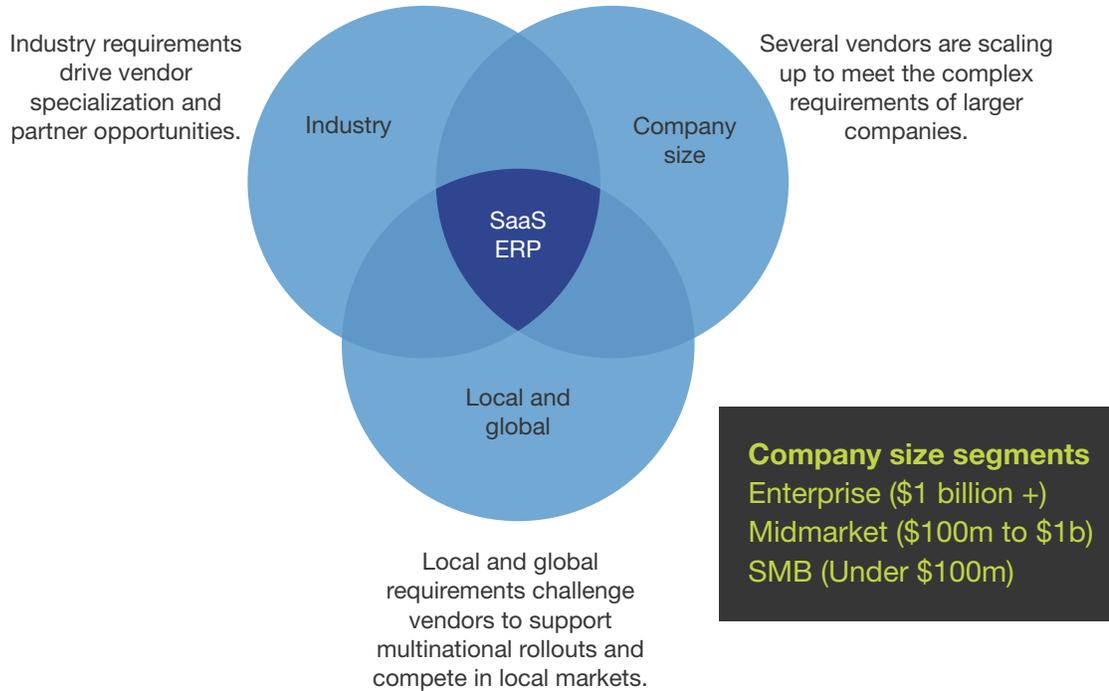
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- › **Industry specialization creates customer relevance.** On-premises ERP systems have a strong heritage of supporting industry-specific requirements, particularly for manufacturing companies. SaaS ERP offerings are also positioned along industry lines, but we see a strong orientation for services and digital businesses, with less overall emphasis on manufacturing. For example: FinancialForce, Intacct, Oracle NetSuite, Unit4, and Workday have a strong orientation toward a variety of services-oriented businesses, including professional services, financial services, digital services (e.g., software and online content), and government and nonprofit organizations. Manufacturers can look to SaaS versions of traditionally on-premises software such as Epicor, Infor, QAD, and SAP, or to newer ERP vendors like Acumatica, Kenandy, Rootstock Software, and Plex Systems.
- › **Enterprise is SaaS ERP's emerging market.** The vast majority of SaaS ERP adoption to date has occurred in small to midsize companies and subsidiaries of larger enterprises, but enterprise SaaS ERP is beginning to gain traction. Microsoft, Oracle, SAP, and Workday offer SaaS ERP solutions that are gaining traction with enterprises as corporate systems of record. Our discussions with Forrester clients indicate significant interest among large companies to replace aging on-premises ERP systems with SaaS, particularly for financial accounting and other core functions. Larger enterprises (\$5 billion and higher in revenues) remain cautious about migrating from on-premises to SaaS ERP, but we expect migration to accelerate as software vendors demonstrate more product maturity and referenceable use cases at the enterprise scale.
- › **Global and local requirements drive SaaS adoption.** One of the most challenging aspects of deploying an ERP system across a complex multinational business is supporting global and local features. Global features, including multinational currency support, addresses, and language translations, must be combined with localized compliance features, including tax support, accounting rules, and regulatory reporting at a country-specific level. In addition, SaaS vendors must deliver the infrastructure required to deliver scalable and reliable performance from a technical standpoint, address legal requirements for cloud data residency in some regions and countries, and scale out sales and support for global presence. SaaS ERP providers are becoming increasingly reliant on public cloud infrastructure platforms (e.g., Amazon Web Services, Microsoft Azure) rather than investing capital in their own global infrastructures.<sup>6</sup>

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**FIGURE 4** The SaaS ERP Market Is Evolving Along Three Key Strategic Dimensions

## SaaS ERP Vendors Range From Global Giants To Market Disruptors

In assessing the landscape of SaaS ERP vendors, we find significant differences among the 18 representative vendors surveyed in terms of customer adoption, deployment options, and go-to-market strategies (see Figure 5). SaaS pure plays NetSuite (now part of Oracle) and Intacct pioneered the market more than a decade ago and now have thousands of customers using their solutions. Traditionally on-premises vendors are beginning to make inroads into the SaaS ERP market with new product introductions that are, in most cases, based on their on-premises solutions.

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**FIGURE 5** The SaaS ERP Vendor Market Focus

Vendor and product(s)	Targeted industries	Targeted customer	Total SaaS ERP customers	Deployment options
<b>Acumatica</b> Acumatica Cloud ERP	Manufacturing; distribution; professional services; retail/eCommerce; software and technology; property management; nonprofit	SMB and midmarket	2,500+	Multitenant SaaS, hosted by partner, hosted by vendor, on-premises
<b>Deltek</b> Costpoint, Vision, Maconomy, and Ajera	Government contracting; aerospace and defense: engineering, procurement, and construction; healthcare; management and IT consulting; nonprofit; R&D	Midmarket and enterprise	Costpoint — 375+ Vision — 850+ Maconomy — 100+ Ajera — 550+	Multitenant SaaS, hosted by partner, hosted by vendor, on-premises
<b>Epicor</b> Epicor Cloud ERP	Discrete manufacturing including industrial machinery, high-tech, medical devices, A&D, fabricated metals, rubber and plastics	Midmarket	550	Multitenant SaaS, hosted, hybrid, on-premises
<b>FinancialForce</b> FinancialForce ERP	Business services; professional services; healthcare; financial services; media; nonprofit; public sector	SMB, midmarket and enterprise	900+	Multitenant SaaS (on Salesforce App Cloud)
<b>Infor</b> Infor CloudSuite family of products based on Syteline, M3, Lawson, and LN	Manufacturing (e.g., food, beverage, fashion, automotive, industrial machinery, aerospace and defense); healthcare, professional services; wholesale distribution; equipment rental; financial services; public sector; hospitality; retail	Midmarket and enterprise	750+ (all ERP products)	Multitenant SaaS, hosted by vendor (AWS), on-premises
<b>Intacct</b> Intacct	Software; professional services; nonprofit; financial services; hospitality; healthcare; wholesale distribution	SMB and midmarket	11,000+	Multitenant SaaS

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**FIGURE 5** SaaS ERP Vendor Market Focus (Cont.)

Vendor and product(s)	Targeted industries	Targeted customer	Total SaaS ERP customers	Deployment options
<b>Kenandy</b> Kenandy Cloud ERP	Process manufacturing; discrete manufacturing; distribution; CPG; medical devices	Midmarket and enterprise	Did not disclose	Multitenant SaaS (on Salesforce App Cloud)
<b>Microsoft</b> Microsoft Dynamics 365 for Operations Microsoft Dynamics 365 for Financials	Manufacturing; retail; public sector; distribution; service industries; other industries	Midmarket and enterprise — Dynamics 365 for Operations SMB — Dynamics 365 for Financials	Did not disclose (new offerings)	SaaS hosted by Microsoft (on Azure cloud), Hybrid/on-premises
<b>Oracle NetSuite</b> NetSuite ERP	Software/high-tech; retail; manufacturing; nonprofit; wholesale distribution; advertising; media and publishing; services industries	SMB, midmarket and divisions of large enterprises	10,000+ companies and 30,000+ organizations (including subsidiaries)	Multitenant SaaS
<b>Oracle</b> Oracle ERP Cloud	Professional services; financial services; high-tech; retail; education and research; public sector; healthcare	Midmarket and enterprise	2,800+ (including EPM), 1,000+ for core ERP	SaaS or virtualized cloud machine on-premises
<b>Plex Systems</b> Plex Manufacturing Cloud	Discrete and process manufacturing industries	Midmarket and enterprise	500+ clients across more than 1,600 manufacturing facilities	Multitenant SaaS
<b>QAD</b> QAD Cloud ERP	Manufacturing including automotive; life sciences; industrial; high-tech; consumer products; food and beverage	Midmarket and enterprise	200+	Cloud single tenant, on premises, some SaaS components

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**FIGURE 5** SaaS ERP Vendor Market Focus (Cont.)

Vendor and product(s)	Targeted industries	Targeted customer	Total SaaS ERP customers	Deployment
<b>Ramco Systems</b> Ramco ERP on Cloud	Logistics; discrete and process manufacturing; professional services; facility management; equipment rental and services; infrastructure and real estate; engineering and construction, retail; trading, banking and financial services; energy and utilities	Midmarket and enterprise	400+	Multitenant SaaS, cloud single tenant (vendor managed), cloud single or multitenant (partner-managed), on-premises
<b>Rootstock Software</b> Rootstock Cloud ERP for Manufacturing, Distribution and Supply Chain	Manufacturing (A&D, high-tech, industrial equipment, machinery, electronics, job shops, engineer-to-order, medical devices); distribution	SMB and midmarket	100+	Multitenant SaaS, single-tenant (on Salesforce App Cloud)
<b>SAP</b> SAP S/4Hana Cloud, SAP Business ByDesign, SAP Business One Cloud	SAP supports a wide variety of industries with each product	Midmarket and enterprise (S/4Hana) Midmarket (Business ByDesign) SMB (Business One)	S/4Hana — not provided ByDesign — 3,500 Business One Cloud — 2,000+ (on subscription)	S/4 — Multitenant SaaS, single tenant hosted by SAP or partners, on-premises ByDesign — Multitenant SaaS Business One — Multitenant SaaS hosted by SAP or partners, on-premises
<b>Unit4</b> Unit4 Business World On	Professional services; public services; not-for-profit; higher education	Midmarket and enterprise	412	Multitenant SaaS. An on-premises version is also available.
<b>Workday</b> Workday Financial Management	Higher and K-12 education; government; nonprofit; healthcare; professional services; business services; financial services; software and technology; retail	Midmarket and enterprise	250+	Multitenant SaaS

Note: Information for this graphic is vendor supplied.

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**SaaS ERP Pure Plays Are Gaining Market Share**

Since virtually all companies beyond the startup phase have some kind of ERP software in place, a key goal of SaaS ERP pure-play vendors is to replace another system — usually an older on-premises system. The following SaaS-only ERP vendors are on our radar in this market:

- › **FinancialForce.** Founded in 2009, FinancialForce has more than 1,300 customers, mostly in the small to midsize (SMB) and midmarket segments. Its product portfolio has expanded from core finance via internal development and acquisitions to encompass professional services automation, spend management (i.e., purchasing), quote-to-cash, orders and fulfillment, subscription billing, and human capital management. FinancialForce software is built on Salesforce's Force.com development platform, so it integrates natively with Salesforce CRM and is sold primarily into the Salesforce customer base.
- › **Intacct.** The largest independent SaaS pure play, Intacct has more than 11,000 customers. It offers a flexible and rapidly deployable ERP solution used by many services-based SMBs. The solution's functional breadth encompasses core financials, purchasing, order management, inventory, project and fund accounting, revenue recognition, and contract and subscription billing. Intacct focuses primarily on the US market and is used by a wide variety of company types, with a good presence in software, professional services, and not-for-profit industries.
- › **Kenandy.** Built on the Salesforce platform, Kenandy offers a SaaS ERP suite targeting midsize and enterprise manufacturers and distributors. It serves a variety of industries, including food manufacturing, electronics, machinery, process industries, and building materials. Kenandy's product suite encompasses global financials, order-to-cash, supply chain, manufacturing, and distribution.
- › **NetSuite.** Until its November 2016 acquisition by Oracle, NetSuite was the largest pure-play SaaS ERP vendor, with a projected revenue run rate for 2016 of more than \$900 million. NetSuite currently supports approximately 10,000 companies and 30,000 organizations (including subsidiaries) with a global user population. The NetSuite product line consists of a comprehensive ERP suite of solutions ranging from core financials to eCommerce, CRM, professional services, procurement, HR, order management, and fulfillment. Oracle's large global presence and technology assets should enable it to expand the NetSuite customer base and enhance the product's usability and analytics. Whereas NetSuite was gaining some enterprise traction, we expect Oracle to focus the product line on the midmarket to avoid conflict with the Oracle ERP Cloud solution.<sup>7</sup>
- › **Plex Systems.** The Plex Manufacturing Cloud serves more than 1,600 organizations across more than 500 companies in 22 countries. Plex Systems offers an integrated ERP suite targeted at manufacturers in discrete and process industries, including finance, sales, HR, supply chain, analytics and manufacturing execution modules (e.g., engineering, production, inventory, and quality). The ERP solution is multitenant SaaS in the truest sense — the application is updated continuously, so it is versionless, and all customers are on the most current version of the software.

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- › **Rootstock Software.** Built on the Salesforce platform, Rootstock is a SaaS ERP provider focused on discrete manufacturing, distribution, and supply chain functions. The company has more than 100 customers and is growing by 50% annually, including expansion in Australia and Europe via direct sales and channel partnerships. Rootstock recently filled out its ERP suite with financial modules (general ledger, accounts payable, receivables) to complement its manufacturing and distribution capabilities.
- › **Workday.** With a current year revenue run rate of more than \$1.5 billion and a growth rate exceeding 30%, Workday is one of the software industry's most successful SaaS players, largely on the strength of its comprehensive HR management system.<sup>8</sup> Workday Financial Management, its ERP offering, has been selected by more than 250 companies and is targeted at enterprises in services industries, including education, state and local government, financial services, healthcare, hospitality, professional services, and technology. Workday's functional footprint supports core financials, procurement, inventory, projects, expenses, professional services, and grants management.

### Mixed-Mode Vendors Are Accelerating SaaS Strategies

In an effort to meet increasing demand for SaaS deployment options from new and existing customers, historically on-premises vendors are investing product development, sales, and marketing for SaaS-optional solutions. Virtually all traditionally on-premises ERP vendors are offering either cloud-hosted or multitenant SaaS versions of their products (or both), but few offer SaaS-only ERP solutions. The following summaries highlight several major mixed-mode ERP vendors that have, or will soon have, significant impact on the market for SaaS ERP:

- › **Acumatica.** One of the fastest growing ERP vendors, with an annual growth rate of approximately 90%, Acumatica positions itself primarily as a multitenant SaaS ERP provider, but the solution can be hosted (single tenant) by Acumatica or a partner, or installed on-premises. Acumatica has more than 2,500 customers in a wide variety of industries, including manufacturing, distribution, retail, nonprofit, technology, and professional services. The company serves an international client base consisting of SMBs and midmarket companies and leverages the Microsoft technology stack. It uses a highly leveraged go-to-market strategy, relying on a network of Acumatica resellers and private-label OEM partners in lieu of direct sales.
- › **Deltek.** Recently acquired by Roper Technologies for \$2.8 billion, Deltek is known for its project-based ERP software, which is used in industries like government contracting, aerospace and defense, engineering and construction, and management and IT consulting. With more than 22,000 customers, Deltek is seeing rapid growth in SaaS subscription revenues. The SaaS versions of Costpoint, Vision, and Maconomy are updated quarterly, and the customers are required to stay on the latest version of the product under the multitenant SaaS delivery model.
- › **Epicor.** Acquired by private equity firm Kohlberg Kravis Roberts in September for \$3.3 billion, Epicor is an industry-focused ERP software provider with more than 20,000 customers in 150 countries and revenues of nearly \$1 billion. Its SaaS ERP product, Epicor Cloud ERP, is

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a multitenant offering based on its flagship Epicor ERP solution and is targeted at SMB and midmarket discrete manufacturers. The solution currently has more than 550 customers (400 live). Customers using the SaaS ERP product receive minor biweekly updates and semiannual version upgrades. Epicor also supports single-tenant cloud and hybrid deployments of the ERP solution.

- › **Infor.** Infor is one of the largest ERP vendors, with approximately 90,000 total customers and more than 15,000 employees, and reported revenues of \$2.7 billion for FY 2016. Infor uses CloudSuite as the branding for a variety of industry-specific ERP solutions (e.g., Infor CloudSuite Food & Beverage) and corporate solutions, which are based on four key underlying code bases — Syteline, M3, Lawson, and LN. The ERP solutions are offered in multiple deployment modes, including on-premises, single-tenant hosted on AWS, and multitenant SaaS. All deployment modes are supported by the same code base for each product, but release timing varies. Infor is seeing increasing demand for single-tenant ERP cloud deployment, as well as some demand for SaaS ERP. Based on recent financial disclosures, Infor's subscription revenue now exceeds its software license revenue.
- › **Microsoft.** In March 2016, Microsoft announced the availability of its next-generation SaaS ERP solution, based on Dynamics AX, called Microsoft Dynamics 365 for Operations. This is the culmination of a major architectural overhaul of the Dynamics AX solution that has been in the works for several years. Dynamics 365 for Operations targets companies with more than 250 employees and scales to large enterprises. Key features include a new user experience using HTML5, Microsoft Lifecycle Services (LCS) to accelerate deployment and management of the application, native extensibility via developer services, Azure Machine Learning Integration, and advanced embedded analytics. In November 2016, Microsoft introduced a SaaS ERP offering for SMBs, Microsoft 365 for Financials, which is based on Dynamics NAV.
- › **Oracle.** Oracle's ERP Cloud product suite consists of financials, project portfolio management, procurement and supply chain, manufacturing, and EPM solutions. Oracle reports that it has signed more than 3,200 customers, of which approximately 1,200 are live.<sup>9</sup> Oracle ERP Cloud is a SaaS-only offering, but Oracle can also deliver the solution as a virtualized tenant running in the customer's data center. The suite is an enterprise offering that supports 28 languages and is offered globally. There is a considerable amount of functional overlap between Oracle ERP Cloud and Oracle NetSuite, but we believe that Oracle ERP Cloud will be positioned further up market to avoid go-to-market conflicts.
- › **QAD.** Founded in 1979 and still led by its founders, QAD provides a comprehensive ERP suite for manufacturers. The company posted revenues of \$278 million in FY 2016, has 1,650 employees, and runs in 4,000 sites. In its most recent fiscal quarter, QAD grew cloud subscription revenues by 42% to \$13.7 million, while license revenues declined, mirroring the trend in this software sector. The QAD Cloud ERP offering is delivered as a single-tenant solution in a virtualized cloud infrastructure environment, with some multitenant elements (e.g., EDI). QAD currently has more than 200 cloud customers.

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- › **Ramco Systems.** Headquartered in Chennai, India, Ramco Systems is a multinational software provider with more than 1,000 customers and 1,600 employees. The company provides cloud ERP, cloud HCM, and aviation software. The Ramco ERP solution supports a wide variety of industries, including discrete and process manufacturing, professional services, equipment rental, logistics, facilities management, real estate, and financial services. The ERP on Cloud solution, which has more than 400 live customers, serves midmarket and enterprise accounts, with the largest customer supporting 2,500 users. The solution is available as multitenant SaaS and also can be deployed as single-tenant cloud or on-premises.
- › **SAP.** SAP is largest provider of business applications, with 82,000 employees and estimated 2016 annual revenues of €20 billion. SAP currently has three SaaS ERP offerings — SAP Business One for SMBs, SAP Business ByDesign for midmarket companies, and SAP S/4Hana Cloud for enterprises. SAP Business ByDesign is a SaaS-only ERP solution which has approximately 3,500 customers. SAP S/4Hana is the newest version of the flagship enterprise ERP solution and has more than 4,100 customers signed, but only a fraction have selected a SaaS version of the product.<sup>10</sup> The vast majority deploy the on-premises version, which may be hosted in a cloud infrastructure. SAP offers four cloud versions of S/4Hana — Enterprise Management Cloud (full ERP), Finance Cloud, Professional Services Cloud, and Marketing Cloud. The S/4Hana Cloud offerings have a quarterly updating cadence and are synchronized with the on-premises version annually.
- › **Unit4.** A Dutch ERP software vendor with a global presence, Unit4 now gets the majority of its product revenues from subscriptions. Its principal SaaS ERP offering is Unit4 Business World On! (formerly Agresso), which is a flexible ERP suite designed for services and government organizations, including professional services, not-for-profit, local government, education, and real estate. The solution can be deployed as multitenant SaaS, single-tenant hosted, hosted by a partner, and on-premises. Unit4 Business World On currently has more than 420 SaaS ERP customers and a total of 3,500 ERP customers.

**Recommendations**

## Evaluate SaaS Options To Replace Aging On-Premises ERP Systems

On-premises ERP will persist for years to come, but the age of SaaS ERP is upon us. As AD&D pros consider options to replace aging corporate and line-of-business ERP systems, they must take the following recommendations into account:

- › **Assess if your incumbent vendor can take you to SaaS.** Chances are your incumbent vendor has made significant investments to its existing ERP offerings to enable cloud-hosted and SaaS deployment. Assess the cost and viability of migrating from your existing ERP to a successor product and whether it offers a more sustainable deployment model and functional improvements that minimize the need for custom adaptations.

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- › **Deploy SaaS ERP in subsidiaries now.** The two-tier deployment model enables you to rapidly deploy SaaS ERP in subsidiary businesses, while continuing to run an on-premises corporate ERP. This model effectively accelerates SaaS adoption in smaller to midsize business units and may provide a path to enterprise adoption of SaaS ERP in the future.
- › **Consider SaaS ERP at enterprise scale for core ERP replacement scenarios.** SaaS ERP is currently a viable option for enterprises in the \$1 billion to \$10 billion revenue size range that need to replace aging on-premises corporate systems. Larger multinational enterprises (\$10 billion or more) may have to wait until more proof points emerge from the leading vendors in terms of customer success.
- › **Choose a deployment mode that is managed and sustainable.** If you are not ready for a multitenant SaaS ERP deployment, consider a cloud-hosted deployment mode with managed services to enable regular software updates. Dedicated tenancy in a cloud environment is best suited to customers that want to extend or customize the ERP system or need more flexibility to select software upgrade periods that minimize business disruption. Be careful not to defer software updates indefinitely, however, to avoid the obsolescence and versioning challenges that are symptomatic of on-premises software.

**What It Means**

## SaaS Will Be The Preferred ERP Deployment Mode

In several other business applications software sectors, including CRM, HR and talent, and procurement, SaaS has become the default deployment model for new implementations. For ERP systems, the shift to SaaS will accelerate over the next three years and become the preferred deployment option for many types of businesses. For large enterprises, adoption will be more restrained near-term, but solutions are maturing quickly, and we will see significant adoption at scale for complex businesses within five years. Solution extensibility via PaaS and robust partner ecosystems with industry expertise will help certain vendors achieve success in complex scenarios.

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## Supplemental Material

### Survey Methodology

Forrester's Global Business Technographics Software Survey, 2016, was fielded in August and September 2016. This online survey included 3,582 respondents in Australia, Brazil, Canada, China, France, Germany, India, New Zealand, the UK, and the US from companies with two or more employees.

Forrester's Global Business Technographics Software Survey, 2015, was fielded to 3,651 business and technology decision-makers located in Australia, Brazil, Canada, China, France, Germany, India, New Zealand, the UK, and the US from companies with two or more employees. This survey is part of Forrester's Business Technographics and was fielded from July 2015 to August 2015. Research Now fielded this survey on behalf of Forrester. Survey respondent incentives include points redeemable for gift certificates. We have provided exact sample sizes in this report on a question-by-question basis.

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Forrester's Business Technographics Global Software Survey, 2014, is a mixed-methodology phone and online survey fielded in July through September 2014 to 3,308 business and technology decision-makers at companies with two or more employees.

Forrester's Forrsights Software Survey, Q4 2013, was fielded to 2,074 IT executives and technology decision-makers in Canada, France, Germany, the UK, and the US from SMB and enterprise companies with two or more employees. This survey is part of Forrester's Forrsights for business technology and was fielded during October and November 2013. ResearchNow fielded this survey online on behalf of Forrester. Survey respondent incentives include points redeemable for gift certificates. We have provided exact sample sizes in this report on a question-by-question basis.

Forrester's Forrsights Software Survey, Q4 2012, was fielded to 2,444 IT executives and technology decision-makers in Canada, France, Germany, the UK, and the US from small and medium-size business (SMB) and enterprise companies with two or more employees. This survey is part of Forrester's Forrsights for business technology and was fielded during November and December 2012. LinkedIn Research Network fielded this survey online on behalf of Forrester. Survey respondent incentives include gift certificates and research reports. We have provided exact sample sizes in this report on a question-by-question basis.

Each calendar year, Forrester's Business Technographics fields business-to-business technology studies in 10 countries spanning North America, Latin America, Europe, and Asia Pacific. For quality control, we carefully screen respondents according to job title and function. Forrester's Business Technographics ensures that the final survey population contains only those with significant involvement in the planning, funding, and purchasing of business and technology products and services. Additionally, we set quotas for company size (number of employees) and industry as a means of controlling the data distribution and establishing alignment with IT spend calculated by Forrester analysts. Forrester's Business Technographics uses only superior data sources and advanced data-cleaning techniques to ensure the highest data quality.

**Companies Interviewed For This Report**

Acumatica	Oracle
Deacom	QAD
FinancialForce.com	Rootstock Software
Intacct	SAP
Microsoft	Unit4
NetSuite	Workday

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## Endnotes

- <sup>1</sup> ERP systems provide critical transactional support for most enterprises, supporting core financial accounting functions, procurement, inventory, order processing, sales, and a variety of other functions. These packaged application suites support a wide variety business types, allowing for specialization by the software vendors and their ecosystems of services providers.
- <sup>2</sup> Forrester's Global Business Technographics Software Survey, 2016, does not have this question, so it was not possible to add the data in for the most recent iteration of this survey. However, we find the 2015 version of this data to be applicable and critical for our clients.
- <sup>3</sup> For example, Shaw Industries runs NetSuite in its China operation while continuing to maintain Oracle ERP applications in the corporate entity. Source: "World's Largest Carpet Manufacturer Rolls Out NetSuite Oneworld To Power Global Growth In A Two-Tier Erp Model," NetSuite press release, October 8, 2013 (<http://www.netsuite.com/portal/press/releases/nlpr10-08-13b.shtml>).
- <sup>4</sup> We describe six alternative cloud deployment models in the following report. See the Forrester report "[Cloud Service Provider Categories Are Shifting: Here's Your Guide.](#)"
- <sup>5</sup> Based on SEC filings, NetSuite had \$ 543.5 million in subscription and support revenues through nine months of calendar year 2016, and \$190 million for the third quarter of 2016. Based on historical growth rates, we believe the annual subscription and support run rate exceeds \$700 million for 2016. Details of the Q3 2016 SEC 10-Q filing can be found in the following. Source: "United States Securities And Exchange Commission," FORM 10-Q (<http://d18rn0p25nwr6d.cloudfront.net/CIK-0001117106/416cd04b-ac49-4481-9e58-4f302f24c16c.pdf>).
- <sup>6</sup> Microsoft and Oracle are able to leverage their own infrastructure assets for SaaS ERP. SAP offers its own Hana Enterprise Cloud but also has agreements for public cloud delivery with several providers, including AWS and Microsoft. Workday recently announced an agreement to leverage AWS as a third-party infrastructure option.
- <sup>7</sup> We provide an analysis of Oracle's acquisition of NetSuite in the following report. See the Forrester report "[Brief: Oracle's NetSuite Acquisition Signals A Shifting ERP Landscape.](#)"
- <sup>8</sup> Workday is ranked as a leader in the following report. See the Forrester report "[The Forrester Wave™: SaaS HR Management Systems, Q4 2014.](#)"
- <sup>9</sup> Oracle's reported ERP customers include a substantial number of standalone EPM customers. Based on discussions with Oracle, we believe the SaaS ERP base is roughly 1,000 customers, of which approximately 50% are live.
- <sup>10</sup> SAP did not disclose the number of customers selecting a SaaS version of SAP S/4Hana.

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