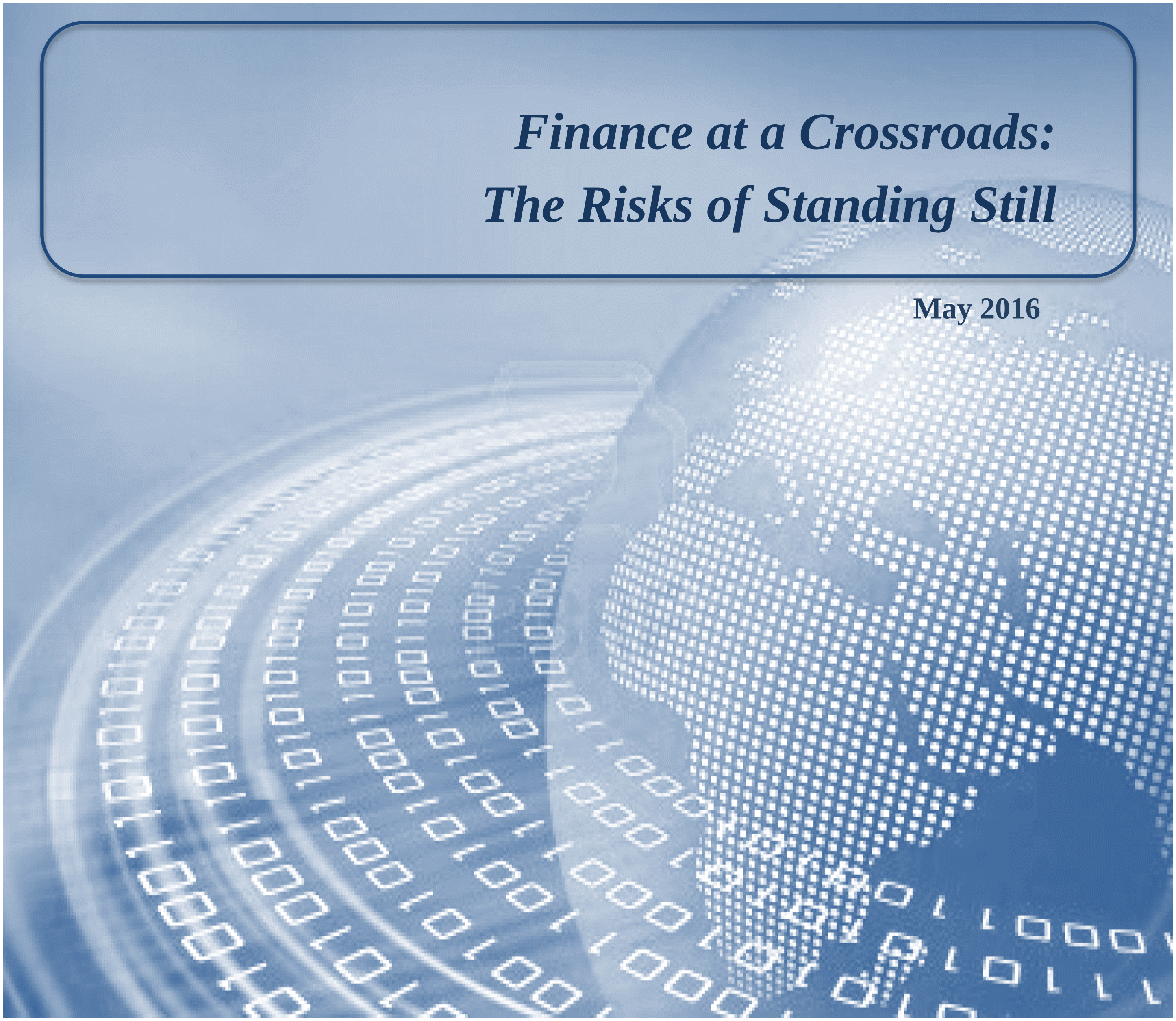

Finance at a Crossroads: The Risks of Standing Still

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TABLE OF CONTENTS

Introduction: the Risks of Standing Still 1

Risk #1: Finance Effectiveness Gaps 1

Risk #2: The Shifting Finance Responsibility Footprint 2

Risk #3: Digital Success Gaps 4

Make the Cloud Decision 5

Cloud Security 6

"Must-haves" to Look For 6

Sponsor Information: Intacct 8

TABLE OF FIGURES

Figure 1: The Finance "Effectiveness Gap" Model 2

Figure 2: The Finance Responsibility Footprint, 2008 – 2016 3

Figure 3: Digital Competitive "Success Gap" Model 4

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The research and analysis presented in this report includes research from ongoing Saugatuck Technology research programs, including our global survey and interview work with user enterprise business and IT leaders, briefings with providers, and analysis of publically-available market information from multiple sources.

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About Saugatuck Technology

Saugatuck Technology, an ISG business, provides subscription research and advisory consulting services focused on key market trends and disruptive technologies driving change in business computing. For more information, please visit www.saugatucktechnology.com or call +1.203.454.3900.

INTRODUCTION: THE RISKS OF STANDING STILL

"Historically, our most frequent response to the threat of business or IT change is 'Don't just do something, stand there.' We'd rather wait to make a late investment than rush and make a worse investment. That will not work in today's business." – CFO, $20M US-based printing concern

According to research from business IT consulting and advisory firm Saugatuck Technology (an ISG business), nearly 90% of businesses of all types and sizes are applying some types of Cloud-based and Cloud-related technologies to change, improve, innovate, and accelerate how they do business. Our data indicate that more than 75% of those taking advantage of these technologies are in market-facing organizations such as Sales, Marketing, and Customer Support.

Meanwhile, we also see that Finance organizations tend to be working with technologies and systems that are less than half as effective as needed – just trying to keep up with current business methods and operations. As outward-facing systems and ways of doing business change, improve, and accelerate, we see Finance organizations at risk of falling further and further behind. More data is coming in from more sources; the pace of business is accelerating; ways of doing business are changing; new markets and opportunities are emerging faster.

Many organizations are investigating new Finance management software and systems, including Cloud-based solutions. But many others still are taking a "wait and see" approach to changing or upgrading their systems, pleading caution in the face of what can feel like an overwhelming scope and pace of change. In the words of one CFO, "Our most frequent response to the threat of business or IT change is 'Don't just do something, stand there.' We'd rather wait to make a late investment than rush and make a worse investment."

Caution is and should be the nature of Finance leaders and organizations; but *caution* and *delay* are different. The former helps to reduce risk, while the latter frequently increases risk. Our view is simple: given the pace and pressures of the new business reality, and the capabilities of today's advanced, Cloud-based solutions, *waiting to upgrade and improve Finance management systems engenders increased business risk.*

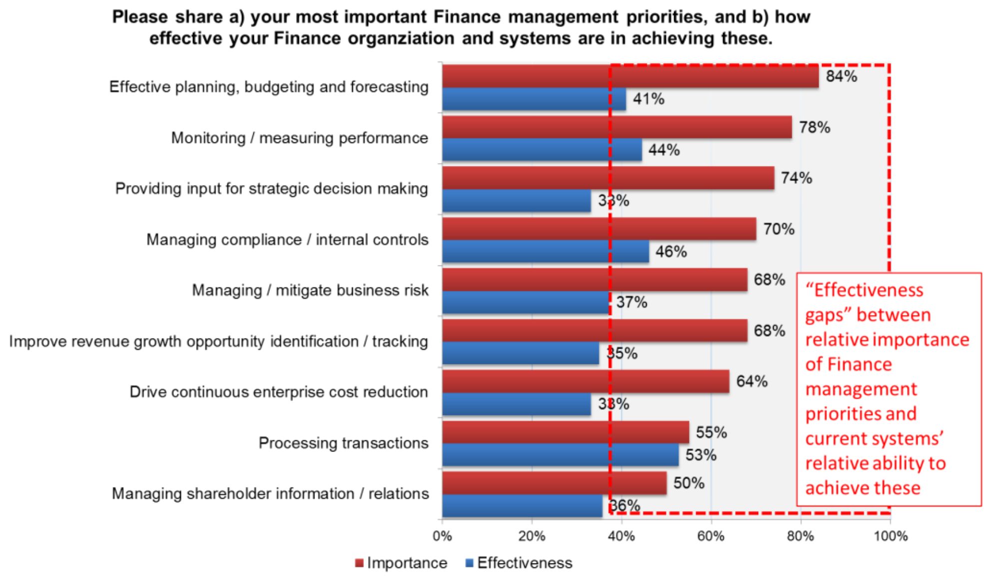
This research report uses research and analysis by Saugatuck Technology to explain how the pressures of global business change are pushing all Finance organizations and leaders to make the decision to rethink – and improve - what they do and how they do it, and the three types of risks that we see as most likely (and dangerous) when Finance and business leaders take a "wait and see" approach.

Risk #1: Finance Effectiveness Gaps

"We are certain that we know what we need to accomplish. We are becoming less certain about our abilities to accomplish those things with yesterday's tools and technologies." - CFO, $100M US-based software development services firm

Regardless of new ways of doing business, our research indicates that most Finance organizations have significant existing gaps between their core management priorities and their ability to achieve those priorities. In short, Finance suffers already from what we call “Effectiveness Gaps” – the gaps between what needs to get done, and the relative ability of existing systems and software to enable that. Figure 1 illustrates these gaps.

Figure 1: The Finance “Effectiveness Gap” Model



Source: Saugatuck Technology, an ISG business

The data show substantial gaps in almost every Finance management area, including the ability to achieve core needs in performance measurement and decision making. These gaps can prevent any company from succeeding in its traditional business. As the complexities of the business increase while the pace of business accelerates, these gaps will grow and worsen. Not only will the firm become less able to compete in established markets, it will be less able to see and understand what is happening in new or emerging areas of opportunity, as it loses ability to gather, analyze, and report accurate and relevant data.

“[Internal groups] could spend up to 3 days retrieving and compiling information for hours from timesheet data because it was a manual process.”

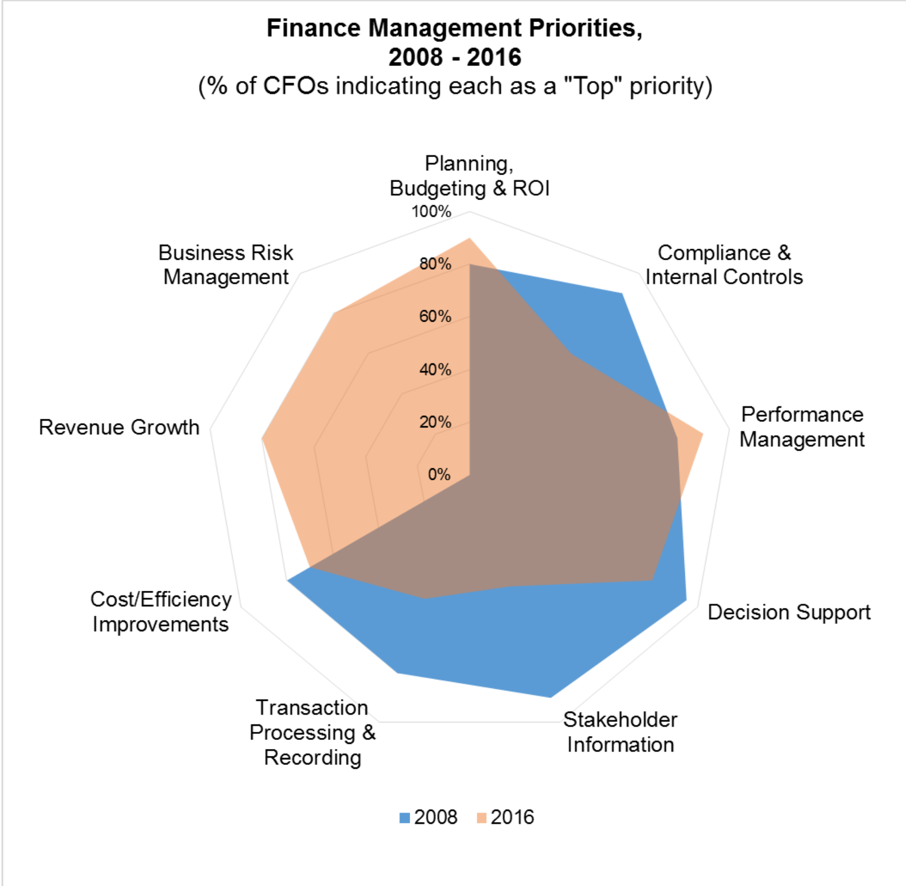
- Financial Planning Analyst, US-based educational services provider

Risk #2: The Shifting Finance Responsibility Footprint

“Where we are today is not a place where our existing systems were designed to support us. We can keep up with what we were, but not what we are becoming.” – Controller, $250M multinational electronics manufacturer

While we see business models in all markets changing to emphasize more data-driven capabilities and opportunities, and while old Finance systems are preventing leadership from improving the value of the firm anywhere near the extent possible, the “footprint” of Finance itself is growing and shifting. When we aggregate and analyze data from our Finance management surveys over time, we quickly see how Finance leaders’ areas of responsibility, and their relative priority, have not only shifted, but also expanded into new areas. Figure 2 illustrates this.

Figure 2: The Finance Responsibility Footprint, 2008 – 2016



Source: Saugatuck Technology, an ISG business

What we see is how the overall footprint of Finance presence and associated management priorities has not just changed, but expanded substantially over the past several years. The shifting and reduction of boundaries has also increased visibility from Finance out to the business, and from the business into Finance as well, further increasing its role(s) and involvement, and expanding expectations and responsibilities, including more involvement in areas like Revenue Growth and Identification, and Business Risk Management.

But that's not the entire story. We don't typically hear about a real reduction in the relative importance of those areas showing mostly blue above. Instead, we hear about how the new areas of responsibility are more of a current top priority. *This suggests that while the strategic importance of these areas may not have decreased, the ability of Finance leaders and organizations to focus on them likely has.*

This leads to more risk of disassociation of Finance from some areas of the business, and lapses in managing existing responsibilities, as attention turns toward the latest challenges and business changes while Finance must continue to "do more with less."

Risk #3: Digital Success Gaps

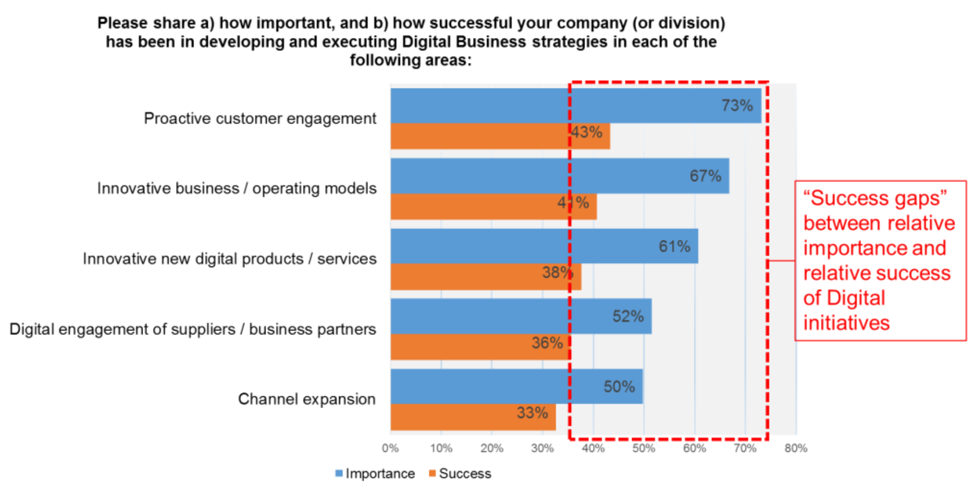
"Without having the capability of running reports in a timely manner, managers may have made front line decisions without all of the information that was necessary to make those decisions." - Financial Planning Analyst, US-based educational services provider

As more market-facing and production organizations innovate with technology to drive growth and create competitive advantage, the shift toward "Digital Business" is on. Our research indicates that more than 70% of all types and sizes of firms are attempting one or more Digital Business initiatives, from new methods of customer engagement to monetizing intellectual property to refocusing internal resources by automating departmental operations – a spectrum that clearly affects Finance management responsibilities.

But while most firms are working at Digital Business in some form, only about a third of these report any relative success, and they see Finance as a primary factor in that. As the *de facto* party responsible for most business data, Finance as an organization and function is seen as an inhibitor to business success in these initiatives. Current Finance systems – already inadequate in many areas – cannot enable the seamless data availability, standardization, and analysis required to plan, build, adapt and refine the new ways of doing business, or the ability to see and pursue new opportunities. As the pace and scope of business change grow, this breeds greater competitive risk for the company.

Figure 3 summarizes our most recent global data comparing relative importance of Digital Business strategies and initiatives versus relative success in accomplishing each of those.

Figure 3: Digital Competitive "Success Gap" Model



Source: Saugatuck Technology, an ISG business

The data suggest that most firms are experiencing substantially less competitive success in Digital Business initiatives than they hope to achieve. Business executives at these firms tell us that most such gaps are, in large part, the result of their inability to see, gather data on, report on, and effectively manage the business processes and systems that underlie and enable these efforts.

MAKE THE CLOUD DECISION

"Our [Cloud] system is available everywhere 24/7, software upgrades are automatic, and reporting is available for other departments – they can create, modify & run reports as needed." - Financial Planning Analyst, US-based educational services provider

In sum, standing still allows Finance to enable business failure – failure to compete, failure to comply, failure to enable and realize new opportunity, and so on. So what decision should be made, and how should the risks inherent in that decision be addressed?

The pace and pressures of today's business reality mean that it makes little sense for firms to stand still when it comes to upgrading or changing Finance software and systems. There are risks in making the wrong decision, but there are greater risks in making no decision, in taking no action. And in the great majority of cases, we advise our clients to make the Cloud decision.

"We have very solid legacy systems that work as designed, [but] they can't all be upgraded to where our business is already taking us."

– CFO, US-based agriculture machinery manufacturer

The widespread availability of user case histories, provider financial and partner ecosystem information, solution cost data, and supporting business cases alleviate the majority of risks that most buyers have associated with Cloud-based solutions and providers. The proper analysis and application of that information effectively shifts the greatest risk to deciding the suitability and adaptability of the solution to the firm's business and Finance management needs, and the pace of implementation.

Solution and provider adaptability are the keys to reducing decision risk. The pace and pressures of digitally-driven business change are unprecedented and, to a great extent, unpredictable. For example: Many market rules and regulations are either being written or rewritten, or have yet to be conceived. As such, solutions enabling business and Finance management adaptability *with rapid innovation* will reduce the risk of making the wrong decision by reducing the risk of locking the organization into incorrect or inefficient manners of operation. Unexpected changes in regulatory requirements, data formats, or industry standards will be less likely to force costly changes to Finance systems that are architected to be flexible, yet standardized so that updates and change can be developed and implemented continuously.

This is why we most often advise our clients to make the Cloud decision. Traditional Finance management systems can be adapted and improved, but they tend to be built and optimized for specific types of functions within specific areas of Finance management responsibility. Given how Finance's areas of responsibility have changed and are changing, and given how Finance needs to be able to mine, interpret and distribute all types of business information to all business stakeholders, why lock into a solution that (a) requires time-consuming upgrades that (b) force the re-testing or re-building of customizations, which (c) impede the ability of finance teams to take advantage of any new capabilities.

Finance management capabilities need to grow and change as business needs grow and change – at least at the same pace, and preferably faster.

CLOUD SECURITY

Whenever we survey or interview Finance leaders about their concerns regarding Cloud-based management systems and software, the top concern – always – is the relative security of their data and systems. And it should be.

Unfortunately, too often this concern rises to the level of objection and obstacle to Cloud adoption for Finance, based on perception rather than reality. The reality is that Cloud-based IT systems are typically much more secure and reliable than traditional, on-premises-based IT.

We often hear Cloud objections based on well-publicized data breaches; too many people seem to equate Cloud with these breaches. The reality is that every highly-visible and damaging security breach that we have found to date has been a breach of a company's own data center. This includes the well-known breaches of payment processors, retailers, hotel chains, and government entities, typically through lapses in security management – something in which Cloud providers tend to be much more expert and current.

The average Cloud platform has been designed and built not only with the latest and greatest security. It has been engineered with the ability to adopt and adapt whatever next-generation security technologies and capabilities are developed, sometimes on a weekly basis.

Finally, it is the nature and business of Cloud providers to enable and continuously improve security (including reliability). Without this, they cease to be able to do business. Despite a few well-publicized lapses, we find that Cloud-based platforms tend to deliver much greater reliability than almost all on-premises IT systems – again, because they are engineered for constant availability, based on uniformity in core technology and in the application, management, and constant updating of that technology.

In short, we see far more IT security risk for firms that do not make the decision to utilize Cloud, whether for Finance specifically or throughout the company.

"MUST-HAVES" TO LOOK FOR

Every decision will – of course – be based on specific situations and needs. While every path will differ, the basic steps to take can be the same.

First, adapt and apply some form of the Effectiveness and Digital Success gap models illustrated above to identify primary areas of need and concern. This should provide at least a foundational set of improvement and enablement areas that in turn will help identify – and qualify – core functionality needed from new solutions. Simple gap analyses like these also help to identify the areas of greatest potential business risk, i.e., if we don't fill this gap, what do we risk losing in terms of our ability to compete or grow? Using such gap models will also help to assess the scope (and therefore cost) of potential or likely Finance system improvement.

In our experience, every solution and provider must deliver – at least - the following Finance management capabilities:

- **Integrate easily with key processes and data, within and outside of Finance.** This should be an obvious attribute of any type of Finance management solution, but unfortunately it still is not. And with regard to the ever-expanding footprint of Finance noted earlier, what we traditionally think of as "Finance" continues to shift and expand, requiring more and better integration and interoperation with more areas of business. The shifting reality also requires solutions – and providers – able to anticipate, predict, and respond to more and new Finance responsibilities over a relatively short time.

- **Robust reporting and analytic capabilities.** The business-driven need to expand Finance management effectiveness across more areas, while improving FP&A capabilities, brings with it the need for more and better reporting and analytics capabilities. This is especially true given as increasingly advanced business data analytics become part and parcel of more areas of business planning and management (along with more demand for improved abilities for automating Finance and IT functions).
- **Significant cost improvement with functionality and business improvement.** Cloud-based solutions/services/platforms, and the application workloads planned to run on them, need to be evaluated on a cost-to-functionality basis as well as on an improvement opportunity basis – i.e., what it really costs, plus what Finance and associated business management methods and operations can and will be improved or enabled. It also bears repeating that the decision to purchase must be based on business improvement (including creation of qualifiable, not hypothetical, business opportunities) as well as on cost savings. Ask "where, and how, and why, is this solution going to make us better? – and how must we demonstrate this?" The most qualified vendors will be able to provide guidance and case studies relevant to your situation.

"What we have to get from Cloud-based solutions is everything that we always needed from traditional software, with the added benefits and opportunities, and exposures, of what Cloud delivers."

– CFO, US-based agriculture machinery manufacturer

- **Facilitate easy upgrades.** One core attraction of Cloud-based solutions is that software upgrades take place on servers within the provider's Cloud platform/data center. But our research indicates that disruption to Finance operations can and does occur when upgrades are rolled out to customers. Review and resolve Finance operations and known system interactions in detail with potential Cloud Finance solution providers.
- **Suitability to needs and success.** The best providers are those with the solutions proven to be most suitable to the needs of the buyer and having financial and technological investment and integration with partners sufficient to support the buyer's needs through the expected useful life of the solution. In other words, the best providers are those best positioned to ensure buyer success. Require relevant user case studies; ask about regular, planned and well-managed upgrades and enhancements; look into and beyond financial health to customer/partner ecosystems as regards core technology use and innovation.
- **Satisfy security concerns.** Because Cloud delivery platforms are designed, engineered, and constructed to be secure, Cloud-based solutions tend to be among the most secure solutions available. But that security is relevant only to applications and data residing in the securely-architected Cloud. As the footprint of Finance management responsibilities expands, the number of security exposures within and between their enterprises will grow. Work with providers that can support and adapt to combinations of traditional perimeter-oriented, prevention-first security practices with more current response-and-isolation approaches.

> *"The thing about the best Cloud-based solutions now is that they are really just 'solutions' that can be compared and evaluated the same as any other software. They're just more adaptable and less expensive."*
>
> *- CEO, $70M US-based multinational custom machining firm*

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Over the last few years, this has included a major focus on the emergent new master architecture, that includes not only Cloud applications and infrastructure, but mobile, social, advanced analytic and sensor / IoT technologies. More recently, the firm has also focused on Digital Business transformation.

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