



*The Transformational CFO:
Integrative SaaS and the Power to Change*

A research report prepared by:



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About this report

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About Saugatuck Technology

Saugatuck Technology Inc. provides market strategy consulting and subscription research services to senior executives, information technology vendors, and investors, combining strategy development, business planning, and market intelligence with first-hand research of executive technology buyer trends. Founded in 1999, Saugatuck is headquartered in Westport, Connecticut (USA), with offices in Silicon Valley and in Germany. For more information, go to www.saugatech.com, or call +1.203.454.3900 in the US, or +49.6123.630285 in Germany.

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INTRODUCTION: FINANCE AND LEADERSHIP

The leaders of Finance are more and more becoming leaders of their companies. By no means are CFOs, controllers, or VPs of Finance taking over corporate leadership *en masse*. But they are increasingly being charged with being a part of that leadership, strategically and tactically. Internally, Finance as a department or group is responsible for the most critical aspects of any firm. Externally, Finance is the face of the firm to regulators, lenders, partners and, in many cases, the public at large. In severe economic situations, Finance has the responsibility for establishing, managing, or restoring public trust in a firm.

All of this must be accomplished in a business environment that responds in hours and sometimes minutes to market changes, rumors, political influences, consumer preferences, and more. This requires access to, and the ability to use, accurate and up-to-date business information. But too often, it must be done with increasingly out-dated systems that limit the abilities of Finance to accomplish its goals – and to help lead the firm.

This report looks at the promise and realities of what is typically called the “strategic transformation” of Finance from back-office tradition to company leadership. We will use the latest research from Saugatuck Technology to identify the gaps between where Finance is today, and where Finance executives say they need to be. And we will look at a key means of bridging those gaps and enabling Finance’s transformation to leadership: The utilization of integrated finance and business management applications via software-as-a-service (SaaS).

THE PROMISE OF FINANCE TRANSFORMATION

The term “transformation” is being applied liberally and widely to Finance from a broad range of sources, from industry publications to IT vendors. In most cases, the term describes a series of changing roles for Finance, typically moving from back-office, F&A-focused roles to more publicly-visible and centrally-responsible roles enabled by improved IT.

Saugatuck’s research indicates that Finance has indeed been undergoing a series of important transformations, typically beginning with building and expanding presence and capabilities that enable greater reach and reporting within the enterprise.

But what we see now is only the latest in a long and mostly successful period of growth and transition, almost all of which has been enabled by emerging, improved, cost-effective IT.

For example: The advent of de-centralized computing (e.g. desktop PCs, departmental servers) in the 1980s spurred the first big transformation from back-office number-crunching to more company-visible analysis and input to business planning. It is no coincidence that the positions of CFO and the CIO began coming to prominence within many firms at the same time.

Through the 1980s and 1990s, the combined pace of IT growth and economic climate of M&A activity, heavy IT investment, and venture capitalism helped bring the CFO (and similar roles) more to the forefront – and placed ever more emphasis on the need for accurate and timely data, analysis and insight from Finance.

“Any investments we make in getting systems to work together would give us a double payback. We would be a better Finance organization, and the business would get better information. Our ability to plan, and the business’ ability to compete, would both improve.”

- Controller, multi-national electronics manufacturer



Of course, Finance's increasingly-visible role has not been solely the result of new IT. We have seen a progression of high-profile regulatory and legislative compliance requirements, for example, that increase the spotlight on Finance.

The advent of such regulation and legislation as Sarbanes-Oxley, the Patriot Act, and HIPAA brought even more focus to the central role of Finance in business strategy.

It also brought exceptional scrutiny to Finance operations, systems and functionality, shedding light on a series of needs that Finance itself had always been aware of – but, in most cases, had been unable to place in a powerful enough spotlight to attract adequate investment for improvements.

“We've needed to make investments in almost every important system for years, if not decades,” the Finance director for a \$100 million U.S. manufacturer told Saugatuck researchers. “But it was really only while planning compliance with our trading partners' Sarbanes-Oxley and Patriot Act needs that the real scope of change and investment became apparent.”

“Investments for SOX compliance brought us almost up to the 21st century in terms of systems and process communication,” added the CFO of a regional retailer in the southeastern U.S. “But now we need to take that next step – we need to get out of our own way.”

“ We need to take [Finance IT] to that next step – we need to get out of our own way.”

- CFO, southeastern U.S. regional retailer

THE REALITIES OF FINANCE TRANSFORMATION

“Getting out of our own way” means that, even with recent investments in compliance and technological improvements over the years, Finance still too often falls short of fulfilling its strategic leadership role—because of its own software and systems.

“Almost every process and system we have is optimized to itself,” explains the Finance VP of a publicly-traded U.S. optical goods manufacturer. “And that's a big part of our problem. Each one works quite well, as long as it doesn't have to work with other systems and processes. There's not enough coordination.”

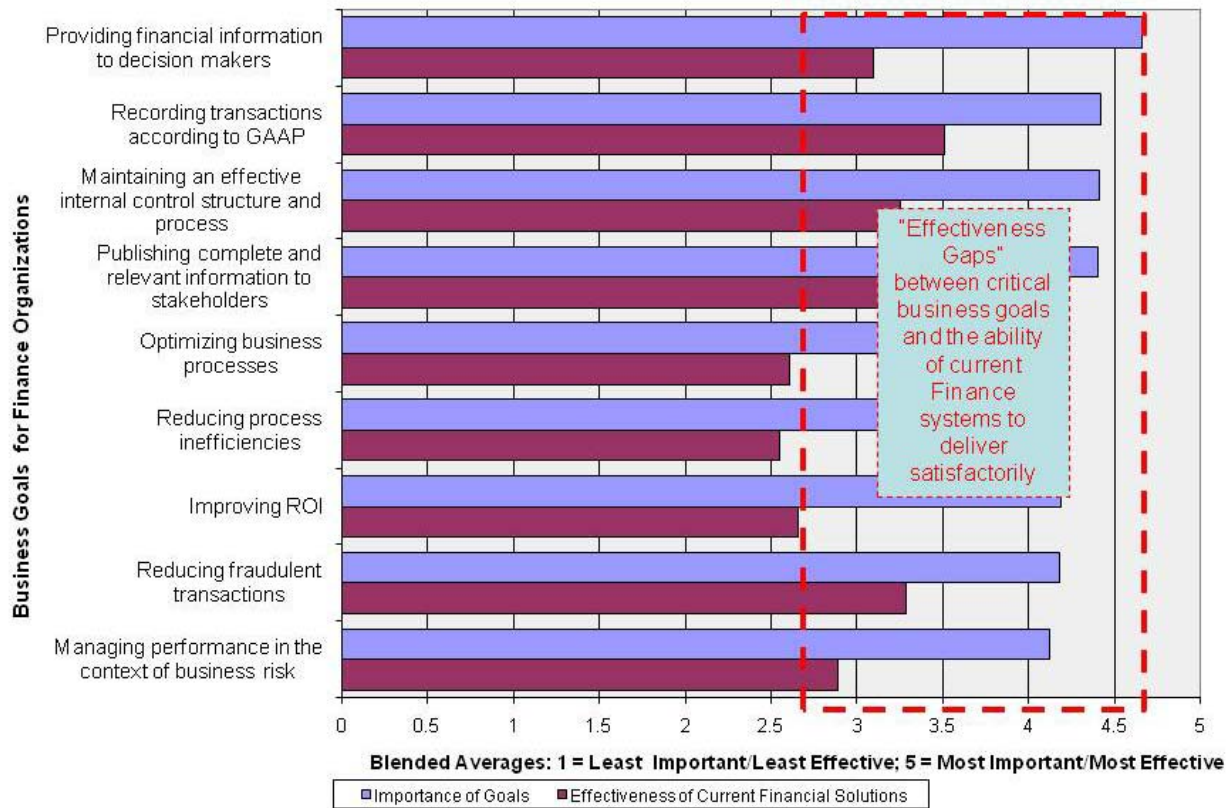
“Any investments we make in getting systems to work together would give us a double payback,” adds the Controller for a large multinational electronics manufacturer. “We would be a better Finance organization, and the business would get better information. Our ability to plan, and the business' ability to compete, would both improve.”

Saugatuck has spent years researching the capabilities, presence, and use of all types of SaaS within all types and sizes of companies, industries, and markets. Our research focus is on the real-world business uses and advantages of SaaS in all areas of business operations and management, including the reasons why companies consider and use SaaS.

In a 2008 worldwide web survey, Saugatuck asked Finance executives to list the most important business goals for their Finance organizations in supporting their firms. We then asked these executives to rate their Finance organizations' systems' abilities to achieve those goals. The results are illustrated in Figure 1 on page 3.



Figure 1: Top Business Goals and Finance Systems' Effectiveness



Source: Saugatuck Technology Inc., 2008 survey of finance executives (n=150)

In Figure 1, we see the top business goals for Finance organizations on the left. The top, blue bar in the graphic represents Finance executives' self-ratings as regards the importance of each to their firm. The lower, red bar in the graphic represents these same executives' ratings of their own IT systems in meeting those goals.

In every case, we see what Saugatuck refers to as an "effectiveness gap." This is the difference between how important each business goal is for Finance, and how well their IT systems allow them to satisfy those. Clearly, current systems fall short, causing a range of effectiveness gaps within Finance, and between Finance and its ability to help improve the rest of the enterprise.

What causes these gaps? Saugatuck research indicates two core causes.

First, our research shows that most Finance systems tend to be implemented for a specific function, task, process, and/or group. But over time, the uses of these systems tend to grow beyond their original intent and scope. The range of interaction with other systems also increases, with the result that the original system design (and often, the ability of the Finance organization) falls short of the expanded, increased demands and expectations.

Second, Finance as an organization tends to operate in "silos" of process and function. For reasons of regulation, exigency, and cost, logical and physical separations between processes and systems have been installed and fostered over years, and sometimes decades. In short, relatively few systems can communicate easily and accurately with others.



And this worsens as Finance attempts to expand its reach and influence to other parts of the company – and to the company’s customers, trading partners, and investors. The more complexity and costs increase, the greater the effectiveness gaps grow. As an example, adding data review, correction, and re-entry to one step in one process typically adds one or more steps to all adjacent processes.

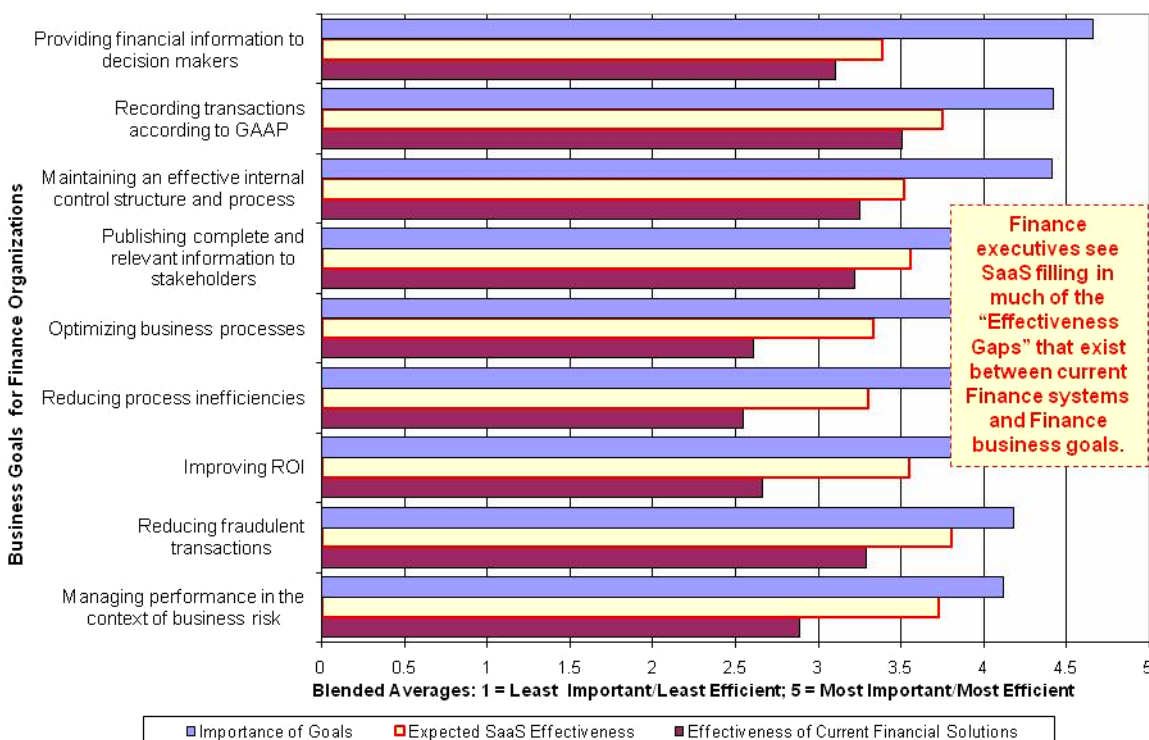
As the Controller for a computer components manufacturer told Saugatuck, “An increase of \$1 in the cost of checking data in one step can quickly grow beyond \$100 just in Finance – imagine what that does to our entire reporting process.” Saugatuck research suggests that as many as 75 percent of firms in the U.S. alone utilize Finance staff (including management) to review and re-enter data. The greater the effectiveness gaps grow, the more the costs of Finance grow – and more the ability of Finance to lead within the firm is diminished.

THE ROLES OF SAAS IN FINANCE TRANSFORMATION

Awareness of the “effectiveness gaps,” and of their attendant costs to the business, is driving Finance executives to consider SaaS for core Finance systems. Long considered an adjunct or complementary means of delivering and using simple business software functionality, SaaS is increasingly becoming part of mainstream IT operations – including core Finance processes and functions.

Saugatuck’s Q3 2008 survey of Finance executives indicates that many already see SaaS as a way to bridge their organizations’ effectiveness gaps. For example, our survey asked Finance executives how effective they believe that SaaS would be in addressing their needs for the same core Finance functions and operations ranked in Figure 1 above. Figure 2 illustrates how strongly these executives feel that SaaS is a viable means of improving their abilities to reach key Finance goals, as indicated by the yellow bar representing “Expected SaaS Effectiveness.”

Figure 2: SaaS Seen as Bridging Key Finance Effectiveness Gaps



Source: Saugatuck Technology Inc., 2008 survey of finance executives (n=150)



While we can see across-the-board expectations that SaaS will significantly improve the effectiveness of Finance in meeting core business goals, we must also note that the expected improvements do not completely enable Finance to fulfill all of their desired business goals. This is to be expected. “The technology is just an enabler,” according to the CFO of a leading SaaS business software suite (see sidebar on page 7).

But we do see expectations of marked improvement by using SaaS instead of Finance’s typical existing systems. And these expectations are being supported by action. Saugatuck research throughout 2008 indicates that more than 50 percent of Finance executives report one or more SaaS deployments today. Nearly 25 percent of Finance executives report having multiple solutions in place, and having plans to implement more. And half of all Finance executives in large and small firms report using SaaS for core functions or processes within Finance operations.

What drives these expectations? What is behind this growth in SaaS interest and adoption by Finance? Integrated suites designed for core business operations.

Key Advantages of SaaS for Smaller Firms in a Down Economy

Even in severe economic downturns, many firms are faced with a need to invest in or upgrade business software or infrastructure. Traditionally, smaller firms especially would forego IT investment during downturns, because the upfront, “lumped” costs of software and infrastructure too frequently were prohibitive. When economies rebounded, many of these firms found themselves at a competitive disadvantage as a result of their inability to afford new, more-capable IT.

SaaS and cloud computing tip the circumstances more in favor of smaller firms. The operational and management advantages of such IT are now available as services billed monthly based on usage – and upgraded by providers as part of predictable subscription agreements. Acquisition costs, including implementation, for SaaS can be as much as 75 percent less than for traditional competitive business software applications—even less when comparing SaaS suites against multiple, point-solution software applications.

Just as importantly, ongoing costs can be adjusted up or down based on usage. When business slowdowns result in monthly usage declines, monthly costs decline as well. When business improves and usage increases, costs increases can be predicted and managed. As a result, Saugatuck expects to see more smaller firms emerge from the most recent downturn in more competitive positions than we have seen in previous challenging economic situations.

INTEGRATION, CORE SYSTEMS, AND SUITES

Just a few years ago, SaaS was generally delivered and acquired as a function-specific or process-specific point solution. But SaaS today is more about platform-based services that integrate key aspects of business processes and management with software – and IT infrastructure. Leading vendors are rolling out sophisticated business applications suites that are suitable for core, critical business functions.

In Saugatuck’s view, most businesses cannot effectively use SaaS to integrate and manage core systems, including Finance systems, without using them as an integrated suite.



For Finance, this means opportunities to integrate data and operations across processes and silos—and thus to improve their abilities to improve service levels, lower costs, and transform to a more strategic role within the business.

Today's SaaS suites are built around platforms of unified data and applications, typically with standardized architectures interfaces that enable linkage to other systems. Many of these platform-based offerings incorporate software (and user interfaces) designed from the ground up to not just work together as applications, but to work efficiently within business processes in a range of industries.

These suites are also scalable and customizable to an extent well beyond that of earlier SaaS offerings. They not only bring data together, but enable individual managers and users to configure and customize the information they see, and how they use that information, based on their needs and responsibilities.

Meanwhile, the core benefits of SaaS remain. Users can obtain integrated, enterprise-grade, platform-based, customizable business software with low upfront costs for acquisition, predictable long-term costs based on monthly usage, and upgrades and maintenance built-in to the service contract.

The implications and possibilities of integrated SaaS suites for Finance transformation are powerful. Within Finance, such unified, platform-based systems remove many of the technological barriers to system and process collaboration. When all the data generated by applications and users is in the same format, the systems work together in ways previously unimagined.

“In Saugatuck’s view, most businesses cannot effectively use SaaS to integrate and manage core systems, including Finance systems, without using them as an integrated suite.”

-Saugatuck Technology Inc.

But it is not just the systems that work better together. Our research indicates that the combination of data standardization (including data entry, format, and presentation) across systems has a practical effect of forcing improvements in related processes as well. More than one CFO has told us that, when management sees direct, personal benefits of having and using the same data everywhere, savvy managers and executives start adapting operations to ensure data similarity.

Linking and integrating SaaS with business processes also improves the ability of Finance to serve the firm and improve Finance’s leadership. Adapting the applications, functions, and user interfaces to how the company actually works is an important and critical improvement. Unification and customization in turn simplifies and streamlines operations and management within Finance, enabling the delivery of more services to the company, at higher levels of reliability and accuracy, and at the same or lower cost when compared to existing systems and operations.

But it is when we look beyond Finance that we see the real capabilities of transition and transformation enabled by SaaS, especially those of unified, platform-based Wave III SaaS. Monthly reporting, for example, becomes simplified almost to an extreme when the SaaS platform enables sales, customer support, order management, shipping, purchasing, inventory, and payroll all to enter or report data in the same format.

As a result, reporting need not be limited to monthly or quarterly in many cases; unified SaaS suites can enable real-time, accurate data reporting from a variety of processes and applications. Changes in business, within or outside the firm, can be identified and analyzed practically immediately. ***Finance can thus become the nexus of real-time business information and analysis.*** Historical data also becomes more valuable, as does Finance’s role in gathering, reporting, and analyzing



that data. When the applications and data are unified and standardized, business planning becomes more pragmatic and realistic. Compliance becomes less burdensome and costly. And relationships with partner firms, suppliers, and customers are more readily gauged and managed.

Practicing What He Preaches: CFO Jim McGeever of NetSuite

Jim McGeever is in a unique position to discuss the effects of a unified SaaS applications platform for Finance. A devout advocate of “real-time” business and financial management, and regular presenter at financial and IT industry events on the benefits of SaaS and the role of Finance organizations, McGeever is also CFO of NetSuite, a leading SaaS provider of unified, on-demand business operations software. He recently shared his insights regarding the changing roles of CFOs, the transformation of Finance, and the importance of SaaS in enabling these.

On transformation to strategic CFO - and back: “There was a period of time when the CFO was really just about hardcore Finance; he or she could speak to the company’s numbers but not a lot about the business. With the growth of distributed computing, we saw the first real transformation from back-office numbers to being more involved on a frequent basis with more business operations. So in the 1990s, we started to see a dramatic transformation of Finance in general, and CFOs specifically, from less number-crunching to a more strategic view of the business and markets. But in the early part of this decade, challenges such as Sarbanes-Oxley and similar regulatory compliance yanked the CFO back to hands-on role.”

On Finance transformation and the role of technology: “Technology is really just an enabler to transformation of Finance’s roles within the company. Any real transformation is more or less up to the CFO himself, the CEO and the board, and the environment that the company finds itself in. But transformation should happen when it’s needed, when it’s useful to the company – not just because it can.”

On strategic improvements enabled by the integrative nature of SaaS suites: “The value-add is far more than just having a SaaS-based accounting system. Having a single data set is really the crux of transformation for the CFO, Finance and the business itself. Everybody looking at the same information at the same time really changes how things are run. It’s no longer just about closing the monthly books – not looking for unique monthly ‘chunks’ of data to see how the numbers turn out. We can make adjustments as needed, when needed. And when people know that everyone has access to the data, and everyone’s looking at the same data, they start changing procedures to make sure everything is the same everywhere.”

On the need for information focus and access: “Transformation, and enabling real-time management, is not just financial information. You must put in place an organization, process, and systems that allow and enable a very holistic view of the business. We make sure that everyone involved has the same access to the same data as do all other executives and managers running the business. The quality of our internal analytics has gone up dramatically as a result. There are no more no off-the-cuff answers as to why things are happening, and that really transforms the quality of information and the ability of management to act.”

On managing data in a unified environment: “Our system allows and enables the elimination of silos of data. At NetSuite, no one ever enters data twice. From purchasing to expense reports to sales or customer information, data flows from beginning to end – there is no re-entry of information. You transform how everyone thinks about the data, if everyone has access to – and uses – the same data. And that transforms the business, for the better.”



CONCLUSION: INTEGRATIVE SAAS FOR FINANCE LEADERSHIP

The key to transforming Finance to increasingly strategic business involvement lies in improving its systems in a cost-effective manner to bridge “effectiveness gaps.” Doing so will improve the ability of Finance not only to enable and support the business at lower cost, with better and more reliable services. It will also position Finance as the nexus of standardized, real-time information and intelligence that is crucial to business. Integrative SaaS business applications suites are a powerful means of accomplishing this, and therefore of enabling Finance’s transformation to leadership. Finance executives should be actively investigating SaaS suites and providers. Three key steps for executives to take include the following:

- **Focus beyond Finance.** When considering SaaS providers and offerings, do not focus solely on Finance operations. Look for providers and offerings that can either provide, or integrate with, major business applications that must feed data to Finance systems (e.g., sales, CRM, ERP, HR). To enable real benefit and improvement to the firm and to Finance, it is imperative that any solution being considered be capable of bridging the gaps between Finance and other core business operations.
- **Compare point solutions against unified platforms.** To date, most firms, from the largest to the smallest, have obtained and implemented SaaS on a point solution basis. Unfortunately, such an approach almost always leads to long-term increases in IT and operations management costs, by increasing the number and variety of IT and process silos. Finance leaders need to “think outside the SaaS box” and look to integrated, or integratable and interoperable, offerings. Unified applications platforms and suites offer one of the most cost-effective means of accomplishing this. There are some risks in pursuing this path, mainly that your firm will standardize its data based on a single provider’s technologies, architecture and data formats. But leading SaaS platform providers utilize standardized data formats that will reduce the possibility of vendor lock-in.
- **Look for customizability, not just configurability.** To enable Finance-wide and company-wide transformation, SaaS must offer a strong degree of **customizability**. Saugatuck research shows that, when individual executives and managers can adapt and adjust the application functionality and user interface (including screens and dashboards) to their needs, they will use the application more – and use it more effectively. This results in more frequent, hands-on review and analysis of business data; process efficiencies are improved and managed more closely; data is entered, checked, analyzed and reported more accurately. Customization is key to SaaS’ value to Finance and to the company.

“Technology is really just an enabler to transformation of Finance’s roles within the company. Any real transformation is more or less up to the CFO himself, the CEO and the board, and the environment that the company finds itself in.”

-CFO, SaaS business suite provider

SaaS’ value goes well beyond low-cost business software. The use of SaaS (including integrative business software suites) to unify systems and data within Finance, and between Finance and other aspects of the business, will enable the cost-effective transformation of Finance to a stronger leadership role, improving Finance’s value to the business, and improving the business itself.



SPONSOR PERSPECTIVE: NETSUITE INC.

Asahi Kasei: SAP Replacement Delivers \$1 Million in Cost Savings

Since replacing SAP R/3 with NetSuite, Asahi Kasei Spandex America has cut its monthly operating costs by 80%, a savings of more than \$1 million annually, and has been able to eliminate 13 consultants that were dedicated to maintaining and operating its SAP implementation.

The company, which is located in Charleston, S.C., is a subsidiary of Tokyo-based Asahi Kasei Fibers Corp., a Tokyo-based manufacturer of polyelastane filament fibers used mainly in textiles. Asahi Kasei previously faced numerous challenges related to its SAP R/3 system. First, the company needed back-office software that could pull together disparate company functions such as customer relationship management (CRM), financials, human resources and inventory while connecting them more closely with customers and suppliers worldwide.

“SAP didn’t have CRM or a very flexible standard for conducting marketing or customer analysis,” says CFO David Stover. “The system had a very complicated infrastructure, and was very expensive because we had to have specifically-trained individuals to deal with the system.” It could take a consultant 30 days just to generate key financial reports; quick customization was out of the question.

NetSuite’s flexibility and ease of use helped convince Stover to drop SAP and switch to NetSuite. For example, NetSuite’s SuiteFlex platform allows Asahi Kasei to customize NetSuite to its unique business processes. Stover says that flexibility is decidedly different from the rigid SAP approach. “SAP is a dictated business strategy where NetSuite is an open strategy,” he says. With SAP, it would take a consultant up to a month to make a simple change. With NetSuite, Asahi Kasei employees can configure reports “on the fly” instantly.

Another major benefit of NetSuite is cost. Asahi Kasei is still implementing the full palette of NetSuite’s integrated software suite, but already the company estimates that it will save about \$1 million in costs over its previous SAP R/3 software, including licenses and the need for three additional employees. In addition, the wide-area network (WAN) required by SAP was costing \$20,000 a month, ten times more than the company is now paying with NetSuite.

“We were spending 3% of our revenue on SAP,” says Stover. “By switching to NetSuite, we reduced that cost to 0.1% of revenue.”

NetSuite’s ease of use means managers and staff can concentrate on their real jobs rather than wasting time wrestling with a complex system that demands conformity to its way of doing things, according to CFO Stover. It’s been such an improvement over SAP that other Asahi Kasei units are considering switching to NetSuite from their current vendors.

NETSUITE IMPACT

- **Saved \$1 million in costs by switching to NetSuite from SAP**
- **Reduced costs from 3% of revenue to 0.15% of revenue**
- **Eliminated WAN that cost \$20,000 per month—10 times the cost of NetSuite, Inc.**
- **Eliminates need for three additional staff members and expensive consultants**





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