The SaaS ERP Applications Landscape

Growing Demand Creates Vendor Melee In The Cloud As Traditional Vendors And SaaS Pure Plays Face Off

by Paul D. Hamerman
September 23, 2015

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 alternative options 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
Significant variation exists in cloud ERP deployment models, 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.

Enterprise Adoption Is Accelerating
Whereas thousands of smaller and midsize companies have already adopted SaaS ERP systems, enterprises are in the very early adoption stages. Several leading software suppliers are aggressively investing in SaaS ERP capabilities that will appeal to multinational enterprises as customer demand accelerates.

Why Read This Report
Application delivery professionals need to rationalize costs of ownership and upgrade challenges of their current on-premises enterprise resource planning (ERP) systems, while being responsive to digital and business imperatives for customer-centricity, better usability, rapid configuration in lieu of code-level customization, and real-time business insight. As a consequence, the demand for cloud-based ERP solutions is growing rapidly, and this demand extends to large enterprises exploring options for their current systems. Pure-play SaaS ERP vendors (e.g., FinancialForce.com, NetSuite, Workday) represent major competitive threats to traditionally on-premises vendors (e.g., Microsoft, Oracle, and SAP). AD&D leaders and their business partners must avoid obsolescence and escalating ownership costs in their mission-critical ERP systems. With enterprise-scale SaaS ERP options maturing quickly, you should assess the viability of your current ERP deployments and consider the rapidly changing ERP landscape as you plan a transition path to the cloud.
# The SaaS ERP Applications Landscape

*Growing Demand Creates Vendor Melee In The Cloud As Traditional Vendors And SaaS Pure Plays Face Off*

by Paul D. Hamerman  
with Christopher Andrews, Joseph Miller, and Laura Glazer  
September 23, 2015

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## Notes & Resources

Forrester surveyed 16 ERP vendor companies on their SaaS ERP offerings and spoke to dozens of user companies via inquiry for this report.

## Related Research Documents

- Application Adoption Trends 2015: The SaaS Boom Continues As Businesses Demand Agility
- Digital Innovation Reshapes The Future Of Business Applications
- Explore The Emerging SaaS ERP Market
SaaS ERP Adoption Is Growing Rapidly

ERP systems are a critical transactional support system 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. As more companies adopt a business technology (BT) strategy focused on customer outcomes, some functions (e.g., sales, marketing, customer service, eCommerce, and talent management) tend to be decoupled from the ERP footprint and pushed to the cloud, but the need for core ERP transactional support, at a minimum, remains. With the rampant digital disruption of cloud software, ERP is now moving to SaaS more aggressively.

In considering the benefits of SaaS ERP versus a traditional on-premises deployment, AD&D leaders can expect to realize several key benefits:

› **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 be freed of hardware and infrastructure upgrades.

› **Persistent versioning of the 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.

› **More business agility, usability, and insight.** Applications built for SaaS tend to be quicker to deploy and easier to configure, accelerating time-to-value and enabling agility for growth companies. Also, with SaaS as a design point, applications offer more advanced analytics and simplified, mobile-ready user experiences in comparison to on-premises systems built a decade or more ago.

ERP Lags In SaaS Adoption, But Is Now 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 Business Technographics® Global Software Survey, 2014 and the two prior years, we found that actual ERP adoption via replacements has more than doubled between 2012 and 2014, from 6% to 16% (see Figure 1). Even more growth is evident in planned replacements, from 6% planning to replace ERP systems with SaaS in 2012 to 19% in 2014. Whereas SaaS ERP adoption trails substantially behind several other applications categories, including marketing, sales, procurement, and HR software, it is one of the fastest growing categories in actual and planned adoption.¹

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 in small companies (under 500 employees) and in very large enterprises (20,000 or more employees).
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FIGURE 1 ERP SaaS Replacements Are Growing

“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

<table>
<thead>
<tr>
<th>Year</th>
<th>Already replacedmost/all with SaaS</th>
<th>Plan to replace most/all with SaaS within 2 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>16%</td>
<td>19%</td>
</tr>
<tr>
<td>2013*</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>2012†</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Base: 770 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)

*Base: 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)

†Base: 938 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 Business Technographics® Global Software Survey, 2014

*SSource: Forrester’s Forrsights Software Survey, Q4 2013

†Source: Forrester’s Forrsights Software Survey, Q4 2012

SaaS ERP Adoption Fits Several Business Scenarios

SaaS ERP is well-suited to companies needing the flexibility to respond to growth and digital disruption in the age of the customer, and those able to assimilate more frequent and regular software updates as they replace obsolete on-premises systems that have proven difficult to maintain. We recognize, of course, 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. Yet, as SaaS becomes the default deployment option for many other types of applications (e.g., CRM, talent management, expense reporting), SaaS ERP implementations will accelerate.

Examples of business scenarios appropriate for SaaS ERP include:

› **Supplementing a large-scale enterprise system with SaaS as a second tier.** The two-tier SaaS ERP deployment model involves standardizing one or more subsidiary business unit on a SaaS ERP solution while the corporate entity and larger business units remain on a large-scale on-premises ERP (e.g., SAP or Oracle). For example, Shaw Industries runs NetSuite in international subsidiaries while continuing to maintain Oracle PeopleSoft in the corporate entity.²
› **Quickly supporting spin-offs and new ventures.** 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. SaaS ERP enables rapid implementation without the technology management costs of standing up its own IT infrastructure to support the applications.

› **Replacing aging ERP systems across the enterprise.** In this scenario, the SaaS ERP system is delivered as the primary enterprise system and may consolidate multiple ERP systems and instances that evolved over a decade or more. Based on recent Forrester client inquiries, we find that multinational enterprise companies are increasingly interested in SaaS ERP to replace aging on-premises systems for core functions, including accounting and expenditure-related transaction streams.

› **ERP for a fast-growing digital enterprise.** 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 SaaS pure-play vendors. SaaS ERP solutions for these types of companies are able to support revenue stream functions (e.g., subscription billing, pricing, and contracts) in addition to accounting and expenditure functions, or they can be supplemented with SaaS-based revenue solutions from specialist vendors (e.g., Apttus, Model N, Zuora).

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

In the strictest sense, a SaaS application is defined as one that 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). There are several pure-play (SaaS-only) ERP software providers (e.g., Intacct, NetSuite, Plex Systems, Workday) that largely adhere to this philosophy of true multitenant SaaS (see Figure 2).

On the other side of the figure, we see a variety of historically on-premises ERP vendors that tend to muddy the waters in terms of strict SaaS adherence. Their solutions are offered in a variety of deployment modes, including SaaS, single-tenant cloud hosted, partner-hosted, on-premises, or a mixed mode deployment where multiple modes exist in a particular customer. For these vendors, the SaaS offering is typically the same codebase 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 understand and pose to vendors under consideration:

› **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 SaaS (e.g., Intacct, a pure-play multitenant SaaS vendor, characterizes its offering as cloud ERP). 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 (e.g., QAD, which has a cloud ERP offering that is single tenant and customers determine upgrade timing).

**What it means:** Customers looking for SaaS 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.

› **Why don’t historically on-premises ERP vendors offer SaaS-only software 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. Customers don’t want to be prodded to move to a new version, let alone one that has an entirely different architecture and deployment model. Another reason is that historically on-premises ERP vendors have a poor track record in developing native SaaS solutions. SAP, for example, launched Business ByDesign as a SaaS-only ERP offering in 2007, but it has seen only limited adoption.³

**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?** The intrinsic value of multitenancy is an ongoing debate among analysts and other software geeks. Some view application multitenancy as primarily benefitting the vendor by lowering the costs of managing the software, since all the updates can be applied to a single version. However, we believe that multitenancy for SaaS applications also has a significant benefit to the customer in that it enables persistent versioning, which reduces software obsolescence and makes upgrading much easier.

**What it means:** If you understand and buy into multitenancy at the application level, be prepared to assimilate software updates as delivered, since (unlike on-premises software) they are not optional. Also, since multitenancy is provisioned in different ways by SaaS vendors, expect each to pitch why its method is superior to competitors'.
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The State Of SaaS ERP: A Market In Transition

SaaS is clearly causing a major digital disruption in the ERP software sector, as software license revenue streams decline for most traditionally on-premises vendors. Declining software license revenue puts pressure on these vendors’ software maintenance and support revenues, which are priced as a percentage of license fee value. The vast majority of the major traditional ERP software vendors, which include Epicor, Infor, Microsoft, Oracle, QAD, SAP, Sage Software, and Unit4, are investing in SaaS offerings to grow subscription revenues aggressively as license and maintenance revenue streams hit the wall. These vendors face increasing competition from SaaS-only ERP vendors, which overtly target customers that are 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 3 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 3). Our analysis of 16 key vendors indicates significant differences in industry, geographic, and customer-size focus (see Figure 4). As the market for SaaS ERP expands, the vendors are focused on one or more of the following strategies:

› **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, 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 services. Oracle’s ERP Cloud Service is also aimed at services industries, with manufacturing capabilities under development. 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, 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, and SAP are maturing SaaS ERP offerings that will likely appeal to enterprises as corporate systems. Pure-play SaaS providers such as Workday and NetSuite are also gearing up for growth in enterprise demand. Our discussions with Forrester clients indicate that there is significant interest among large companies to replace aging on-premises ERP systems with SaaS, particularly for financial accounting and other core functions. Enterprise adoption of SaaS ERP is a function of both supply and demand — software vendors needs to demonstrate more product maturity and reference-able use cases at the enterprise scale before customers will be convinced that it is a viable option.

› **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 invest in 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 sales and support for global presence. Infor, for example, has made significant progress in this area with a cloud-based localization platform called Local.ly that works with multiple Infor ERP offerings.
### FIGURE 3 The SaaS ERP Market Is Evolving Along Three Key Strategic Dimensions

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Key industries</th>
<th>International focus</th>
<th>Customer size focus</th>
<th>SaaS pricing approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acumatica</td>
<td>Distribution, professional services, manufacturing, retail/eCommerce</td>
<td>Global, currently available in 120+ countries via VAR network</td>
<td>Midmarket</td>
<td>Functional levels and computing resources</td>
</tr>
<tr>
<td>Epicor</td>
<td>Manufacturing</td>
<td>US, Canada, Mexico, Costa Rica, Australia, New Zealand, China, Hong Kong, and Malaysia</td>
<td>Midmarket</td>
<td>Module and per-user</td>
</tr>
<tr>
<td>FinancialForce</td>
<td>Professional services and technology services</td>
<td>Sold primarily in US, supports multinational companies</td>
<td>Midmarket and enterprise</td>
<td>Module and per-user</td>
</tr>
<tr>
<td>Infor</td>
<td>Manufacturing, healthcare, professional services, hospitality, retail banking</td>
<td>Global</td>
<td>Midmarket and enterprise</td>
<td>Named user and employee size</td>
</tr>
<tr>
<td>Intacct</td>
<td>Software, professional services, non-profits, and other industries</td>
<td>Sold primarily in the US; supports multinational companies</td>
<td>Midmarket</td>
<td>Module and per-user</td>
</tr>
<tr>
<td>Kenandy</td>
<td>Manufacturing, consumer packaged goods, distribution, clean tech, life sciences</td>
<td>Sold in US and Canada, supports multinational companies</td>
<td>Midmarket and enterprise</td>
<td>Per user, per month subscription</td>
</tr>
<tr>
<td>Microsoft</td>
<td>Manufacturing, distribution, retail, services, government</td>
<td>Global. AX has 36 localizations and 40 languages</td>
<td>NAV — midmarket AX — upper midmarket and enterprise</td>
<td>Per user and device,l by functional level, hosted perpetual and subscription options</td>
</tr>
<tr>
<td>NetSuite</td>
<td>Various industries</td>
<td>Global, used in more than 160 countries</td>
<td>Midmarket and enterprise</td>
<td>Base platform, modules, and users</td>
</tr>
</tbody>
</table>
### FIGURE 4 SaaS ERP Vendor Market Focus

<table>
<thead>
<tr>
<th>Vendor</th>
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<td>Midmarket</td>
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</tr>
<tr>
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<td>Module and per-user</td>
</tr>
<tr>
<td>Infor</td>
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<td>Global</td>
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<td>Midmarket and enterprise</td>
<td>Per user, per month subscription</td>
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<tr>
<td>Microsoft</td>
<td>Manufacturing, distribution, retail, services, government</td>
<td>Global. AX has 36 localizations and 40 languages</td>
<td>NAV — midmarket</td>
<td>Per user and device, by functional level, hosted perpetual and subscription options</td>
</tr>
<tr>
<td>NetSuite</td>
<td>Various industries</td>
<td>Global, used in more than 160 countries</td>
<td>Midmarket and enterprise</td>
<td>Base platform, modules, and users</td>
</tr>
</tbody>
</table>
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**FIGURE 4 SaaS ERP Vendor Market Focus (Cont.)**

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Key industries</th>
<th>International focus</th>
<th>Customer size focus</th>
<th>SaaS pricing approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oracle</td>
<td>Various services industries, manufacturing planned</td>
<td>Global, customers currently in 58 countries</td>
<td>Midmarket and enterprise</td>
<td>User-based subscription pricing</td>
</tr>
<tr>
<td>Plex Systems</td>
<td>Discrete and process manufacturing</td>
<td>Multinational, used in 20+ countries</td>
<td>Midmarket and enterprise</td>
<td>Enterprise license based on revenues</td>
</tr>
<tr>
<td>QAD</td>
<td>Automotive, consumer goods, food and beverage, high tech, industrial and life sciences</td>
<td>Global, currently used in 29 countries</td>
<td>Midmarket and enterprise</td>
<td>Per-user subscription</td>
</tr>
<tr>
<td>Ramco Systems</td>
<td>Manufacturing, aviation, logistics, dealer management, real estate, equipment rental, professional services</td>
<td>Available in 35 countries</td>
<td>Midmarket and enterprise</td>
<td>Per user, per month for most use cases</td>
</tr>
<tr>
<td>SAP</td>
<td>Most industries supported with Enterprise and Marketing Editions. Project Edition supports professional services</td>
<td>Nine countries supported in initial release: US, DE, CA, AU, UK, BE, FR, CN, NL</td>
<td>Midmarket and enterprise</td>
<td>Business value metric (varies based on solution edition)</td>
</tr>
<tr>
<td>Sage Software</td>
<td>Manufacturing, distribution, business services</td>
<td>Global, Sage X3 is used in more than 100 countries</td>
<td>Midmarket and small enterprise</td>
<td>Three functional tiers and four user classes</td>
</tr>
<tr>
<td>Unit4</td>
<td>Professional services, local government, education, not-for-profit, real estate, wholesale</td>
<td>Global, currently used in over 100 countries</td>
<td>Midmarket and enterprise</td>
<td>Functional engine and user tiers</td>
</tr>
<tr>
<td>Workday</td>
<td>Hospitality, professional services, healthcare, software/technology, non-profit, education, state and local government</td>
<td>Multinational, currently used in 40+ countries</td>
<td>Enterprise</td>
<td>Enterprise license based on company size</td>
</tr>
</tbody>
</table>
SaaS ERP Vendors Range From Global Giants To Market Disruptors

In assessing the landscape of SaaS ERP vendors, we find there are significant differences among the 16 representative vendors surveyed in terms of customer adoption, deployment options, and updating practices (see Figure 5). Veteran ERP SaaS pure plays NetSuite 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 based on their on-premises solutions. New and emerging offerings for 2015 in this category include Microsoft Dynamics “AX7” (code name), Sage X3, SAP S/4Hana, and Unit4 Business World.

![FIGURE 5 SaaS ERP Vendors — Customers And Deployment Options](image-url)
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#### FIGURE 5 SaaS ERP Vendors — Customers And Deployment Options (Cont.)

<table>
<thead>
<tr>
<th>Vendor</th>
<th>SaaS ERP offerings</th>
<th>Total SaaS ERP customers</th>
<th>Deployment options</th>
<th>SaaS versioning cadence</th>
</tr>
</thead>
<tbody>
<tr>
<td>QAD</td>
<td>QAD Cloud ERP</td>
<td>150+</td>
<td>Single tenant, on premises, and mixed mode</td>
<td>2 releases per year, customer influences upgrade timing</td>
</tr>
<tr>
<td>Ramco Systems</td>
<td>Ramco ERP on Cloud</td>
<td>175+</td>
<td>Multitenant SaaS, single tenant, on-premises, partner hosted</td>
<td>Annual major release, monthly updates</td>
</tr>
<tr>
<td>SAP</td>
<td>S/4Hana Cloud: Project Services Edition</td>
<td>Did not disclose (new offering)</td>
<td>Multitenant SaaS, single tenant, on-premises</td>
<td>Quarterly updates</td>
</tr>
<tr>
<td></td>
<td>Marketing Edition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Enterprise Edition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sage Software</td>
<td>Sage X3 Cloud</td>
<td>Did not disclose (new offering)</td>
<td>Multitenant SaaS, single tenant, on-premises</td>
<td>Six-month release cycle</td>
</tr>
<tr>
<td>Unit4</td>
<td>Unit 4 Business World</td>
<td>350</td>
<td>Multitenant SaaS, single-tenant, on-premises</td>
<td>A main release every 12 months; new feature packs every four months. Current version and one prior version are actively supported.</td>
</tr>
<tr>
<td>Workday</td>
<td>Workday Financial Management</td>
<td>150+</td>
<td>Multitenant SaaS</td>
<td>Two releases per year</td>
</tr>
</tbody>
</table>

**SaaS ERP Pure Plays Are Growing Rapidly**

Since virtually all companies with a significant number of employees 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. In assessing the market, we find that the following SaaS-only ERP vendors are making an impact in this market:

› **FinancialForce.com.** This fast-growing SaaS ERP vendor has a revenue run rate exceeding $50 million and roughly 1000 customers. 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, and human capital management. FinancialForce software is built on Salesforce’s Force.com development platform, integrates natively with Salesforce CRM, and is sold primarily into the Salesforce customer base. The product is multitenant SaaS and has two to three update cycles per year.
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› **Intacct.** Another fast-growing SaaS pure play, Intacct provides a flexible and rapidly deployable ERP solution and is used by approximately 9,000 small and medium-size businesses (SMBs). Intacct’s functional breadth encompasses core financials, purchasing, order management, inventory, project and fund accounting, revenue recognition, 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. Intacct’s multitenant SaaS solution is updated on a quarterly release cadence.

› **NetSuite.** The largest pure-play SaaS ERP vendor, NetSuite grew revenues by more than 30% for the past nine quarters. NetSuite has a revenue run rate for 2015 of more than $700 million and supports approximately 24,000 organizations (companies and subsidiaries) with users in 160 countries. NetSuite offers a comprehensive suite of solutions ranging from core financials to eCommerce, CRM, professional services automation, procurement, HR, order management, and fulfillment. The ERP solutions are used by a wide variety of companies internationally, ranging from software and services companies to retail, wholesale, and light manufacturing, with increasing traction in enterprises. NetSuite’s ERP suite is delivered as multitenant SaaS, updated on a semiannual release cycle, and offers SuiteCloud Platform which includes development tools for native extensibility.

› **Plex Systems.** The Plex Manufacturing Cloud serves more than 1,300 organizations across more than 400 companies in 20 countries. Plex Systems offers an integrated ERP suite targeted at manufacturers in discrete and process industries, including finance, sales, HR, and manufacturing execution modules (e.g., engineering, production, inventory, quality). The ERP solution is multitenant SaaS in the truest sense — the application is updated continuously, so it is version-less and all customers are on the most current version of the software.

› **Workday.** With a current year revenue run rate of more than $1 billion and a growth rate exceeding 50%, Workday is one of the software industry’s most successful SaaS players, largely on the strength of its comprehensive HR management system. Workday Financial Management, its ERP offering, has been selected by more than 150 companies and is targeted at enterprise companies 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. Workday Financial Management is deployed as a multitenant SaaS solution with a semiannual release cadence.

**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, 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:
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› **Microsoft.** With the next release Microsoft Dynamics AX (code named AX7) currently in preview mode, Microsoft is poised to deliver a comprehensive cloud ERP solution using its Azure cloud infrastructure. The release will be available in a public cloud subscription mode, with an evolving set of SaaS capabilities that seeks to combine the benefits of multitenancy with a higher degree of tenant flexibility. Microsoft has not yet disclosed the release date of the solution, but we expect it to be generally available by early 2016. AX7, which is the culmination of a major architectural overhaul of the solution that has been in the works for several years, is an important release for Microsoft. AX7 features a new user experience using HTML5, is designed to run on Microsoft’s Azure SQL Database, uses Microsoft Lifecycle Services (LCS) to accelerate deployment and management of the application, is extensible via developer services, and has advanced embedded analytics.

› **Oracle.** The Oracle ERP Cloud family of products, which includes Oracle Fusion Applications, consists of financials, project portfolio management, procurement and supply chain, and EPM solutions. Oracle has more than 1,000 customers using or implementing one or more of these products. Although Oracle ERP solutions are available for on-premises deployment, SaaS is the primary deployment mode. Oracle’s road map for the ERP Cloud products includes adding discrete manufacturing capabilities in 2016 and expanding industry-specific functionality and financials localizations (currently supporting 25 countries).

› **SAP.** SAP is the largest provider of business applications in terms of revenues, with 2014 annual revenues of €17.5 billion, and we estimate that approximately 30,000 companies run its flagship ERP solution. Although SAP currently offers SaaS ERP in the form of SAP Business One and SAP Business ByDesign to SMBs, the major investment going forward is S/4Hana. S/4Hana is the newest version of the flagship ERP system, which has been extensively refactored to run on SAP Hana, SAP’s in-memory database. S/4Hana Cloud Edition is a public cloud (SaaS) version of the product, which became generally available in June 2015, although multitenancy is not yet available (it is planned for 2016). S/4Hana Cloud Edition will be updated on a quarterly basis and synchronized with the on-premises version annually.

› **Unit4.** A Dutch ERP software vendor with a global presence, Unit4 is transitioning its business model and products from predominantly on-premises to predominantly SaaS and subscriptions. Its principal SaaS ERP offering is Unit4 Business World (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 currently has more than 350 SaaS customers.

Other mixed-mode ERP vendors surveyed for this report and profiled in Figures 4 and 5 include Acumatica, Epicor, Infor, QAD, Ramco Systems, and Sage.
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Recommendations

Evaluate SaaS Options To Replace Aging On-Premises ERP Systems

On-premises ERP will persist for year to come, but a newer generation of SaaS ERP is upon us. As you consider your options to replace aging corporate and line-of-business ERP systems, 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.

› **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 quickly becoming a viable option for enterprises in the $1 billion to $10 billion revenue size range that need to replace aging on-premises corporate systems supporting central functions like finance and procurement functions, and is gaining maturity in industry-specific scenarios. Multinational enterprises also need to consider legal and regulatory support for their operating footprint as these capabilities mature.

› **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. On-premises or single-tenant hosting may not deliver a sustainable deployment model if you are not able to manage the software updating process on a regular basis, leading to software obsolescence or expensive deferred upgrades.
What It Means

Within Three Years, SaaS Will Be The Preferred ERP Deployment Mode

In several other business application software sectors, including CRM, HR and talent, and procurement, SaaS has become the default deployment model for new implementations. Companies switch from older systems that are too difficult to maintain or no longer meet their needs to SaaS systems that have persistent versioning, better usability, and more configuration flexibility. For ERP systems, the shift to SaaS is still in an early stage, but we expect it to accelerate over the next three years and become the preferred deployment option for many types of businesses. For enterprises (i.e., companies with revenues exceeding $1 billion), adoption will be somewhat more restrained near-term, but solution maturity is improving 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 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 located 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 located 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.
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Companies Interviewed For This Report

- Acumatica
- Epicor
- FinancialForce.com
- Infor
- Intacct
- Kenandy
- Microsoft
- NetSuite
- Oracle
- Plex Systems
- QAD
- Ramco Systems
- Sage Software
- SAP
- Unit4
- Workday

Endnotes

1. SaaS adoption varies by application category, with customer-facing solutions like marketing, sales, and eCommerce showing the highest adoption, but significant growth is occurring in several categories that have previously lagged in SaaS uptake, including ERP. See the “Application Adoption Trends 2015: The SaaS Boom Continues As Businesses Demand Agility” Forrester report.


3. SAP still sells and supports Business ByDesign; however, we have observed a diminished marketing and sales emphasis on this product as SAP focuses on the S/4Hana ERP solution for both cloud (public and private) and on-premises scenarios.

4. Workday is ranked as a leader in the following report. See the “The Forrester Wave™: SaaS HR Management Systems, Q4 2014” Forrester report.

5. In our EPM market overview last April 30, 2015, we noted that Oracle had well over 300 customers using Oracle Planning and Budgeting Cloud Service (PBCS). While Oracle does not publicly disclose customer counts, Forrester believes that this number has increased substantially since the report was published. Oracle includes the PBCS customer count in its ERP Cloud adoption figure. PBCS is based on the Hyperion Planning software architecture and is often deployed independently of the other ERP Cloud products, which are largely based on the Oracle Fusion product architecture. See the “The EPM Market Landscape Responds To The Growth Agenda And Digital Disruption” Forrester report.

6. Not all vendors surveyed for the report were profiled, due to space limitations. Factors considered for vendors profiled were levels of Forrester client inquiry activity, depth of their SaaS strategy, traction with SaaS products, and ability to serve clients of enterprise scale.
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