

THE ROI OF CLOUD-BASED FINANCIAL APPLICATIONS



THE BOTTOM LINE

Nucleus has analyzed the experiences of many cloud customers over the years and found that cloud-based financial applications enable customers to achieve rapid payback and high return on investment over time. For companies trying to build the business case for such an application, following a 3-step process and a few simple guidelines will ensure a financial business case that is credible, achievable, and can serve as a roadmap for maximizing ROI throughout the application lifecycle.

THE BENEFITS OF CLOUD-BASED FINANCIAL APPLICATIONS

This Research Note is designed as a guide to help companies building a business case for cloud-based financial management applications identify and prioritize benefits, quantify those benefits credibly, and develop a business case not just to justify the investment but to serve as a roadmap for a successful deployment.

In analyzing the ROI cloud-based financial applications, Nucleus found customers achieved both direct and indirect benefits including: increased productivity, increased visibility, reduced or avoided IT costs, improved inventory management, accelerated financial processes, and reduced audit costs.

In general, Nucleus has found that cloud-based applications deliver greater returns than on-premise ones (Nucleus Research *m108 - Cloud delivers 1.7 times more ROI*, September 2012) because of a number of factors including:

- Lower initial and ongoing costs
- Faster, more predictable time to deployment
- Greater flexibility to support changing needs of the business or new technologies
- The ability to deliver greater benefit over time without the cost and disruption traditionally associated with upgrades
- The ability to access the application anywhere at any time from multiple types of devices

THE THREE STEPS TO A SUCCESSFUL BUSINESS CASE

Nucleus's business case methodology is designed to simplify the business case process. It contains three steps:

- Identify the top areas of benefit.
- Quantify the primary costs and benefits.
- Assess the financial metrics such as return on investment (ROI) and payback.

IDENTIFY

Over the course of the past 13 years, Nucleus has helped customers to build thousands of business cases for technology projects, and has published more than 450 ROI case studies on actual deployments. What we've found is that most successful business cases rest on two or three big benefits, and most bad business cases have five or more. The key is to identify the top areas of benefit upfront so you can focus your business case data gathering efforts as well as deployment efforts. Using the following five factors, you can rank your expected benefits based on their ROI potential:

- Breadth and repeatability are the top two factors. Breadth is how many people or processes the application will impact, and repeatability is how often they will use it. The greater the breadth and repeatability, the greater the potential returns from a benefit. We often see this in cloud projects such as Intacct, because the usability of the application enables companies to extend its use and function to more employees that weren't touching financial information before (breadth), and the ability to access from anywhere (including mobile devices) increases repeatability.
- The secondary factors are risk, collaboration, and knowledge. The greater the risk impact of a project (the potential cost of doing it wrong), its ability to support or streamline collaboration, or its ability to provide greater access to knowledge, the greater the potential returns.

Using these five key factors, you can identify the top areas of benefit you'll want to focus on in your business case and move on to step two: quantifying costs and benefits.

QUANTIFY

Costs and benefits can be either one-time or recurring, so be sure to include them appropriately. Follow these basic rules when gathering and including costs in the calculation:

- Do count everything that is directly associated with the project. For example, *"I pay annual subscription fees for the software."*
- Do count infrastructure items that were driven by the project. For example, *"The company invested in extra bandwidth because of this project and two others like it"* means you should include 1/3 of the cost.
- Don't count infrastructure items not associated with the project. For example, *"I used our existing Internet connections."*

Benefits are more difficult to assess and can be either directly quantifiable or indirect productivity-based gains. It's easy to claim that productivity gains should not be included since there are no direct benefits or reductions in budgets from increased productivity. However, you should consider the additional employees you would need to hire to do the same work, or the increase in output from the same number of employees. The challenge is to fairly account for gains in productivity. To do this, correct for inefficient transfer of time — which simply means that the total time saved rarely equals the total additional work performed. To measure, follow these rules:

- Measure based on fully loaded cost.
- Correct for inefficient transfer of time by adjusting your productivity estimate using a value of 100 percent for line workers who may have no opportunity to be inefficient to 50 percent for general employees.
- Find a corroborating measurement that supports the change. For example, if the legal department saves 10 percent of their time do you expect them to fire 10 percent of the lawyers or increase their productivity by 10 percent?

Increased worker efficiency is one of the primary benefits of technology. If you don't believe in indirect benefits you probably shouldn't have purchased computers for your staff. When in doubt, you may want to survey your users and average their estimates. If you choose a conservative estimate consider calculating the ROI twice, once for the expected ROI and once for the worst-case scenario. Specific examples of benefits Nucleus found from cloud-based financial management applications such as Intacct included:

- Saved 500 hours a year on manual data entry (use a productivity correction factor)
- Eliminated \$30,000 in annual IT costs (a direct benefit of moving from an on-premise solution)
- Reduced month-end cycle from 8 hours to 6 hours (use a productivity correction factor)
- Reduced time for monthly reports from 1 day to 2 hours (use a productivity correction factor)
- Avoided an additional accounting employee (a direct benefit; no productivity correction factor)

CUSTOMER PROFILE: RENAL VENTURES

Renal Ventures selected Intacct to streamline its financial processes and improve business reporting across its network of more than 30 clinics. Nucleus found the project resulted in increased productivity, increased visibility, and better positioning for growth. By using Intacct, Renal Ventures was able to grow significantly without a similar increase in accounting staff (Nucleus Research *n71 - Intacct ROI case study, Renal Ventures, May 2013*).

ROI: 154%
Payback: 1 month

Once you've estimated the costs and benefits, you can use the Nucleus ROI tool (or any other ROI calculator) to assess the potential ROI of your Intacct project.

ASSESS

Nucleus recommends organizations focus on two core metrics (ROI and payback), and one secondary metric (total cost of ownership (TCO)), in their business cases:

- ROI is the most important metric to use for choosing an application and prioritizing projects within a company during budgeting. ROI is the average net benefit over three years divided by the initial cost.
- Payback period is the time it takes for benefits returned to equal the initial cost of the project. This is a key measurement of risk. In the rapidly-changing technology area, look for payback periods of less than one year and don't be afraid to discard a solution in favor of a better one once it's past its payback period.
- TCO provides a good metric for budgeting purposes but can't be used to judge the bottom-line benefits of a project since it only calculates lowest cost rather than greatest return. Cost is a factor in the ROI analysis, so use ROI instead.

THE BENEFITS OF INTACCT

In analyzing the ROI from Intacct, Nucleus found customers achieved both direct and indirect benefits including: increased productivity, increased visibility, reduced or avoided IT costs, improved inventory management, accelerated financial processes, and reduced audit costs.

CUSTOMER PROFILE: CANTO

To sustain its growth, Canto needed to consolidate its financial data, integrate its financial applications with its CRM application to streamline processes, and reduce the costs associated with its existing ERP solution. Nucleus found deploying Intacct enabled Canto to reduce IT costs, improve data management, and increase employee productivity (Nucleus Research *n30 - Intacct ROI case study - Canto*, May 2013).

ROI: 91%
Payback: 8 months

Nucleus also found that, for many customers, the greatest benefit of Intacct is the ability to scale and grow without a corresponding increase in staff – and many Intacct projects are really about transforming business processes. Given that prospects are evaluating the business case for the first time, they don't know which benefits may apply to them, or be the most important, or the most difficult to achieve. This is where referring to examples of existing customers and the benefits they've achieved can be most helpful.

PRESENTING THE BUSINESS CASE

When presenting the business case, there are a few key points to remember:

- Show all the costs you include, even the little ones.
- Show the broader list of benefits, not just the top two or three you identified and quantified.
- Show both an expected and worst-case scenario, so you can understand the potential variance in your ROI and

FIXING A BAD ROI

If your initial pass at the business case doesn't meet your ROI expectations, don't panic. There are a number of legitimate ways to improve the potential ROI from your project including:

- Change cost timing, or negotiate on initial price. Move costs out of the initial year by spreading training or consulting investment over one or two years.
- Ramp costs with users. Timing an increase in subscription costs as users or divisions are added, or gradually increasing costs for training and other areas as employees begin to use the technology, may be more accurate and will improve the ROI.
- Change deployment strategy. Using the technology to support a smaller key (high-ROI) return group first, or looking at outsourced solutions or adjusting consulting can drive a positive initial ROI — and the technology can be deployed more broadly later.
- Re-examine your correction factors. If you've been overly conservative with your correction factors and productivity gains you may be passing up technology that can help your company. The objective is not to be conservative or aggressive but as accurate as possible.

Companies should also consider the benefits of the cloud delivery method as a part of the overall business case, and not overlook the benefits that flexibility, remote access, and the ability to upgrade or expand the application over time deliver.

CONCLUSION

Building a business case isn't complicated, it's just structured. Companies considering an investment in a cloud-based financial management application such as Intacct can use these three steps to structure their business case and the five key factors to identify and prioritize areas of real benefit. This approach will help companies both to justify an Intacct investment and build a business case that can serve as a useful roadmap for maximizing returns from Intacct.