

The Sooner Finance ERP Moves to the Cloud, the Better

The potential obstacles are the very reasons why CFOs should make the move in the first place, says a KPMG executive

It started with customer data a decade ago, followed by human capital management. Now the wave of cloud adoption is lapping at the door of finance as organizations begin to move their enterprise systems out of the company premises and into the cloud. KPMG estimates that 20% of organizations' ERP systems are in the cloud now, and that number will grow significantly over the next five years.

CFOs of companies that are making the move tell us they're reaping the benefits of standardization, innovation, and efficiency. A cloud platform drives standardized finance processes throughout the business, so CFOs can avoid the headaches that often occur when customizing on-premise ERP technology.

The cloud also allows companies to capture ERP innovation and investments much sooner, because vendors upgrade the software every six months or so. Finally, cloud systems charge by the user, so organizations can scale up or down as the business grows or shrinks. Together these advantages reduce the total cost of ownership.

Most companies implementing cloud solutions operate a hybrid of cloud and on-premise technology. We expect this model will predominate among large companies over the next 5 to 10 years, especially where finance systems or processes are deeply integrated with operational systems like manufacturing.



Patrick Fenton, KPMG

Companies with more plug-and-play finance systems can move to a cloud platform sooner.

Obstacle and Opportunity

Migrating to the cloud does raise several concerns, but in our experience, potential obstacles are the very reasons why CFOs should make the move in the first place.

Take the issue of security. The data security and protection that large cloud vendors can offer is many times superior to what companies are able to provide themselves, because vendors' economy of scale allows them to spend much more. In addition,

many vendors own the full stack, so they can manage security from the application layer down into the physical servers.

Cloud vendors also want to avoid a major data or security breach because of the damage to their reputation. It's not unusual for CFOs to tell me they can't wait to move to the cloud to take advantage of better security.

Another potential problem is the inability to customize software. While it's true that a customer can't customize the underlying code, it can take advantage of a great degree of flexibility. Software vendors have invested in making the code highly configurable.

Do some due diligence up front to establish that key processes can be supported in the organization's platform of choice. If they can't, the company could build

bespoke processes in the cloud with a platform-as-a-service offering. This allows the organization to isolate customization from the platform, which stays on the same code and can continue to be upgraded.

CFOs also voice concern about integrating finance data in the cloud with data that stays on premise. It's true that the IT function needs to get better at integration in a cloud world, but that's an opportunity to redefine and reinvigorate the entire IT function.

The role of IT changes significantly when finance moves to the cloud. Typical activities like managing servers and infrastructure and patching and upgrading software drop away, taken over by cloud vendors. This gives IT the chance to develop enhanced capabilities in testing new cloud software and managing its integration in a hybrid environment. IT also gets to learn how to manage a per-user subscription model rather than a software license model requiring large capital outlays.

All these responsibilities give IT a new leadership role — and not a moment too soon. In recent years end-users have increasingly bypassed IT to buy better functionality on their own from the cloud. As finance ERP moves into the cloud, IT becomes the knowledgeable voice to advise on the proper balance between better functionality versus the importance of system integration and the ease of reporting across a number of different platforms.

Functioning Differently

In our experience the one mistake to avoid when moving finance systems to the cloud is simply to

replace technology rather than transform the function. The cloud allows finance to deliver better insights and analytics and spend less time on transactions — in short, to be more of a value-adding partner.

But the cloud provides an even bigger benefit: the opportunity to rethink the finance operating model from the top down, to rethink shared services, decide which skills and capabilities should be retained or outsourced, and define how finance can work alongside business to drive strategy. This kind of holistic view looks at the organization, the people, the capabilities, the processes, and the data to determine how to optimize all these elements while taking advantage of the latest technology.

Some 70% of CEOs from top-performing companies say that leveraging cloud-based ERP systems and other emerging technologies will have the greatest effect on the future role of the CFO, according to recent KPMG research. Yet they also say that barely half of CFOs are doing a good job of exploring and implementing the best new technology.

As CEOs ask their finance chiefs to provide more transparency, visibility, and analytical insights, they are essentially asking for what cloud technologies do best.

The message to CFOs, then, is clear: the sooner they can move finance to the cloud, the sooner they can deliver business transformation that drives better strategy, more profits, and sustainable growth.

Patrick Fenton is head of financial management, KPMG in the United Kingdom.