

Cloud Accounting Best Practices: 2012 Benchmark Study

Results and Analysis From the Cloud Accounting Institute



**CLOUD ACCOUNTING
INSTITUTE**

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Background

In Q1 2012, the Cloud Accounting Institute conducted a national survey of cloud accounting practices. The survey is the basis for this benchmark study of cloud accounting best practices, outlook and trends based on the following topics:

- *Cloud adoption status*
- *Key expected benefits of cloud solutions*
- *Key concerns of cloud solutions*
- *Expectations of cloud solutions*

In addition, this report benchmarks some findings against related cloud surveys by key analysts including Saugatuck Technologies (2012), and Forrester (2010). The purpose – to identify how our predominantly SMB sample differs from their predominantly enterprise samples, and to mark historical stages in the acceptance of cloud solutions. The Cloud Accounting Institute intends to repeat its survey annually to identify and provide insight on trends in cloud accounting.

To view a complete list of survey questions, and survey respondent demographics, refer to the appendix.

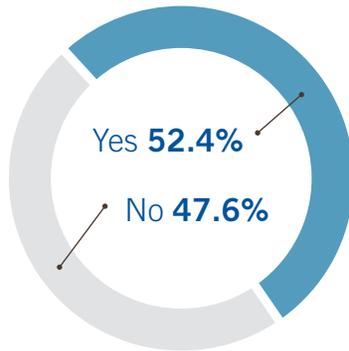
Highlights

While finance and accounting professionals are adopting cloud accounting and Software as a Service (SaaS) solutions at a slower rate than other IT categories, accounting systems are nonetheless, migrating substantially from on-premise to cloud. Highlights of this study include:

- *Participants in this online survey indicated a landslide movement to adopt cloud/SaaS solutions for core accounting in the SMB sector. More than half the respondents have already deployed at least one cloud app; 82.5% intend to use SaaS solutions in the future*
- *Comparative satisfaction ratings of on-premise vs. SaaS solutions indicate confidence that SaaS can deliver better ROI and improve business operations. The top expected benefit by a wide margin is simplification of software management, a benefit inherent in the delivery model. The top concerns are either security, or concerns typical of those engaged in reconfiguring their IT environment*
- *While the majority of cloud apps deployed to date are point solutions, a preference for suites is implicit both in the solutions identified, and in responses to questions about expected benefits of migration and ease of integration*
- *A distinctive profile of pragmatic, motivated SMB buyers emerges from the data. In reporting the findings, we highlight the main points of difference from the enterprise market*

Cloud Adoption Status: Current and Future

The adoption status of cloud financial solutions was brought into question for this study. Respondents indicated if they currently utilize cloud financial solutions and if they intend to use them in the future. Current and expected future usage of cloud accounting is shown in the charts below.



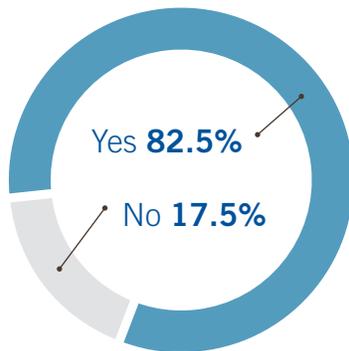
Do you currently use any cloud financial solutions (Software as a Service)?

Yes, no detail > 17.5%

Yes, named solutions > 34.9%

Total yes responses > 52.4%

No > 47.6%



Do you intend to use Software as a Service for accounting solutions in the future?

Yes, no detail > 44.4%

Yes, named solutions > 38.1%

Total yes responses > 82.5%

No > 17.5%

Findings on Cloud Adoption:

- *Over half the respondents (52.4%) already deploy at least one cloud financial application*
- *The vast majority (82.4%) intend to use cloud accounting solutions in the future*
- *Respondents had a chance to name solutions in use or under consideration. Answers revealed that definitions vary. A quarter of current users naming solutions included hosted, ASP and web-enabled desktop apps as “cloud” apps*
- *19% of the cloud applications named by respondents are actually application suites*
- *Other named apps were point solutions for backup & recovery; bill payment & invoicing; file sharing & document management; infrastructure; sales forecasting; sales force management; tax prep and sales tax*

Cloud Accounting Insight:

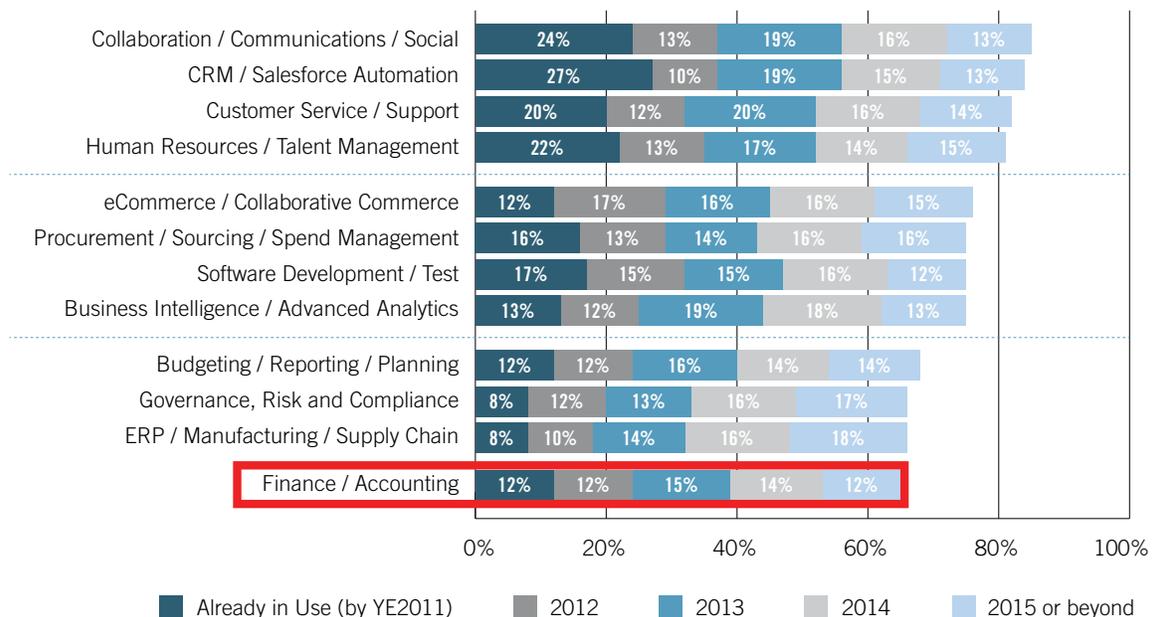
The future clearly belongs to SaaS in this sample. Half the respondents have deployed at least one cloud financial application already; 82.5% intend to adopt SaaS solutions. Current deployments probably reflect trial projects in addition to filling functionality gaps with point solutions. This survey shows clear differences between SMB buyers and the enterprise users in Saugatuck Technology's 2012 Global Cloud Business Software Survey in respect to acceptance of off-premises core accounting solutions. Saugatuck discovered that only 17% of enterprise users plan to implement finance and accounting pure play cloud/SaaS software, vs. 82.5% here.

Saugatuck Technologies, "Saugatuck's 2012 Global Cloud Business Survey: Data Report," Special Abridged Version (7.1), March 21, 2012

Compare Adoption Status to Saugatuck 2012 Survey:

Annual expected software purchases for respondents to the Saugatuck survey are shown below. Note that the Finance/Accounting category has the lowest number of positive responses (see red below). As in the CAI study, the purchase of even one application within the category qualifies the response for inclusion.

Saugatuck 2012 Survey on Cloud Adoption SaaS Business Software Purchase Plans

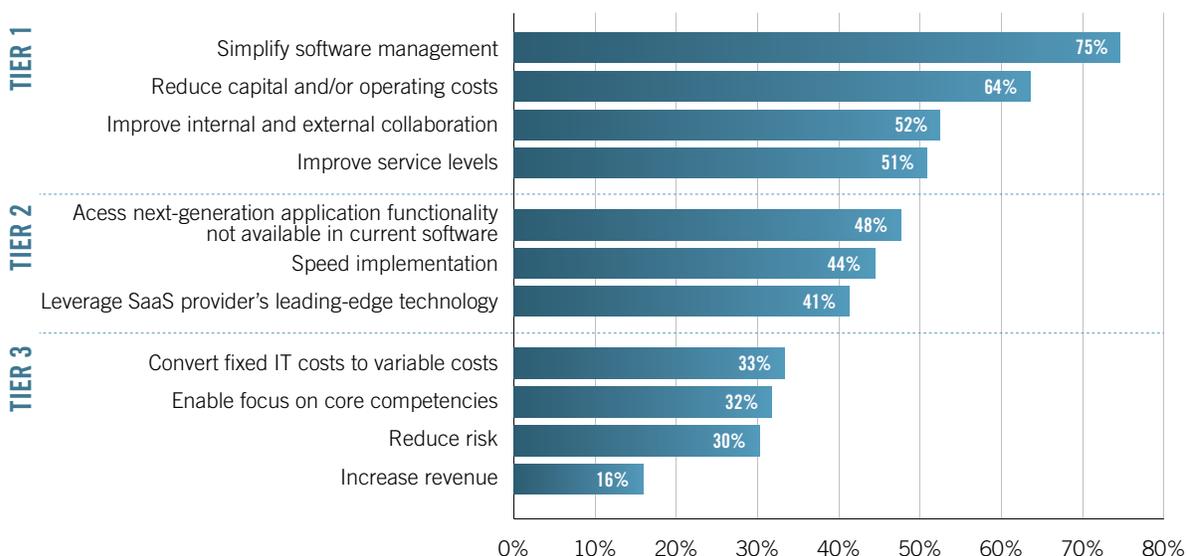


Overall, Saugatuck calculates that just over 60% of the Finance and Accounting respondents (up from 12% currently using) will adopt a Cloud solution, while the Cloud Accounting Institute calculates that 82% of respondents (up from the current 52%) will adopt cloud solutions.

Expected Benefits of Implementing Cloud Accounting Systems

Respondents were questioned as to what benefits they expected from adopting a cloud financial solution. Top expected benefits from respondents are shown in the chart below.

What Do You Expect are the Business Benefits from Adopting a SaaS Offering?



Findings on Expected Benefits:

- Tier 1 responses (50% and above) are focused on improving business process efficiency and reducing costs
- Tier 2 responses (40-49%) show an appreciation of the unique advantages that cloud vendors offer in terms of time to value, continual upgrades, and leverage
- Tier 3 responses (33% and below): The first three Tier 3 expected benefits can be seen as side benefits of Tier 1 goals
- The top and the bottom results stand out from the next responses by a significant margin
- The emphasis on improving internal and external collaboration (3rd highest result) probably reflects the number of CPA firms in the sample. One respondent states this as a future intention: "I would like to bundle cloud accounting solutions with professional CFO consulting services"

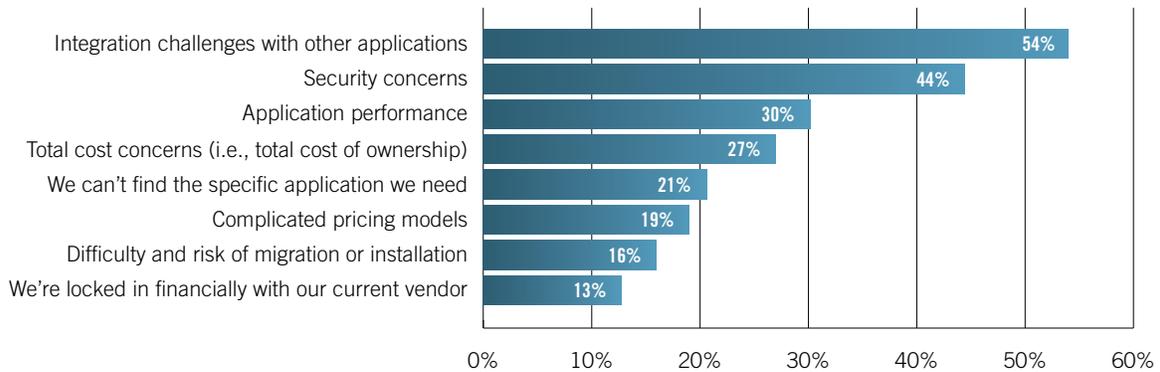
Cloud Accounting Insight:

"Simplify software management," selected by 75% of respondents, has an inherent attraction for SMB companies with users in multiple locations. The IT function does not scale well in such circumstances. The top responses indicate that respondents simply expect that SaaS will improve their ability to run their business effectively and will save them money and trouble in the process. So while revenue goals do not drive this decision, they are likely to be enhanced by it.

Concerns of Implementing Cloud Accounting Solutions

Concerns about adopting a cloud financial solution were questioned. Top concerns from respondents are shown in the chart below.

What are your top concerns about cloud computing?



Findings Regarding Concerns:

- The top four responses all relate to the SaaS vendor
- Security remains a top concern for SaaS, but is an appropriate concern for any technology employed by the finance function. Concern about security is most intensely felt when the technology or delivery method is new.
- For some, their top concern was missing out on SaaS because of financial lock-in with their current vendor. This is the smallest group of responses. It partially explains the number (17.5%) that do not intend to use SaaS in the future.

Cloud Accounting Insight:

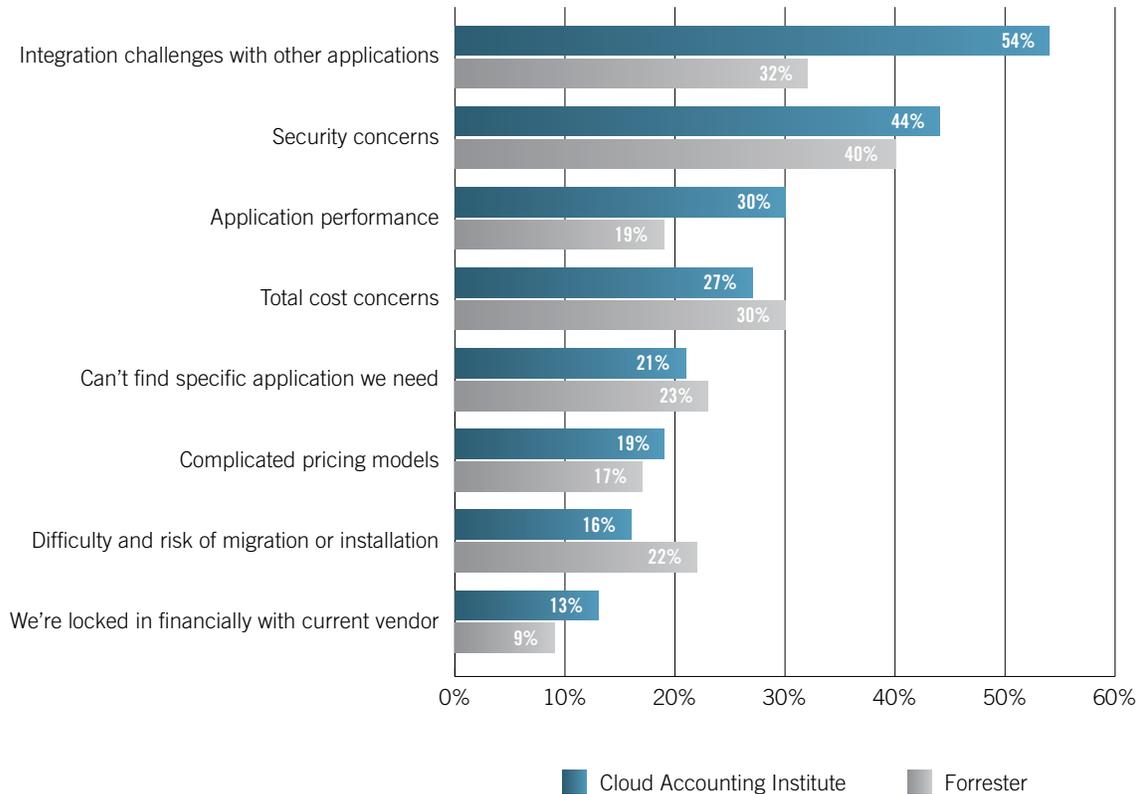
Integration challenges and performance anxiety top the list of concerns. This suggests that respondents are already transitioning or planning how to transition their IT environments to the cloud. Taken in conjunction with the top expected benefit, “Simplify software management,” the finding suggests that SaaS suites or point solutions pre-integrated with an ecosystem of related apps have the most to offer this SMB segment.

In addition, concerns related to the SaaS vendor can be reduced with service level agreements (SLAs), service organization controls (SOC) compliance of the vendor, and total cost of ownership (TCO) analysis.

Following is a comparison of cloud concerns from the Cloud Accounting Institute study, and a 2010 Forrester study.

Forrester Forrsights, "IT Budgets and Priorities Tracker Survey," Q2 2010

Cloud Concerns Comparison: Cloud Accounting Institute 2012 Study vs. Forrester 2010 Study



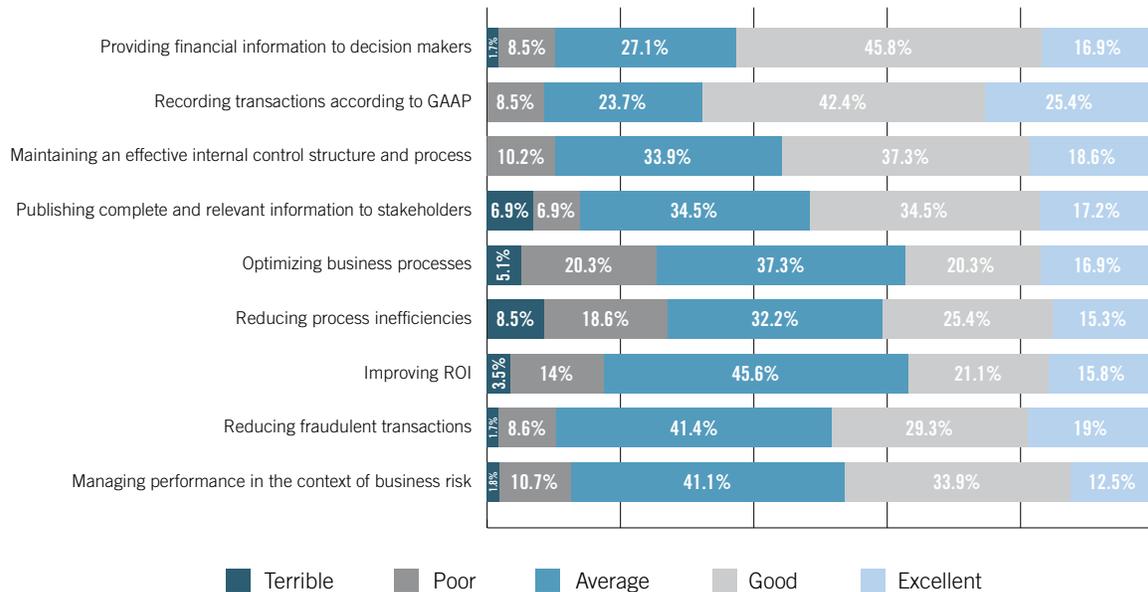
We can see that in comparing the Forrester '10 survey to the Cloud Accounting Institute '12 study that integration challenges and security concerns and integration challenges are among the top two concerns in implementing a cloud accounting solution. From 2010 to 2012 we can see that there is less focus on the difficulty and risk of migrating to a cloud system, indicating that these solutions are becoming more widely accepted.

In addition, increased integration concerns are likely due to the "Best of Breed" selection approach popular in the SMB space, where SaaS vendors are becoming more vertical in their solution offerings. This is moving SMB's to a multi-vendor solution selection process.

Satisfaction Levels: Current Accounting System

Respondents gave their feedback on their satisfaction with their current financial systems. We asked them how efficient and effective their current system was on a number of factors. Results are shown below.

How efficient and effective is your current system?



Findings on Current Financial System Satisfaction:

- For purposes of comparison, this question set was modeled on one from Saugatuck Technology's 2008 survey.
- The largest groups of respondents rate their current set-up as Good on the first 4 criteria and Average on the next 5 criteria.
- The greatest concentration of Terrible + Poor responses clusters around "Optimizing business processes" (25.4%) and "Reducing process inefficiencies" (27.1%).

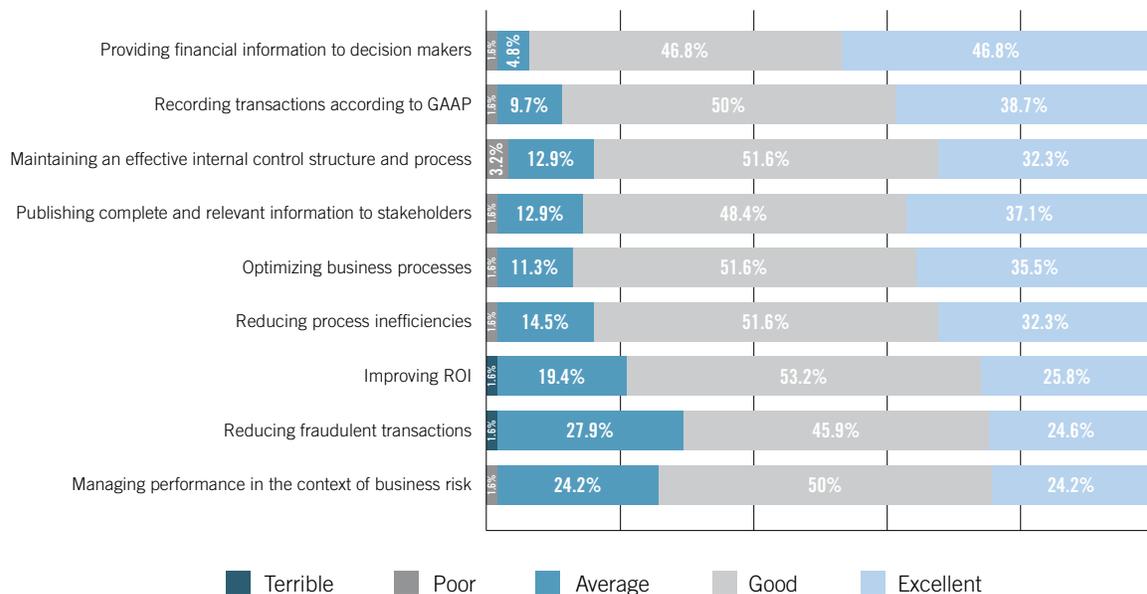
Cloud Accounting Insight:

As a class, the respondents give their current set-up a grade of C. The fact that the greatest points of dissatisfaction have to do with business process efficiency reinforce the impression conveyed by the Main Expected Benefits (slide 5). The top drivers of SaaS upgrade decisions among SMB respondents are practical, tangible and pay off in the near term.

Great Expectations: SaaS Solutions

After asking about current financial system satisfaction, we rated the same factors and asked respondents to give us feedback on how efficient and effective they expected a SaaS, or cloud financial solution to be.

How efficient and effective do you expect a SaaS/Cloud offering to be?



Findings on Expected Satisfaction From Cloud Financial Solutions:

- The largest group (at or near 50%) of responses rated SaaS solutions as Good on all criteria.
- The greatest single point of agreement was on “Improving ROI,” which got a Good rating from 53.2% of respondents and an Excellent rating from 25.8%, for a total of 79%.
- SaaS was rated as Excellent (46.8%) and Good (46.8%) at “Providing financial information to decision makers” for a combined total of 93.8%.
- The Excellent category is far more robustly populated here than in the previous slide on current satisfaction levels.

Cloud Accounting Insight:

Across the board, respondents expect SaaS solutions to perform more efficiently and effectively than their current set-up. In addition to optimism, this expectation is also based on experience, as over half the respondents already have deployed at least one cloud app. The two most important contributors to this assessment are the way SaaS accounting solutions improve visibility into the business and improve ROI. Visibility comes from such SaaS features as dashboards, real-time reporting, and on-demand consolidation. The applicability of these features to improving ROI is evident.

Appendix:

About the Study

The Cloud Accounting Institute conducted this study in Q1 2012. For purposes of comparison, the question set was modeled on one used by the Saugatuck Technologies study, with some modifications. The survey was distributed to professionals in the finance and accounting industries.

List of questions asked with answer choices below:

1. Do you currently use any cloud financial solutions or accounting Software as a Service (SaaS)?
 - a. Yes
 - b. No
 - c. If Yes, What Solution?

2. Do you intend to use Software as a Service for accounting solutions in the future?
 - a. Yes
 - b. No
 - c. If Yes, What Solution?

3. How many employees does your company have?
 - a. 1-10
 - b. 11-25
 - c. 26-100
 - d. 100-500
 - e. More than 500

4. How many are active users of your accounting and financial management applications?
 - a. 1-5
 - b. 6-10
 - c. 11-30
 - d. More than 30

5. Do you have users in remote locations?
 - a. Yes
 - b. No

6. What business benefits from adopting Software as a Service (SaaS) for accounting do you expect?
 - a. Reduce capital and/or operating cost
 - b. Simplify software management
 - c. Improve service levels
 - d. Speed Implementation
 - e. Enable focus on core competencies
 - f. Convert fixed IT costs to variable costs
 - g. Reduce risk
 - h. Increase revenue
 - i. Improve internal and external collaboration
 - j. Access next-generation application functionality not available in current software
 - k. Leverage SaaS provider's leading-edge technology

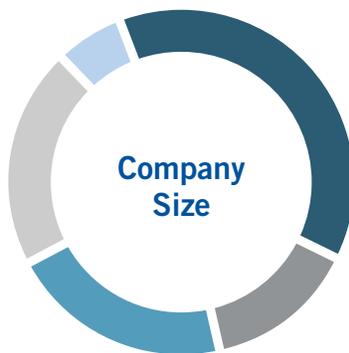
7. What are your top concerns about cloud computing?
 - a. Security concerns*
 - b. Integration challenges with other applications*
 - c. Total cost concerns (i.e., total cost of ownership)*
 - d. We can't find the specific application we need*
 - e. Difficulty and risk of migration or installation*
 - f. Application performance*
 - g. Complicated pricing models*
 - h. We're locked in financially with our current vendor*

8. How efficient and effective is your current system at...
 - a. Providing financial information to decision makers*
 - b. Recording transactions according to GAAP*
 - c. Maintaining an effective internal control structure and process*
 - d. Publishing complete and relevant information to stakeholders*
 - e. Optimizing business processes*
 - f. Reducing process inefficiencies*
 - g. Improving ROI*
 - h. Reducing fraudulent transactions*
 - i. Managing performance in the context of business risk*

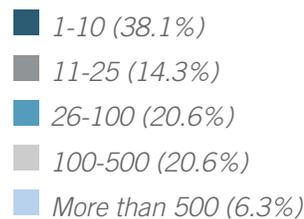
9. How efficient and effective do you expect a SaaS/cloud solution to be at ...
 - a. Providing financial information to decision makers*
 - b. Recording transactions according to GAAP*
 - c. Maintaining an effective internal control structure and process*
 - d. Publishing complete and relevant information to stakeholders*
 - e. Optimizing business processes*
 - f. Reducing process inefficiencies*
 - g. Improving ROI*
 - h. Reducing fraudulent transactions*
 - i. Managing performance in the context of business risk*

Demographics

- In Q1 2012 the Cloud Accounting Institute conducted an online survey of finance and accounting professionals. Most responses were made in February.
- The survey drew 113 self-selected respondents who replied anonymously.
- The majority (73%) work for companies that have 100 or fewer employees.
- Despite this small business focus, a nearly equal percentage (74.2%) support users in remote locations.
- More than half (54%) of respondents represent companies with 5 or fewer active users of financial apps.



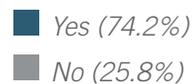
How many employees does your company have?



How many are active users of your accounting and financial management applications?



Do you have users in remote locations?



Named Solutions

From Question 1,

“Do you currently use any cloud financial solutions or accounting Software as a Service (SaaS)?” (22 responses)

1. *At XO we promote this*
2. *avatax*
3. *Cloud9*
4. *DropBox, client using Hosted Quickbooks*
5. *Enrich ASP model; <http://enrich.ca/>*
6. *Gofileroom, Gossytem tax, continuity center backup solution*
7. *hosted servers, hosted desktops*
8. *Intacct*
9. *Intacct, Bill.com*
10. *Intuit online for tax professionals*
11. *KASHFLOW*
12. *Netsuite*
13. *NetSuite*
14. *netsuite*
15. *NetSuite*
16. *Peachtree and QuickBooks*
17. *Qbol*
18. *Salesforce.com*
19. *Wave Accounting*
20. *Www.cloud4cpa.com*
21. *Xero*
22. *Xero, Intuit Tax Online, AccountantsWorld,*

From Question 2,

“Do you intend to use Software as a Service for accounting solutions in the future?” (24 responses)

1. *As a vehicle to sell associated products*
2. *Bill.com*
3. *Cloud9*
4. *Dynamics*
5. *erp*
6. *Hosted tax program and accounting*
7. *I would like to bundle cloud accounting solutions with professional CFO consulting services*
8. *Intacct*
9. *KASHFLOW*
10. *NetSuite*
11. *NetSuite*
12. *NetSuite and others*
13. *not sure*
14. *not sure yet*
15. *Peachtree and QuickBooks*
16. *possibly looking for payroll*
17. *Quickbooks online*
18. *Same*
19. *sap*
20. *time and billing and workflow*
21. *To be determined*
22. *Unknown*
23. *Www.cloud4cpa.com*
24. *Xero*

About Cloud Accounting Institute

The Cloud Accounting Institute (CAI) provides information resources and promotes best practices for SaaS selection, migration, integration and use. CAI publishes the Cloud Accounting blog, case studies, white papers and sponsored research.



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