THE 2011 BUYER'S GUIDE TO ACCOUNTING AND FINANCIAL SOFTWARE

The New Factors to Consider

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TABLE OF CONTENTS

INTRODUCTION

As the world increasingly embraces a 24x7, borderless model for business, the demands on finance have never been greater. Unfortunately, too often, finance professionals must contend with outdated or inadequate financial management and accounting systems that present spiraling overhead costs, functional limitations, and unnecessary risks. And that makes it all the more challenging for them to respond to the escalating complexity of this new business climate which is more real-time and faster changing than ever before - encompassing frequent regulatory change and increased compliance challenges coupled with an expectation of Internet-speed business management and visibility across multiple entities, multiple currencies, and multiple tax and regulatory frameworks.

The last major wave of adoption of new financial management and accounting software dates back to the late 1980's, following the shift in the workplace from DOS to Microsoft Windows. Every major financial software package today, from QuickBooks to Great Plains to SAP R/3, was born out of this transition twenty years ago. And this is why so many companies are struggling with their old financial management and accounting software packages – they all pre-date the Internet and were never designed for today's always on, always connected, rapidly changing world.

Today, however, when it comes to financial software, companies finally have a growing range of choices – choices that are designed and built for the modern, connected real-time world. By embracing new-breed financial software solutions, organizations of all sizes are achieving and enjoying the unprecedented flexibility of anytime/anywhere instant-access to financial data, reports, transactions, and analyses. That means real-time visibility into the financial health of the organization. It means faster execution of traditionally complex consolidations and period closes. And it means exceptionally rapid ROI.

CLOUD COMPUTING: THE NEW OPTION IN FINANCIAL SOFTWARE

When it comes to financial management and accounting software today, companies enjoy more choices than ever before, typically falling into three major categories:

• **On-Premises –** The traditional implementation where you purchase software and run it on your own servers – on-premises software deployment – remains a viable option for some companies who have the IT infrastructure, investment capital, and expertise to support and maintain major software applications. However, for small and mid-sized organizations, the high capital and operating expenses associated with deployment, operations, support, customization, integration, maintenance, and upgrades have become too great to sustain.

• **Hosted Solutions –** In a hosted environment, the software physically resides at a remote data center operated by an expert third-party hosting provider. Users access the software – a unique "instance" of the financial system - over the Internet, usually using a product like Citrix, that allows them to see the screens that are being generated at the hosting provider. This eliminates the responsibility of maintaining a hardware infrastructure. But companies still face the same customization, upgrade, and integration headaches and support and service that drive up costs. Because with hosting, you are still running that same old 1980's era software with all the headaches that it implies – you are just accessing it remotely.

• **Cloud Computing –** Also known as "software as a service" (SaaS), cloud computing represents a new breed of business applications specifically designed for the Internet age. Here, the application vendor develops a shared, scalable system that users access over the Internet – just like Google, Amazon, WebEx or on-line banking. The client does not need to buy, license, operate, or manage the underlying hardware, software, or networking infrastructure. Upgrades are performed regularly by the cloud vendor. Even more, these systems are based on new technology that ensures that even if companies make extensive changes to the system, customizations will automatically continue to work across upgrades. Cloud computing-based service is typically provided on a per-user/per-month subscription basis – so there are no upfront fees, capital investments, or long-term commitments. Solid cloud applications can be provisioned immediately and are upwardly and downwardly scalable. ROI is usually higher and more rapid with cloud-based applications than with either hosted or on-premises software.

COMPARISON CHART: SOFTWARE DELIVERY MODELS

	On-Premises Software	Hosted Software	Software as a Service / Cloud Computing
Application Development	Developed for the 1980's innovation of client-server, windows-based computing.	Runs on-premises software in a 3rd party data center and adds a layer like Citrix for online delivery.	Developed from the ground up for online delivery.
Application Deployment	Installed on the customer's own hardware.	Installed on a 3rd party vendor's hardware – delivered via the Internet.	A single vendor both develops and operates the applications – delivered via the Internet.
Implementation	Lengthy implementation time.	Lengthy implementation time.	Faster implementation timeframes.
Customization	Possible but expensive and time-consuming. Major risk of customizations breaking with new versions of software.	Same as on-premises.	Highly customizable and does not break with application upgrades.
Application Design	Monolithic client/server designs.	Same as on-premises, with an extra layer like Citrix for presentation.	Designed for the Web environment from scratch.
Upgrades	12+ months.	Same as on-premises.	Generally monthly or even more frequently.
Integration	Can be difficult and expensive.	Same as on-premises.	Readily available via application programming interfaces (APIs).
IT Support	Generally provided by the customer.	Same as on-premises, but complicated by existence of 3rd party hosting vendor.	Generally included in the package from vendor.
Multi-Tenancy	Not multi-tenant. Each instance of the application requires its own environment.	Same as on-premises.	Applications are designed to be multi-tenant.
Hardware Requirements	Requires a specific operating system environment.	Same as on-premises, end users typically limited to Windows only.	Delivered via a Web browser so generally operating system - and browser- agnostic.
Accountability	Vendor is responsible for the software, IT department is responsible for operations.	Hosting provider and software developer are two different organizations so accountability is complex , IT department is still responsible for operations.	One vendor provides end-to-end solution so accountability is inherent.

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A CLOSER LOOK AT THE BENEFITS OF CLOUD COMPUTING

IDC estimates that global revenue from public cloud computing services is growing at five times the rate of traditional software. Although IT spending for cloud offerings in 2014 will reach 12 percent of the amount invested in traditional IT technologies, it will account for more than 25 percent of net-new growth in traditional IT products.   The reasons for this rapid investment curve? The cloud offers compelling and unmatched advantages for deploying business software, and particularly financial applications that have led many organizations to adopt this model.

• **Achieve "Anytime, Anywhere" Accessibility –** With the cloud, finance staff can work any way they prefer – in the office, at home, or on the road – any time of day – using only a standard and secure Web browser and an Internet connection. That eliminates the "management by spreadsheet" problem or the limitations of single-user systems like QuickBooks that trap information in desktop silos.

• **Higher ROI –** Cloud-based financial management and accounting systems achieve on average 75% to 500% annual return on investment. Some of the ROI is from IT – the capital and operating expense savings from not having to run systems internally are considerable. Other ROI drivers are due to the extensive automation and integration capabilities built into the more modern cloud-based systems – they go a long way toward increasing productivity by eliminating manual data entry and paper-based processes and getting rid of spreadsheets. Because cloud systems are inherently web-based, live and real-time, they greatly speed time sensitive financial processes – from collecting cash faster and reducing DSO to more rapid consolidation and close processes. Time is money, and cloud systems drive tremendous ROI through time savings and process efficiencies.

• **Greater Control –** Organizations get the customized flexibility and integration opportunities of an on-premises deployment without the maintenance/upgrade headaches.

• **Real-Time Visibility –** You can provide access not only to traditional finance department users, but also to other stakeholders across the business. For instance, many firms who are adopting cloud financials provide real-time dashboards for their management team, so

everyone can see the key performance indicators that apply to their department. Other firms are deploying the system to rank and file employees, who can view dashboards, enter and approve expenses, and create purchase orders. It can even mean giving lenders, auditors, CPAs, and board members real-time access to key information to build trusted relationships.

• **Gain Operational Efficiencies –** Companies can streamline classic finance processes – such as the financial consolidation and close processes – using a cloud-based financial system. But you can also leverage the Internet to connect every other area of the company and your customers and suppliers for other processes as well. For example, you can create coordinated purchasing workflows that involve all stakeholders. Or deliver a 360 degree order-to-cash process that connects finance and sales. Or show budget dashboards to all department managers to increase operational alignment.

• **Get out of the "No-Value-Added" IT business –** Since it amortizes costs over thousands of customers, a cloud-computing vendor can operate and maintain a Fortune-100-class IT and operations infrastructure that provides 24x365 operations, continuous backups, disaster recovery, and world-class security. Not only does this offer a far higher level of performance, reliability and security than nearly any client can afford to put in place on their own, the cloud computing vendor can do it more cheaply and better because of their scale and focus.

THE BASIC EVALUATION PROCESSES ENDURE

Although a cloud-computing implementation may seem like a departure from traditional deployments, ultimately, you're still buying a sophisticated software application. And regardless of the type of financial system you're seeking to procure and deploy, the basics of your evaluation process remain unchanged, encompassing the tried-and-true principles:

• **Gather Requirements –** Define your needs carefully and get them on paper. Gain consensus from key users in finance and any related departments. For instance, these can include the need to integrate with CRM systems, or to deploy new processes (such as new purchase requisition or expense reimbursement workflows) across the organization.

- **Identify the Priorities and Top Challenges –** No system meets every need of every user. Determine which functionality and requirements are "musts" and rank them so that you can select the system which best fits your finance team's unique set of needs.

- **Create an RFI/RFP –** An RFI/RFP easily lets you compare apples-to-apples when each vendor is working from the same defined set of needs, requirements, expectations, and other parameters.

- **Tap into the Web –** For software evaluators, the Internet is a rich resource for developing a short list, sifting through competing offerings, and combing through independent research and reviews. You no longer need to rely on information provided by salespeople or hand-picked vendor references – you can even use social networks like LinkedIn or Twitter to connect with people already using the products you are evaluating. A particularly useful resource of real-world reviews is the Salesforce.com AppExchange, at www.appexchange.com, which features tens of thousands of reviews of nearly 1,000 software applications.

- **Demo or Trial from Short List –** There's no substitute for careful evaluation of the user experience. Find out how things work at an administrative level as well.

- **Product Fit –** Don't overlook the basic truth that – regardless of deployment model – you still need functional excellence in the software you select. You need a financial system that offers the comprehensive, up-to-date features that modern enterprises require. For instance, many companies today find that multiple entity consolidation and project-based accounting are essential as well as real-time reporting, process customization, automated approvals, and integration with other software products.

- **Check References, Score, and Select –** In business software selections, there's no substitute for careful screening of references. Be sure your vendors can provide access to happy and successful customers. And, don't overlook online forums where you can access unscreened, unfiltered feedback about software vendor performance.

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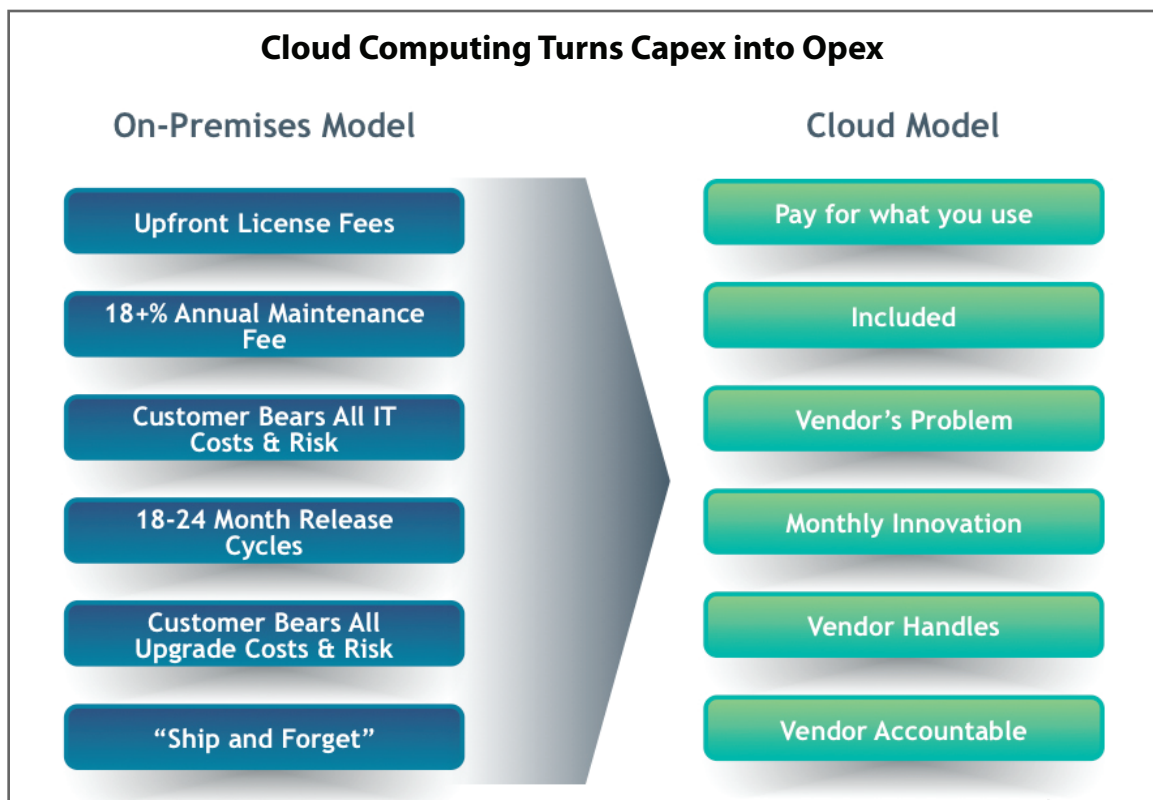**AICPA** business solutions

BUT, WHAT'S DIFFERENT IN CLOUD COMPUTING?

Although many evaluation factors for cloud-computing applications are the same, the cloud also introduces several other factors that evaluators must consider before making a smart, informed selection.

The most important realization is that your IT department will no longer be running the financial systems for your company. Your vendor will be running your systems for you. So you'll have an ongoing relationship – it's not like the old days where the vendor sold you software and you were on your own. In the cloud computing world, the vendor has to earn your business every month. This fundamental difference can – and should – have a major impact on your evaluation process – you need to get comfortable that the vendor will be running your system for you better than you could do it yourself. Some particular things to look for include:.

• **Implementation Success –** There's much more to success in cloud computing than simply developing great financial applications. The ideal cloud solution is designed from the ground-up as a cloud application and is backed by a vendor and their partners with extensive experience and a proven track record of deploying cloud applications. Make sure your vendor can point to a proven track record of successful implementations.

• **Operational Track Record –** Your chosen vendor isn't merely developing and licensing software to you. They're managing the financial systems that run your company – which makes the partnership strategic for you. How does your vendor conduct business? What's the cultural fit with your company? What standards do they pursue? Where are the applications physically being run?

• **Data Ownership –** Ensure that it is unambiguous that you own your own data and can obtain a copy of your data (for an appropriate fee) if your relationship ends. Make sure you have an agreement for appropriate assistance in migrating away from the vendor should you ever decide to leave.

• **Infrastructure and Security –** Most cloud-computing vendors have partnered with elite data center providers who provide the backbone to their offerings. Find out who those partners are. Evaluate their network operations center and technology infrastructure. Where is it located? What are the business-continuity contingencies? What security standards have they adopted? Can they deliver an appropriate level of uptime? Do they guarantee this? How do they prevent, protect, detect, and remediate any security breaches (physical and network)?

• **ROI / TCO –** Although, the financial models can vary significantly, the total cost of ownership is typically far lower for cloud-computing systems. Take the time to carefully structure the proper ROI scenarios and timelines and determine investments required and approximate payback periods. The only ongoing costs are monthly fees for the subscription, training, and configuration. Conversely, software licensing comprises a very small percentage of an on-premises deployment. Additional ongoing costs for customization, hardware, IT personnel, maintenance, training, tuning, customizations, network maintenance, and much more translate into a far more difficult investment hurdle. What's more, cloud-computing costs are taken entirely from OPEX, whereas on-premise deployments typically include even larger OPEX plus significant CAPEX investments.

Cloud Computing Turns Capex into Opex

On-Premises Model	Cloud Model
Upfront License Fees	Pay for what you use
18+% Annual Maintenance Fee	Included
Customer Bears All IT Costs & Risk	Vendor's Problem
18-24 Month Release Cycles	Monthly Innovation
Customer Bears All Upgrade Costs & Risk	Vendor Handles
"Ship and Forget"	Vendor Accountable

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• **Service Level Agreements –** With cloud computing, you rely more heavily on your vendor for support - you can't simply walk down the hall to ask your IT department for assistance if you encounter a system problem. Make sure your chosen vendor is up to the task with appropriate infrastructure, expertise, and responsiveness. The key document that codifies the vendor's responsibilities to you, and your expectations from them, is an ironclad, comprehensive service level agreement (SLA) – a world class SLA is a non-negotiable requirement when you're dealing with a cloud-computing vendor. An SLA is a formal contract and should be highly detailed with specific incentives and penalties for a wide range of performance metrics including system availability and performance, unplanned outages, how you'll receive support, what your escalation procedure is, response times based on problem severity, fix-times for patches, disaster recovery response times, data integrity and ownership, maintenance schedules, billing quality, communication about product plans and maintenance activities, overall responsiveness, and more. This is the basis of your relationship that can be enforced for many years and is essential to setting expectations and insulating your organization from risks. Look for SLA transparency from vendors who are unafraid to publish 12-month histories and current system status on their public websites. If a vendor does not have a public system status website, it should be a real red flag that they may not have a complete handle on their operations.

BE AN INFORMED BUYER

With cloud computing, the power and control of the relationship shift significantly to the buyer as compared with the old days of purchasing on-premises software. They literally have to earn your business every month, which puts you in control. Cloud computing vendors are measured by their investors and shareholders on monthly recurring revenue, annual renewals, and churn. This compels vendors to look past the initial transaction of selling you software and focus on the long-term relationship of keeping you as a happy client. Be careful of vendors willing to offer steep up-front subscription discounts – while you can celebrate getting a good deal, protect yourself by ensuring your agreement includes caps on price increases over time, or you can find yourself with a nasty surprise at the end of your first year of service.

Make sure you understand what you're paying for and avoid unpleasant surprises. Unlike

on-premises software that follows a standard structure, pricing models for cloud applications vary widely. Some vendors charge an all-in-one fee. Others break out various components (e.g. maintenance, support, or training) and add overage charges (based on the number of users or number of transactions, for instance). Make sure you structure your ROI analysis properly with all of these factors built in.

Case Study:

VIRTUAL HOLD TECHNOLOGY ADOPTS INTACCT AND SAVES NEARLY $100K ANNUALLY

Virtual Hold Technology (VHT), a developer of virtual queuing solutions for Fortune 100 clients, outgrew its previous accounting application and needed a new solution to provide non-finance employees with access to account and order information to improve customer service, enable traveling/remote employees with access to financial information, and easily integrate with its Salesforce.com application for real-time visibility of invoices and payments.

After selecting Intacct, VHT worked with an implementation consultant to implement Intacct accounts payable, payroll, human resources, general ledger, and accounts receivable. Out-of-the-box integration with Salesforce.com made it easy for VHT to link the two systems. Moving to Intacct enabled VHT to continue to grow its business while providing greater visibility into financial and account information.

A RAPID AND SIZABLE ROI

Over a three-year period, VHT has achieved an annual ROI of 158 percent and a payback period of just eight months. The average annual benefit is $98,000 and the average annual TCO is $33,682.*

* Figures courtesy of Nucleus Research, Inc., Boston. May 2010.

Key benefits include:

• **Automated expense entry** has eliminated errors and avoided the need to hire another administrative staff person to manage expense entries.

• **Accelerated revenue recognition** is automatically calculated in Intacct, saving staff time and ensuring accuracy by eliminating monthly spreadsheet reconciliations.

• **Reduced payroll errors** because entries and departments are automatically updated so there are fewer manual updates and corrections.

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• **Reduced account inquiry time** because sales people can access information about their accounts' financial status, such as invoices and payments. That's eliminated time spent searching for information and fewer requests for information.

• **Increased management productivity** thanks to reporting, dashboards, and greater visibility into information. Managers spend less time reviewing financial data and accelerate quarterly closings and audits.

CONCLUSION

With so many alternatives for deploying financial applications, evaluators need to step back and ensure they understand the implications of all their options: on-premises, hosted, and cloud computing. Ultimately, cloud computing is about capitalizing on a new software delivery model that accelerates deployment, minimizes investments, speeds payback of a larger ROI, and better aligns the financial organization with the new dynamics of growing businesses. Implementing the proper cloud-based financial accounting system is rapidly becoming a new imperative by providing immediate benefits, dramatic ROI, faster financial closes, tighter regulatory compliance, less manual work, real-time visibility and reporting, and much more.

For more information:

Corporate Headquarters

Intacct Corporation

125 South Market St., Suite 600

San Jose, CA 95113

877-968-0600 (toll free)

408-878-0900

408-878-0910 (fax)

www.intacct.com

info@intacct.com

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