

# IMPROVE YOUR MIDMARKET BUSINESS OPERATIONS WITH CLOUD APPLICATIONS

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## Report Highlights

**P3**

**Over the past 6 years, interest in cloud solutions has increased by 22% and decreased by 29% for on-premise solutions.**

**P4**

**Best-in-Class midmarket organizations are over twice as likely to have deployed their ERP solutions in the cloud.**

**P5**

**Midmarket organizations choose the cloud for scalability, flexibility, usability, and cost.**

**P9**

**Midmarket organizations with cloud solutions saw 1.9x the improvement in profitability over the past two years that those with on-premise solutions saw.**

This report identifies trends in cloud deployment and illustrates how midmarket organizations can use cloud technology to address specific business issues and provide tangible benefits.

## 2

**Business solutions deployed in the cloud have gained favor over the past several years at the expense of the traditional on-premise deployment model. This is true for midmarket organizations where cloud solutions can provide significant benefits due to their low cost, scalability, flexibility, and ease of use. Best-in-Class midmarket organizations are over twice as likely to have a cloud ERP solution.**

As midmarket organizations grow, they reach a point where managing the business becomes too large of a task for business leaders to handle on their own. Whether there are individual operational functions that need improvement, such as project management or supply chain planning, or a need to manage the business holistically with Enterprise Resource Planning (ERP), top performing midmarket organizations understand how technology can help them grow. Of course, selecting this software is easier said than done. Not only must midmarket organizations identify which type of software they need, but they must ensure that the software is affordable, easy to use, flexible, and able to support the business as time goes on.

One component of this equation is the deployment method for the software. Software vendors are now offering deployment solutions delivered in the cloud (over the internet, maintained and managed by the vendor itself) that may have traditionally been delivered solely on-premise (licensed for use and managed by the licensee on their own internal technology environment.) In fact, Aberdeen's 2014 Business Management and ERP Benchmark Survey found that Best-in-Class midmarket organizations are over twice as likely to have implemented ERP in the cloud. While past Aberdeen research has illustrated how these solutions can produce benefits when it comes to cost and scalability, the fact remains that midmarket organizations must choose solutions that can address the challenges they are trying to solve. Therefore, midmarket organizations must identify how they can pair the benefits of cloud solutions with the key software that they need in order to grow. This report identifies trends in cloud deployment and illustrates how midmarket organizations can use cloud technology to address specific business issues and provide tangible benefits.

#### Midmarket Organizations are Trending Toward Cloud Solutions

For the past eight years, Aberdeen has asked survey takers to identify deployment models they would be willing to consider when purchasing their next ERP solution. Until around 2009,

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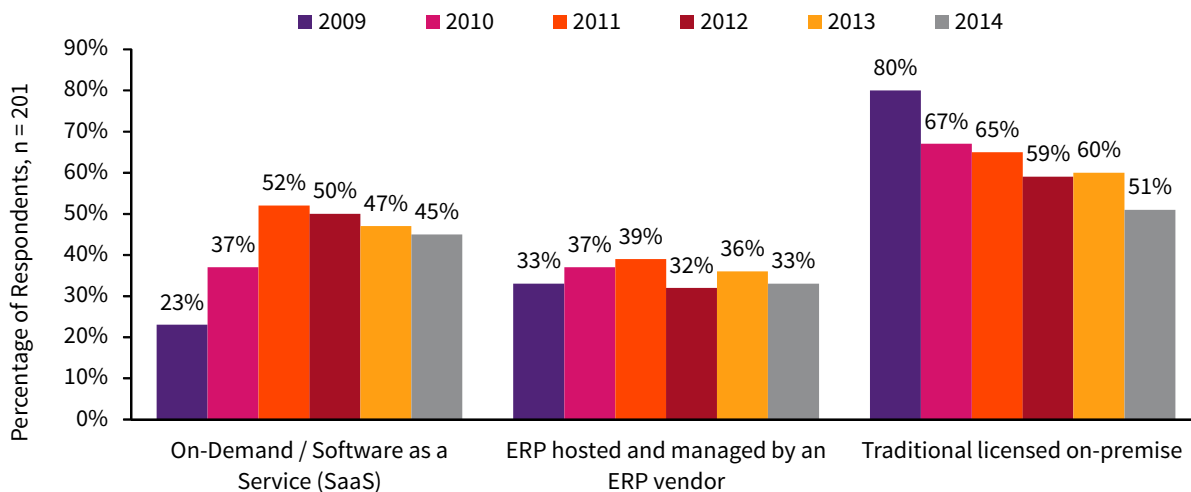
interest in cloud solutions lagged significantly behind the traditional on-premise model (Figure 1). However, since that time, interest in solutions that are delivered in the cloud, whether hosted by the software vendor or provided as Software as a Service (SaaS), has increased significantly. Over the same time frame, interest in the on-premise model has decreased by almost 30%. It is now a time where interest in cloud and on-premise solutions is almost equal. Assuming that these interest levels are reaching a point where they level off, it is almost as if today's organizations do not necessarily see deployment method as the deciding factor in solution selection, but rather focus on what the software can do itself and how it fits into their technology environment. Still, there are certain cases where the capabilities that are more likely to be provided by a cloud solution make it a better fit.

The Aberdeen maturity class framework is comprised of three groups of survey respondents. This data is used to determine overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories:

- **Best-in-Class:** Top 20% of respondents based on performance
- **Industry Average:** Middle 50% of respondents based on performance
- **Laggard:** Bottom 30% of respondents based on performance

Sometimes we refer to a fourth category, **All Others**, which is Industry Average and Laggard combined.

**Figure 1: Cloud Has Gained Favor**



Source: Aberdeen Group, August 2014

One segment in particular that is beginning to notice the benefits of cloud solutions is the midmarket. While on-premise is still the deployment method that the majority of midmarket organizations are using for ERP, top performers are actually less

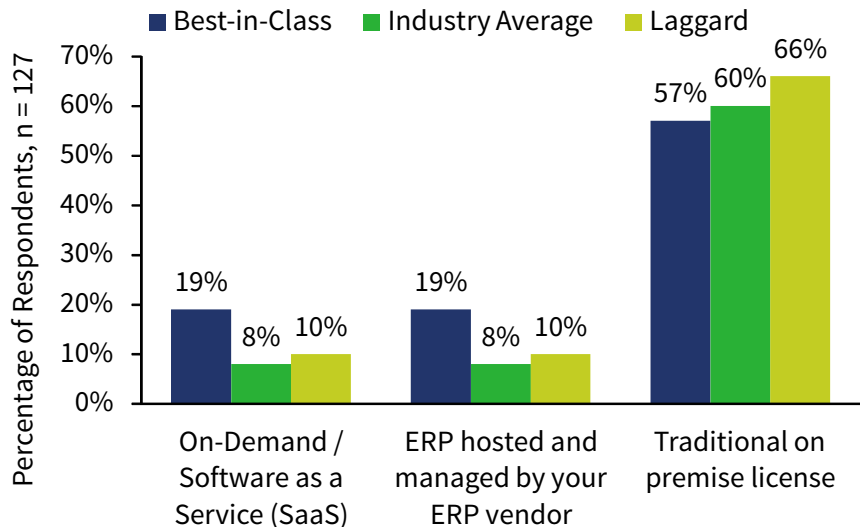
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In Aberdeen's [2014 Business Management and ERP Benchmark Survey](#), midmarket organizations were ranked on the following criteria:

- **Complete and on-time delivery:**
  - Best-in-Class - 96%
  - Industry Average - 91%
  - Laggard - 83%
- **Improvement in profit margins over the past two years:**
  - Best-in-Class - 30%,
  - Industry Average - 7%
  - Laggard - 4%
- **Improvement in time to decision over the past year:**
  - Best-in-Class - 42% decrease
  - Industry Average -11% decrease
  - Laggard - None
- **Improvement in cycle time of key business processes over the past 12 months:**
  - Best-in-Class - 27%
  - Industry Average -9%
  - Laggard - 3%

likely to choose on-premise solutions (Figure 2). On the other hand, the Best-in-Class are actually over twice as likely to have deployed their ERP solutions in the cloud. Additionally, midmarket organizations are more likely than larger organizations to be willing to implement their next solution in the cloud and less likely than larger organizations to be willing to implement their next solution on premise. But what is the reason for this?

**Figure 2: Best-in-Class Cloud Adoption**



Source: Aberdeen Group, August 2014

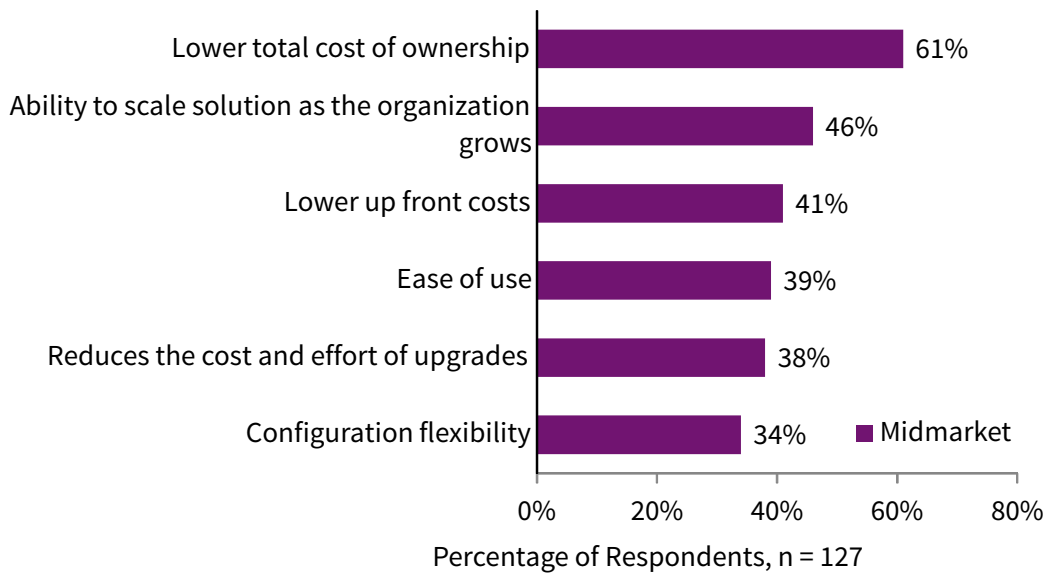
### Why Do Midmarket Organizations Choose the Cloud?

Midmarket organizations were asked to indicate the reasons that they would be willing to implement a cloud solution (Figure 3). Of course, cost is a significant component of the selection process. Notably, the software cost of a cloud solution is typically lower than an on-premise solution. In addition, since maintenance, hosting and support are handled by the software vendor, organizations do not have to dedicate IT resources to managing the solution. This is particularly attractive to

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midmarket solutions that may lack IT resources and may prefer to spend that capital on more pressing needs for business growth.

**Figure 3: Midmarket Orgs Choose Cloud to Scale and Improve Flexibility**



Source: Aberdeen Group, August 2014

But for midmarket organizations, selecting a cloud solution is about more than just cost. The number two reason that midmarket organizations choose a cloud solution is because of the ability to scale the solution as the organization grows. Due to the ability to add functionality or users and accept automatic upgrades, cloud solutions are designed to support organizations for a long time as they grow and change. For this reason configuration flexibility is essential. Organizations may want to move some of their technology on-premise, or utilize a cloud solution to open up a new business unit as a part of a multi-tiered ERP strategy. Deployment flexibility can match the flexibility of a growing midmarket organization.

Best-in-Class midmarket organizations are 79% more likely than All Others to utilize multi-tiered strategy for ERP. In this strategy, the organization will typically have an “administrative” ERP used as the corporate standard and an “operational” ERP used to manage the line of business. In this configuration, cloud solutions can be a good fit because they can be quickly implemented and maintained without in-house IT. This is an ideal solution for opening new business units.

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Thirty-nine percent (39%) of midmarket organizations noted that they would be willing to consider a cloud solution because of ease of use. Since cloud solutions are automatically updated, they are able to offer the newest advances in technology. Modern solutions are becoming more usable and attractive looking, which leads to employees using them more effectively. This ease of use is essential to ensuring that the challenges which cause organizations to choose a specific solution are met.

Regardless of the deployment model, organizations should ultimately choose solutions that can help them to address specific business pressures and transform operations. But for midmarket organizations, the flexibility that cloud environments provide actually enables these organizations to implement more technology that can improve processes across the organization (Table 1). These could be relatively universal needs such as Customer Relationship Management, Project Management, or Business Process Management. Note that midmarket organizations with cloud solutions are 94% more likely to have Business Process Management technology. Or the technology could be specific to certain industries. For example, manufacturing organizations with cloud solutions are three times as likely to have Enterprise Asset Management technology. Although this is only a small sample of the types of technologies that cloud solutions can provide, this list of technologies illustrates that cloud solutions are more likely to be able to enable midmarket organizations to combat their unique challenges.

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**Table 1: Cloud Solves Business Challenges**

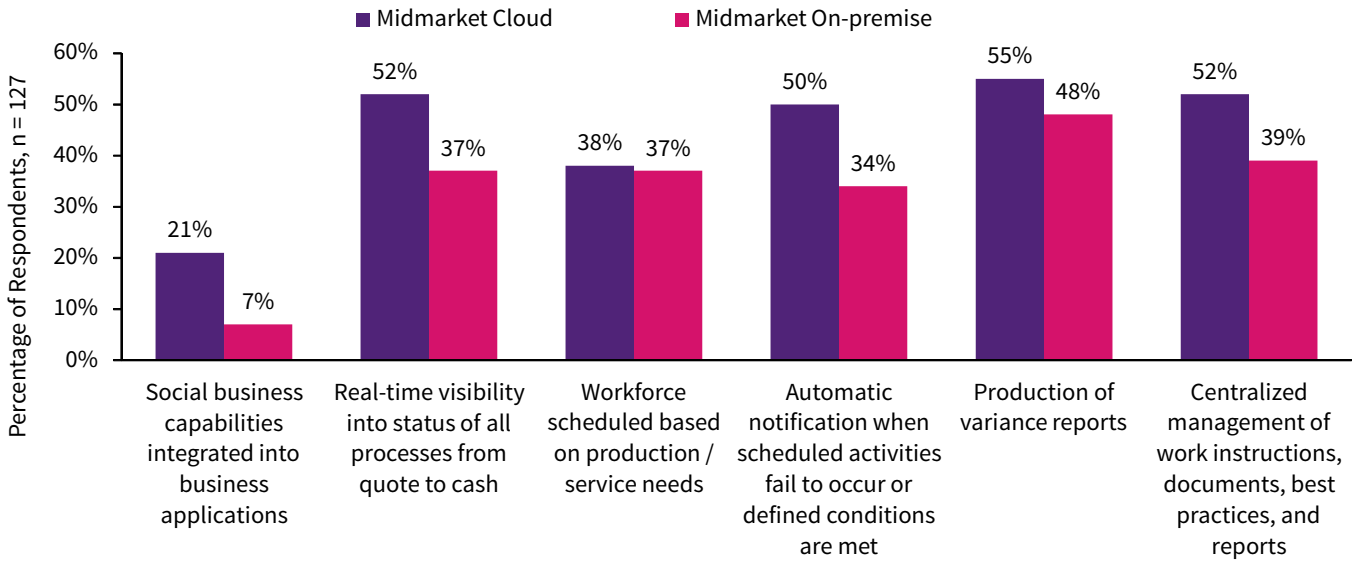
Enabler	Midmarket Cloud	No Midmarket Cloud
<b>Customer Relationship Management</b>	53%	47%
<b>Enterprise Asset Management*</b>	50%	16%
<b>Business Analytics</b>	44%	37%
<b>Supply Chain Planning*</b>	43%	33%
<b>Project / Portfolio Management</b>	38%	34%
<b>Manufacturing Execution*</b>	33%	25%
<b>Quality Management*</b>	33%	30%
<b>Business Process Management</b>	33%	17%
<b>Contact Center Management</b>	31%	20%
<b>Business Taxation</b>	31%	17%
<b>Enterprise Performance Management</b>	29%	15%
<b>Manufacturing Intelligence*</b>	17%	10%

\*Starred “enablers” data utilizes responses collected from manufacturers only  
 Source: Aberdeen Group, August 2014

Since a cloud solution is accessible to employees no matter where they are, it is easier to share the functionality included in the solutions noted above across wider distances and to more users. Ultimately, this improves visibility, impacts collaboration, and enables efficiency and agility (Figure 4). For example, midmarket organizations with cloud solutions are three times as likely to have social business capabilities integrated into business applications. Not only does cloud technology enable collaboration between employees that are not in the same location, but since the solution is continually updated, it is able to introduce emerging technology such as social business. With this technology, users can interact with their business software in the same ways that they use social media in their lives outside of work.

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**Figure 4: Improving Collaboration, Visibility, and Efficiency**



Source: Aberdeen Group, August 2014

As midmarket organizations grow, keeping track of the business becomes exceedingly difficult. Fortunately, the nature of cloud solutions enables enhanced visibility. In fact, midmarket organizations with cloud solutions are 41% more likely to have real-time visibility into the status of all processes. This can significantly impact decision-making with capabilities such as the ability to schedule the workforce based on production needs. It also can enable agility. For example, midmarket organizations with cloud solutions are 47% more likely to have automated notifications empowering business leaders to react immediately. Or they can use variance reports to correct course when expectations and forecasts are not being met. And it is not just real-time data that can be provided to users throughout the organization; business process standards can be communicated more effectively. In fact, midmarket organizations with cloud solutions are 33% more likely to have centralized management of work instructions and best practices. In the case of field



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technicians, this can enable first time fix and better customer service at reduced costs.

## The Benefits

Since midmarket organizations with cloud solutions are able to select the technology that can best support their business operations, midmarket organizations with cloud solutions have seen superior performance to midmarket organizations with on-premise solutions (Table 2). On the one hand, midmarket organizations with cloud solutions have noted greater benefits as a direct result of ERP in metrics such as operating costs, schedule compliance, and complete and on-time delivery. But since cloud solutions enable access to information no matter where employees are (as long as they have internet access), the benefits are really based on agility and improved decision-making and execution. In fact, midmarket organizations with cloud solutions say over three times the improvement in time-to-decision over the past year that midmarket organizations with on-premise solutions saw. This led to improvements in the cycle time of key business processes and, ultimately, improved profit margins.

**Table 2: Benefits of Cloud Solutions**

Average Performance	Midmarket Cloud	No Midmarket Cloud
<b>Improvement in operational costs as a result of ERP</b>	16%	8%
<b>Improvement in complete and on-time delivery as a result of ERP</b>	16%	12%
<b>Improvement in internal schedule compliance as a result of ERP</b>	14%	10%
<b>Improvement in profitability over the past two years</b>	17%	9%
<b>Improvement in time to decisions over the past year</b>	35%	11%
<b>Improvement in the cycle time of key business processes over the past year</b>	24%	13%

Source: Aberdeen Group, August 2014

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## Key Takeaways and Recommendations

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Cloud solutions have gained favor over the past several years at the expense of the traditional on-premise deployment model. This is particularly true for midmarket organizations where cloud solutions can provide significant benefits due to their low cost, scalability, flexibility and ease of use. For this reason, Best-in-Class midmarket organizations are over twice as likely to have a cloud ERP solution. But ERP is a broad solution; it is really all about introducing technology that can help your organization to improve. In order to take advantage of the unique benefits of cloud technology, heed the following recommendations:

→ **Identify your most important business challenges.**

Regardless of your industry, there are going to be certain business processes that pose problems. Beyond that, midmarket organizations experience growing pains that make communication and visibility increasingly difficult. Top performers begin the journey towards improvement by prioritizing these challenges.

→ **Select solutions that can address specific issues.** ERP is composed of many individual modules that can improve the processes that have been prioritized as pain points. As you select a solution, make sure that it can provide improved performance in these areas.

→ **Create flexibility in your technology environment.** For midmarket organizations, cloud solutions can enable flexibility and scalability. Whether your technology environment is in flux, you plan to add more users, or intend to add new product lines and processes, ensure that your solution can handle your ever-changing needs.

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➔ **Commit to operational improvement and excellence.**

Take advantage of the capabilities that are enabled by your cloud solution. Improve collaboration and make more agile decisions. This is the key to becoming more competitive in the midmarket.

Cloud solutions can create a platform for improved performance and growth in the midmarket.

For more information on this or other research topics, please visit [www.aberdeen.com](http://www.aberdeen.com).

## Related Research

*[Mobile ERP: Taking ERP ROI into Your Own Hands](#)*; August 2014

*[The Benefits of Cloud ERP: It's About Transforming Your Business](#)*; April 2014

*[The Case for Cloud ERP in Manufacturing: Alleviating Outdated Concerns](#)*; March 2013

*[Your Marriage with Cloud ERP: A Lifelong Commitment](#)*; February 2013

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