

How SaaS is accelerating the digital transformation of organizations



Introduction

Organizations across the world are on a journey of digitalization, and innovative businesses are driving their transformations with cloud-native, tailor-made solutions that meet their individual needs.

Digital opportunity is enormous, and organizations are now harnessing intelligent, automated systems to capitalize on these opportunities. They're adapting to new trends, adopting new models and technology systems, and they're winning the wars on talent, productivity, and competition. But many businesses are still doing work the conventional, labor-intensive way, relying on legacy systems that are often not fit for purpose.

Cloud computing is the provision of computing resources such as data storage, servers, software, and analytics over the internet or 'the cloud,' and forward-thinking organizations are using cloud-based tools to streamline workflows, improve collaboration, increase efficiency and productivity, and ultimately increase profitability.

Software as a service, or SaaS, has completely changed the way organizations use software. It allows businesses to access software over the internet on a subscription basis rather than having to install it on their own systems.



Market trends

According to the **2022 Cloud Computing Survey** from Foundry, **72% of IT decision-makers say that their organization is defaulting to cloud-based services when upgrading or purchasing new technical capabilities.**

The survey represents 850 IT decision-makers involved in the purchase process of cloud computing and states, “The massive pandemic-driven shift to remote work has kicked the evolution toward cloud-first IT infrastructure into high gear. The majority (69%) of companies have accelerated their cloud migration over the past 12 months, and the percentage of companies with most or all IT infrastructure in the cloud is expected to leap from 41% today to 63% in the next 18 months. In addition, with 60% agreeing that cloud capabilities helped them achieve increased and sustainable revenue in the last year, it is no surprise that next year, **organizations plan to allocate an average of 32% of their IT budgets to cloud strategy.**”

It’s obvious why these IT leaders are jumping at the opportunities cloud-based solutions provide – organizations that are still using legacy on-premises ERP systems are likely to face massive challenges in balancing low-quality software design decisions and short-term business requirements.

As digital transformation strategies evolve, research and advisory firm, **Constellation** tells us that choosing a software vendor you can trust will be the most important decision you can make. In Constellation’s ERP conversations with more than 300 technology leaders over the past nine months, **10 significant market trends have emerged:**

1. Reduction in cost of ownership

Executives are seeking to consolidate vendors, modernize systems, and reduce the cost of ownership.

2. Regulatory relief as a service

ERP providers (and AI) keep users up to date on regulations, compliance requirements, and legislative burdens.

3. Digital monetization models

New models enable post-sale revenue opportunities such as installation, warranty, and vendor-managed inventory. Subscriptions also require regulatory compliance for revenue recognition rules such as ASC 606.

4. Collapsing value chains

Classic mega processes such as invoice to close, procure to pay, hire to retire, and order to cash have crossed functional domains, and the convergence of these mega processes makes way for multiparty value chains.

5. Journey orchestration

ERP users expect to design, execute, and automate end-to-end business processes. Organizations would like to be able to orchestrate external and internal processes and enable key business leaders to craft their own cross-functional capabilities.

6. Autonomous enterprises and AI

Natural-language processing and video intelligence enable large quantities of unstructured data such as documents, chats, log files, and transactions to be ingested and organized into logical categories using techniques such as topological data analysis.

7. Cloud ERP platforms

Users need to extend and expand ERP footprints to accommodate changing business models and new requirements.

8. Analytics first

The ERP market landscape has shrunk from hundreds of vendors to a dozen core providers. With a refresh cycle ahead, customers have increased their expectations for obtaining both stability and innovation from one core vendor.

9. Verticalization shifts to micro-verticalization and platform ecosystems

Customers expect their cloud-based ERP solution to deliver on deep industry-vertical functionality, and they need a platform that they can extend as well as one that is part of a larger ecosystem.

10. Elastic pricing

Customers have become accustomed to cloud-based pricing models based on the number of users. As the complexity of cloud products grows, customers expect to see flexible pricing models based on users, usage, and platforms.

What is SaaS, and what are its benefits?

SaaS is a software licensing and distribution model that allows organizations to buy software from vendors online on a subscription basis, so they no longer need to buy software and install it on their own systems. Maintenance and upgrades are performed by the vendors, which lifts the burden from IT teams.

There are numerous benefits for enterprises using SaaS models for their technology systems, including:

Lower costs

In the traditional model, licensing costs for hardware and software could be high and prevented some businesses from using the technology that they would have liked to use, but with SaaS being subscription-based and often residing in public, multi-tenant environments, costs are lower overall as you only need to pay for what you use. The cost of upgrades and maintenance is lower because it is usually shared between all of the vendor's customers using a particular solution. In some cases, energy consumption is reduced, which will also impact the lowering of costs.

Service scalability and flexibility

As SaaS is provided online, the opportunities for scalability and flexibility are huge. Organizations can instantly scale up or down depending on their unique needs. There are out-the-box options available, and there are also customized options that allow for specific functionalities or capabilities that may not be standard. For instance, the demand for capabilities such as automation, artificial intelligence (AI), and machine learning (ML) is growing, and organizations can add these capabilities to their solutions as and when they need it.

Integration

Integration involves linking various cloud-based solutions together so they can talk to each other and share data and information. Most organizations will use systems such as customer relationship management (CRM), HR information systems, or financial planning and analysis systems, and having them connected means greater transparency and a single source of data truth, time savings, and a better user experience.

Easy to use

SaaS offerings are easy to use and manage because they have been designed for real people, not just tech experts, to use them. Projects and processes can be managed so that they deliver value across the organization quickly and flexibly, according to its specific needs.

Faster Innovation

On-premises solutions need time and resources to manage and monitor them. Updates can be a slow process that slows down innovation and development. Cloud-native systems allow innovation to flourish because organizations can respond to disruption, change, threats, or opportunities with more speed, resilience, and agility.



What are the benefits of migrating to a SaaS infrastructure?

The everything as a service or XaaS economy is a world where almost anything can be offered as a service, and it is influencing business models, client expectations, and industry regulation. No sector has been left untouched. From consultancies to universities, charities, and governments, the impact is evident. XaaS has created a dynamic business landscape characterized by five dominating strands: subscription billing, low barriers to entry, the gig economy, location independence, and the land-and-expand concept. Migrating from on-premises software to SaaS is no longer a 'nice to have'; it's essential if businesses are to remain competitive in the marketplace.

The benefits of migration are growing:

- Improved accessibility and the ability to run your system online 24/7 from any device, with no installation, updates, or licensing costs.
- No upfront hardware costs and flexible payment methods such as pay-as-you-go subscription billing.
- Integration with other solutions and systems means a single source of data truth that allows immediate business results, more impactful decision-making, encourages innovation, and increases resilience, agility, and flexibility.
- Less demand on people; SaaS improves efficiency and productivity and allows people to spend more time on meaningful value-adding tasks and activities.
- Because of increased competition and contemporary business models, everyone expects better service, more personalization, and more urgency. SaaS systems allow an upshift in managing customer expectations.



Migration strategies

Basic steps need to be followed for cloud migration to run smoothly, and there are a number of different strategies that organizations employ to do this. Different applications and datasets may have different considerations, so developing a strategy is key.

Define the reason for moving to the cloud

The shift to cloud-based solutions is not just an IT exercise. It has to come from the top of the organization and be rooted in business goals and objectives. Buy-in from all stakeholders is essential, so developing the business case and communicating the changes will be crucial.

Decide what to move

Assess your current tech stack and infrastructure and decide what will move to the cloud. You may decide to prioritize certain systems if you don't move everything at once.

Assess risk

Significant change such as cloud migration can come with risks. Any disruption or interruption of work or accessibility of data during the move needs to be considered and managed.

Vendor selection

Choosing the right cloud-native SaaS solution for your organization is key to cloud migration success. In conversations with 351 executives in charge of digital transformation in 2022, **Constellation** reported that leaders indicated that their top six priorities for vendor selection include:

- Support more automation and AI **(86.32%)**
- Reduce the cost of ownership and complexity **(82.62%)**
- Deliver self-service business intelligence (BI) and reporting **(72.65%)**
- Meet new regulatory requirements **(65.81%)**
- Address integration with existing investments **(63.82%)**
- Improve industry functionality **(53.85%)**

In Foundry's 2022 Cloud Computing Survey, they found:

32% of IT decision-makers are rebuilding or refactoring a majority of their applications for the cloud, e.g., as part of a "cloud-first" strategy.

33% are extending their on-premise environment by migrating core applications with a hybrid cloud approach.

23% are taking a more gradual approach of rebuilding or refactoring a few targeted applications to be hosted with a single cloud services provider.

Only 6% have not yet decided on a modernization strategy, while the remaining 6% have no cloud migration plans.

Motivations and challenges

Why are we moving to the cloud?

In the Foundry 2022 Cloud Computing Survey, 40% of IT decision-makers said their top drivers for cloud investment were to enable disaster recovery and business continuity.

- **39%** said their motivation was to replace on-premise legacy systems.
- **34%** also cited lowering their total cost of ownership.
- **33%** wanted to also improve employee productivity
- **32%** wanted to also increase flexibility to react to changing market conditions.

All of these are understandable and relate to the benefits cloud migration brings to an organization. Staying ahead of the competition is always a goal for businesses, and cloud migration enables the necessary resilience, flexibility, and agility.

Business outcomes always drive motivations for cloud migration. These business outcomes drive business transformations that are supported by cloud migration. There will usually be several motivations for any organization, and business leaders must work together to evaluate the impact each will have on the migration.

Microsoft has put together this useful table to help organizations generate ideas about which motivations are most relevant to them and assess the potential impacts of those motivations.

Critical business events	Migration	Innovation
Datacenter exit	Cost savings	Preparation for new technical capabilities
Merger, acquisition, or divestiture	Reduction in vendor or technical complexity	Building new technical capabilities
Reduction in capital expenses	Optimization of internal operations	Scaling to meet market demands
End of support for mission-critical technologies	Increase in business agility	Scaling to meet geographic demands
Response to regulatory compliance changes	Preparation for new technical capabilities	Improved customer experiences and engagements
New data sovereignty requirements	Scaling to meet market demands	Transformation of products or services
Reduction of disruptions and improvement of IT stability	Scaling to meet geographic demands	Market disruption with new products or services
Report and manage the environmental impact of your business	Integration of a complex IT portfolio	Democratization and self-service environments

Understanding the desired business outcomes helps organizations map out their motivations and develop metrics in alignment with their business strategy.

The main challenges to consider when migrating to the cloud are:

Lack of strategy

Cloud migration strategy must be determined by the business objectives. Without a clear strategy and targets to aim for, the migration can lose focus and will be a slow process of analysis and last-minute decision-making.

Lack of skills

Training on any new systems is essential. Cloud-based solutions can be quite different to navigate and use compared to on-premise systems, so ensuring all the people who will be using them are adequately trained is a must.

Controlling costs

Make sure that a migration budget plan is included as part of the business case for cloud migration. This should be monitored once the migration begins and will be crucial for assessing return on investment (ROI).

Security

Consult with your vendor to discuss any concerns and make sure that plans are in place to avoid security weakness issues or availability downtime during the move.



Business outcomes

What business outcomes drive transformation journeys?

We know that transformation journeys start with business outcomes at the fore. Understanding and communicating the business outcomes promotes transparency and collaboration between departments. Putting the desired business outcomes in a framework encourages conversations and helps those in the organization that are not technically minded to see how the business outcomes are driving the changes within the organization.

Microsoft cite the primary business outcomes driving transformation journeys as:

- Fiscal
- Agility
- Reach
- Customer engagement
- Performance
- Sustainability

All of these outcomes will speak to different stakeholders in an organization in different ways. Financial outcomes are the easiest to see clearly, but all of these outcomes will drive the journey for different stakeholders, and different organizations will relate to some and not others. Each business is unique, so understanding which outcomes are driving your individual organization is key to success.



Operational excellence

Delivering operational excellence on the digital transformation journey

Operational excellence is a methodology or mindset that relies heavily on the right standards and tools to create a culture of providing excellence that flows through an organization from leadership through to processes. Delivering operational excellence on the digital transformation journey is all about getting the steps right when it comes to defining clear business outcomes, developing a robust strategy, and mapping out a change management plan that encompasses risk, opportunities, and a focus on excellence.

According to our friends at Microsoft, the steps to creating operational excellence in the digital transformation journey look like this:

- **Define a strategy to guide digital transformation and operational excellence expectations**

A clear strategy will stop extra costs from creeping in and will keep processes aligned with objectives.

- **Develop an organizational change management plan to span cloud adoption**

This is a case of defining a change management plan that includes everything needed to ensure the above strategy is achieved. It will mean assessing the current state of play and making sure the skills needed to achieve the plan are available.

- **Manage change across cloud adoption efforts**

As each step in the change management plan is completed, progress should be assessed and adjustments made to make sure the strategy is being achieved.

Following this formula establishes the bedrock for a business outcomes-first approach to ensuring operational excellence through the transformation journey.

Conclusion

Digital transformation plans are pushing ahead at full steam across all sectors, but it is clear there are challenges along the way, and business leaders need help to successfully achieve their cloud migration goals.

The number one priority for organizations embarking on a cloud journey is to set out a clear strategy based on clear business objectives.

Organizations are defaulting to cloud-based solutions when upgrading or purchasing new technical capabilities, so they must have very clear requirements in mind when selecting the right vendor.

Despite there being challenges to navigate on the journey, the benefits far outweigh them, which is why **Foundry found that 69% of IT decision-makers agreed that their organization had accelerated its migration to the cloud over the past 12 months.**

Want to learn more about cloud migration strategies?

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