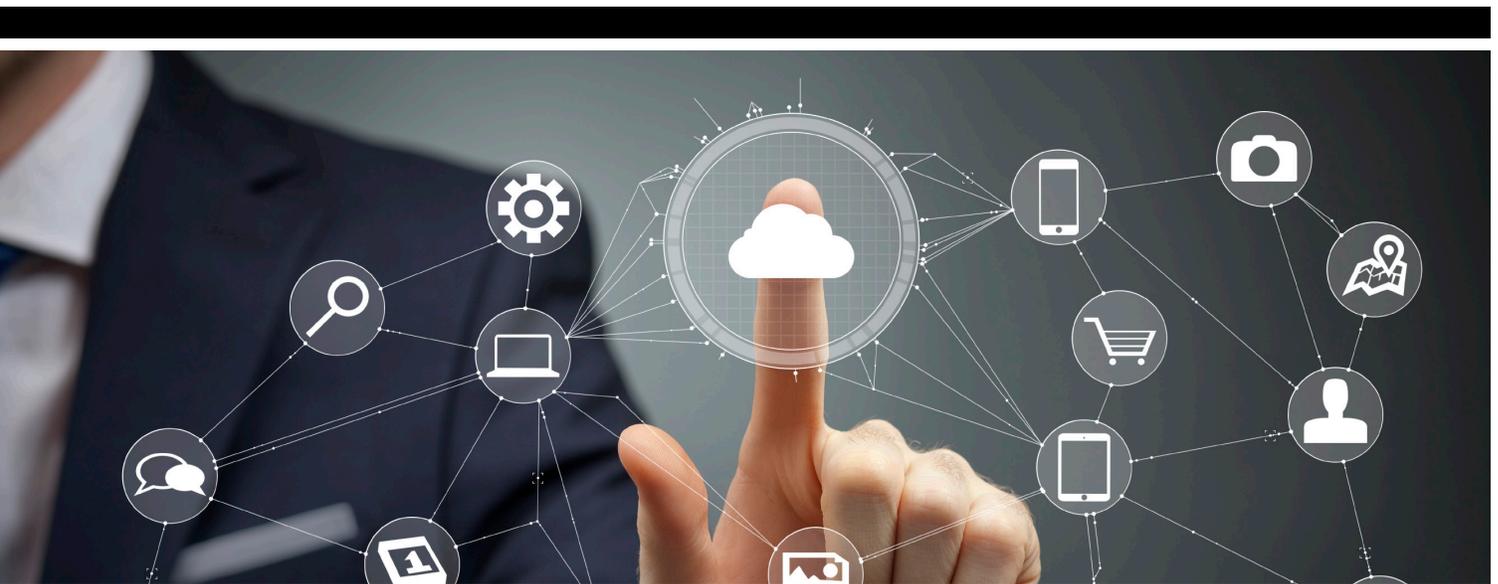


CLOUD ACCOUNTING SOLUTIONS BEST PRACTICES

2014 Benchmark Study

FROM THE CLOUD ACCOUNTING INSTITUTE, POWERED BY ARMANINO



EXECUTIVE SUMMARY AND HIGHLIGHTS

Cloud accounting solutions, commonly known as software as a service (SaaS) applications, have finally hit mainstream adoption with financial and accounting professionals. Finance organizations of all sizes have recognized the advantages of cloud accounting solutions and are beginning to mature in their usage of cloud-based applications.

To understand the current challenges and experiences of cloud solution adopters, the Cloud Accounting Institute (CAI) once again conducted its annual survey in 2014 of U.S. financial and accounting professionals. The survey focused on current and intended cloud solution usage, benefits, concerns, expectations, and integration. The findings and analysis presented in this report provide a valuable perspective on the practices, outlooks, and trends for cloud-based financial and accounting solutions.

Highlights of this year's findings include:

Cloud is mainstream and maturing: Cloud solution adoption is holding steady at 73 percent of all respondents reporting usage in 2014.

Current systems are not suitable for optimizing business processes: Respondents reported that their current finance systems were poor at optimizing business processes and reducing process inefficiencies.

Choosing the right solution/implementation partner

ranks #1: When asked about their top ten decision criteria for selecting a new cloud solution, respondents indicated that level of support provided by the partner was their top factor.

Wasted effort represents a major drawback of current

systems: Respondents' finance teams spend as much as 70 percent of their time on manual efforts or sub-optimal use of time due to shortcomings of their current systems.

Integration lags adoption:

Integration of cloud accounting solutions remains a challenge, with more than two-thirds of respondents reporting that 50 percent or less of their finance systems are currently integrated.

Cost reduction is the top business driver: Reducing costs tops the lists of expected benefits of cloud accounting solutions while security continues to be the top concern.

CLOUD ACCOUNTING USAGE HOLDING STEADY

After major growth in adoption rates over the past several years, cloud accounting solutions are now at a mainstream level of usage. Holding at a steady rate compared to 2013, 73 percent of respondents in 2014 indicated their companies currently use cloud accounting solutions, technologies, or software-as-a-service (SaaS). The percentage of respondents reporting no intentions to use cloud accounting software also held steady at 18 percent in 2014, compared to 17 percent in 2013.

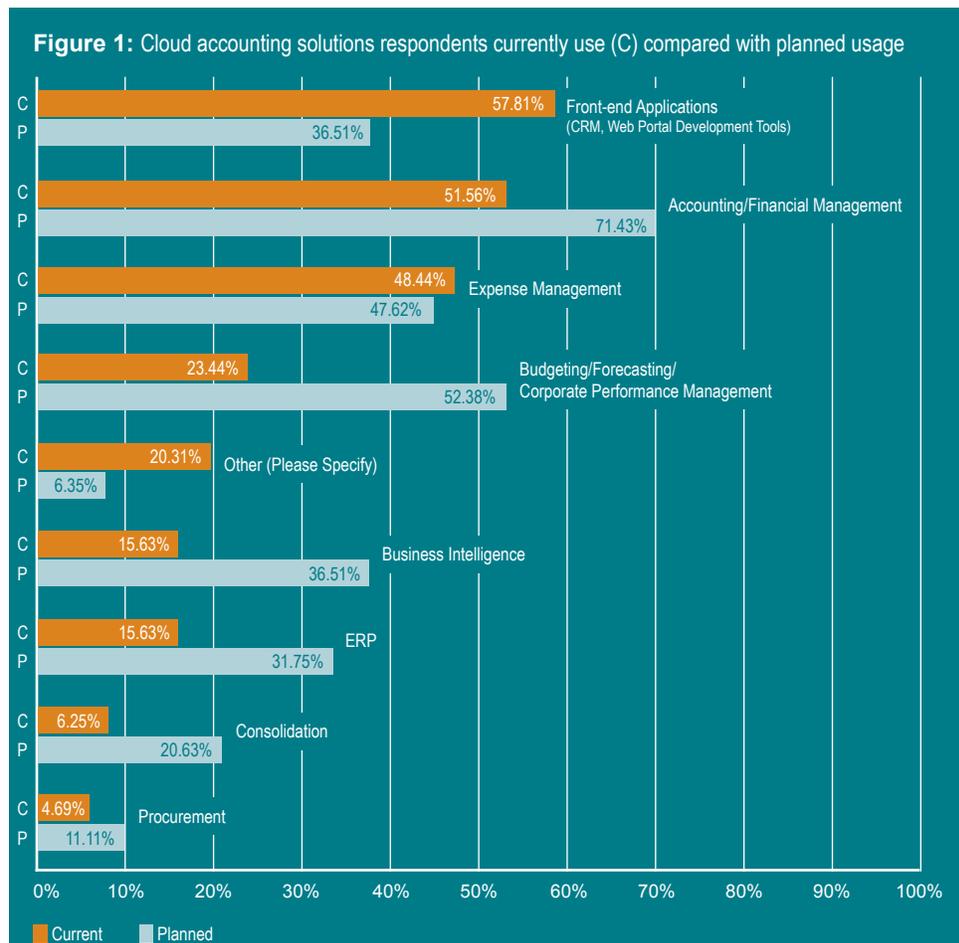
When asked which cloud accounting solutions they currently use, the top three most frequently reported applications were (see Figure 1):

1. Front-end applications such as CRM and web portal development tools (59 percent)
2. Accounting/financial management applications (52 percent)
3. Expense management solutions (49 percent)

When asked about future usage, nearly three-fourths of respondents reported that they intended to use accounting/financial management tools in the future. Budgeting/forecasting/corporate performance management solutions were the second most frequently cited intended cloud solution at 52 percent of respondents planning future usage compared with just 24 percent currently using this type of solution.

Mobile Device Support is a Must

With the bring-your-own-device (BYOD) and mobile evolution in mind, this year we also asked whether those respondents who currently use cloud accounting solutions do so with their mobile devices. As expected, two-thirds of respondents rely on mobile devices, pointing to the importance of mobile functionality when selecting a new cloud application for finance and accounting. The flexibility of using mobile solutions can help increase productivity and efficiency while enabling employees to take advantage of cloud-based collaboration using enterprise social networking tools.



CURRENT SYSTEMS NOT GOOD AT OPTIMIZING BUSINESS PROCESSES

Fifty-one percent of financial and IT executives polled in a study from Saugatuck Technology said they feel limited by their current finance management systems.¹ Our survey confirms that current systems are not meeting many of the expectations of today’s organizations (see Figure 2).

Close to half of all respondents felt that their current system was only “average” at several key capabilities:

- Providing financial information to decision makers
- Maintaining an effective internal control structure and process
- Reducing fraudulent transactions
- Managing performance in the context of business risk

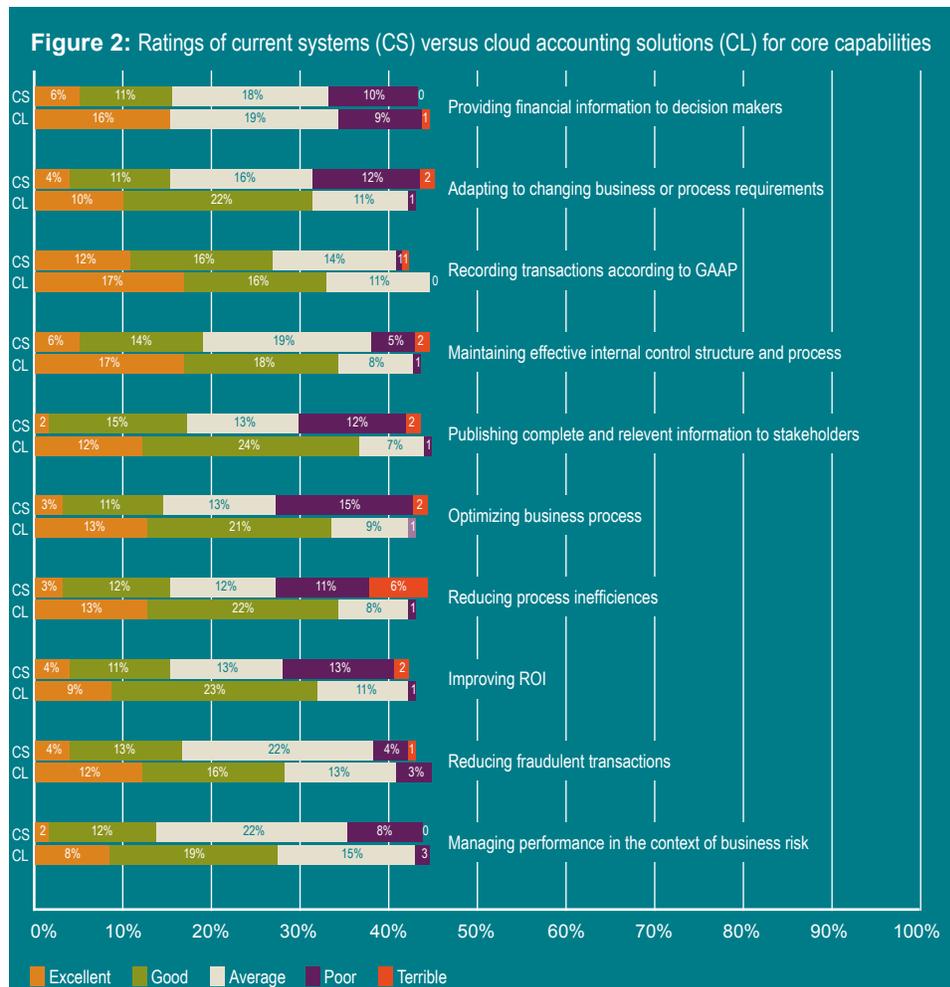
The largest concentration of “terrible” and “poor” responses were elicited for:

- Adapting to changing business or process requirements
- Publishing complete and relevant information to stakeholders
- Optimizing business processes
- Reducing process inefficiencies
- Improving ROI

What did respondents feel their current systems were “good” or “excellent” at handling? The top responses were “recording transactions according to GAAP” and “maintaining an effective internal control structure and process.”

We then asked how efficient and effective respondents expected a SaaS/cloud solution to be at delivering the same capabilities. With the exception of two categories (“reducing fraudulent transactions” and “managing performance in the context of business risk”), two-thirds of respondents expected a SaaS solution to be “good” or “excellent” at each capability on our list – a substantial improvement in rankings compared to current systems.

¹“Why and How Executives Should Be Ready for Accounting and Finance in the Cloud,” Robert Half Management Services, March 19, 2014.



The highest-rated category was “publishing complete and relevant information to stakeholders” at 82 percent of respondents expecting a SaaS solution to be “good” or “excellent” compared to 39 percent who gave their current system the same rating.

of respondents expecting a SaaS solution to be “good” or “excellent” compared to 43 percent and 34 percent respectively giving their current system the same rating.

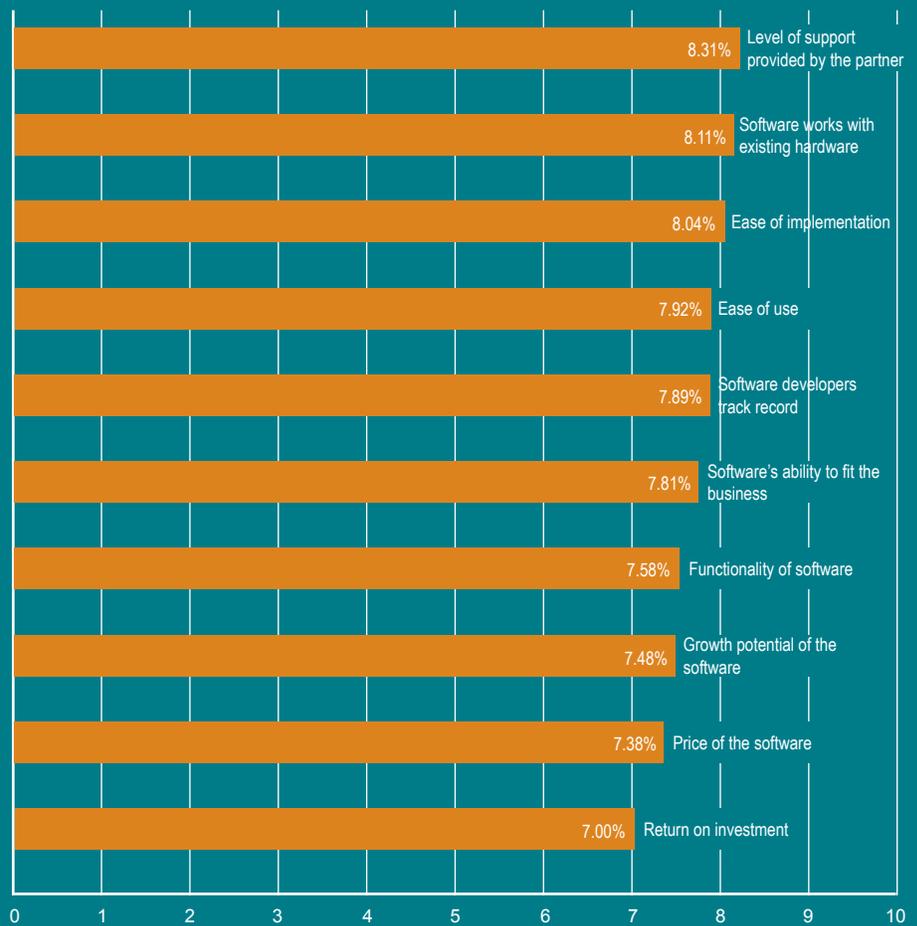
Following close behind the top category, “maintaining an effective internal control structure and process” and “reducing process inefficiencies” both were ranked at 80 percent

PARTNER SUPPORT RANKS FIRST IN SELECTION CRITERIA

This year we added questions to better understand the selection process respondents are using for new cloud accounting solutions. When we asked whether respondents have selected a new finance solution at some point in their career, we discovered that two-thirds of them have been involved in the selection of a new system.

We then asked them to rank their top 10 criteria for selection of a new finance solution (see Figure 3). “Level of support provided by the partner” was ranked highest (average rating of 8.31). “Ease of implementation of new system” had a ranking of 8.04, which is an area where SaaS solutions excel — given their faster and easier implementations than on-premise systems. “Return on investment” was a surprising last in the list of criteria (7.00).

Figure 3: Top ten selection criteria for a new finance system



MANUAL EFFORTS/SUBOPTIMAL USE OF TIME IS EXTREMELY HIGH

Also new this year, we asked how much time respondents' finance teams allocate today for manual or sub-optimal use of time due to workarounds necessitated by their current financial systems. The responses were shocking: the most frequent answer was 30 percent, while the range of responses started at 10 percent and went as high as 70 percent. In terms of actual time spent, respondents reported anywhere from **8 hours per week to 40 hours per month** being spent on manual efforts/sub-optimal use.

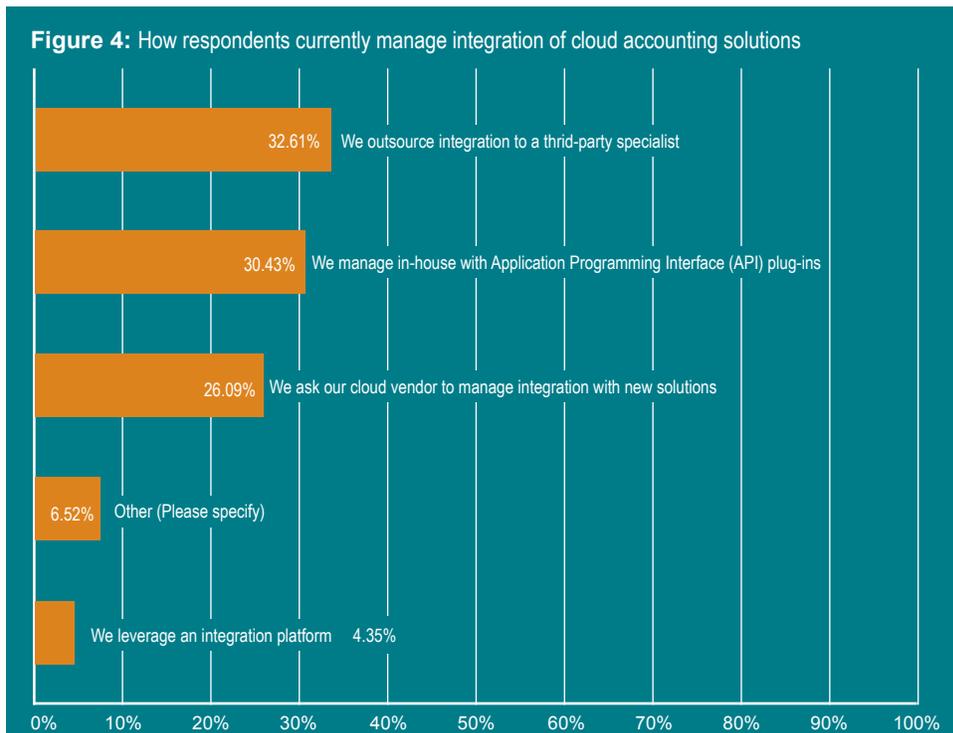
This shows that while cloud solution adoption is reaching maturity, cloud accounting solutions alone are not a panacea

for fixing gaps in businesses processes and automation. Implementing a new system requires choosing the right solution to support business requirements, aligning business processes correctly across the enterprise, and integrating core systems to enable visibility and control from end to end. Working with an experienced partner can help you identify and prioritize system requirements, reduce implementation risk, create more effective business processes, and make optimal use of the new system.

INTEGRATION CONTINUES TO BE A CHALLENGE

Integration is an important component of achieving optimal use and maximum ROI of cloud accounting solutions. To that end, our survey delved further into the current integration situation.

We started by asking respondents how they currently manage integration of cloud software solutions (see Figure 4). While “outsourcing integration to a third-party specialist” was the top response (33 percent), “managing integration in-house using application programming interfaces (APIs)” (30 percent) and “asking the cloud vendor to manage integration” (26 percent) were a very close second and third.



As we expected, only four percent of respondents indicated they used an integration platform. Because this capability is an emerging solution, adoption is still low at this point. However, we expect it to grow as organizations begin to gain awareness of integration software that connects multiple financial and accounting systems without the need for lengthy or risky integration projects.

Respondents reported that the top three benefits of tight integration are: “reducing duplicate data entry” (70 percent), “achieving a single version of the truth” (63 percent), and “real-time reporting” (59 percent). Half of all respondents also believed that “business process alignment” is a benefit of tight integration across cloud applications (see Figure 5).

There’s Significant Room for Improvement

When asked what percentage of their current systems are integrated today, more than two-thirds of the respondents in our survey reported that they have only half or less of their systems integrated (see Figure 6). The largest percentage, 42 percent of respondents, told us that between 25 and 50 percent of their current systems are integrated. Only 14 percent reported that more than 75 percent of their systems are integrated today.

This tells us that while most companies are enjoying the benefits of cloud accounting solutions, they are not yet

reaping all the advantages of having tightly integrated cloud accounting solutions. Much of the immediate return on investment (ROI) from cloud accounting solutions derives from the labor savings, productivity increases, and improved data accuracy that come from integrating applications to reduce or eliminate duplicate data entry and consolidation. Having a “single version of the truth” enables real-time reporting and decision making – imperative for companies operating in competitive markets today.

Figure 5: The benefits of tighter integration between cloud accounting solutions

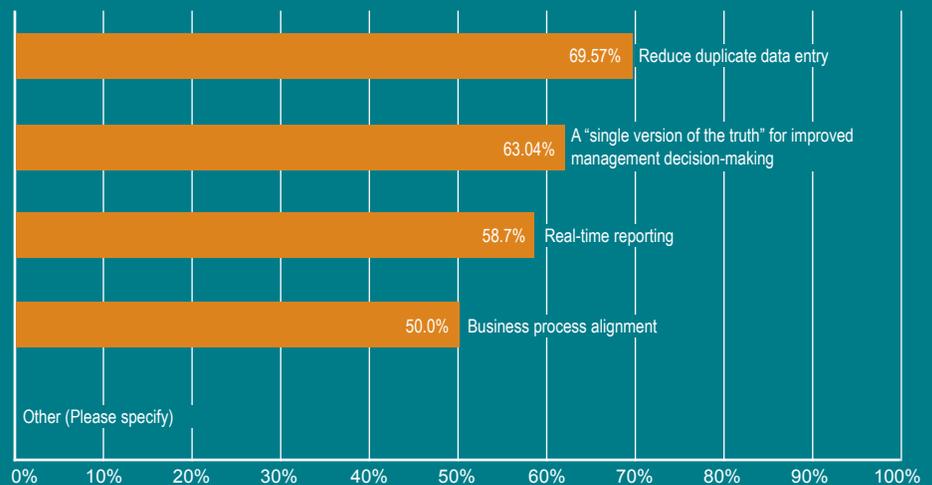
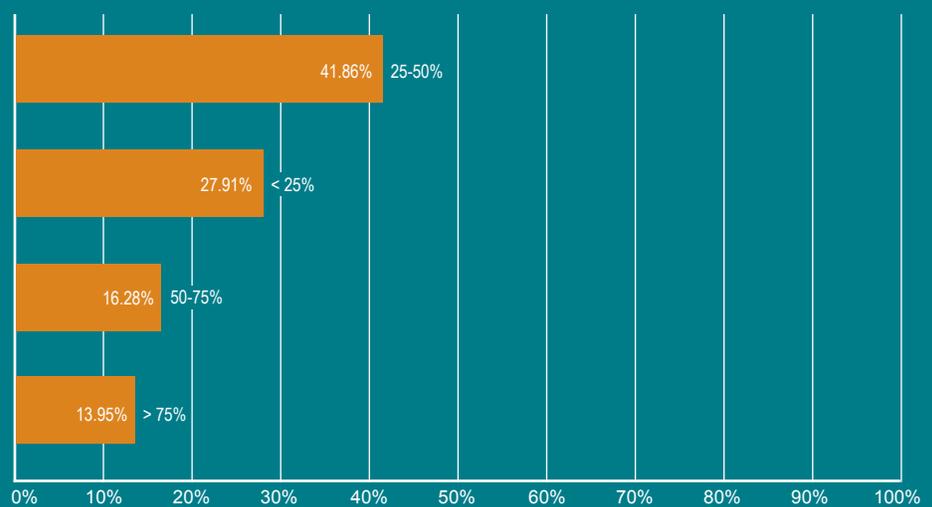


Figure 6: The percentage of current cloud accounting solutions organizations have integrated





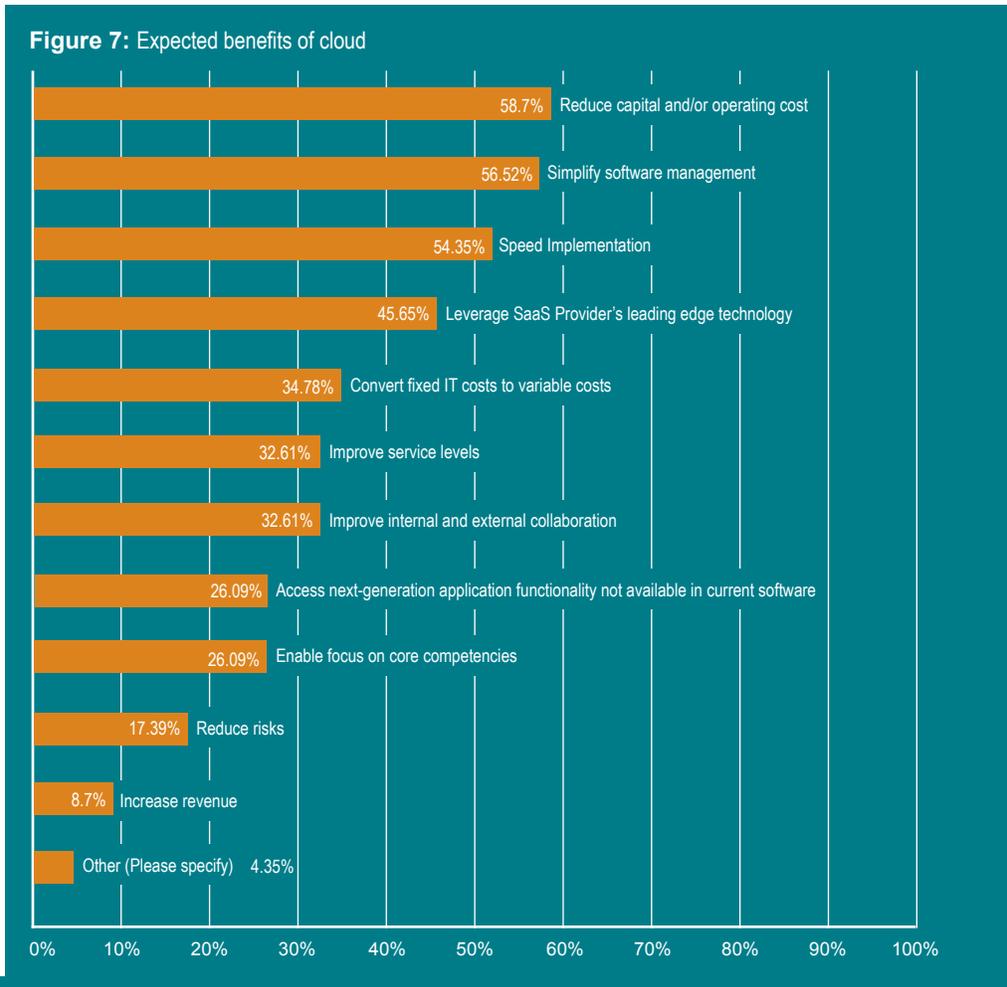
REDUCING COST TOPS LIST OF CLOUD BENEFITS

When we asked respondents about which benefits they expect to incur from using cloud solutions, the top response was “reduce capital and/or operating costs” (59 percent). Compared to on-premise systems, the SaaS model reduces implementation costs, making enterprise-class solutions more affordable for SMBs and appealing to larger companies as well (see Figure 7.)

The second and third most frequent responses were “simplify software management” (57 percent) and “speed of implementation” (54 percent). While the top three benefits are the same as reported in our 2013 survey, “simplify software management” dropped to the second spot this year behind “reduce cost.”

Taken together, the top four responses (“leverage SaaS providers’ leading-edge technology” was 46 percent) reflect the quantitative business case companies are making for moving to a cloud solution: reduced total cost of ownership and faster ROI. Combined with the reduced operating costs and

faster time to benefit, the improved productivity gained by leveraging leading-edge SaaS technology can translate into potential staffing cost reductions or delayed hiring, which increases ROI even more.



SECURITY CONCERNS PREVAIL

Respondents also rated their concerns about adopting a cloud financial solution (see Figure 8). Once again, the top concern was “security,” which increased slightly to 63 percent in 2014, compared with 59 percent in 2013.

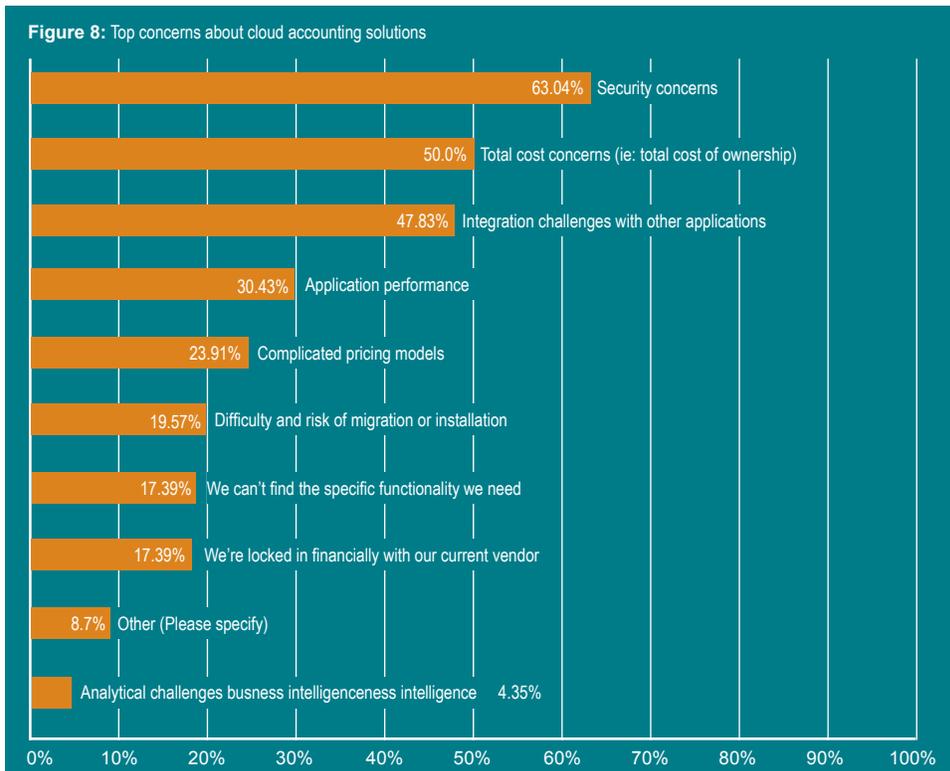
While security is certainly a valid concern, cloud financial and accounting solution vendors typically invest millions of dollars in securing their infrastructures. They can’t afford the operational and reputational risk of a breach. Only the very largest enterprises can afford this level of security and cloud accounting solutions are potentially more secure than some on-premises installations. As a cloud solution customer, your company gets to take advantage of enterprise-class security at a relatively low cost.

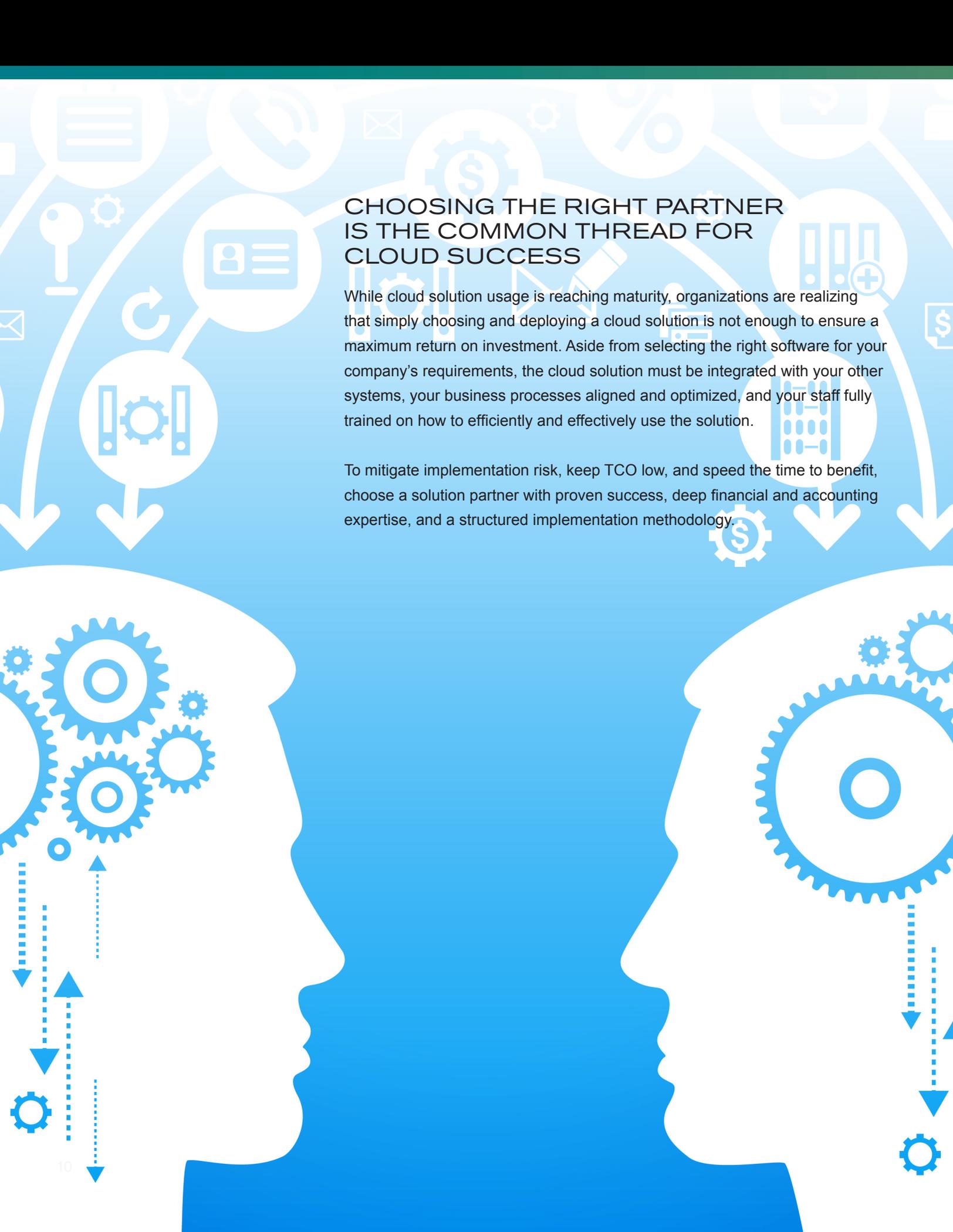
One feature to look for when seeking out a new cloud solution is multiple levels of authentication (also known as multifactor or two-factor authentication). Additional authentication may take the form of biometrics, additional security questions, or a security token. Another feature called single sign-on – which enables one login for multiple applications – also helps mitigate security risks by eliminating password fatigue and reducing the risk of phishing.

Coming in second as a top concern was “cost of ownership” (50 percent), with “integration challenges with other applications” a close third (48 percent). Interestingly, half of the respondents are concerned about “cost of owner-

ship” despite cost reductions being cited as the top benefit expected with cloud accounting solutions. We believe this reflects concern about the cost and risk of implementation rather than the ongoing operating costs of a SaaS solution. Selecting the right implementation partner is critical to reducing the risk of project failure, delays, or overruns that can increase total cost of ownership.

Concerns about being locked in financially with a current vendor increased this year to 17 percent, compared to 11 percent in 2013. This finding corresponds to the percentage of respondents who reported that they did not intend to use cloud accounting solutions in the future (18 percent).



The background features a light blue gradient with various white icons representing business and technology concepts, such as gears, dollar signs, mail, and charts. Two large white silhouettes of human heads in profile, facing each other, are positioned at the bottom. Inside the heads are blue gears of various sizes. Dotted lines with arrows connect the gears to the text area above. The overall theme is about human thought and technology integration.

CHOOSING THE RIGHT PARTNER IS THE COMMON THREAD FOR CLOUD SUCCESS

While cloud solution usage is reaching maturity, organizations are realizing that simply choosing and deploying a cloud solution is not enough to ensure a maximum return on investment. Aside from selecting the right software for your company's requirements, the cloud solution must be integrated with your other systems, your business processes aligned and optimized, and your staff fully trained on how to efficiently and effectively use the solution.

To mitigate implementation risk, keep TCO low, and speed the time to benefit, choose a solution partner with proven success, deep financial and accounting expertise, and a structured implementation methodology.

APPENDIX

About the Study

The Cloud Accounting Institute conducted its third annual benchmark study in Q2 2014. The survey was distributed to professionals in the finance and accounting industries through multiple lists and associations, including: the Institute of Management Accountants (IMA), the University of Missouri – Columbia School of Accounting, and several chief financial officer (CFO) lists.

The survey consisted of the following questions:

1. What is your job title?

- a. CEO
- b. CFO
- c. VP of Finance
- d. Director of Finance
- e. Controller
- f. Other

2. Do you currently use any cloud accounting solutions, technologies, or software as a service (SaaS)?

- a. Yes
- b. No

3. If yes, which solutions?

- a. Accounting/Financial Management
- b. Budgeting/Forecasting/Corporate Performance Management
- c. Consolidation
- d. ERP
- e. Business Intelligence
- f. Front-end Applications such as CRM and Web Portal Development Tools
- g. Procurement
- h. Expense Management
- i. Other

4. Do you leverage your cloud accounting solutions on mobile devices?

- a. Yes
- b. No

5. Do you intend to use cloud or software as a service for accounting solutions in the future?

- a. Yes
- b. No

6. If yes, which solutions?

- a. Accounting/Financial Management
- b. Budgeting/Forecasting/Corporate Performance Management
- c. Consolidation
- d. ERP
- e. Business Intelligence
- f. Front-end Applications such as CRM and Web Portal Development Tools
- g. Procurement
- h. Expense Management
- i. Other

7. What do you expect are the business benefits from adopting software as a service (SaaS) solutions?

- 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
- l. Other

8. 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 functionality 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
- i. Analytical challenges business intelligence
- j. Other

9. How efficient and effective is your current system at (terrible, poor, average, good, excellent) ...

- a. Providing financial information to decision makers
- b. Adapting to changing business or process requirements
- c. Recording transactions according to GAAP
- d. Maintaining an effective internal control structure and process
- e. Publishing complete and relevant information to stakeholders
- f. Optimizing business processes
- g. Reducing process inefficiencies
- h. Improving ROI
- i. Reducing fraudulent transactions
- j. Managing performance in the context of business risk

10. How efficient and effective do you expect a SaaS/cloud solution to be at (terrible, poor, average, good, excellent) ...

- a. Providing financial information to decision makers
- b. Adapting to changing business or process requirements
- c. Recording transactions according to GAAP
- d. Maintaining an effective internal control structure and process
- e. Publishing complete and relevant information to stakeholders
- f. Optimizing business processes
- g. Reducing process inefficiencies
- h. Improving ROI
- i. Reducing fraudulent transactions
- j. Managing performance in the context of business risk

11. How do you currently manage integration of cloud software solutions?

- a. We manage in-house with Application Programming Interface (API) plug-ins
- b. We outsource integration to a third-party specialist
- c. We ask our cloud vendor to manage integration with new solutions
- d. We leverage an integration platform
- e. Other

12. Who maintains cloud software integration for your organization to ensure it will upgrade?

- a. We manage in-house with Application Programming Interface (API) plug-ins
- b. We outsource integration to a third-party specialist
- c. We ask our cloud vendor to manage integration with new solutions
- d. Other

13. What are the top benefits of tighter integration between cloud accounting solutions?

- a. Reduce duplicate data entry
- b. Real-time reporting
- c. A “single version of the truth” for improved management decision-making
- d. Business process alignment
- e. Other

14. How many employees does your company have?

- a. 1 – 10
- b. 11 – 25
- c. 26 – 100
- d. 100 – 500
- e. 500+

15. What is your current accounting and financial management system?

- a. QuickBooks
- b. Microsoft Dynamics GP (Great Plains)
- c. Intacct
- d. NetSuite
- e. Financial Force
- f. Other

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

- a. 1 – 5
- b. 6 – 10
- c. 11 – 30
- d. 30+

17. Do you have users in remote locations?

- a. Yes
- b. No

18. What percentage of your current systems are integrated today?

- a. <25%
- b. 25-50%
- c. 50-75%
- d. >75%

19. What percentage of your systems will need to be integrated in the next 2 years? (open ended question)

20. How much time does your finance team allocate today for manual or sub-optimal use of time due to current finance systems’ workarounds? (open ended question)

21. What percentage of the finance organization's time is dedicated to each of the following (actual and ideal time spend)?

- a. Accounting
- b. Risk/compliance
- c. Business leadership

22. Have you selected a new finance solution in your career?

- a. Yes
- b. No

23. Please rate your top 10 criteria for selection of a new finance solution:

- a. Level of support provided by the partner
- b. Software developer's track record
- c. Software's ability to fit the business
- d. Growth potential of the software
- e. Price of the software
- f. Return on investment
- g. Functionality of software
- h. Ease of use
- i. Ease of implementation of new system
- j. Software works with existing hardware

DEMOGRAPHICS

- The Cloud Accounting Institute survey drew 103 self-selected, anonymous respondents
- CFOs and Controllers were the most frequent titles of respondents in the survey
- Survey respondents represent a full range of company sizes with the largest percentage being 26-100 employees (39 percent)
- More than half of respondents (57 percent) represent companies with five or fewer active users of accounting and financial management applications
- The majority of respondents (78 percent) support users in remote locations
- QuickBooks was the software most cited (36 percent) by respondents as their accounting and financial management system, followed by NetSuite (11 percent) and Sage (9 percent). Microsoft Dynamics GP, Intacct, and SAP were tied at 7 percent each



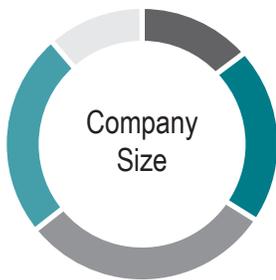
What is your job title?

CEO (7%)
 CFO (18%)
 VP of Finance (5%)
 Director of Finance (9%)
 Controller (14%)
 Other (48%)



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

1-5 (57%)
 6-10 (24%)
 11-30 (11%)
 30+ (9%)



How many employees does your company have?

1-10 (9%)
 11-25 (22%)
 26-100 (39%)
 100-500 (22%)
 500+ (9%)



What is your current accounting and financial management system?

QuickBooks (36%)
 NetSuite (11%)
 Sage (9%)
 Microsoft Dynamics GP (7%)
 Intacct (7%)
 SAP (7%)



ABOUT CLOUD ACCOUNTING INSTITUTE (CAI)

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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Armanino^{LLP} (www.amllp.com) is the largest independent accounting and business consulting firm in California and the 28th largest firm in the United States. Armanino provides an integrated set of audit, tax, consulting, and technology solutions to companies in the U.S. and globally. The firm helps clients adapt and change in every stage of business from start-up through rapid growth to the sale of a company. Armanino emphasizes smart technology, leading a cloud revolution of financial, operational, sales and compliance tools that are transforming the way companies do business. Armanino extends its global services to more than 100 countries through its membership in Moore Stephens International Limited – one of the world's major accounting and consulting membership organizations. In addition to its core consulting and accounting practices, Armanino operates two other divisions – AMF Media Group (www.amfmediagroup.com) and Financial Horizons (www.financialhorizons.com).

ABOUT ARMANINO'S CLOUD SOLUTIONS PRACTICE

Armanino consultants provide comprehensive services to the CFO organizations of fast-growing companies, including Microsoft Dynamics Implementation, Cloud Accounting Solutions and CFO Advisory services.

The firm's Cloud Accounting Solutions practice brings leading SaaS solutions to the strategic challenges faced by CFOs. Armanino's Cloud Accounting Solutions include business intelligence, cloud financials, budgeting, forecasting and planning, governance, risk & compliance, equity management solutions and customer relationship management (CRM). This deep bench of services provided by Armanino's business leaders who have served as CFOs, controllers, and FP&A directors helps finance teams to minimize time spent on low-value accounting processes and increase time spent on strategic decision making.



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