

December, 2010

## QAD On Demand Gives Manufacturers the Tools They Need to Become Global

Ever since it expanded beyond its roots of Material Requirements Planning (MRP) and MRP II, the software that we now refer to as Enterprise Resource Planning (ERP) has provided the operational system of record to manufacturers to form the basis of their businesses. Manufacturers are pressured with optimizing resources, cutting costs, meeting schedules, and improving responsiveness. ERP has enabled this. In recent times, ERP providers have begun to offer Software as a Service (SaaS) as a deployment option for ERP. The SaaS model offers many of the same benefits as a traditional ERP implementation but with unique bonuses such as not having to build an IT staff to support ERP. Over the past year, Aberdeen has seen an increased willingness from businesses in the consideration of SaaS as a deployment method for ERP. Some ERP providers have been ahead of the curve in acting on this increased willingness. QAD was among the first to offer ERP in the SaaS model with QAD On Demand.

### QAD On Demand Snapshot

Available since 2007, QAD On Demand is QAD's SaaS ERP offering aimed at global manufacturers. It provides a flexible deployment alternative for QAD's Enterprise Applications. Positioned as a "full strength" global ERP solution, three editions are available - automotive, life sciences and a general edition. SaaS clients operate with a shared code base, each with a private database. Because QAD On Demand is the same ERP solution that is offered on-premise, QAD offers deployment independence and portability between on demand and on premise environments.

The solution is available throughout most of the world, supported from two global data centers, one in Denver, Colorado and one in Hong Kong, PRC. Both are SAS 70 II certified. QAD pays particular attention to latency (network performance and lag in response time) and is most successful in delivering excellent performance in the United States, but claims good service in most other parts of the world except for Africa.

QAD On Demand targets all manufacturers whether they are single plant, multi-division, or multi-division with multi-plants. At the same time QAD On Demand offers an ERP alternative that allows for easy entry at a more affordable cost for small businesses. QAD has gone to market with a strategy that takes advantage of the unique benefits that the SaaS delivery method offers to customers in combination with the full strength of a global ERP solution, providing a viable option for those manufacturers that are already global as well as small businesses with the ultimate goal of growing to become global.

### Analyst Insight

Aberdeen's Insights provide the analyst perspective of the research as drawn from an aggregated view of the research surveys, interviews, and data analysis

### SaaS ERP Series

This Analyst Insight is in a series of Aberdeen research reports exploring the topic of SaaS ERP, starting with [SaaS ERP: Trends & Observations 2010](#). While several ERP solution providers are currently equipped to deliver ERP using SaaS deployment models, how these different SaaS solutions are delivered varies quite significantly. This report focuses primarily on QAD's SaaS ERP offering.

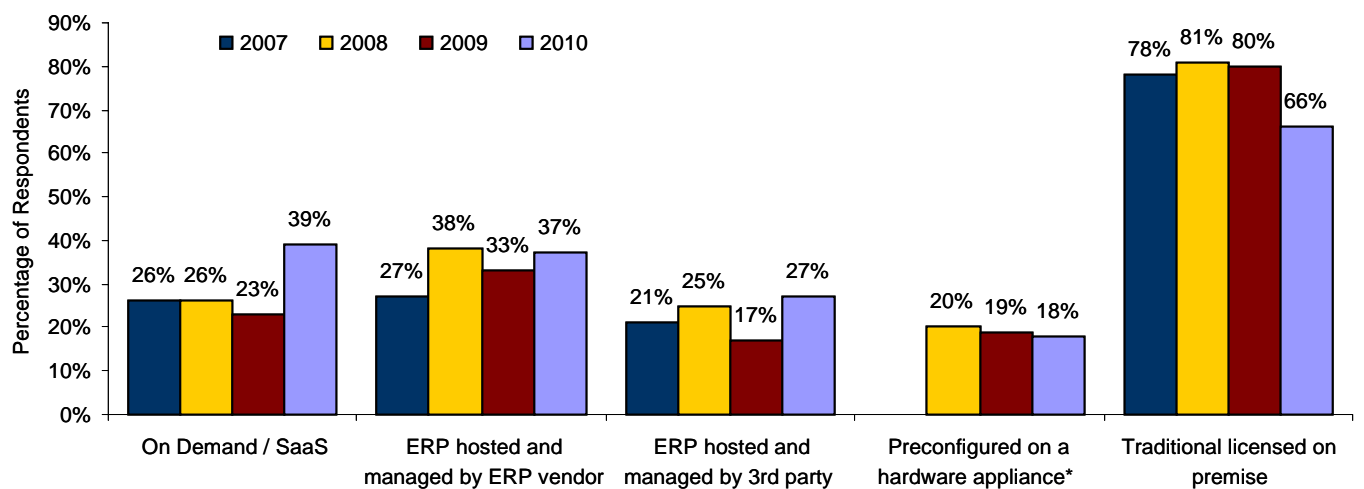
### SAS70 II Certified

The American Institute of Certified Public Accountants issued the Statement of Auditing Standards no. 7: Service Organizations in order to provide auditors with guidance when assessing a service provider's internal controls to issue a service auditor's report. A SAS70 II certified data center is ensured to effectively adhere to control objectives that application service providers are held to.

## Increased Consideration for SaaS

Aberdeen's *SaaS ERP: Trends & Observations 2010* examined the increased willingness to consider SaaS along with the reasons that SaaS is becoming appealing to businesses in need of an ERP solution. Even though the SaaS delivery model offers additional benefits beyond just the benefits of ERP, businesses have been slow in accepting SaaS as a delivery model in relation to other deployment options. Often hindered by a "rent versus buy" mentality and perceived security concerns, businesses are not always receptive to something new and different. In the past year however, Aberdeen has seen an increased willingness to consider SaaS in relation to a decreased interest in more traditional deployment methods.

**Figure I: Willingness to Consider Deployment Options**



\* The delivery option "pre-configured on a hardware appliance" was added to the survey in 2008  
Source: Aberdeen Group, June 2010

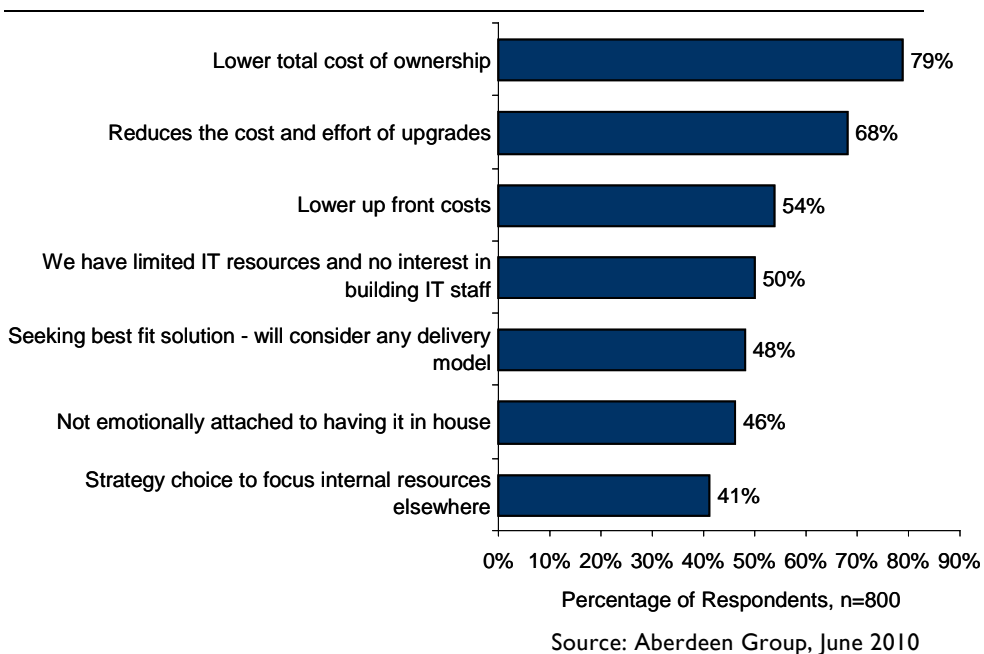
Aberdeen saw a jump from 23% to 39% in the willingness to consider SaaS from 2009 to 2010 in combination with a decrease from 80% to 66% in the consideration of the traditional licensed on premise model. If this trend continues, we may come to a day when deployment method is just simply another option and not a determining factor when considering a solution.

Note the definitions of the various deployment options shown in Figure I on the following page. Often there is confusion over terminology in reference to deployment models. The terms SaaS and "on-demand" are typically used interchangeably, but end users of ERP often confuse these delivery and deployment methods with hosted models. The key difference between the two lies in whether the customer purchases a license to the software and then pays a maintenance fee for technical support and upgrades (as in the hosted model) or whether the customer simply pays an all-inclusive subscription fee for the software to be available on-demand and delivered as a service (as in the SaaS model).

The option listed as "preconfigured on a hardware appliance" was first added to our survey in 2008, partly because of QAD's "on appliance" offering, which is somewhat unique. Software is preconfigured, loaded and shipped on a piece of hardware, but the system is then managed remotely by QAD.

There are several reasons that SaaS consideration is gaining steam. The most often cited reason for businesses to consider SaaS is the lower total cost of ownership (TCO) (Figure 2). Looking beyond TCO, we find many of the other factors that make SaaS ERP appealing are cost related as well.

**Figure 2: Cost Considerations Provide the Most Appeal**



QAD On Demand is priced to address some of these cost factors. Offered on a subscription basis, businesses are charged \$250 per user per month. While most ERP solution providers will not publicly share actual prices, Aberdeen has seen these prices start as low as around \$120. However, the range of functionality available also varies. Therefore, while QAD is not the lowest price on the SaaS market, if you consider all the associated costs of running an on-premise solution, including hardware, software and supporting staff, the all-inclusive price of QAD On Demand is lower than the average cost of a traditional licensed on premise solution.

Aberdeen's [\*Beyond the Total Cost of ERP Ownership\*](#) (June 2009) found that for the smallest of companies surveyed (those with annual revenues below \$25 million) the average cost per user for software license only was \$6394 and the cost of maintenance for the first year was \$1,047, making the first year cost, excluding services to implement and any hardware or other infrastructure cost was \$7,441 per user. Compare this to the cost per user for QAD On Demand at \$3,000 (\$250 per month for 12 months).

#### Deployment Methods Defined

**SaaS or on-demand:** The software itself is not licensed or owned by the end user, it is provided as a service.

**Hosted:** Licensed applications are hosted by an outside third-party. This may be in a separate instance on a separate piece of hardware, or in a separate *virtual* instance (dedicated to your company) where the application is housed on hardware shared by multiple companies.

**Preconfigured on a hardware appliance:** Licensed software is pre-configured and pre-installed on the hardware. Pre-configuration may be industry-specific and include best practices templates for workflows and role definitions.

**Traditional license on premise:** Software is not bought and sold; instead it is licensed for use. It may be licensed to be used on a particular computer or by other criteria such as number of users.

While the cost difference between on premise and SaaS might decline over time, it is still quite considerable in considering up front costs, another factor that makes SaaS appealing to our survey respondents. And of course, for many manufacturers the impact of the recession has been a tightening of available credit, causing the need to preserve cash and cut capital spending. Like any SaaS solution QAD On Demand can be accounted for as an operating expense incurred over time rather than a large lump sum capital expenditure.

But software and maintenance are not the only cost involved in an ERP implementation. Fifty percent (50%) of those companies that are willing to consider SaaS are doing so because they have limited IT resources and no interest in building IT staff. Forty-one percent (41%) have the strategy to focus internal resources elsewhere.

The cost and effort associated with upgrades are also an important consideration. Whether running QAD On Demand or On Appliance, QAD staff plays a key role in the upgrade process, a role that would have to be performed by internal IT staff if the system was deployed on premise. There certainly will remain some residual cost and effort when major upgrades are put in place, including the review of new features and possibly implementation and training associated with these new features. However, by removing the underlying infrastructure work and any technical efforts associated with the upgrade, customers are better able to concentrate on deriving value from the upgrade.

With QAD On Demand, businesses have access to 24x7 global support. This includes a help desk as well as personal counsel on how to perform certain tasks and remedy problems. This is all included in the service, along with upgrades.

### **Addressing Concerns**

At the same time, there are several concerns that are causing some businesses to refuse to consider SaaS ERP (see sidebar). While those that are willing see benefit from reducing the cost and effort of upgrades, 56% of those who resist SaaS are reluctant to relinquish control over the upgrade process. These conflicting views signals a cost/benefit trade off. Is it worth the savings to relinquish some of the control?

Fifty percent (50%) of those that are unwilling to consider SaaS expressed security concerns. QAD is attempting to educate users that their data has integrity and is sufficiently encrypted. QAD is exceptionally mindful of the importance of this factor with life sciences. Its SASII 70 certified data centers are secure and businesses can feel safe in knowing that data will become neither corrupted nor stolen. Aberdeen would agree that perhaps the typical manufacturer is not as well equipped to secure their data than those experts that make a living doing it. The same can be said for the 38% of those unwilling to consider SaaS because of the risk of downtime. With two global hosting centers; QAD is able to build in redundancy and high availability that might be out of reach of the typical manufacturer.

#### **Concerns About SaaS ERP:**

ERP 2010 Survey Respondents were asked if they would be willing to consider SaaS deployment. Those that were unwilling to consider SaaS were asked what concerns them about SaaS. The aspects respondents found most concerning:

- ✓ 56% We want to control our own upgrade process
- ✓ 50% Security concerns
- ✓ 47% ERP is too basic and strategic to our business
- ✓ 38% Downtime risk - concern over predictable performance
- ✓ 35% We believe on-premise solutions offer greater functionality
- ✓ 29% We require heavy customization

## The Audience for QAD On Demand

There are two most likely categories of prospects for QAD On Demand:

- small companies that have never implemented ERP
- companies that are currently running ERP and are seeking a solution that will help them expand globally.

### Net New ERP Implementations

The majority of manufacturers that have yet to invest in ERP are smaller businesses. To examine the reasons that they have not yet invested we look to Aberdeen's [ERP in SME: Fueling Growth and Profits](#). Thirty-three percent (33%) of the 96 respondents without ERP do not have it because of the internal effort required to implement. Implementation of an ERP solution can be daunting for companies of any size. QAD has streamlined many of these processes through its experience in assisting companies in implementation, especially in terms of the automotive and life science editions. "Easy onboarding" removes redundant steps and provides pre-populated templates. This eliminates waste and optimizes how ERP is deployed.

Throughout implementation, QAD assists in setting up users, defining their roles, and training them. This can be done with QAD staff on premise, or remotely. To improve implementation time, QAD has built templates that can be filled in to easily migrate data.

Those considering taking the plunge into an ERP implementation should carefully consider the potential benefits that can be derived from ERP in general and from QAD solutions in particular. The real benefits of ERP can be seen on the balance sheet. Respondents to [Aberdeen's 2010 ERP survey](#) have reported quantifiable business benefits gained through their ERP implementations. Included in our survey respondents were 48 QAD customers. The average benefits that QAD customers are seeing are shown in Table I.

"ERP has very successfully improved the quality and accessibility of information in the business."

~ Manager, Small Food and Beverage Manufacturer and QAD customer

"Some of our sites were less than enthused participants, but now would not go back to our prior solutions."

~ Manager, Small Food and Beverage Manufacturer and QAD customer

**Table I: Business Benefits Achieved from QAD ERP**

	Improvement Gained through the Implementation of ERP
<b>QAD Customers</b>	<ul style="list-style-type: none"> <li>▪ 17% reduction in operating costs</li> <li>▪ 12% reduction in administrative costs</li> <li>▪ 15% reduction in inventory</li> <li>▪ 12% improvement in manufacturing schedule compliance</li> <li>▪ 12% improvement in complete and on-time delivery</li> <li>▪ 16% improvement in time-to-decision</li> </ul>

Source: Aberdeen Group, June 2010



## Global Expansion of ERP

For those companies expanding globally, Aberdeen advises standardization of processes and technology, which correlates to Best-in-Class performance. Those with Best-in-Class ERP implementations are 40% more likely (than those with lagging performance) to standardize front and back-office processes as well as production planning and execution and are 50% more likely to standardize the implementation of ERP across a (possibly distributed) enterprise. The deployment independence and portability of QAD's solution certainly makes this level of standardization possible and more easily achieved.

Certainly one possibility for a current QAD customer with an on-premise deployment is to implement QAD On Demand in remote locations. QAD makes this configuration even more appealing by allowing these remote on demand locations to "plug into" the corporate instance of QAD, essentially creating a private cloud, facilitating communication between and enforcing standards upon companies with multiple dispersed locations. Additionally growth expectations become more manageable and ERP helps to plant the seeds of growth that help companies remain competitive in the years ahead.

## Key Takeaways

QAD On Demand combines the benefits of enterprise class solutions with the benefits of the SaaS delivery model. The appeal of SaaS is gaining traction while the concerns of many have been addressed. The ultimate goal is for all manufacturers to have the tools to become global and for those manufacturers that are already global to be able to communicate effectively, implement standards, and have full visibility into their business. As an early entrant into the SaaS ERP landscape, QAD On Demand brings a mature SaaS solution that provides the benefits of an ERP solution with the SaaS deployment model.

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

### ERP in Manufacturing Best-in-Class criteria

Aberdeen used five key performance metrics to determine Best-in-Class ERP implementations in manufacturing companies:

- ✓ reduction in inventory levels as a result of implementation
- ✓ inventory accuracy
- ✓ number of days to close a month
- ✓ % complete and on-time shipments
- ✓ manufacturing schedule compliance (% of work orders completed on time)

Best-in-Class is defined to be the top 20% of aggregate performance scorers.

#### Related Research

[SaaS Trends and Observations 2010;](#)  
October 2010

[ERP in SME: Fueling Growth and Profits;](#)  
August 2010

[ERP in Manufacturing 2010: Measuring  
Business Benefit and Time to Value;](#) June  
2010

[Beyond the Total Cost of ERP Ownership;](#)  
June 2009

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