



Microsoft Dynamics

The Business Benefits of Hosted ERP Solutions for Small and Midsize Organizations

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EXECUTIVE SUMMARY

Today's small and midsize organizations are increasingly looking for more flexible and cost-effective ways to run their businesses and newer, more efficient ways to deploy critical IT resources while maintaining competitiveness in the marketplace.

To address this challenge and embrace the opportunities today's business environment brings, many organizations are moving to adopt hosted enterprise resource planning (ERP) solutions as an alternative to traditional, onsite systems. Hosted ERP solutions shift much of the burden of ongoing software management from the customer to the solution provider, which provides many benefits, including:

- Reduced initial up-front investment and lower total cost of ownership (TCO) for the customer.
- Faster time-to-value through rapid deployment of the application.
- Improved access to software upgrades and innovations by their software vendor.
- Reduced staff costs and the ability to redeploy IT support tasks to more value-creating corporate initiatives.

This document provides an overview of ERP hosting, describes the benefits associated with this delivery model, addresses common misconceptions associated with ERP hosting, and outlines some of the factors organizations must take into account when considering a hosted ERP system.

WHAT IS ERP HOSTING?

Hosting is a software deployment and subscription model in which an application resides on a software provider's remote servers, rather than the customer's onsite servers. The application is delivered via the Internet, and end users access it at their office or remotely using a Citrix or Terminal Server. With a hosted delivery model, the solution provider assumes responsibility for configuring, upgrading, maintaining, and supporting the application.

Because the solution is purchased as a service, hosting replaces large upfront expenditures and long, often complex implementations with predictable, regular monthly pricing for the customer—usually calculated on a per-user, per-month basis. Using hosted ERP systems, today's small and midsize organizations are often able to achieve a rapid return on their software investment, a lower total cost of ownership, and the many business benefits associated with using a software solution previously available only to large enterprises with more substantial IT budgets. This allows smaller organizations benefit from a level playing field and often neutralizes the technological advantage that their larger competitors have enjoyed for years.

Since its inception, hosting been referred to by many different names, including application service provider (ASP) solutions, software on demand, and, most recently, software-as-a-service (SaaS). Although there may be some minor variations among these terms, the underlying principle is largely the same: under a hosted ERP delivery model, applications are housed in a remote location and delivered directly to end users as a service via the Internet.

BENEFITS OF A HOSTED ERP SOLUTION

Hosted ERP solutions provide a wealth of compelling financial and technical business advantages to today's small and midsize organizations. These benefits include:

- **Minimized initial investment.** Unlike conventional onsite ERP solutions, a hosted ERP solution does not require a substantial upfront investment. A typical onsite ERP implementation involves purchasing and maintaining servers, housing them securely, then deploying, configuring, and maintaining the software. In addition to a sizeable upfront capital outlay, this also requires the time, effort, and associated costs of hiring and maintaining a staff of experienced IT personnel.

By comparison, with a hosted ERP solution the burden of implementing, maintaining, and keeping the application up to date is shifted from the customer to the solution provider. This approach eliminates the costs and complexities of installing and integrating additional hardware to support the software and hiring additional staff to support the application on an ongoing basis. As a result, a hosted ERP solution is particularly advantageous for small to midsize organizations with tight capital budgets and limited IT resources.

- **Accelerate and Increase Return on Investment of the Application.** In keeping with the business model of SaaS applications, hosted ERP solutions can be implemented with relative ease and integrated faster into the organization's day-to-day business than their onsite ERP counterparts. In fact, most typical hosted ERP solutions can be up and running in mere weeks, rather than months or even years, as may be the case with traditional onsite ERP software. This enables organizations to begin realizing the business benefits earlier, which, in turn, results in a more rapid payback, a greater return on investment (ROI), and a reduced total cost of ownership (TCO) over the course of the investment.
- **Seamless Upgrades.** With traditional licensed ERP software, organizations typically must wait for the next release to benefit from the latest features, upgrades, or security patches. In addition, the cost, complexity, and potential disruption of moving to a new onsite software version often cause some organizations to defer upgrading to the newest release. This, in turn, prevents employees from taking advantage of the latest productivity enhancing tools consistently being added to the applications. Hosted ERP systems, however, eliminate this common problem. Under this delivery model, the provider continuously and unobtrusively adds latest features and upgrades, which means that users can be assured that they're actually using—rather than waiting for—the latest technology, without drawn-out upgrades, customization, and consulting costs.
- **Reduced Dependence on Internal IT Resources.** Hosted ERP systems typically require significantly fewer technical resources to manage than onsite ERP solutions because the hosting provider manages the software, hardware, and network administration. This reduces the strain on the organization's IT department, allowing it to redeploy IT resources to focus on other, business-building tasks.
- **Make Changes on Demand.** Hosted ERP solutions are easily scalable and flexible to meet changing business requirements. Adding or removing users can be done on demand and will simply change the monthly subscription fee. This flexibility is particularly beneficial for growing, seasonal, or cyclical businesses that need to quickly change their user base to meet their unique business requirements.

COMMON MISCONCEPTIONS ABOUT HOSTED ERP SOLUTIONS

In recent years, hosted ERP solutions have steady inroads with small and midsize organizations. As is often the case with any new or transformational technology, many myths and misperceptions have surrounded the concept of hosted ERP solutions. Let's take a look at some of these myths and attempt to set the record straight.

Misconception: "Hosted ERP Solutions Provide Only Basic ERP Functionality"

Early hosted solutions did provide relatively narrow functionality, mostly focused on customer relationship management (CRM) and payroll applications. In recent years, however, the concept of hosting has broadened significantly to encompass the full range of ERP functions. Hosted ERP providers now provide standardized software offerings whose functionality rivals that of the rich functionality provided by onsite deployments.

Misconception: "Hosted ERP Solutions Can't Be Customized"

Hosted ERP providers understand that a one-size-fits-all approach does not work when it comes to meeting the information needs of small to midsize organizations. Most hosted ERP solution providers are readily able to customize the hosted solution to ensure it meet the needs of the customer, including adapting it to their unique processes to and industry. Easy-to-use configuration tools allow even non-programmers to modify the look and feel of their software or readily adapt it to meet their unique business processes.

Misconception: "It's Difficult to Integrate Hosted ERP Systems with Other Systems"

Today's organizations need to tie their systems together to obtain maximum insights into the business and improve employee productivity. Hosted ERP providers are increasingly using SOA and web services APIs, which allow different applications to communicate with each other without the need for costly, time-consuming custom coding. This vastly simplifies integration between hosted ERP systems and both onsite vendor software and homegrown systems.

Misconception: "If the Internet Goes Down, Our Business Goes Down"

Because hosted applications are delivered to end users via an Internet connection, some organizations worry about Internet reliability and the potential of service outages. However, in the past several years, we've seen the stability of the Internet improve dramatically, both in reduced numbers of outages and shorter outage durations. Many hosted ERP providers help safeguard against outages by spreading contracting with two or more separate ISPs. In addition, most hosted ERP contracts have provisions for minimum up-times, with guaranteed standards that often reach beyond 99%.

Misconception: "With a Hosted ERP Solution, Our Data Isn't as Secure as it is Onsite"

One of the first questions that organizations contemplating a hosted system often ask is, "Just how secure is our data?" It's a legitimate question, since entrusting private business data and applications to an outside hosting service makes some organizations uncomfortable. But the fact is, data security and privacy are legitimate concerns no matter whether an organization subscribes to a hosted ERP solution or licenses ERP software and implements it onsite. In any deployment model, ironclad safeguards need to be in place to ensure safety of critical client data.

If you are considering a hosted ERP solution, be sure to ask potential solution providers the following security-related questions:

- *What is your privacy policy?*
Your potential solution provider should have a well-defined and clearly articulated privacy policy that spells out exactly who has access to various types of information. It should also describe the organization's standard operating policies and procedures for ensuring privacy. Your prospective vendor should voluntarily provide you with a copy of this policy information.
- *What level of security do you use to ensure the safety and integrity of critical data?*
To safeguard your data onsite, your prospective solution provider should use a combination of intrusion detection system (IDS) and intrusion prevention system (IPS) products and apply antivirus at various network layers. It should also utilize deep packet inspection (DPI) or an application-level firewall technology that scans all levels of packet transmission. Finally, it should also use secure socket layer (SSL) or https-encrypted transmission to ensure Internet security.
- *Is your production equipment housed in a state-of-the-art facility?*
Your prospective vendor's data center should be secure, free of windows, and built with cement or steel fortifications. It should also be located somewhere that is not prone to inclement weather.
- *Please describe your facility's physical security arrangements. Are they in place 24 hours a day, seven days a week, and 365 days a year?*
Similar to its privacy policy, your potential hosted ERP solution provider should have well-defined and robust security arrangements that are in place at all times.
- *Do you contract with an independent, third-party organization to conduct periodic external and internal vulnerability scans?*
In addition to maintaining an intrusion response system and a prepared response plan, your prospective solution provider should frequently commission both routine and unannounced security audits.
- *How often do you back up data, and where are the backups stored?*
Your potential hosting provider should have in place a rigorous program of data backup and offsite storage in a secure location remote from its main data center.
- *Do you offer full hardware redundancy to avoid the negative consequences of a power failure?*
Your prospective solution provider's data center and backup location should have redundant power supplies, such as battery and diesel generator backups, to avoid the negative consequences associated with a power failure.
- *Does your staff include a highly qualified operations team that monitors the site 24 hours a day, 365 days a year?*
Your prospective vendor should have on staff many certified security experts, including those with the preferred CISSP designation.

QUESTIONS TO ASK WHEN CONSIDERING A HOSTED ERP SOLUTION

Although hosted ERP solutions are often easier and faster to implement than traditional onsite solutions, it's nevertheless necessary for organizations to engage in the same rigorous introspection, analysis, and planning that governs making any fundamental change to their business.

To help ensure that the prospective hosted solution itself can meet their business requirements, decision makers must examine many critical success factors, including scalability and integration, as well as alignment with existing applications, databases, and business processes. Similarly, they must closely question prospective hosted ERP solution providers to ensure that they are choosing the right vendor—one that is clearly committed to satisfying their business and technical requirements. Finally, they need to ensure that their chosen solution provider can guide them through the customization, integration, data security, availability, performance, disaster recovery, and support requirements necessary to ensure that the hosted solution is up and running quickly.

When considering a hosted ERP solution, organizations should ask themselves and their prospective hosted ERP solution providers these questions:

- Is our organization institutionally ready to adopt a hosted ERP solution? Are we willing to make the organizational commitment necessary to ensure the success of this new delivery model?
- What IT connectivity, security, and management requirements are needed to ensure the high performance of a hosted ERP solution?
- Does our prospective ERP solution provider have the optimal combination of skills and resources to implement and administer a hosted solution that fully meets our business needs and objectives?
- What steps can we take to ensure that our hosted solution is properly configured to meet our unique business requirements and is fully aligned with our business processes?
- Are we confident that our hosted ERP solution provider is committed to protecting our critical data and maintaining its integrity?
- How do we ensure that our hosted ERP solution will remain affordable and viable as our business requirements and competitive environment evolve?

THE MICROSOFT COMMITMENT TO CHOICE IN SOFTWARE DELIVERY

While this document has focused on the benefits of a hosted ERP solution, we at Microsoft realize that most appropriate delivery model for any organization depends on the unique characteristics of each company and its industry. Whatever a company's situation, Microsoft is committed to providing the greatest amount of choice in software delivery.

Ultimately, Microsoft believes every company will want to distribute its processes using one or a combination of the following delivery models:

- **A hosted solution** that provides companies with a way to reduce costs and speed implementation. Microsoft works with independent software vendors (ISV) and system integrator

partners all over the world, ensuring that you benefit from an industry expert from a local company should you decide that a hosted ERP solution is the best choice for your organization. These partners can develop a hosted Microsoft Dynamics® application to meet your unique business needs and challenges.

- **Traditional onsite solutions** often provide superior integration with existing IT systems and customization opportunities that may not be possible in a hosted environment, depending on the sophistication of your operations. Many of our customers host their Microsoft Dynamics software at their own location, on their own servers. This offers maximum opportunity for integration with other IT systems. Often, companies choose onsite deployments when their IT organization has established domain expertise for that process or technology. They also choose this option when their business processes involve sensitive data or requirements or differentiate them from the competition.
- **A software-plus-services (S+S) approach** allows Microsoft Dynamics customers to switch between hosted and onsite delivery, or create a hybrid solution that takes advantage of both models and adjusts to the changing needs of departments and processes throughout the organization. In some cases it may be more appropriate for the solution to be housed onsite, while in other situations hosting provides a level of flexibility that is demanded by certain groups. Importantly today, the choice is not between one solution or the other, but often a combination of using both approaches to meet different needs throughout the organization.

CASE STUDY

Management Firm Keeps Costs Low and Boosts Productivity with Hosted ERP Solution

Gregory Greenfield & Associates, Ltd. (GG&A) manages 22 regional malls throughout the United States on behalf of numerous private investors and investment firms. When an international investment group acquired the company in 2007, GG&A needed a more robust financial accounting system to deliver an increasing number of sophisticated reports. After considering solutions from PeopleSoft and JD Edwards, the company chose Microsoft Dynamics GP because of its intuitive interface and strong financial management capabilities. GG&A also worked with a local Microsoft partner to host the solution, minimizing upfront acquisition costs and ongoing IT maintenance concerns. With Microsoft Dynamics GP, the company enjoys dramatically increased productivity and can choose between a hosted or onsite deployment according to the needs of its business.

Read the full case study at

http://www.microsoft.com/casestudies/Case_Study_Detail.aspx?CaseStudyID=4000003955.

CONCLUSION

Eager for more flexible and cost-effective ways to run their businesses and newer more efficient ways to deploy critical resources, today's small and midsize organizations are increasingly embracing hosted ERP solutions. As an alternative to traditional, onsite systems, hosted ERP solutions shift much of the burden of ongoing software management from the customer to the solution provider, which provides many business benefits:

- **Reduced initial investment.** With a hosted ERP solution you do not need to purchase additional hardware or the entire software package up front, which reduces your starting costs.
- **Get up and running quickly.** Get your business on track faster. Hosted ERP solutions generally offer faster deployment options than onsite solutions.
- **Manage your cash flow with low monthly fees.** Just like leasing a car, you can implement a robust financial solution that will support your business as it grows with a low monthly fee.
- **Reduce dependence on internal IT resources.** If your organization has limited technology resources available to implement, manage, and maintain an ERP solution, a hosted CRM solution might be right for you.
- **Provide employees with instant access from anywhere.** Because they can be accessed through any Internet connection, hosted systems can be particularly beneficial for companies that have users, such as salespeople, who need to work remotely.
- **Make changes on demand.** You can easily add or remove users as your business needs change, receive product upgrades quickly, and be assured that your technology environment is up and running. This flexibility can be particularly beneficial for growing, seasonal, or cyclical businesses that need to quickly change their user base to meet unique business requirements.

Together with our independent software vendors (ISV) and system integrator partners, Microsoft is committed to providing the greatest amount of choice in software delivery. Our Microsoft Dynamics financial management software provides robust functionality, sophisticated reporting, and powerful decision-making tools to handle the requirements of a growing business. And because it's built by Microsoft, it works seamlessly with the Microsoft products you already own, such as Microsoft Office 2007, Microsoft Windows[®] 7, Microsoft Windows Server[®] 2008 R2, and Microsoft SQL Server[®] 2008.

No matter whether you choose to deploy your ERP software onsite or using a hosted delivery option, we can provide the software and expertise to help you realize the business benefits of a powerful Microsoft Dynamics ERP system.

ADDITIONAL INFORMATION

For additional information about ERP systems and hosting from Microsoft, please visit <http://www.microsoft.com/erp/software-plus-services/>.

Microsoft Dynamics is a line of integrated, adaptable business management solutions that enables you and your people to make business decisions with greater confidence. Microsoft Dynamics works like and with familiar Microsoft software, automating and streamlining financial, customer relationship, and supply chain processes in a way that helps you drive business success.

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