CFO INNOVATION

BUSINESS-CRITICAL PROCESSES ON THE CLOUD

What's Stopping You?

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About This Report

NetSuite, a global provider of cloud-based, unified business management software, asked CFO Innovation to invite a select group of CFOs, finance directors, controllers and other senior finance executives to a roundtable discussion in Singapore on 17 October 2013. The participants shared their experiences and ideas about putting mission-critical business processes in the cloud.

This report records the insights of the following participants.

Vaidyanathan Radhakrishnan
Vice President Finance, Asia Pacific
Avnet Technology Solutions

Gavin McIntyre
Director
Censere Singapore Pte Ltd

Wee Deng Han
Financial Controller
Eastern Navigation Pte Ltd

Dharma Sutedja
Business Finance Head
Genesis Investments Inc

Premod Thomas
Executive Director and CFO
Guoco Leisure Ltd

Felix Wang
General Manager
(Accounts & Finance & Administration)
Itochu Plastics Pte Ltd

Gail Shan
Group Financial Controller
KTL Offshore

Suryanarayanan Balasubramanian
Group CFO and Finance Director
Mindtrac (S) Pte Ltd

Michael Chow
Executive Director for Finance – Asia Pacific
Sovereign Richwell (F.E.) Co. Pte Ltd

Victor Ting
Chief Financial Officer
Trio-Tech International Pte Ltd

Host Executives
Mark Troselj
Managing Director Asia Pacific and Japan
NetSuite

James Bartholomew
Asia Sales Director
NetSuite

Moderator
Cesar Bacani
Editor-in-Chief
CFO Innovation Asia

This report identifies the persons quoted whenever possible. However, some statements are not attributed to allow participants to express views that may not reflect those of their organization. The report is meant to document the proceedings and does not provide any guarantee of any type about the products and solutions discussed.

Most of us are already using cloud computing, we just don't realize it. If you post your profile on LinkedIn or share documents and email on Google, you're on the cloud. If you have a Twitter or a Weibo feed, shop on Amazon or Alibaba, watch videos on YouTube or Youku, or keep in touch with friends and relatives on Facebook, you're swanning about on the cloud.

You might even be using the cloud in the office, if your company requires that you upload your contacts on Salesforce.com, for example, or that you access an online portal by providers like Concur to request and approve travel and expenses. "In actual fact, banks and telcos have already started to move to cloud computing," said Mark Troselj, Managing Director Asia Pacific and Japan at NetSuite, who was speaking at a roundtable discussion in Singapore last October.

So why are companies still hesitant to harness the cloud for enterprise resource planning (ERP), customer relationship management (CRM), inventory, analytics and other business-critical processes? This was the question considered by the roundtable participants, which included Troselj, NetSuite Asia Sales Director James Bartholomew and ten senior finance executives from Singapore-based companies.

Felix Wang of Itochu Plastics

One answer, as many research studies confirm, is security. "The key issue for us is security of data," said Felix Wang, General Manager (Administration, Accounts & Finance) at Itochu Plastics, a wholly owned subsidiary of Japanese trading giant Itochu. "We're doing more than a US$1 billion worth of trade and handle more than a million tons of cargo per annum. We are cautious about cloud computing for the simple reason that our key resource is our network of suppliers and customers and we do not want their data compromised."

"If you look at where companies truly lost data, it's generally been from where systems haven't been backed up"

"The beauty of cloud applications is that they can be updated fairly rapidly as laws and regulations change"

At the same time, however, Itochu Plastics is interested in the cloud because it sees the opportunities to streamline costs and promote efficiency. "We're trying to see whether there is a cheaper way to consolidate all our accounting management information, especially when more companies are part of us," Wang explained. Additional licenses for the current SAP ERP system will likely be required post-M&A, which Wang anticipates will be "very expensive."

Everyone around the table shared concerns about security, but they also recognized the inevitability of cloud computing becoming part of the business landscape "It's here to stay and we hope to reap the benefits of the cloud journey," said Vaidyanathan Radhakrishnan, Vice President Finance, Asia Pacific, at US multinational Avnet Technology Solutions.

Avnet's Vaidyanathan Radhakrishnan (left) and Mindtrac's Suryanarayanan Balasubramanian

Commented Premod Thomas, Executive Director and CFO of hotel company Guoco Leisure: "We are looking at cloud computing and are in the process of evaluating the risk-reward trade-offs."

But while they are more open to cloud computing, the participants want more straightforward information. The last time Suryanarayanan Balasubramanian, Group CFO and Finance Director at tire, battery and solar panel company Mindtrac sat down to a cloud presentation, he got bombarded with technical jargon. "Within ten minutes, everybody was convinced this was not the way to go," he recalled. "I would love to hear how I can benefit from the cloud, but please keep to the solution part."

Among the themes that resonated with the group are the following:

- *Security and compliance.* Will company data be safe and the integrity of information ensured? Are there implications for listed companies, which are subject to stock market and regulatory rules? Is it legal for companies to store personal data of customers and other information in data centers outside the country?

- *Integration and execution.* Many companies already have on-premise ERP, CRM and other systems from the likes of SAP, Oracle and Microsoft. Will they need to get rid of these expensive systems and associated infrastructure? Can on-premise and cloud be integrated and work together seamlessly?

- *Cost and incentives.* One attraction of cloud computing is that it turns capital expenditures into opex, since the company will not need to buy and operate servers, on-premise software and other infrastructure. But are there hidden costs in customization, integration and maintenance that even the tax incentives in Singapore for cloud usage will not offset?

NetSuite's Mark Troselj makes a point

Security, security, security

NetSuite's Troselj opened the discussion with a reminder that cloud computing is already all around us in the consumer space. "My children don't know anything but cloud computing," he said. "They have iPads and iPhones and Apple TV. If they want to watch a movie, listen to a song or play a game, they purchase from the iTunes store in the cloud and run the application from there."

"And the expectations from these millennials, as they become consumers and part of our workforce, is that cloud computing is a natural part of how we do business," said Troselj. You can say that more than 20,000 high-growth companies and divisions of large enterprises around the world agree. This is the number of organizations that have implemented NetSuite's cloud-based single application that provides real-time ERP, financial services, CRM and other business-critical processes.

Like the CFOs at the roundtable, these NetSuite clients had asked the question of security. "Every single one of them came up to us and said: 'Talk to us about security. Talk to us about compliance. Talk to us about Sarbanes-Oxley.' They also asked: 'Where are your data centers? How are they secured? What happens to my data? Who owns it?'"

*CFO Innovation's Cesar Bacani (left) and
NetSuite's James Bartholomew*

They must have been satisfied with the answers because everyone from Procter & Gamble in the US to Software AG in Germany to Jollibee Foods in the Philippines and Knowledge Universe in Singapore have signed up and remain customers. NetSuite uses CenturyLink Technology Solutions (formerly Savvis) to ensure the security of its data centers.

"If you look at where companies truly lost data, it's generally been from where systems haven't been backed up and the server crashed," Troselj noted. "It's also been from people leaving a laptop on a bus or a train."

Or someone's got a Post-It note on their computer with their password on it. These are actually the biggest risks with respect to security, not leaks from service providers that would have stringent layers of protection because their business lives or dies over security confidence.

The flipside of the security conversation, added James Bartholomew, NetSuite's Asia Sales Director, "is actually the security risk of not being on the cloud." If you are the CFO of a fast-growing company that's acquiring a lot of businesses, you want control. "And head office wants to be able to see in real-time exactly what is happening in that new sales office or project. They don't want to wait for a report to arrive in Excel. Security for them is actually around visibility and availability, not around where is my data."

Dharma Sutedja of Genesis Investments and Michael Chow of Sovereign Richwell

In any case, said Bartholomew, "there are key audit reports that, if you're a vendor of any sort of credibility, you should be able to provide to the client." NetSuite is audited by independent reputable third-party firms such as KPMG and Brightline, for example. "These provide you a written guarantee that your data is going to be secure." Typically undertaken by the Big Four accounting firms, the audits periodically assess the vendor's controls, security systems, back-up data centers and procedures in case of a catastrophe and other areas of operations.

"The security arrangements sound pretty good, but what if, despite all the systems and precautions, there is a breach?" asked Michael Chow, Executive Director for Finance, Asia Pacific, at Sovereign Richwell. He noted that Singapore's personal data regulations are stringent and companies will be penalized should they fall afoul of them. "What are the real liabilities of the vendor who created the architecture?" he wondered.

"You would have to address that on a case-by-case basis with the cloud provider," said Troselj. At NetSuite, the contractual liabilities of both parties are detailed in legal documents, which are vetted by the client's legal department as a matter of course.

"They managed to convince me that there were enough security layers that prevented people from trying to get access to your data"

The beauty of cloud applications like NetSuite's is that they can be updated fairly rapidly as laws and regulations change, compared with on-premise solutions. "We have teams in different parts of the world dedicated to making sure we continually comply with the markets we operate in," said Bartholomew. "As an example, we have more than 190 currencies available in the system, about 19 languages and multiple tax engines with different tax nexuses."

The Australian version of the application that has that country's tax laws in-built was recently completed. In the UK, the VAT rate was raised in 2013 to 20%. What NetSuite did was to notify users that the rate in the system will be updated from 17.5% to 20% on 4 January, the effective date. When clients opened the application on that day, the new VAT rate was already part of it.

Gavin McIntyre of Censere

"We were moving from a system that's been tried and tested, and which everybody knows. Suddenly you move to a new cloud computing platform"

Integration and execution

Gavin McIntyre, Director at specialist advisory firm Censere, worked on a cloud computing implementation (not NetSuite) at a former employer, a company listed in Singapore. "This was in response to the fact that I had accounting staff in many different locations and we had a hard time doing consolidations," he recounted. "There were different platforms, different timings and different issues."

The security issue was foremost in McIntyre's mind, but it was dealt with expeditiously. "I think I got through it all in about three hours," he recalled. "They managed to convince me that, at the end of the day, there were enough security layers that prevented people from trying to get access to your data. The second thing was that a lot of the breaches come from within the company, not necessarily from outside."

The more serious issue was the integration with existing systems and the introduction of new processes. "We were moving from a system that's been tried and tested, and which everybody knows," said McIntyre. "Suddenly you move to a new cloud computing platform. You're cutting down on unnecessary processes. Some are automatic. Some of them needed to be changed because there will be more checking rather than actually keying in."

In the end, the implementation and integration with existing systems – the company did not want to get rid of already-paid for software – took about a year. "We had to run everything in parallel," explained McIntyre. They would do a hard stop, check and then transfer some processes, and then do it over again for other processes. "If everything is exactly right, that's when you migrate."

Eastern Navigation's Wee Deng Han (left) and Gail Shan of KTL Offshore

Troselj responded by pointing out that NetSuite applications are highly configurable. "It's really just about taking an application and then configuring it to your requirements," he said. Of course, if your business is complex with dozens of subsidiaries and hundreds of people in different roles working with various work flows, then that will take time.

That said, Australian logistics services provider Toll Group, which employs 35,000 people, took only four months to switch its Toll Global Express Asia business over to NetSuite's cloud solution. A lot depends on the industry, business model, the absence of legacy systems and other factors. McIntyre's former company tended to have a quarter-to-quarter mentality because the stock market punishes or rewards its stock in accordance with its quarterly results. It had to move very deliberately to ensure the quarterly numbers are never inaccurate or late.

When the Internet is down

Specialist marine rigging company KTL Offshore had migrated its customer relationship management (CRM) system to the cloud using NetSuite's application two years ago. "You can see what customers are buying in real-time and analyze purchasing patterns to help with business decisions," said Group Financial Controller Gail Shan. "Sales people can also update data about their customers [anywhere and anytime] and add whatever pieces of information they think are of value."

However, she expressed worries that a technical glitch or crash can affect her company severely, although that has yet to happen. "You can't tell [inspection service] SGS that you can't comply on time because your computer is down," said Shan. Wang of Itochu Plastics seconded that notion, noting that a SingTel exchange in Singapore recently caught fire, affecting the entire network of the three main Internet service providers.

Troselj acknowledged that the Internet is critical to cloud computing. What companies need to do is to take hard look at what the business requires, the quality of the Internet infrastructure – it can be poor in parts of India, China and even Thailand – and plan to have back-up systems.

"The other thing you need to look at is how much bandwidth is required to run the cloud computing application," said Troselj. "A NetSuite application uses very minimal bandwidth. Companies will be able to run off 3G, they'll run off satellite, they'll run on 4G. As long you have access to some sort of telephone line, you can still run the system."

"You can see what customers are buying in real-time and analyze purchasing patterns to help with business decisions"

Guoco Leisure's Premod Thomas

What about the cost?

Unsurprisingly in a gathering of CFOs, the issue of cost also came up. "Whenever you switch to a new system, you actually incur more cost," said Victor Ting, CFO at IC chip testing company Trio-Tech International, which is listed on NASDAQ. "You have to ready the resources to switch in terms of manpower because you're talking about running parallel [initially], and yet you still have to meet your day-to-day requirements and you have to meet all the stock exchange requirements."

McIntyre said his previous employer was looking to pay the cloud services provider US$40,000 to US$50,000 a year. "That's because of our small headcount at first," he explained. "Then we built up and they were going to charge us on how many people would be put onto the cloud system." Fortunately, the Singapore government had just launched its Productivity and Innovation Credit (PIC) incentive program, which subsidizes up to 60% of the cost of adopting cloud computing and other productivity innovations.

That's outside the cost of deployment and parallel processing with the existing system, which can be substantial. The key to managing the cost is to be clear about the functionality you require and talk it over with the cloud services provider. At NetSuite, said Troselj, "we will spend time with you to scope that functionality and then we will give you a fixed-price implementation, if that's what you want."

"We will spend time with you to scope that functionality and then we will give you a fixed-price implementation… You will never get an upgrade bill from us"

"You will never get an upgrade bill from us," said Troselj. Clients are always on the most current version; NetSuite does two major upgrades a year, with hundreds of small updates (such as the change in VAT rate in the UK) in between. These are all included in the subscription fee.

For some organizations, the cost savings and efficiency gains can more than offset the subscription fee. The Philippine fast-food chain Jollibee, the McDonald's of Asia, used to employ a team of people to run Oracle across the organization. Now that it is on NetSuite, the company only has a minimal number of IT specialists.

Parting advice

This focus on growth and integration with existing systems – two-tier ERP, in NetSuite's parlance – seem to be the strategies of choice when it comes to cloud computing. As Avnet's Radakrishnan put it: "Whenever you go acquiring companies, you have different ERP systems, and getting them integrated into a common tool becomes one of the interesting challenges."

He does not plan to replace the SAP ERP and CRM systems already installed, but may consider implementing a cloud solution in the acquired entities – and making sure integration with SAP is seamless.

For some, cost remains a consideration. "We have a limited budget," said Dharma Sutedja, Business Finance Head at Genesis Investments, when asked whether his company would be migrating financial management, ledgers and accounting to the cloud. But the company subscribes to Salesforce.com, a cloud solution that Sutedja considers mission-critical.

"Absolutely," Troselj responded. "Part of the consideration is the cost involved." In fact, he said, "cloud computing is not going to be applicable to everybody, just like SAP or Oracle is not going to be applicable to everybody. It really depends on the requirements of your specific business."

In parting, Troselj had some good advice to the participants. "You need to do your due diligence with cloud computing companies," he counseled. "Do your homework. Even if it's just taking existing applications and moving them to a data center, you need to be confident that the compliance and security levels the company provides are going to meet your needs."

Conclusion

It is clear from the discussion that finance executives recognize that cloud computing is the wave of the near future. Indeed, some have already put email and other routine functions on the cloud. Yet there is considerable resistance to doing the same to business-critical processes such as ERP, analytics, finance and accounting.

But the company that is not at least studying the possibility of putting business-critical processes on the cloud may lose its competitiveness eventually as more nimble rivals power ahead. The examples of Jollibee in the Philippines and the Toll Group in Australia suggest that the rewards can be significant.

Due diligence is certainly required. Not all cloud service providers are created equal. Different providers will have different approaches and different track records around security, integration with other software, cost and other concerns expressed by the roundtable participants.

Whether the explanations and assurances are persuasive, of course, is a judgment the CFO and other decision-makers have to make on their own. But they should at least actively seek the answers, and do so earlier rather than later.

The company that implements a well thought-out and comprehensive strategy around the cloud, in partnership with reliable and innovative providers, will be well-armed for success in Asia's increasingly competitive and globalized business environment.

About CFO Innovation

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CFO Innovation organizes the annual two-day CFO Innovation Asia Forum in Singapore and other conferences in China, Hong Kong, Indonesia and Malaysia. It also broadcasts webinars and conducts research on a wide variety of finance, accounting, treasury, management and career development topics.

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About NetSuite

NetSuite is the world's leading provider of cloud-based business management software. It helps companies manage core business processes with a single, fully integrated system covering ERP/financials, CRM, ecommerce, inventory and more.

More than 20,000 high-growth and midsized companies and divisions of large enterprises use NetSuite to run more effectively without the high costs and inefficiency of on-premise systems. By using NetSuite to automate operations, streamline processes and access real-time business information anytime, anywhere, growing businesses realize breakthrough performance improvements.

NetSuite also offers industry-specific solutions for professional services, software, wholesale distribution, manufacturing, and ecommerce. NetSuite OneWorld helps global, multi-company organizations manage subsidiaries better with robust multinational, multi-currency support.

For more information, visit www.netsuite.com.sg.

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