Survey Analysis: Adoption of Cloud ERP, 2013 Through 2023

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This Gartner Research Circle survey conducted in September 2013 shows that some organizations have a strong appetite to move their core ERP systems to the cloud. CIOs and application leaders should compare their plans for cloud ERP to those in the survey based on industry and company size.

Key Findings

- Forty-seven percent of organizations surveyed said they would move the majority of their core ERP systems to the cloud within five years, although only 2% said they had already done so.
- Thirty percent of organizations surveyed said they planned to keep the majority of their ERP systems on-premises for the foreseeable future. Manufacturing organizations dominated this survey segment.
- Seventeen percent of organizations surveyed said they didn’t know what their plans for cloud ERP were. This category was highest represented among banking and insurance companies.
- Small and midsize companies are embracing core ERP in the cloud, while most of the largest companies plan to keep core ERP on-premises. Planned adoption in EMEA lags the rest of the world for the next three years, but this will accelerate in the three- to five-year time frame.

Recommendations

- Understand the different variants of cloud ERP (see “How to Select the Right Cloud ERP”), because there is a range of cloud-delivered options available.
- Plan to meet the integration challenges of a hybrid cloud/on-premises ERP environment as users increasingly adopt cloud solutions for noncore processes, if you intend to keep core ERP systems on-premises.
- Consider cloud ERP in financial services organizations as a potential replacement for aging core ERP systems that are out of support or running on an old technology platform (such as mainframes).
Consider cloud ERP for large organizations in nonmanufacturing industries, provided that CIOs and IT leaders are prepared to be leading-edge adopters of this technology and that it supports a business transformation initiative.

Survey Objective

Gartner client inquiries show increasing interest in cloud ERP. In September 2013, in a regular Gartner Research Circle survey, we asked CIOs and application leaders: "When are you likely to move the majority of your core ERP systems (finance, HR, materials management, logistics) to the cloud?" The goal of this question was to find out if and when organizations planned to move their core ERP systems to the cloud because, despite growing interest in the concept, there are few real-world examples of core ERP elements being deployed in the cloud. Most cloud adoption to date has been in areas like procure-to-pay or talent management, whereas core ERP functions have tended to remain on-premises. Gartner calls this "hybrid ERP" (see "Develop a Strategic Road Map for Postmodern ERP in 2013 and Beyond").

The question was specifically kept broad in scope. We asked about "cloud ERP" rather than just SaaS, because the goal of the survey was to identify if participants wanted to move core ERP functionality away from the traditional on-premises owned and managed model to any form of cloud delivery, rather than find out what style of cloud delivery they most desired. We consistently find that clients (end users and IT organizations) are confused about SaaS, cloud and the distinctions between them. Consequently, including many different categories of cloud deployment as options in the survey would have led to inconsistent results.

Data Insights

Half the Organizations Surveyed Plan to Move Core ERP Systems to the Cloud

The overall survey results showed a high interest in moving core ERP functional areas to the cloud (see Figure 1). A small percentage (2%) stated they had already moved their core ERP to the cloud, which is in line with Gartner’s client inquiries. There is a lot of interest in cloud ERP, but very few organizations have moved core elements of ERP to the cloud at this time. However, the survey indicates this will change in the midterm. Including the 2% that already have core ERP in the cloud, a total of 47% of organizations surveyed plan to move their core ERP systems to the cloud within five years. This is clear evidence that many organizations are ready to adopt cloud ERP, with 26% planning to move to the cloud within the next three years. Few organizations (4%) had this as a longer-term priority, showing that those considering the move to cloud for core ERP functions plan to do so relatively soon.
Despite the clear interest in cloud ERP from more than 50% of those surveyed, there were two significant other groups of respondents. Thirty percent of respondents plan to keep their core ERP on-premises for the foreseeable future, while 17% are undecided. While half the organizations surveyed want to move to cloud ERP in the short term, there is still a significant number that will retain on-premises systems as the foundation for their core ERP strategy. These organizations will need to plan for a hybrid ERP environment where the core on-premises functionality will be augmented by a number of specialist applications targeted at specific, user-centric processes that do not fall within the boundary of the core ERP system, many of which will be deployed in the cloud.

**Recommendations:**

- Review your current ERP strategy and compare it with the trends identified in this research. While your strategy should not be dictated by what other organizations are doing, discussing your plan in the context of overall trends will help you either confirm that your strategy is well-founded or that it may be worth revisiting.

- Ensure you understand the different variants of cloud ERP (see "How to Select the Right Cloud ERP"), if you are considering moving core ERP systems to the cloud. There are a range of cloud-delivered options available, and you must select the one that is right for your organization, rather than basing the decision on vendor marketing messages. Some applications will involve replacing existing systems, whereas others may require less dramatic changes to your application landscape. For example, some ERP vendors offer cloud as a
delivery option for their on-premises applications and also offer subscription-based licensing. Use "How to Determine the Characteristics of the Right Cloud ERP" to aid your decision-making.

- Check references for products and deployment options you are considering to gauge the maturity of the solution and the associated risk. Many vendors offer some form of cloud delivery option of core ERP functionality (see "Vendor Guide for Administrative ERP Applications"). However, many of these are still relatively new in the market, and some of the SaaS core ERP systems have not yet gained widespread market presence.

Small and Midsize Organizations and Service-Centric Industries Are Embracing Cloud ERP

Ninety-two percent of the respondents provided their industry classification in the response. There were 10 industry categories in the survey, but some of these yielded a small number of responses. Therefore, we created five aggregate industry groupings where the ERP usage is similar. This data (see Figure 2) shows a clear split between manufacturing and service industries. Manufacturing companies had by far the largest percentage planning to keep core ERP on-premises for the foreseeable future (62%). This is because the traditional concept of an integrated ERP strategy that combines operational and financial processes into a single system is most relevant in manufacturing. During the last five to 10 years, many manufacturing organizations have invested in an on-premises ERP backbone that forms part of their systems of record. Replacing this with cloud ERP may deliver few, if any, business process improvements. In a roundtable discussion at the Gartner Symposium/ITxpo in Barcelona, November 2013, the manufacturing companies present agreed that integration of the current on-premises ERP to their shop floor control and manufacturing execution systems was a major inhibitor for moving to the cloud. However, industries such as business services or financial services have less focus on an end-to-end ERP suite and are, therefore, more open to adopting cloud for core elements of their ERP, such as financials and/or human capital management. Many government and education organizations share these characteristics, so that nearly half of the respondents plan to adopt (or have already adopted) cloud ERP.
Compared with other industries, fewer cloud ERP options are available for manufacturing organizations that support deep and wide industry-specific manufacturing capabilities. Although vendors such as Plex Systems and Kenandy offer cloud alternatives to other vendors, there are many well-established ERP solutions with good industry functionality for midsize and large organizations (see "Magic Quadrant for Single-Instance ERP for Product-Centric Midmarket Companies"). Many of these vendors either already offer, or will soon offer, cloud-based delivery of their solutions.

Services and communications companies show a strong interest in cloud ERP, with 67% planning to move the majority of their core ERP to the cloud within five years. This is because their ERP requirements tend to be focused around administrative ERP (financials, human capital management and procure-to-pay) where there is a wider range of cloud options (compared with manufacturing). Many service-centric businesses are digitizing their business operations, and many of the packaged business applications targeted at those operations are primarily cloud-based (such as subscription management solutions). Thus, there will be more enthusiasm among these businesses to move back-end ERP functions to the cloud.

Financial services (banking and insurance) constitute by far the largest proportion of "don’t knows" (45%). Although 27% said they planned to keep their core ERP systems on-premises, the same percentage said they planned to move their ERP to the cloud within five years. This mirrors what Gartner hears in client inquiries. While most financial services companies have overcome outright opposition to moving financial data into the cloud, they still have concerns over security and tend to
be more skeptical about moving to the cloud (compared with service-centric organizations). Location of data is a greater challenge for financial services organizations, which are subject to more regulatory controls about the physical location of data than many commercial organizations.

The survey results data included respondents spread across a wide range of annual revenue, from less than $10 million to over $10 billion (see Figure 3). Small (less than $10 million) and midsize ($10 million to $1 billion) organizations plan to adopt cloud ERP more aggressively than larger organizations. This is because a wider range of cloud ERP solutions are available for small and midsize organizations. Also, these organizations tend to have small IT departments and, therefore, can realize short-term benefits from a cloud deployment of ERP, which requires less IT support than an on-premises implementation.

Figure 3. Cloud ERP Adoption Plans by Organization Size

However, a small number of the largest organizations surveyed (5%) had already adopted cloud ERP, while another 21% plan to adopt cloud ERP within 10 years. This shows that even among the largest organizations, some are willing to adopt cloud ERP, even though there are fewer proven solutions for organizations of this size. Gartner has found that large organizations that have adopted cloud ERP for core functions (or that plan to adopt soon) often do so as part of a strategic transformation initiative.

Recommendations:

- Prepare for a hybrid ERP environment if you are an IT leader in an organization that plans to keep core ERP systems on-premises as users increasingly adopt cloud-based solutions for noncore processes (for example, talent management or travel/expense management).
Organizations planning to move core ERP systems to the cloud will face this environment as they make the transition. Understand the integration options available in the world of hybrid ERP and plan to meet these challenges proactively (see "Best Practices for Managing Integration in a Hybrid Cloud and On-Premises ERP World").

- Consider cloud ERP as a potential replacement for aging core ERP systems that are out of support or running on an old technology platforms (such as mainframes) if you are a CIO or application leader in a financial services organization. However, evaluate contract terms closely to ensure security levels are acceptable (see "Cloud Contracts Need Security Service Levels to Better Manage Risk").

- Consider cloud ERP if you are a CIO or IT leader in large organizations in nonmanufacturing industries, provided you are prepared to be leading-edge adopters of this technology and it supports a business transformation initiative.

Adoption Rates Are Broadly Similar by Region, Although EMEA Lags in Short-Term Adoption

Survey respondents were spread across the main geographic regions. The majority were in North America (33) and EMEA (36), with 13 in Asia/Pacific (APAC). Latin America yielded five responses, but as this was a small number it was excluded from the regional analysis in Figure 4. The planned adoption was broadly similar across all regions, the only difference being that EMEA was somewhat more conservative in the adoption time frame, with only 19% planning to move the majority of core ERP systems to the cloud within three years, compared with 30% in North America and 38% in APAC. This is likely due to organizations in EMEA having a more fragmented ERP landscape, especially compared with those based in the U.S. Over time, the profile of organizations favoring cloud ERP compared with on-premises will look similar by region.
Figure 4. Cloud ERP Adoption Plans by Region

Source: Gartner (January 2014)

Methodology

The Gartner Research Circle survey was open to all members, and this specific question was part of a broader survey. There were 89 respondents to this question, which was global in nature. Respondents were fairly evenly spread geographically: 33 were from North America, 36 from EMEA, 13 from APAC and five from Latin America (two did not provide details of their location). There was a wide spread of industries covered, the majority being in services (25) and manufacturing (13). Organizations of all sizes were represented in the survey, ranging from less than 100 employees (15) up to more than 10,000 employees (34). Similarly, organizations of all annual revenue sizes were represented, ranging from less than $10 million (17) to more than $10 billion (19), with an even spread between those levels. Consequently, although the survey size was relatively small, it is representative of a wide range of industries, geographies and organization sizes.

Gartner Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

"How to Select the Right Cloud ERP"

"Develop a Strategic Road Map for Postmodern ERP in 2013 and Beyond"

"Best Practices for Managing Integration in a Hybrid Cloud and On-Premises ERP World"
"Cloud Contracts Need Security Service Levels to Better Manage Risk"

"Hints and Tips on Using Gartner Numbers When Reviewing IT Spending Plans"

Evidence

1 Gartner Research Circle Survey, September 2013

2 Analyst User Roundtable, Gartner Symposium/ITxpo, Barcelona, November 2013