



NUCLEUS
RESEARCH

THE ROI FRAMEWORK FOR ORACLE CLOUD ERP

ANALYST

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THE BOTTOM LINE

Nucleus has analyzed the changes in the total cost of ownership (TCO) and benefits of Oracle Cloud ERP over the past five years and found that although TCO increased due to general market forces, the ROI has remained consistent. Based on past ROI case studies and in-depth customer interviews, Oracle has made significant improvements to its Cloud ERP platform over the last five years, enabling users to continuously optimize operations and extract value from new functionalities of their ERP deployments with updates released every quarter. Customers reported benefits such as increased productivity, reduced operational costs, and improved visibility. As an ERP system is vital to every organization, Oracle is well-positioned to streamline operations, reduce IT costs, and provide business agility to customers.

OVERVIEW

TCO is a valuable tool for organizations to calculate the cost of implementing a new business solution and provide an understanding of future costs, including upfront and ongoing expenses. Unfortunately, most organizations have been using TCO as their sole metric when selecting a business solution, which does not provide the whole picture. This strategy focuses on minimizing expenditures instead of maximizing returns, thus leading to a sub-optimized performance and low overall impact. To better contextualize the impact a new software deployment has on an organization and its users, it is important to consider and often prioritize the ROI.

ROI provides a better understanding of all the benefits a customer experiences by diving deep into specific outcomes a specific solution has delivered. According to our research, the TCO of traditional on-premises ERP systems is 2.1 times greater than that of Oracle Cloud ERP. (Nucleus Research Q124 – *Guidebook: Oracle ERP Cloud* – June 2016) General market forces, such as inflation and overall advances in technology, have increased the average costs of Oracle solutions' subscription and service fees, which might suggest that a particular solution is too expensive and not worth implementing. But if one considers all the technology advances Oracle has delivered, such as improved AI, database functions, and security along with quarterly updates of features and functionality across business applications, the ROI of Cloud ERP deployments has consistently improved over the last decade. In a more recent report, we found that the ROI of cloud solutions is, on average, four times greater than that of on-premises deployments. (Nucleus Research U176 – *Cloud delivers 4.01 times the ROI as on-premises* – November 2020) This is further supported by our research that found that companies' cloud initiatives, where organizations upgraded their on-premises systems with the same vendor, delivered \$3.43 for every dollar spent on the migration effort. (Nucleus Research V47 – *Cloud migration returns \$3.43 for every dollar spent* – March 2021)

ORACLE CLOUD ERP

Oracle Cloud ERP supports a wide range of industries, including finance, professional services, high tech, education, healthcare, retail, communications, manufacturing, and consumer goods. The ERP system's modular and flexible architecture supports further deployments to niche verticals or use-cases. The unified platform empowers organizations of all sizes and complexities to manage their operations from end to end by consolidating financial, project management, procurement, risk management and compliance, supply chain, and manufacturing capabilities. Pre-built integrations enable users to connect to other Oracle suite applications and gain full access to a broad collection of Enterprise

Performance Management (EPM), CRM, human capital management, and supply chain management capabilities.

Oracle Cloud ERP's financial module offers accounting, reporting, analytics, accounts payable, revenue management, receivables, collections, expenses, and joint venture management capabilities. The project management module enables organizations to track projects, manage resources, balance capacity demand, and forecast billing and contracts. The procurement module provides an intuitive user interface (UI), enabling users to manage suppliers, sourcing, contracts, and business networks. With the risk management and compliance module, organizations can utilize built-in data science to monitor security compliance, configuration changes, and enterprise risk management (ERM) workflows. Organizations can plan their entire supply chain and manage their inventory, manufacturing, maintenance, and logistics within supply chain management (SCM).

TCO

Calculating the TCO is often a straightforward method that can be applied to both technology and non-technology decisions. Nucleus recommends calculating TCO over at least a three-year period to get a full understanding of the ongoing costs associated with an application. TCO includes initial acquisition expenses, such as software, hardware, support, and consulting, and ongoing expenses, such as maintenance, user training, and upgrades. The year-to-year TCO metric is typically used to project budgets and highlight ongoing costs, while the average TCO metric is primarily used for comparing similar applications. One note of caution with average TCO is that it does not provide insight into the timing of the costs. A product with low acquisition costs and high maintenance is likely to be less attractive than one with higher acquisition and lower ongoing costs in the long-term but may have a similar TCO over the period analyzed. The main cost areas consist of subscription, implementation, and administration expenses.

**Better allocate talent
by automating tasks
via Oracle RPA and
workflow**

SUBSCRIPTION COSTS

Most ERP vendors offer subscription models that charge fees based on a per-user basis. Oftentimes, users have multiple types of seats, depending on the business function and reliance on the solution. Vendors might also charge additional usage fees pertaining to the

amount of data storage, networking, computing, and the number of transactions processed. ERP solutions typically offer additional modules or add-on solutions that require separate payment either at a fixed rate or by seat or usage. Altogether, these costs constitute the annual recurring fees required to license a solution and are the largest cost area. To accurately calculate subscription expenses, organizations need to consider the number of users, types of seats, base offering, and possible product and third-party extensions.

IMPLEMENTATION COSTS

Implementation expenses can vary drastically depending on the technical maturity of a company. Costs are highly impacted by whether an organization has already standardized operational procedures through a cloud/on-premises solution or has outdated processes, which involve Microsoft Excel spreadsheets and paper systems. In the cases of an organization migrating its data from on-premises to the cloud or implementing an ERP solution for the first time, the organization will need to standardize its various accounting and reporting processes, decide on required data sets, and select a storage format within the confines of a chosen solution. Another factor to consider is how many other systems will be connected to the ERP platform, which can include CRM, FP&A, and other business software solutions from different vendors. As ERP implementations and application integrations can become very complex, it could require extensive personnel involvement which detracts from their everyday duties. Vendors or implementation consultants typically charge by the amount of time spent to complete an implementation task, which can include training, data migration, and customization. While the usage of consultants is expensive, it often leads to a positive return as it shortens the implementation period and provides a better-quality deployment with fewer bugs and rework particularly since their experiences can be leveraged for project efficiency and best practices.



**Reduce technical debt
by migrating to OCI**

ADMINISTRATIVE COSTS

Administrative costs are any expenses related to maintaining, upgrading, and operating an ERP system. This can include consultant or vendor support to assist with updates, improvements, and training. Automated workflows, guided wizards, help documents, training videos, and AI learning to identify errors and anomalies can help reduce training time and administrative costs. Organizations can further cut their costs by streamlining their

administrative processes with task automation tools, dashboards, and low/no-code management wizards. When calculating administration costs, organizations need to consider the amount of change management required to shift employees onto the new system and the usability of ERP solutions.

LOOKING BACK

Along with significant and regular features and functionality additions delivered through quarterly updates, Oracle has made consequential product improvements over the last few years with the incorporation of next-generation technologies, including AI/ML IoT, no-code/low-code, and blockchain capabilities.

- AI and machine learning (ML) help ERP users in a variety of ways, from predictive capabilities to cyber threat detection. One common use case is when financial departments use AI to automatically populate financial statements, which reduces the financial consolidation and closing processes drastically. An additional use case for AI is to predict a disruptive supply chain event before it even occurs and coordinate an alternative plan, which will save a company valuable time and money.
- IoT technology enables organizations to connect their devices and assets, such as machinery, to the cloud, integrate input data into their Oracle Cloud applications, and process information in real-time. With the help of Oracle Cloud ERP, users can turn their raw data into tangible insights, optimize their operations, and prevent disruptions. For instance, a company can track the status of their manufacturing facility remotely, be alerted of a machine malfunction, and create an alternative plan to fulfill their customer order. A malfunction that would have delayed operations and incurred substantial costs can now be resolved in real-time or even preventatively addressed.
- Oracle Cloud ERP's low-code toolkit provides a variety of features that support Visual Builder, Oracle APEX, and RPA. The low-code functionality empowers users to build out their own applications and optimize workflows without prior coding experience. In addition, the robotic process automation (RPA) tool enables organizations to cut out tedious manual tasks through learning by automating processes. This improves efficiency, eliminates tedious tasks, and reduces human errors, particularly with routine AR and AP activities. As a result, users free up their time to work on more value-add strategic tasks in place of routine tactical activities.
- Blockchains change how organizations conduct business. It empowers users to create a trusted network, automate smart contracts, and conduct financial transactions by utilizing comprehensive cryptographic security and constant

recordkeeping. As every transaction cannot be modified without all other parties within the network being notified, a company can track materials and transactions across its supply chains and trading partners in real-time. By integrating blockchain data into the ERP system, supply chain teams can have confidence in delivered materials and the financial team can save thousands of hours verifying information.

BENEFITS

When speaking with Oracle Cloud ERP customers, Nucleus found the following common benefits that drive a positive ROI:

- **Increased productivity.** Combined with quarterly applications updates that deliver more features and improved functionality, combinations of IoT, low-code, AI, and blockchain streamline workflows, enabling users to process tasks in less time. Organizations can utilize RPA to automate redundant tasks, such as manual data entry, financial consolidations, approval processes, and accounts receivable.
- **Reduced Operational Costs.** As a result of automation, organizations were able to reduce their staff count across functional departments. With Oracle Cloud ERP, organizations can optimize their operational performance and save each year significantly. Another large cost-saving area includes the retirement of legacy services, including hardware and IT support, by migrating applications of all types from on-premises to the Oracle Cloud Infrastructure (OCI). With OCI's demand-based subscription model, organizations pay only for the computer power they are using.
- **Improved Visibility.** Oracle's unified platform provides businesses with end-to-end visibility and a centralized system. Pre-built integrations enable users to connect to virtually any third-party application and broadly leverage enterprise data from multiple systems and sources. IoT and real-time data updates let users act before a disruptive event occurs. This leads to an organization shifting from a reactive approach to a proactive approach, which increases customer satisfaction in addition to monetary and time savings.
- **Reduced Technical Debt.** By migrating operations to the cloud, organizations significantly reduce the risk of downtime, security threats, and IT complexity. Oracle

**Visibility allows
businesses to
proactively avoid
disruptions**

Cloud offers a comprehensive state-of-the-art infrastructure with the latest cyber security features and systems architecture that optimizes enterprise performance. When OCI is broadly utilized, beyond being the backbone for Oracle Cloud ERP, problems related to fixing outdated legacy processes and streamlining operations are eliminated, which in turn drives business agility.

OUR TAKE

TCO is a strong but incomplete tool when considering enterprise application investments. To understand the true impact of a business solution, organizations should consider more factors, such as ROI, applications features and functionality, and technical enhancements. Although the costs of business solutions, such as ERP systems, have increased due to increases in labor expenses and delivery capabilities, Oracle's continued enhancements to its ecosystem significantly contribute to a high return on investment. Beyond quarterly updates that deliver a plethora of added functionality and enhancements to many features, advances in key next-generation technologies, such as AI, IoT, blockchain, and no-code/low-code, provide organizations with extraordinary benefits.

With Oracle Cloud Applications, businesses in any industry can automate almost anything from manual data entry to complex price calculations. We expect Oracle Cloud ERP customers will further benefit from vertical-specific offerings with pre-configured industry-standard offerings, which increases user adoption and reduces implementation time. Nucleus believes Oracle has a strong position as one of the leading cloud ERP providers and will stay on top of new technology trends to ensure their customers continue to get a high return on their investment with a very competitive TCO.