# ERP SYSTEMS: MARKETING TO FINNISH SMALL AND MEDIUM SIZED ENTERPRISES

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# 1. INTRODUCTION

Enterprise resource planning (ERP) is here to stay. Practically every single large corporation has utilized massive cross-functional enterprise systems, and small and medium-sized enterprises (SMEs) have followed the trend. Monolithic ERP-systems are, however, out of reach for most of the smaller companies due to their costs, complexity and inflexibility. The offerings of ERP vendors have changed during the past decades to reflect the situation: currently there are many ERP providers offering ERP solutions specifically designed for the needs of SMEs. This paper focuses on those companies, systems and solutions, and especially the way they are marketed and sold.

Possible problems and hardship companies might encounter when introducing new systems are also discussed in order to gain better understanding of the overall situation. Markku Nylund from Visma Software International is interviewed in order to gather and present empirical evidence and insights about marketing and selling of ERP systems in Finland. Nylund has a long history working with IT-solutions and ERP systems, and his personal input provides this paper with valuable practical point-of-view. Findings of this study could prove useful for both buyers and vendors: What kinds of things should a small company consider before purchasing new systems and what kinds of things should a software company consider in order to effectively reach their target and implement their marketing efforts efficiently?

In the past big ERP vendors focused on big clients, and smaller companies emerged to serve SMEs. Now the big companies such as SAP are also interested in – and fighting for – small and medium-sized clients. The market is getting increasingly saturated and every new client counts. Studies indicate that both SMEs and LEs have high expectations for ERP systems, but also quite a little knowledge about the often complex implementation process. One thing is for sure: SMEs will have hard time avoiding the ERP trend. Lee, Siau and Hong (2003) highlight the importance of ERP in highly competitive business environment: "To rapidly respond to a changing environment, an enterprise must integrate business functions into a single system

efficiently utilizing information technology, and share data with third-party vendors and customers."

## 1.1. Background and objectives

The process of purchasing and utilizing ERP system can be complex and risky especially for smaller companies. Cloud-based ERP has emerged to solve this problem and it seems to be a great solution to the problem due to promises of low costs, low commitment and easy interface. In the past different kinds of cloud-based ERP systems and software-as-a-service (SaaS) solutions have been popular mostly among SMEs. Lately, however, LEs have also been increasingly switching to cloud-based software. The interest of the enterprises seems to be ever rising. Practically all existing research on the subject has taken a sole buyer point-of-view: success factors for ERP implementation, critical issues for the purchasing process of an ERP system, the effective use of an ERP system, and so on.

By studying the marketing and sales efforts in ERP business, this paper takes a different approach and tries to examine the upstream organizations. This bachelor's thesis could therefore serve as a preliminary exploration to this quite uncharted research field. Of course, a viewpoint of a vendor highlights the sellers´ interests and the way their marketing is executed, but it can also offer a fresh perspective to the ERP projects and their successfulness in general. After all, ERP vendors have gained experience from multitude of projects and should therefore have the best impression of the factors affecting the successfulness of ERP buying and implementation process. Buyers, on the other hand, only deal with their own purchasing and implementation processes. Interestingly some ERP vendors that target SMEs are quite small companies themselves. That might help them to better understand the needs and resources of their customers, but then again it also limits their marketing possibilities.

The main objective of the empirical part of this study is to survey the current situation in Finland from the point of view of one cloud-based ERP vendor. From the point-of-view of Markku Nylund the paper will explore how marketing and sales operations

are conducted and perceived in Visma. Naturally, the empirical evidence gathered from a single case company cannot be generalized to any great extent, but findings from the case could still provide some fresh perspective to ERP projects.

## 1.2. Research problems and delimitations

The main research question of this study is (1) "How are ERP systems marketed and sold?" Supporting sub-questions are (2) "What kinds things are involved when marketing and selling ERP systems to SMEs" (3) "What kinds of special features are included in selling of cloud-based services?" and (4) "What kinds of sales and marketing does the case company carry out?" In addition, general theoretical perspective and background information about ERP systems is provided.

Due to the nature of its subject, this study is completely limited to B2B context and environment. Therefore, theoretical section consists mostly of B2B studies, but some suitable theory about for example software marketing and SaaS services is applied from studies with more universal point-of-view. Some marketing theories that can be used in the ERP environment are discussed, but the reader is expected to be familiar with basic marketing theory, which it is thereby not presented in detail. The focus of the study is in the SME context, but LE perspective is constantly present in order to have a point of reference and enable comparison of the differences related to company size.

## 1.3. Structure and theoretical framework

Theoretical background of this study consists of two main parts. First, in sections two and three, the paper attempts to give a broad general understanding of different kinds of ERP solutions including their history, features, benefits and problems. Section two discusses traditional ERP systems, whereas section three is devoted to cloud-based ERP. Section three also briefly discusses cloud computing in general, because it is the foundation of cloud-based ERP and its features are important to understand when considering the use of any cloud-based service. The latter part, consisting of section four, has a stronger vendor's perspective, and it presents the

scarce marketing theory specifically related to ERP solutions. Section four also discusses some general software marketing theory that is applicable to ERP software setting.

Finally, the third part of the paper consists of the empirical research, presented in section five. The section begins with introduction to the research methodology and the goals of the interview. Then data gathered from the interview is presented and discussed. In conclusions, the research questions are answered together with some final discussion and analysis. This bachelor's thesis is then finally summarized briefly in the last section, along with some further research suggestions and ideas.
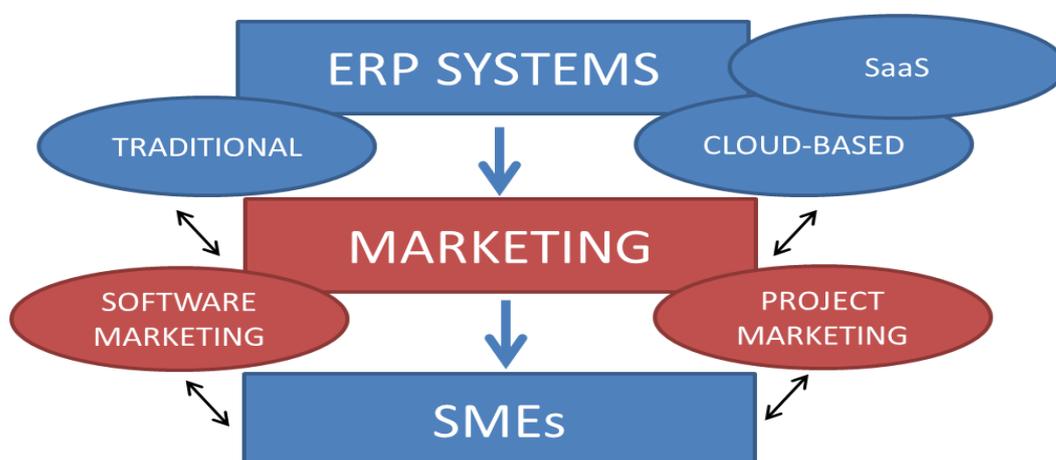
Image 1: Theoretical framework

Image 1 presents the theoretical framework for this paper. Basic theory about ERP system and their features is broken down into two branches; studies that focus on traditional ERP systems, and those that deal with cloud-based ERP and SaaS solutions. Theory about marketing and sales of different kinds of ERP systems can be partially applied from research about software selling and marketing in general. There is practically no theory dedicated to marketing of ERP systems, but project marketing theory is closely related as it deals with very similar issues. The importance of SMEs for ERP providers is also explained in this paper, along with brief theoretical sections about marketing to SMEs and marketing in SMEs.

## 2. ERP SYSTEMS

There are many definitions for ERP and quite a broad scope of applications is considered to fit under the ERP framework. There is no single definition that would be used all around the research field. In general, ERP Systems are software solutions that are usually intended to serve multiple business processes such as manufacturing planning, finance and accounting, human resources, sales and marketing, project management and material management. (e.g. Schniederjans & Yadav, 2013; Jacobs & Weston 2007; Ehie & Madsen, 2005) Klaus et al. (2000) mapped different perspectives from witch the concept of ERP can be viewed: "First, and most obviously, ERP is a commodity, a product in the form of computer software. Second, and fundamentally, ERP can be seen as a development objective of mapping all processes and data of an enterprise into a comprehensive integrative structure. Third, ERP can be seen as the key element of an infrastructure that delivers a solution to business."

### 2.1. Evolution

MRP (Material requirements planning) appeared in the late 1970s driven by a need for stronger integration between the functional enterprise silos that dominated firms of that time period. Initial solutions were big, clumsy and expensive. Still, they were able to gain a lot of popularity because they managed to satisfy many needs regarding integration between forecasting, master scheduling, procurement and shop floor control. (Jacobs & Weston, 2007) Next generation of MRP evolved during the 1980s. MRP II (Manufacturing resources planning) as it is referred to in order to distinguish the newer systems' capabilities from its predecessors had features such as distribution management, project management, finance, human resource and engineering, and was already closer to what is known as ERP today. (Rashid et al. 2002)

Actual ERP systems emerged in the late 1990s adding the power of enterprise-wide inter-functional coordination and integration. Based on the technological foundation of MRP generations, they were able to integrate multiple business processes

including distribution, manufacturing, accounting, financial, human resource management, project management, inventory management, service and maintenance, and transportation. They provided accessibility, visibility and consistency across the enterprises. (Rashid et al. 2002)

During the 1990s more modules and functions, "add-ons" were added by the vendors, giving birth to so-called "extended ERPs". This generation included advanced planning and scheduling, e-business solutions such as CRM (customer relationship management) and supply chain management. (Rashid et al. 2002) The solutions were obviously filled with multiple functionalities and modules. They practically included "everything for the needs of everybody". That also made the systems complex, hard to manage and expensive. By the beginning of 21$^{st}$ century, many professionals, magazines and analytics forecasted the ERP business would decrease, because majority of large enterprises had already committed to their systems. Furthermore, the complexity, high costs and overall difficulties in introduction of the systems had given ERP a somewhat negative reputation in the marketplace. (Kumar & Hillegersberg, 2000)

Despite everything, the success story of ERP seems to continue. As with the shift from MRP to MRP II, similar shift of generations has been seen in 21$^{st}$ century. In the year 2000, researchers Bond et al. wrote their paper "ERP Is dead – Long Live ERP II", which described the next generation of ERP software, ERP II or "The second vision of ERP", designed for the needs of modern enterprises desiring more agility and focus on their core competencies. They described ERP II as "a business strategy and a set of industry-domain-specific applications that build customer and shareholder value by enabling and optimizing enterprise and interenterprise, collaborative operational and financial processes." ERP II can be perceived as something more than a software bundle; it becomes part of a company's business strategy (Bond et al. 2000).

Today, the use of the terms ERP and ERP II is quite inconsistent and broad between and within different vendors, and it can be hard to see the actual difference between the products. Most eager marketers have already introduced the term "ERP III" to refer to ERP systems' association to straight contact, social media and multiple

information methods outside the organization (Tech Republic, 2010). Those features can, however, also be found in most systems that are currently sold and marketed as ERP or ERP II. Pincher (2010) describes another trend that has had a huge impact on the industry with a title "Big ERP is dead, long live agile". Cloud-based ERP and SaaS (Software as a service) definitely seem to be the big thing right now. They will be further discussed in section 3 of this paper.

## 2.2. Buying process

With increasing number of SMEs purchasing ERP systems, difficulties and problems are bound to arise. Common reasons for adaptation of ERP systems in SMEs include globalization, partnerships, value networks and the huge information flow across and within companies (Haddara & Zach, 2011). Competition could also make SMEs buy the systems with too little knowledge and consideration: "Can we afford not to follow the trend?" SMEs differ from LEs in many ways, and their more limited resources along with specific characteristics of their businesses also affect and even determine the problems they are likely to face when introducing ERP (Haddara & Zach, 2011).

After a company has decided to introduce ERP to their business the purchase process begins. Companies choose vendors for various reasons – some choose a vendor with the best corporate image or that is the market leader, and other predominantly look at the functionality and the quality of the products and services offered in order to evaluate the vendors. The best approach to vendor selection is suggested to be formation of a study team. Outside consultants should also be considered if needed. (Beheshti, 2006) It is also important for a marketer to understand their customers' motivators, processes and selection criteria. Verville and Halingten (2003) provide a six stage model of traditional ERP acquisition based on their case-study:
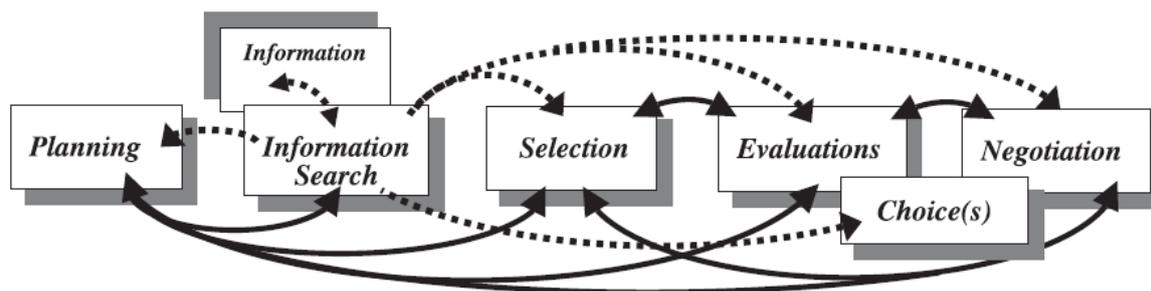
Image 3: Model of the ERP acquisition process. (Verville & Halingten, 2003)

The dotted lines in the diagram indicate the flow of information, and the solid arrows indicate the ongoing nature of activity/feedback/adjustment/input between them. The study found that majority of the time spend during the acquisition process was in the planning process. The planning tends to begin very shortly after the purchase decision: initial meetings occur soon, teams are formed, and they began searching for information and establish selection and evaluation criteria. The flow of information is crucial for the process, and the information search process is therefore continuous throughout the process. (Verville & Halingten, 2003)

Process models should not be seen as universal solutions. Each company has their own processes, and cloud ERP can be purchased quite easily and implemented step-by-step. The high demand for planning is still one of the most obvious differences between buying ERP software and other types of organizational buying. Cloud-based ERP has made the acquisition of ERP seemingly easy, but it does not remove the need for thorough planning, consideration and management of the buying process. The basic principles have not changed and therefore traditional process models can still prove useful as the basis for the acquisition process. At the same time modern solutions enable more cost-efficient ways of managing the purchasing process.

**2.3. Implementation**

An ERP is strongly characterized by implementation project, which can be seen in implementation costs that can amount up to five times a license purchase price. (Adam & O´Doherty, 2000) Organizations are still eager to introduce ERP to their business. Most common reasons for their interest include (1) the use of multiple points of input with duplicated effort in existing systems, (2) the inability of the existing system to support organizational needs, (3) the requirements of extensive resource for maintenance and support, (4) the need of the enterprise to reengineer their business process, (5) the growth of enterprise and incompatibility of several information systems and (6) the inability of employees to respond easily to questions or information requested by key customers (Ibrahim, 2010). Necessary operational improvements that companies are struggling to achieve include inventory reduction, total costs reduction, provision of reliable delivery dates, making of assortment of production and providing better service (Ibrahim, 2010). Suitable ERP solution can help organizations achieve these goals, and more. Reasons behind ERP introduction in Finnish SMEs might differ from those of a bigger enterprise a lot. After all, they have totally different resources and needs, and thereby expectations for the systems.

Austin et al. recognized in 2003 that even though ERP systems have gained major prominence in enterprises and research throughout the world, successful implementation of ERP continues to elude many enterprises despite implementation costs that run as high as 3% of total revenue. Various authors have offered different sets of critical issues and success factors affecting ERP implementation, but few empirical studies have been conducted to validate those factors (Ehie & Madsen, 2005). It is clear that the implementation of a new ERP system causes massive change in the organization. The impact and the effects of that change need to be taken into consideration, and managed as carefully as possible. Critical issues that need to be taken into consideration to ensure successful implementation include commitment from top management, reengineering of the existing processes, integration of ERP with other business information systems selection and management of consultants and employees and training of employees to the new system. (Bingi et al. 1999) Especially traditional ERP implementation requires also a lot of IT capacity (Schiederjans & Yadav, 2013).

In the actual implementation process, it is important that management is fully aware of ERP system's strategic role. Bringing ERP into full function and getting the maximum benefits from it is a comprehensive task that requires paying particular attention to critical success factors. (Ehie & Madsen, 2005) There are many process models for ERP implementation. Ehie and Madsen (2005) divide the critical steps of implementation process into five phases: (1) Project preparation, (2) Business blueprint, (3) Realization, (4) Final preparation and (5) Go live and support. Preparation of the project is important, and it consists of comprehensive planning process involving people handling leadership roles, establishing business targets and determining the project plan to be followed. In phase two, current business processes should be analyzed carefully, and the preliminary selection of the ERP system should be based on the analysis. Also, new process design possibilities should be mapped. In the realization phase, it is important to develop the technical foundation while testing each process design. The fourth phase, final preparation, includes testing of the entire process design integration under full data load and extreme situations, while the people intended to actually use the system and others influenced by it will go through the education and training needed. Finally, the go live and support phase emphasizes process flow optimization and continuous expansion of the system. (Ehie & Madsen, 2005)

Along with the actual project, planning, learning and enhancement all play a major role in the process. Knowledge management has been identified as one of the most important success factors in ERP implementation. It has received considerable academic interest during the last decade. (Jayawickrama et al, 2013) Companies should pay attention to explicitly managing the knowledge created during the implementation process. Ehie and Madsen (2005) found that successful ERP implementation also depends on effective project management. They highlight the fact that any system that attempts to integrate internal functions of both customers and vendors will likely cause trouble to the companies involved if the basic project management fundamentals are not understood. Schiederjans & Yadav (2013) conclude that in the end, long lists of ERP implementation success factors sometimes referred to as "laundry lists" are not useful to organizations even though they are common in studies. ERP implementation should instead be seen as a major

organizational change process that should not be conducted or even planned without holistic understanding of the whole process.

## 2.4. Expectations and reality

There is no question about the importance of an ERP system to the operations of today's organizations. Still, there is a lot of research still going on about difficulties in ERP implementation for multiple reasons. Many organizations report that ERP implementation failed to achieve organization's targets and expectations. Unlike other information systems, the major problems with ERP are not related to technological issues such as complexity or compatibility. Instead organizations run into problems resulting from organization and human related issues like resistance to change, organizational culture, incompatible business process, project mismanagement, top management commitment and so on. (Helo, 2008) There are different kinds of benefits organizations can achieve through ERP adaptation, but they are usually company specific, and some benefits are likely to arise before others do. Research suggests that there is a discrepancy between companies' expectations and actual achievements in their ERP implementations. (Esteves, 2009).

Companies are also having a hard time measuring benefits and operational improvements thriving from ERP implementation. Actually, most of the perceived improvements after implementation tend to correspond with expectations that the companies had, but not necessarily in the same measure; the improvements of business indicators are sometimes far away from what is expected. (Botta-Genoulaz & Millet, 2005) When talking about SMEs, the expectations can be even harder to understand and satisfy, because the buyers can often be less aware about information technology and its possibilities. That causes problems, because in order for implementations to be successful, the buying organization should carefully define the reasons for implementing ERP system and have clear goals, focus and scope (Ibrahim, 2010). ERP vendors might therefore want go through the process of educating their clients about different perspectives of the systems when necessary, in order to be able to satisfy their needs.

According to Beheshti (2006), managers should consider ERP acquisition and implementation as a capital investment decisions with the following expectations:

1. The ERP system is a business solution, not another IT project.
2. There is a degree of uncertainty with ERP acquisition and implementation. It is hard to estimate the savings and it is difficult to anticipate developments due to constant changes.
3. The ERP has more impact on the organization than traditional system changes.
4. Intangible benefits of an ERP system are difficult to put into monetary terms.
5. There is a definitive emotional element in the implementation of an ERP system due to the drastic organizational change involved.

To conclude, the findings of Esteves (2009) suggest that a long-term vision is required in order to obtain a successful realization of the potential benefits that ERP could bring. The expectations of SMEs are probably sometimes unbalanced. If selling organization expects to meet their customers' demands, they should make sure that the buyer is always fully aware of the actual nature of their purchase.

## 2.5. ERP and Finnish SMEs

The role of SMEs in Finnish economy is quite significant: 99.8% of Finnish enterprises are SMEs (Companies employing fewer than 250 people) and as many as 65% of private-sector employees work for them. Furthermore, 93.1% of Finnish companies are considered micro enterprises, employing 1-9 people and 99% of Finnish enterprises are small, employing less than 50 people. SMEs generate about 50% of the combined turnover of all Finnish businesses and are responsible for more than 13% of Finland's export revenue. (Tilastokeskus, 2011)
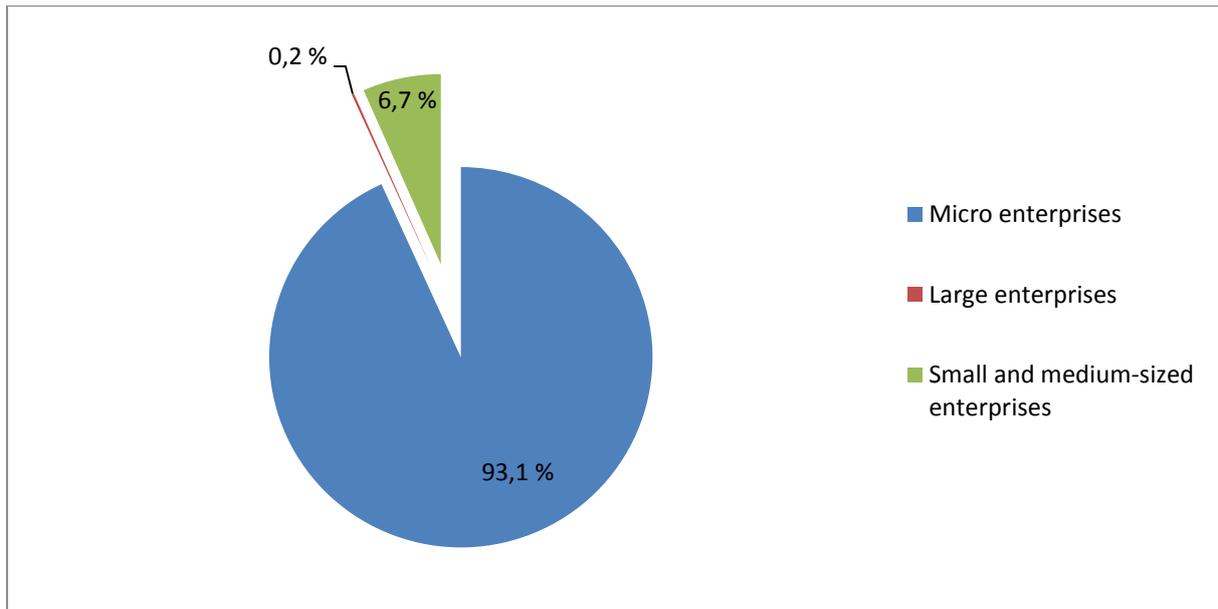
Image 2: Finnish enterprises

The chart hints where the focus of ERP vendors needs to be in the future. They will probably need to be able to target even smaller companies and be able to provide effective and affordable solutions for their needs. Upadhyay et al. (2011) studied ERP implementation in Indian micro, small and medium-scale enterprises, concluding that "ERP provides the necessary infrastructure that forms the operational and transactional system for a business of any size." Solutions and applications from the *bottom of the pyramid* might prove interesting for the western ERP market as well.

A literature review summarizing a total of 77 articles (Haddara & Zach, 2011) concluded that the critical success factors of ERP implementation are with a few exceptions similar in SMEs and LEs. Cloud solutions are also lighter and therefore require less resources and expertise to implement. Still, enterprises and management have to understand the implantation process, commit to it and prepare for the changes the new system causes. Loh & Koh (2004) found that the critical success factors, critical people and critical uncertainties all contribute to the success of failure of ERP implementations specifically in SMEs. According to Morabito et al (2005) traditional ERPs for SMEs differ from ERPs for LEs in two major aspects: ERPs for SMEs are cheaper and easier to implement. If setting up an ERP for LE

takes at least 9 months, equivalent solutions for SMEs can be set up in 2-3 months (Morabito et al, 2005).

# 3. CLOUD ERP

This section will briefly describe and discuss cloud computing and cloud-based services in general, and then go into detail about cloud-based ERP solutions. Cloud services are everywhere. In contrast to the conventional computing models, cloud computing resources are provided in a massive, abstracted infrastructures managed by professional service providers (Baek et al, 2010). Cloud computing does not have a clear unified standard definition, but an easily understandable working definition of it says that clouds, or clusters of distributed computers, provide on-demand resources and services over a network, usually the Internet, with the scale and reliability of a data center. (Crossman, 2009) In reality, many reliability and security issues must be considered carefully when considering the use of cloud computing.

Management consulting firm McKinsey & Company provides a more elaborate definition of clouds (Forrest, 2009) based on 22 research articles dealing with the definition of cloud computing: "Clouds are hardware-based services offering compute, network and storage capacity where: (1) Hardware management is highly abstracted from the buyer, (2) buyers incur infrastructure costs are variable OPEX, and (3) Infrastructure capacity is highly elastic (up or down)." The definition distinguishes "a true cloud" that has to comply with all three requirements and "a cloud service" that only needs to comply with the first and the last one (Forrest 2009).

## 3.1. Benefits and problems of the cloud

From the customers' point of view, cloud computing is different from traditional platforms in three major areas: scale, simplicity and pricing (Grossman, 2009). Cloud offers many benefits compared to traditional computing model. In the best case it simplifies installation, operation and maintenance of the information systems, increases system reliability and efficiency, is user friendly in the respect that it

requires less expertise to use, and it can provide elastic resources with dynamic provisioning and scaling based on user demands (Rong et al, 2013). In a nutshell, cloud computing can be seen as a way to increase capacity or add capabilities dynamically without investing in new infrastructure, training new personnel or licensing new software (Subashini & Kavitha, 2011).

With cloud computing the resources and also the costs can be shared. Users may pay as they go, and only use what they need at any given time, which keeps the costs low for them. (Raihana, 2012) Usage-based pricing model also reduces capital expenses, lowers the barrier of entry, and enables the scaling up or down according to demand (Grossman, 2009). Cloud computing is much a business model as well: providers of cloud computing solutions deliver their solutions over the internet, which can greatly lower the distribution costs. (Raihana, 2012) Cloud services can also provide similar economies of scale to those of data centers. Due to large scale, it is possible to provide operations, business continuation, and security more efficiently than when providing services individually. (Grossman, 2009) Cloud services enable accessibility and availability that has not been possible before: individual users can securely use the services wherever they are. Integrating multiple services and assents into a powerful composite application is also more convenient with well-designed cloud-based platforms (Leavitt, 2009).

Obviously, cloud computing model has some disadvantages as well. Common concern is related to the remote nature of cloud services: cloud that is hosted by the provider can suffer from the latency and bandwidth related issues associated with any remote application (Grossman, 2009). Concerns also arise about the overall reliability of the services. In Finland the high quality of internet connections reduces the reliability risk, but it is still far from nonexistent. Temporary inaccessibility might not seem to be a severe problem, but it depends on the nature of the business.

### 3.1.1. Security and privacy

Even though cloud computing is continuously evolving and showing consistent growth, the security issues and threats associated with it continue to cause

inconvenience (Neela & Saravanan, 2013) Security is one of the major issues which reduces the growth of cloud computing: as more and more information about companies is placed in the cloud, concerns are also rising about just how safe the environment is (Subashini & Kavitha, 2011). As servers, storage and applications are mobbing to off-site external service providers, organizations need to evaluate the risks associated with the loss of control over the infrastructure (Modi et al, 2013). There are currently many open problems that should be addressed by service providers in order to convince end-users of the technology (Rong et al, 2013). Cloud-based software and services have more security issues than traditional software, as they share most of the security challenges of traditional software, and have many security issues that are unique to cloud computing.

According to Rong et al (2013) the most critical security concern in cloud services is about privacy and data confidentiality; end users want to know where their information is stored, and who is in control of that information in addition to the owners. It is even possible for malicious users to exploit weaknesses in the data security to gain unauthorized access to data (Subashini & Kavitha, 2011). The data integrity and confidentiality must be guaranteed to remain attained while the data is stored in the cloud system. In a long, often non-transparent provider chain, it is often even difficult for an end user to determine what kinds of security elements are applied to their data in the cloud. (Rong et al, 2013) Data can be compromised in many ways. Due to the dynamic and shared nature of the cloud, threats such as lack of authentication, authorization and audit control, weak encryption algorithms, weak keys, risk of association, unreliable data center, and lack of disaster recovery could prove to be major issues even leading to data theft. Attackers could also use malicious software attempting to hijack the service, by redirecting the client to an illegitimate websites, providing the attackers with user accounts and passwords. (Modi et al, 2013)

Vulnerabilities in Internet protocols may prove to be an implicit way of attacking the cloud system. Common types of attacks include DNS poisoning, man-in-the-middle attack and flooding. These internet protocol related vulnerabilities that certainly relevant to the clouds: TCP/IP has some "unfixable flows" such as "trusted machine" status and the assumption that routing tables on routers will not be maliciously

altered. Such attack scenarios are critical for public clouds, as the general backbone for cloud provision is the internet. In cloud, users also manage their subscription through a management interface. Management of subscription includes for example cloud instance, data upload and data computation. Unauthorized access to such management interface may become very critical for a cloud system - cloud services usually have more administrators than traditional network systems, which increases the probability of unauthorized access. (Modi et al, 2013)

Still, there are working solutions to most major threats and security issues of cloud computing. For example, solutions for possible data loss or leakage include proper security models for application programming interface (API), data integrity, secure storage for used keys, data backup, and retention policies. Service hijacking and possible identity thefts can be mitigated by security policies, strong authentication mechanisms and active monitoring. (Modi et al, 2013) In the end, even though service providers and vendors are responsible for taking proper security measures, buyers need to be fully aware of the risks involved. Buyers have to understand that they are also responsible for the security, and educate their employers accordingly.

## 3.2. SaaS and cloud-based ERP

Cloud-based ERP refers to ERP software that is deployed into a cloud environment. Terms "SaaS ERP" and "cloud-based ERP" are used somewhat inconsistently in the literature. This paper will use the term "cloud-based ERP" in reference to any ERP software that is hosted in the cloud. Term "SaaS ERP" will only be used in cases where the cloud based ERP software is controlled and managed by the provider in a public cloud, clients can only make minor changes or no changes at all to the software and its interface, and the software is invariably accessed through internet browser.

Traditional ERP software vendors are also developing their own ERP software. They have the history of developing and selling on-promises ERP, which makes their offerings different from sole cloud ERP providers. There are two main strategies for moving from traditional software to cloud-based models: modifying existing software

and technology to fit a cloud model (for example Microsoft Dynamics) or building a new, separate cloud-based version from the beginning (SAP Business ByDesign). In general, traditional ERP providers have mature functionality, but varying levels of cloud technology offerings. Sole cloud ERP providers, on the other hand, are a lot newer to the market and have developed their cloud solutions from the scratch. ERP solutions mature as time passes, but in general, sole cloud ERP vendors are still in the process of building out functional capabilities as compared to traditional ERP vendors that have spent decades developing their systems. At the same time, traditional on-premise vendors are still in the process of modifying their technology to serve a cloud environment. (Arnesen, 2013) To conclude, it would seem that practically all cloud-based ERP solutions are still in the process of building their functionality as compared to traditional ERP software. On the other hand, lightness and simplicity are their key benefits, so all components cannot and should not be included.

Cloud ERP is a revolutionary approach to deploying ERP that provides a flexible, adaptable, scalable, efficient and affordable solution. Cloud-based ERP is significantly faster to introduce into a new company compared to traditional ERP software due to the fact that there is minimal need for installation and setting the system up.  SaaS-model enables ERP acquisition without the management of hardware, software or upgrades. It also simultaneously reduces up-front expenses. (Raihana, 2012) The overall need for assistance and knowledge is a lot lower than in traditional ERP implementation projects. Revenue model of SaaS ERP and SaaS in general is usually based on monthly or sometimes yearly payments based on usage and amount of users (Armbrust et al, 2009). The revenue model makes it easier to acquire new customers, as the initial cost of the solution is significantly lower compared to traditional software. On the other hand, the vendors will not receive large immediate profits from acquiring new customers. Instead, they have to consider customer life-time value when evaluating costs and revenue related to new customers. Then again, the pricing model assures predictable cash flows that enable the vendors to better predict the future.

## 4. ERP MARKETING

"Formally or informally, people and organizations engage in a vast number of activities we could call marketing." (Kotler & Keller, 2012) The American Marketing Association (2013) defines marketing as follows: "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." Intangible nature of software is probably the single feature that most separates it from the traditional products and services. As a digital product, software can be easily transferred from developer to user on the internet.

Internet has become a key element in software business, and it is crucial for the marketing strategy of software firms throughout the business cycle. Areas that have been affected by internet include for example promotion, sales, payments, downloading the product, after-sale services, updates, and monitoring accounts. Internet is especially potential marketing medium for smaller software firms, because it can help them to better compete with larger competitors. (Shuangzeng & McNaughton, 2011) Customers of software companies can be divided into consumers and businesses, but this brief will only focus on business-to-business side of software selling and marketing.

Packaged software is still an important part of the software industry. Traditional modular ERP systems are a textbook example of packaged software, but even cloud based ERP can have features similar to packed software. Traditionally packaged software is bought of the self, but nowadays vendors more often also provide the possibility to download the software, or even host it remotely on their servers (Shuangzeng & McNaughton, 2011). Packaged software is usually marketed as a form of "IT solution", consisting of large, configurable and generic packages that cover the fullest range of organizational activities and processes. They are usually adopted in order to achieve cost savings and benefits of alignment with perceived best practices. (Howcroft & Light, 2006) During the past few years, the importance of packaged software has declined rapidly and major software companies have already stated they will not be publishing more packaged software in the future. The future is

unsurprisingly predicted to be in the cloud. Tech Republic (2013) already reported "the death of packaged software" and the future of EaaS; Everything as a Service.

Because benefits of selling packaged software largely derive from economies of scale, the vendors need to find a way to make their software as broadly appealing as possible and distribute their software effectively. Segmentation is essential, and in ERP business smaller segments can also be appealing if they are targeted effectively. As a vendor effectively determines their target market, their willingness to pay and what they can offer to them, the consumer organization's palette of choice becomes limited. (Adam & Light, 2004) ERP system is, however, more than the use of stand-alone prewritten software, as it encompasses a review of processes across the organization and requires careful management (Skok & Legge, 2002). SaaS seems to be the new platform of computing, but cloud services are unlikely to fully replace traditional packed software anytime soon. After all, packed software pricing models offer software vendors many advantages, and switch to the cloud will most likely be gradual and only partial. (Cusumano, 2010)

Selling packed software of the shelf has been the business model of big software companies for decades. High financial commitment along with difficulties of switching between software providers has given them great marketing advantage because customers have been more likely to purchase add-ons and future generations of their software instead of changing software provider. Nevertheless, many traditional software houses have found themselves to be unable to fight the change and are now forced to consider new business models. It will be interesting to see if and how they are able to transfer their operations to the cloud and be able to monetize new solutions satisfyingly.

## 4.1. Marketing of traditional ERP systems

ERP systems, based on their definition, are usually marketed as a vehicle for integration of an enterprise's core business activities such as finance, logistics and human resources, and as a means of overcoming problems associated with the so-called "legacy systems", outdated ways of doing things. (Morabito et al, 2005) In software marketing, key things to consider include the quality of the software from the point-of-view of the customer, along with firm's responsiveness and flexibility. Vendors should also constantly improve their understanding of customer perceptions and expectations of the product and the service. (Parry et al, 2012). Target group of ERP vendors seems to be switching from LEs to SMEs, which will inevitably have a profound effect to their marketing.

ERP systems are strongly characterized by the implementation project and high implementation costs. According to Cova et al. (2002), project is "a complex transaction covering a package of products, services and work, specifically designed to create capital assets that produce benefits for a buyer over an extended period of time". Projects are also characterized by four elements: discontinuity, uniqueness, complexity and financial commitment (Cova et al, 2002). Such definition and elements apply to an ERP project. (Morabito et al, 2005) In the last decade there has been a growing interest towards project marketing, as researchers have identified a need to depict the unique features of project marketing in relation to other types of industrial marketing. Project marketing can be defined as "a multifunctional process of managing networks and buyer-seller interaction within and between projects in businesses where the value creation process includes the search, preparation, bidding, negotiation, implementation and transition of a project." (Jalkala et al, 2009)

Tikkanen et al. (2007) provide a four portfolios framework that displays the marketing strategy of a project based firm:
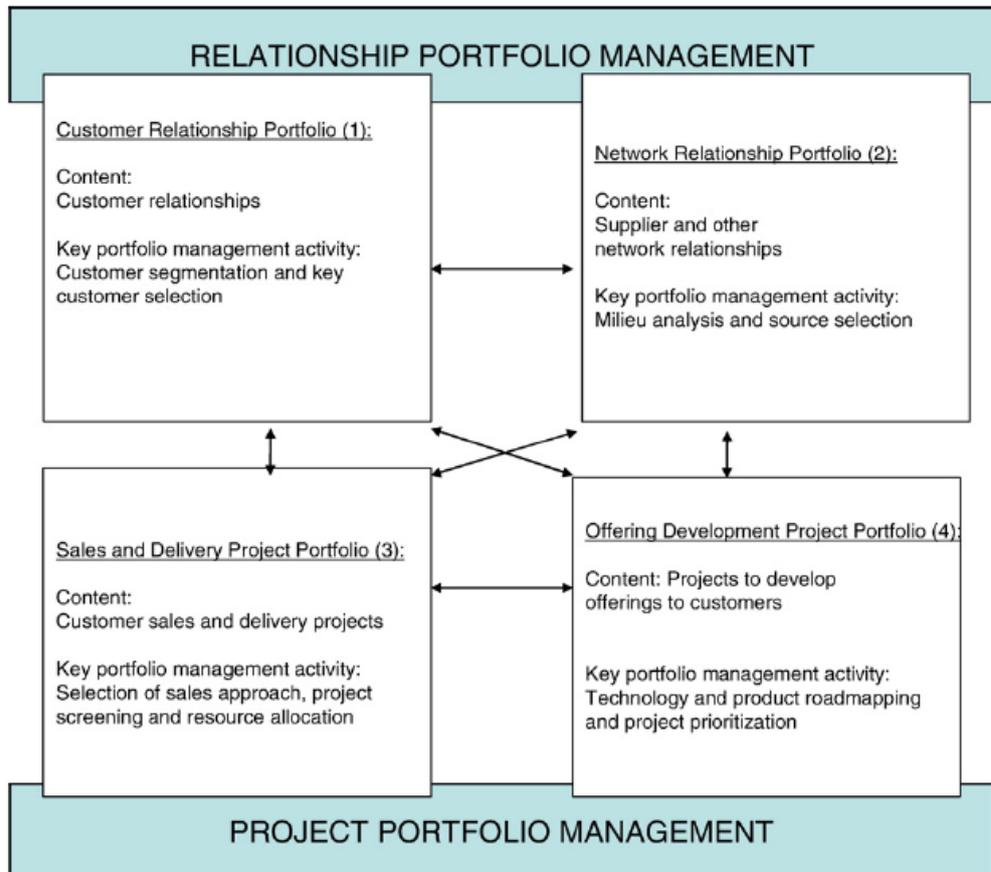
Image 4: The Four Portfolios Framework. (Tikkanen et al. 2007)

The framework presents the diversity and complexity of project marketing in a simple and clear way. It also displays the interactions between different functions or "portfolios". The model suggests that project marketing consist of relationship portfolio management, and project portfolio management. Relationship portfolio consists of customer relationship portfolio and network relationship portfolio, and project portfolio consists of sales and delivery project portfolio and offering development project portfolio. All these sections should be in continuous interaction. (Tikkanen et al. 2007)

Taylor and Hunter (2002) found initial support for generalizing existing service/relationship marketing theories and measures to e-service setting. They also found a distinct causal ordering between quality, satisfaction and customer royalty in their e-service research setting. It would seem that project and relationship marketing theories could successfully be applied to the ERP business as well. ERP vendors cannot simply focus on the quality of their product, but they have to take multiple

issues and dimensions such as relationships and networks into consideration in order to generate customer loyalty and thereby continuous business. The relationship with the vendor can often contribute to customer satisfaction and perceived quality of the product. As ERP implementation tends to be expensive and risky, the brand of the vendor and past reference projects will likely affect the selection of the buyer a lot. Therefore it is important for the vendors to manage and improve their corporate image and interaction with their clients.

## 4.2. Marketing and selling of cloud-based ERP solutions

This chapter begins with some general points about SaaS and cloud-based ERP marketing and selling. Then, it continues to discuss some of the customer acquisition means in the ERP business along with some related special features of marketing in the SME setting. Cloud-based services and SaaS have grown to remarkably fast and become increasingly important part of the world, yet literature about marketing and sales processes of cloud-based services and SaaS is quite scarce. Sääksjärvi et al (2005) found that in the SaaS business model, there are significantly more benefits to the client than to the software vendor, and many of the customer benefits can actually be seen as risks to the vendors. The researchers note that the situation implicates that in the value generation, a significant part of the customer value is in fact not realistic for the provider to accomplish alone. From that perspective the SaaS model seems to be an incoherent business model (Sääksjärvi et al, 2005). For a software provider the transition from the traditional packaged software business model to SaaS business model will be challenging not only from the point of view of strategic management, but also for marketing and sales functions (Tyrväinen & Selin, 2011).

As cloud-based services tend to be cheaper for the clients, the vendors need to be able to manage all their costs effectively and be as efficient as possible. Tyrväinen and Selin (2011) state that based on the literature, SaaS is technically cost efficient, but controlling the sales and marketing costs will be a major challenge for SaaS providers. On the other hand, study by Morabito et al (2005) examining nearly 150 ERP installations in Italian SMEs found that a part of ERPs diffusion and success is

determined also by marketing abilities of suppliers, not only low demand or failure in implementation process of clients. The importance of marketing and sales must not be neglected in ERP business. In particular, vendors are often too focused on selling ERP solutions to existing and known customers, therefore refraining from the search of new clients, which leads to failure to explore the potential market to its fullest (Morabito et al, 2005).

Talor and Hunter (2002) studied e-CRM, (Electronic Customer Relationship Management) and found that interestingly, the e-CRM providers face the same challenges and strategic marketing considerations as their customers in that they must deliver exceptional service, and support the companies purchasing their software. They found that customer satisfaction, loyalty in the formation of future purchase intentions and word-of-mouth (WOM) are important in the industry. Therefore, vendors must first identify the means of increasing customer satisfaction within the industry and then begin to move beyond customer satisfaction toward broader loyalty-based strategic marketing strategies objectives to support their relationship marketing practices. (Taylor & Hunter, 2002) CRM is one of the key products for most cloud-based ERP vendors, and same ideas can be relevant to the whole ERP industry as well.

SaaS business model in general demands considerable efforts in marketing and brand building in order to reach a customer base that is large enough to prove profitable and cover the costs of customer acquisition (Sääksjärvi et al, 2005). However, limited resources and revenue streams that are stretched to the whole customer life-time sometimes limit the marketing ability of vendors. Much of SaaS theory does not directly apply to ERP business, as cloud-based ERP can often include project like features and bigger margins and revenue streams than other SaaS services.

### 4.2.1. Pricing

Decisions related to pricing are important in any business and different pricing strategies can fundamentally affect businesses. Pricing should be considered an

important strategic level decision, and different options should be considered and evaluated carefully to effectively maximize revenues. However, pricing strategy in software business is notoriously hard to determine as it is subjected to economic rules fundamentally different from other industries (Lehmann & Buxmann, 2009). Many pricing models have been proposed in the software industry, but there is no universal pricing model applicable for all software providers. One pricing model that is largely used in the traditional b2b software industry is the price discrimination strategy, with the basic idea to offer the same product to every customer at a different price. (Hajji et al, 2012) Most SaaS ERP providers have, however, adopted the same penetration strategy Salesforce.com is known to use: offering free or cheap user accounts for a limited time period in order to penetrate the whole company through individual users and one business unit. After the trial period, cloud software costs can derive from subscription fee of selected modules, user based subscription fees, possible implementation services and support.

In the past decade the balance of power between vendors and customers in the software industry has changed profoundly due to a confluence of economic, market and technological factors. These changes in the dynamics have had a significant impact on the way software is priced. Software prices are under a lot of pressure from constrained IT budgets and customer perceptions that software is overpriced. Revenue from licensing has reduced, and many large companies have raised their maintenance and licensing costs to compensate the loss. (Hajji et al, 2012) For example, SAP has been gradually raising the amount of their support fees. In 2005 rate of the old standard support program was 17% of the original software license fee, whereas in 2012 a customer was paying 22% with the new "enterprise support" program. (Mitchell, 2013) Thereby a client might be paying a price equal to the original license fee every four years only in maintenance costs.

The SaaS model becomes attractive, because all the costs are usually included in the subscription-based price, which makes the pricing simple and predictable for the buyer. On the other hand, from the customer point-of-view it means that in the end, all the costs are simply hidden inside the monthly fee. (Mitchell, 2013) Still, software business in general has been clearly shifting away from licensing fees, towards usage based pricing models (Lehmann & Buxmann, 2009). The SaaS model has

fixed financial advantages to the customer over other software models. The operation cost is usually very low, and the subscription cost is also usually far cheaper than a licensed application fee, which is possible due to the monthly fees based revenue model. (Raihana, 2012)

Internet allows more flexible pricing for software companies (Lehmann & Buxmann, 2009). Hajji et al (2012) conclude that adopting an adaptable dynamic pricing strategy is significantly better, and would yield larger revenues than using fixed price. Dynamic pricing refers to the dynamic changes and adjustments of prices to customers depending upon the value these customers attribute to a product or service. (Narahari et al, 2005) ERP providers need to react properly to market fluctuations as the perceived value of their ERP solution continuously changes over time. Marketing and pricing strategies should therefore be continuously revisited in the early phases of new market penetration or after the launch of new systems. (Hajji et al, 2012)

### 4.2.2. Sales and marketing channels

The most relevant marketing means for business-to-business software service business in general include relationship management, seminars, fairs and other forms of personal communication. Traditional software product business relies more on advertising and direct sales. Today, both software product business and software service businesses use Internet as a major marketing and sales channel. Personal selling, VARs (Value Added Resellers) and other representatives are typical sales channels for software service business. (Tyrväinen & Selin, 2011)

A network of software service firms can also co-produce a service offering for customers. Traditional software product businesses, on the other hand, tend to rely more wholesale and resale organizations as well as internet as a sales channel. (Tyrväinen & Selin, 2011) In software business it is common, that sales channels are strongly connected to marketing and distribution channels. For example, personal selling tends to also have an important marketing role; it is not only present in sales and distribution of products. Channel decisions are dictated by the nature and special

features of software business, for example differences in project business and product business, importance of services, importance of timing, global markets, importance of technology and intangible nature of the products. (Tähtinen & Parvinen, 2003)

Sales channel decisions in ERP business tend to follow a similar logic; while traditional ERPs products for LEs are often distributed through system integrators such as Deloitte or KPMG, ERPs for SMEs are usually sold, implemented and supported through VARs, which have access to the code and therefore are able to modify the applications by themselves. Typical VAR would be a medium software firm usually specified in a given sector and geographical area. (Morabito et al 2005) Then again, lighter cloud-based solutions and SaaS business model in general have to some extent eliminated the need for middle-men organizations, as solutions have become simpler, and managers and tactical buyers can easily acquire information about the vendors and their products.

### 4.2.3. Marketing in SMEs

Many cloud-based ERP vendors are SMEs, and that is bound to affect their marketing efforts in some way. A lot of research has been conducted on management techniques in SME technology firms, but there is a lack of studies related to the area of marketing in small technology firms (Parry et al, 2012). Marketing capability is crucial in software business, and SMEs need to find ways to make the most of their resources. In ERP sector the big traditional system providers have huge marketing resources and efforts, along with their relationships and networks. The marketing function of SMEs is traditionally hindered by constraints such as poor cash flow, lack of marketing expertise, business size, tactical customer-related problems, and strategic customer-related problems (O'Dwyer et al, 2009). Despite all, SMEs have been able to challenge their bigger competitors in the ERP sector.

Software products are characterized by a high degree of complexity and intangibility, which leads to the fact that the benefits are usually difficult to communicate to the

customers (Moen et al, 2003). Relationships, networks and relationships are usually crucial in such conditions. On the other hand, according to Morabito et al (2005), ERP vendors are often too focused on selling their solutions to existing and known customers, refraining from searching new clients, and therefore failing to explore the potential market to the fullest. Even though the problem is likely to affect SMEs in particular due to their limited resources, they also have to be focused in order to be competitive. Internet provides a fertile marketing platform for software SMEs; most firms use it to search information about customers, distributors and partners. Not so long ago the goal of online marketing campaign was to lure consumers onto company's website, but nowadays the objective can be to create "sustained engagement" with the consumer (Harris & Rae, 2009). Internet does not, however, replace personal selling. After all, most firms have complex purchasing processes and extensive need for communication before purchase decision. (Moen et al, 2003)

O'Dwyer et al (2009) conclude that SMEs often embrace marketing within the context of their resources constraints and business environment. In general, their marketing activities are driven by owner or managers and their personalities, and are defined in terms of tactics to attract new business, focusing on competitors, customers and business environment. Small size means the SMEs usually have relatively little impact on their environment. However, smaller size also allows the companies to create closer relationships with customers, providing flexibility in operations and responsiveness to change (Moriarty et al. 2008). When facing limited growth conditions and larger resource-rich competitors, SMEs can compete using a combination of invention and pioneering, in addition to flexible business structures, strategies and culture. Innovation is the most significant factor that can be used by SMEs to compensate for any disadvantages experienced due to their size. Innovative marketing, however, does not only relate to products or technological development. Instead, it should also be evident in other aspects of marketing related activities and decisions. (O'Dwyer et al, 2009) Overall, SMEs may lack marketing expertise, which can lead to haphazard and reactive marketing, but also to an openness of trying out different marketing techniques (Parry et al, 2012).

Reijonen (2010) conducted a study on Finnish SMEs to get deeper understanding of how the concept of marketing is seen and put into practice in SMEs, and whether all

SMEs practice same kind of marketing. He found that marketing was mainly seen as a way to inform customers about the enterprise and its offering, and to create and maintain customer relationships, which is in accordance to prior studies. The study found that tactics and methods side of marketing along with communication and sales promotion were emphasized. Marketing as a philosophy or as market intelligence were only present in few answers. Interestingly, questions related to product, place and price were ranked as least important tasks of marketing. It would seem that strategic nature of marketing is somewhat depreciated in SMEs, and they tend to focus more on operational things. Still, according to Reijonen (2010), marketing practices cannot be regarded uniform within SMEs; they vary depending on for example firm size and customers.

### 4.2.4. Marketing targeted to SMEs

Because cloud-based ERP has traditionally been sold especially to smaller companies, a brief about special feature of marketing to SME is also in place. Today, however, cloud-based ERP is also implemented by LEs, and big ERP providers are also trying to target SMEs. SAPs ByDesign was introduced in order to reach this segment. Shortly after its announcement in 2007, Oracle CEO Larry Ellison stated in an interview that "SaaS and small business markets are interesting, but not terribly profitable - - we'll watch how SAP does going after small companies - - but so far, no one has figured out how to make any money at it." (ZDNet, 2007) SAP recently announced it will be cutting back on development of ByDesign, because it has not managed to gain success it was expected to. Lately, there have even been rumors about SAP shutting the whole project down. (AllThingsDigital, 2013) Marketing IT solutions to SMEs - and marketing to SMEs in general - seem to remain somewhat of a mystery even today.

Companies targeting SMEs should be well aware of the fact that buying behavior of SMEs is very different from that in LEs. According to Ozmen et al. (2013) there has been very limited research about SME buying behavior, and studies and industry practices seem to assume SMEs to be absolute rational buyers, or smaller version of LEs. Most small companies usually have one owner and any purchasing decisions

are made by this mother/father figure, who also determines the culture of the company. Therefore, from the point of view of a marketer, winning or losing this one person could mean losing the business.  (Ozmen et al, 2013) Of course, buying behavior and selection criteria affecting purchases also varies between organizations. This especially goes for SMEs, as their processes tend to be less organized. Therefore, targeting SMEs will require flexibility and different approaches.

The fact that SMEs have vastly different purchasing processes compared to LEs must be taken into consideration when marketing to them is planned. However, for example project marketing approach could prove useful in the SME setting as well, especially since it would seem easier to create sustainable relationships to smaller companies due to their internal consistency. It would seem that relationship approach is in fact adopted by many software companies, even though customers do not explicitly demand a "relationship" with their software supplier (e.g. Parry et al. 2012). Many smaller companies work in an entrepreneurial manner. Networking might be an effective way to reach them, and generate positive WOM inside growing sectors. Then again, revenue streams from SMEs will be significantly lesser compared to LEs, and therefore relationships and interaction related costs and investments must be carefully controlled and kept under control.

# 5. RESEARCH METHODOLOGY AND EMPIRICAL EVIDENCE

This chapter explains the data collection process and analysis methods used in this study. This research is conducted as a qualitative study in the form of a semi-structured interview with the purpose of mapping out marketing and sales effort in Visma Group. Strong emphasis is given to Visma Solutions, which is responsible for Visma's current SaaS services in Finland. The data is collected from a single interview with Markku Nylund, who is currently working as program director at Visma Software International. The interview aims to develop a better understanding of both the subject's personal views and the company's practices of Visma. Answers are not limited or demanded in a certain form. Instead, the idea is to collect and analyze

information from the actual point-of-view of the case company and interviewee. The interview is recorded and later transcribed and analyzed.

Interview is the most suitable research method for this study as it provides the best results when the answers might need to be specified and examples given. Semi-structured approach also allows the interviewee to emphasize his personal experience and insights, giving a broader understanding of the specific case. (Metsämuuronen, 2006) Another major advantage of interview-based data collection is the overall flexibility and the ability to get sufficient study on the motives behind the actions, which well suits the research subject of this paper (Shiu et al. 2009).

## 5.1. Visma

The case company of this study is Norwegian IT-company Visma. They offer business software and services, business process outsourcing, commerce solutions, retail IT and consulting. This paper is related their software division, which provides both specialized software and cloud-based services within areas of ERP, invoicing, project management, business intelligence, CRM, HRM and payroll. They serve different segments that they have divided to LEs, SMEs, small businesses and start-ups, accounting practices and the public sector. (Visma, 2013a) Visma has multiple operations in Finland, and among other products and services, they offer 7 different ERP and E-accounting solutions: Visma.net, Visma business, Visma Nova, Visma L7, Visma Econet, Visma Proceedo and Netvisor. (Visma, 2013b)

Visma.net is considered the international flagship of Visma's cloud-based services, combining CRM, e-accounting and other features. Visma Business is traditional customizable ERP software that is used by over 3500 clients in the Nordic countries. Nova is an ERP solution specifically designed for the needs of SMEs. It is a lighter version of traditional EPR software, and its modules can be implemented as turn-key projects. L7 is an industry specific ERP-solution that aims to recognize and solve special features of certain industries such as constructing or wholesales. Econet is e-accounting/ERP software also designed for the needs of SMEs. Proceedo is a cloud-based e-procurement and invoice handling solution. Finally, Netvisor is a cloud-

based ERP service combining multiple features from different areas of business. (Visma, 2013b) The development of Netvisor began in beginning of the 21$^{st}$ century as a project of Markku Nylund. His personal role has developed during the years, and currently he is working more with management and design of sales, business models and processes. In the early days of Netvisor, his most important task was developing the company and pushing it forward. Today Netvisor is used by over 9000 customers (Netvisor, 2013). For over a year now, Nylund has been adapting the successful concepts and processes of Nevisor internationally.

In Finland, SaaS solutions of Visma are currently conducted under Visma Solutions Oy, and their main products are Netvisor and Visma Severa. (Visma, 2013c) Nylund explains that in the early days of Netvisor, they were slightly ahead of their time and the market was not yet fully prepared for their solutions. "But now", he continues, "The situation has changed dramatically especially in Finland". Nylund feels that e-accounting and financial management of Finnish companies is now a few years ahead of time compared to the rest of the Nordic countries and Northern Europe. He proposes that one reason for this might be the advanced state of IT in Finnish banking sector, along with the fact that there are only few banks in Finland: "Good banking infrastructure and successful adaptation of electronic systems in an early phase have clearly pushed the industry forward."

### 5.1.2 Changing industry and customer expectations

Visma has over 340,000 customers in Northern Europe (Visma, 2013a). Nylund estimates that at the moment internationally only about 12-15 percent of ERP customers are mainly using cloud-based services. Still, the trend is clear: SaaS and cloud based services are growing at a great pace. Also, out of the estimated 85% of their traditional ERP customers, many have introduced some cloud services related to for example invoice processing to side with their on-premise software. In general, hybrid models seem to be the mainstream approach at the moment – at least partly due to slow change process of big software houses. In Finland, on the other hand, Nylund estimates that as much as 50 percent of ERP customers are using mainly cloud-based services. He also believes that despite the trend, on-premise software

will also have a place in the future: "Best benefits of clouds derive from the ability to share data with others. When that is not necessary and the data is kept inside closed systems, most advantages of cloud-computing become insignificant, and it all comes down to cost-efficiency."

Literature suggests that traditional software houses are struggling when it comes to changing their business and introducing cloud-based services. Nylund also notes that many companies on the sector are having difficulties to transform and keep up with the ongoing development. He estimates that the annual growth rate of SaaS services in Visma is approximately 40 percent. The change has happened fast, and companies have been forced to adapt in short schedule. In addition to organic change, Visma has had an acquisition strategy, which has allowed them to accumulate knowledge and use their leverage and financial position to better commercialize the solutions that have been developed by other smaller companies. Nylund adds that despite all, Visma as a group has also struggled as traditional business models, processes and prevalent business logic have changed. About the overall situation in the SaaS industry, Nylund jokes: "There is no real potential in a SaaS company that is not unprofitable for the first few years after its launch."

Theory concerning the ERP buying process is mostly built around the idea, that the company planning to purchase ERP first creates a project team that searches information and then judiciously makes the selection. In reality, Nylund says, the purchases are often made without proper consideration. Few companies – approximately 3-5% of Vismas connections – proactively contact Visma in search for a solution. When they do, they usually have some very specific problem or needs they want to get solved. Sales team of Visma then tackles the problem and maps out the actual needs and possible solutions they can offer. Nylund thinks that due to good public relations and multiple tools used to spread information, those clients are usually well aware of the kinds of solutions that are plausible and the kinds of solutions Visma is actually able to deliver. Usually, however, Visma has to actively contact potential customers and explain the value the customers could gain from Visma's software. Good sales people are therefore crucial to close the deal. In general, Nylund feels that more premeditated approach to system acquisition would sometimes be in place for organizations that consider ERP.

One major problem of today's software industry is the tangled use of terms and mixed definitions of words. Nylund mentions that the sector, not unlike literature, is using terms like cloud-computing and SaaS services very inconsistently: "Some software houses scramble the terms and are deliberately trying to confuse the customer." As big software provides are gradually moving to the cloud, they are sometimes using terms like "cloud service" or "E-service" to refer to very partial online functionalities, which is why buyers should have some technological understanding and be aware of their needs before buying complex software. Nylund suggests that when acquiring cloud software, the buyer should always test the service on multiple different devices to find out if it the service is actually cloud-based and in accordance to customer's expectations.

When asked what kinds of things customers should consider before and while acquiring cloud-based ERP, Nylund stresses that customers should make sure they understand possible security issues related to the cloud model. Buyers should familiarize themselves with the service provider they are considering and gather comprehensive information about the product. More critical the system and shared information, more consideration should be used. It is hard to give general rules of thumb, because of the multitude of products and different cases. As a simple example of addressing the problem of educating their customers, Visma is releasing easily understandable checklists such as "Five things to consider before selecting an ERP system" online. Nylund says that when they contact potential customers, the fears and distrust they encounter have declined compared to the past decade: "There are far less irrational fears about things like the end of the internet." Finnish companies and people in general seem to be quite trusting when it comes to IT-solutions.

## 5.2. Sales

Visma has recognized the main differences in buying behavior between SMEs and LEs. Sales efforts inside the client company are therefore also differently aimed depending on the company size; in smaller companies, sales message is targeted closer to the owner of the firm. Depending on the company, Visma usually tries to

reach for example CEO, sales management or CFO. Top management of any customer needs to be convinced, as they usually make the final acquisition decision. Nylund mentions that another important thing for Visma is to recognize "promoters" within organizations. After finding the most suitable person or group for the sales message, the wording is built around the benefits and values the customer can achieve from the products and services. Improved efficiency, cost savings and other such benefits highlighted in the literature naturally appeal to the top management, but promoters are also needed to persuade the finance people and the end users who can sometimes have a strong voice in purchasing decisions. On the other hand, Nylund mentions that when talking about heavy IT solutions there are sometimes situations where top management is happy with the purchase even though end users might be less so.

When asked about the importance of selling additional products for existing customers in Visma, Nylund responds: "Upselling is vital, and it would practically be a sin to disregard it." SaaS model enables Visma to constantly stay up to date with customers and the way they use the service, which allows them to foresee the emerging needs for new products. Customers are also regularly contacted to gather feedback of the service, and find out what kinds of improvements they would be interested in. "Currently cross-selling", or the practice of selling additional products and services to existing customers, "is an important issue in Visma due to the large and further expanding customer base", Nylund sums up. Another important topic, according to Nylund, is extending the "customer journey". The company wants to grow, which means they must make sure the customer attrition remains low, in addition to constantly finding new customers.

In Visma, according to Nylund, different kinds of aftersales services are integrated and working together with upselling operations. Visma is currently using a management tool called Net Promoter Score, which is an alternative for traditional customer satisfaction research. The goal is to measure "the likelihood of recommendation". Nylund states that the purpose of aftersales is mostly to ensure proper customer care and support in order to generate and maintain customer satisfaction. On the other hand, he continues, the goal of upselling is to keep the customer informed about further products and services Visma could provide.

Visma uses multiple different sales channels. For SaaS services of Visma Solutions, one of the main channels is somewhat surprisingly selling through external accounting offices. Of course, they are not actual "sales force" for VIsma's products, but while they are conducting statutory operations with SMEs, they can promote the solutions of the company. As the world has been shifting further towards e-business, traditional accounting firms have begun to lose their business, and are therefore looking for new opportunities. Moving towards SaaS model is killing other businesses too. Nylund explains that there is ever decreasing need for ERP consulting, because SaaS is obviating the processes consults have traditionally been needed for. Visma also collaborates with Finnish banks. The goal of using partners like accounting firms and banks is to reach SMEs trough the familiar parties they are constantly in interaction with. Direct selling has also been and continues to be an important channel for Visma solutions. To sum up, Nylund says that the most suitable sales channel is selected based on the business models of the customer. Visma is constantly trying out different ways to sell and market their solutions.

On the corporate level, Visma also uses traditional partners or system integrators that are responsible for sales, distribution and implementation of on premise ERP software. "The overall role of the system integrators and the value they can add is currently a major question on an international level." Nylund adds. In the end, there is very limited need for partner companies similar to traditional on premise ERP business in SaaS business models. Theory stresses the importance of networking and relationship management as a marketing and sales channel. Nylund agrees that good relationships are crucial, but adds that then again, creating relevant relationships is hard and trendy networking can cause companies and individuals to lose focus: "Just because you have 5000 contacts on LinkedIn does not mean any of those are promoting your products or in any way increasing your sales."

Relevant relationships, on the other hand, can be the key. When a potential customer is discussing financial services and e-invoicing in his/her bank, getting the bank official to recommend Visma's services can generate potential business, Nylund explains. Motivating people to recommend a service is hard, but Nylund believes it will be increasingly important in the future: If a company gets significant benefits from

a product or service, they will likely recommend it to others. Nylund gives an example: Visma Solutions has a chat feature provided by an American company on their website. Many clients have asked them about the service, because they have found it useful, which has eventually led to recommendation.


## 5.3. Marketing

The main purpose of marketing in Visma is to communicate with customers and stakeholders, create and manage company visibility and generate traffic. Personally, Nylund has a holistic view on marketing and he would also include company processes such as product development under the marketing framework. He feels that his background in fostering Netvisor has shown how marketing should be constantly present on multiple levels. In general, Nylund would encourage earlier involvement of marketing. "But at the end of the day", he sums up, "the definition used depends mostly on the orientation of top management. What really matters is that things get done properly." What actually enables Visma to be successful is good interaction of different company functions; all departments must operate well together. At the moment, in Visma solutions, the sales management and sales manager are responsible for marketing at the local level. Normally, the global marketing guidelines come from the corporate marketing department, and a team consisting of individuals from for example corporate marketing, product development and sales then refines them into local guidelines. Generally speaking, best practices and ideas are picked from the international guidelines, adapted to local environments, trialed and further developed to fit the local organization's needs.

Visma serves multiple different customers group, and Nylund mentions they have segmented their ERP customers based on a few different dimensions. An important division of customers is naturally made based on the company size; Visma has dedicated solutions for LEs, SMEs and specifically for small companies. Complexity of customer´s business processes also dictates to certain extent what kinds of systems are plausible, which is something Visma has to take into consideration. The degree of internalization is another important factor, and companies working in many countries tend to need more sophisticated systems due to for example differences in

bank transfer protocols between different countries. One separate target segment Nylund mentions is growth companies and start-ups, as they tend to have specific needs such as the demand for easy scalability as the company grows. Business processes in most industries tend to get more and more similar and a working IT solution has become essential for businesses. "Customers cannot create any significant competitive advantage anymore by implementing new IT solutions, because it is simply essential for a company to have effective support systems. As more and more companies have already implemented working solutions, it is nearly impossible to get an edge by implementing a new, maybe a slightly better one." Nylund concludes.

Like most SaaS providers, Visma is also offering free trial periods for their cloud products. Nylund, however, stresses that it can be risky and unwise for buyers to select their system based on a free trial; buyers should thoroughly examine their needs, possible system providers and their products, and then carefully select the best options. He believes that trial periods encourage buyers to make hasty purchasing decisions based on first impressions and simplicity instead of the actual value the product can deliver: "You cannot judge a book by its cover". Many companies seem to make their purchasing decisions too quickly even when buying complex products like ERP systems. Another issue is that even though a lot of companies might take free trials, it is usually difficult to turn them into paying customers. Nylund compares the situation to free daily newspapers: "Once a customer gets used to getting something for free, it will require extraordinary value and unique content to get them to pay for that same product or service." Trial periods continue to be important for Visma Solutions, as they bring in new customers. After all, increasing amount of all imaginable purchasing is taking place online. Nylund's conclusion is that trial periods are an "easy, effective and harmless" way to introduce Severa's products into new businesses without too much commitment. Best products for trialing include simple functionalities and features that arouse the interest of users who hopefully then promote the company and its products further. Business potential lies in the hopes that trials create willingness to implement additional solutions from the same provider.

Visma has been actively trying out different communication means. "We have tested practically all imaginable marketing channels", Nylund reveals. "We send 'spam' to potential clients, and once we even tried out sending faxes to companies, because we felt that it would surely get their attention in the modern days", he continues with amusement. Nylund also mentions that Visma has been trying out advertising in television, which is quite uncommon in software and ERP industry – and competitors are following. Nylund thinks the key question for Visma is how to generate "quality" traffic. Getting people's attention is not enough; they have to find the best ways to contact the actual potential customers. Visma has also been experimenting with different kinds of campaigns in the social media targeted to financial professionals. Creating interesting content that would be relevant to Visma's services and raise people's attention, however, can be difficult. To conclude, Nylund estimates that at the moment, digital marketing is the single biggest marketing element for Visma.

Because SaaS pricing models are subscription based, Visma calculates CLV (customer lifetime value) of their clients. Nylund explains that in Visma Solutions, the goal is that subscription fees from a new customer would justify the customer acquisition costs in 6-8 months. When they calculate CLV, they begin with the assumption that the customer will use the service for at least 36 or 48 months. Nylund continues to explicate that in reality, customers rarely leave the service so soon: "If a customer is happy and the service provider is doing its part, the fact is the clients will stay in the service a lot longer." Visma uses their own CRM system to calculate the values and measure the effectiveness of their sales and marketing. When selling trough VARs and accounting firms, they first estimate the potential clientele that can be reached through that channel: "If an accounting firm has for example 300 customers, we can quite easily estimate what kinds of revenues we can expect from cooperation with them."

Nylund states that continuous product development is the main key for generating customer loyalty and commitment for them. Of course, customers have to be satisfied with the product and the service. In addition to that, "the overall value or benefits a company gains from the software must be substantial", Nylund underlines. Therefore, improving customer's key functions and focusing on the areas that can provide the biggest benefits is important. Another vital factor, Nylund adds, is

system's flexibility and the ability to expand along with the customer and within customer's existing processes.

Pricing strategies in Visma are mainly similar to what literature suggests: They use price discrimination strategy with the basic idea of offering the same product to every customer at a different price. In on premise ERP software, their license fee is usually mostly related the amount of users. Traditional software also has maintenance costs that add up to the price the customer is actually paying. According to Nylund, Visma Solutions and especially Netvisor are also using price discrimination. They are employing value-based pricing, meaning they do not have a single list price, license fee or usage based price. Instead, the price is determined by for example the degree of automation, differences in users, and the kinds of processes the customer uses. This way, Visma attempts to avoid situations where the price would seem disproportionally low for some customers and counter-wise disproportionally high for some. Nylund says that most individual features of their SaaS services have standard prices, but the final price depends on multiple things. The model creates some challenges for the sales people, because they cannot instantly determine and tell the price to the customer. On the other hand, this way the customer can get all the features and services they want, and Visma can then easily explain and show how the price is constructed.

# 6. DISCUSSION AND CONCLUSIONS

It would seem that even though practically no research, with the exception of Morabito's journal article from the year 2005, has been conducted about marketing of ERP systems, parts and areas from existing software marketing theory can be applied with some exceptions. Also, because traditional ERP solutions are characterized by their implementation process heavy in terms of time and capital, project business and project marketing theory is relevant. Project marketing seems to provide a good literature approach especially for traditional ERP business, but it might also support cloud-based ERP business if suitably applied. Software marketing, project marketing and ERP systems all have many unique features. To

build a suitable marketing strategy, an ERP provider should select the best practices from multiple different fields of study, and experiment with different tactics in order to find the solutions that are most suitable for them.

Cloud ERP, on the other hand, is a revolutionary approach to deploying enterprise planning. When it comes to explicit marketing of SaaS ERP, no research has been done that author was able to find. In turn, there is a lot of literature about SaaS services and their marketing in general. Existing SaaS theory can be applied to ERP setting only partially, because SaaS ERP has many unique characteristics compared to other SaaS applications. Much of existing SaaS theory is conducted in B2C environment, often with services that generate relatively low revenue. Also, ERP system is always critical for company's business and demands considerable efforts to implement and effectively utilize, even in the cloud setting, which is why decisions should not be made without proper consideration. SaaS has made the implementation considerably easier compared to traditional software and gathering information is also easier than ever. Still, companies that want to introduce ERP to their business must make the necessary steps in order to successfully implement the solutions.

The main research question of this study was (1) "How ERP systems are marketed and sold?" From theoretical point of view marketing of ERP systems can be seen as a combination of software marketing and project marketing. As a digital product, software has multiple special features and benefits for both buyers and vendors that must be taken into consideration. Internet is increasingly important as a vital part of software firm's strategy throughout all company processes. Good segmentation is essential and smaller segments can also be attractive as long as they are targeted effectively. In modular ERP solutions, "Getting foot in the door" can be achieved by getting the customer to implement simple solutions, for example e-invoicing, which then opens up the possibility for upselling. Relationship and network strategies that are highlighted in project marketing theory are getting increasingly important in the sector, but the quality of the contacts and networks is a major issue. Companies must examine what kind of networking is actually beneficial for the business. Empirical section of this paper suggests that direct selling and active relationships

with VARs are also important, because few potential clients proactively seek for ERP solutions.

ERP systems are usually acquired in order to achieve things like improved cost savings, better support of organizational needs, and more effective sharing of data. Operational improvements organizations are after include for example inventory reduction, total costs reduction, and more reliable delivery dates. ERP systems are usually marketed as a vehicle to reach these benefits, increase integration of enterprise's core business activities, and get rid of outdated legacy systems. Marketing message should be refined and targeted differently in different kinds of organizations. For example, top management is likely to be more interested in cost savings, whereas final users appreciate easy user interface. In the end, most important thing for ERP providers is likely the continuous product development. SaaS models make the switching of service providers easy for the customers, which makes customer satisfaction and loyalty even more important.

Sub-questions were (2) "What kinds things are involved when marketing and selling ERP systems to SMEs" (3) "What kinds of special features are included in selling of cloud-based services?" and (4) "What kinds of sales and marketing does the case company carry out?" Marketing of ERP systems to SMEs continues to be troublesome, especially for big companies. SAP has not reached the success it expected from the ByDesign project, and some industry experts question the business potential deriving from SMEs. Still, some companies have managed to build profitable business in the field. SMEs have unique buying behavior and different processes and ERP need than LEs, which must be taken into consideration when planning marketing and sales. Relationship and networking approaches might prove successful with smaller companies as well. Satisfaction and company image is important, because smaller companies tend to be more influenced by WOM. Costs must be kept relatively low, because lighter solutions that are sold to SMEs cannot provide similar revenue compared to traditional ERP systems. SaaS model definitely seems to be the future of the sector.

Most general theory about SaaS suggests that marketing and sales efforts should be kept to minimum in order for business to be profitable. SaaS ERP, however, seems

to be able to provide enough revenues to support more extensive sales and marketing operations. Start-ups and small companies can be innovative and create new business potential in the sector, but on the other hand, bigger enterprises have the financial backbone needed for commercializing those solutions. Internet is likely to be the most important sales and marketing channel for most SaaS ERP companies, because it enables cost-efficient and effective channel of communication. Empirical section of this paper mapped out marketing in Visma solutions. The case shows that among other things VARs, strategic partners, and even direct selling can also be successfully implemented in SaaS ERP setting.

# 7. SUMMARY, LIMITATIONS AND RESEARCH SUGGESTIONS

This bachelor's thesis dug into marketing and sales of ERP systems with the focus on Finnish SMEs. Background information about ERP systems along with a literature review from multiple different research fields was introduced, as there is no previous literature with the same exact research subject. To support the analysis of different applicable theories, this thesis had an empirical section conducted as a semi-structured interview with Visma Software International's current Program Director, Markku Nylund. The interview brought valuable insights and information about the case company and Nylund's personal expertise concerning cloud solutions, ERP systems and IT business.

Of course, as a bachelor's thesis, the depth of this study is limited. The fact that the empirical evidence was gathered from a single company means the results from that section can hardly be generalized. Still, the paper managed to give quite a comprehensive overview about ERP systems and their marketing. More in depth case studies should be conducted about marketing of ERP and other heavy B2B IT solutions. Currently, there are practically no academic guidelines that ERP providers could easily follow. Multiple companies with different backgrounds should be studied to give more extensive understanding about the subject. Instead of listing success factors and characteristics of ERP implementation based on failed and successful projects, upstream organizations should also be taken into consideration and studied.

This way a more comprehensive understanding about ERP projects could be achieved.

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## Images

**Image 3:** Model of the ERP acquisition process.

Verville, J., Halingten, A., (2003) A six-stage model of the buying process for ERP software. Industrial Marketing Management, Vol 32, 7, pp 585-594

**Image 4:** The Four Portfolios Framework.
Tikkanen, H., Kujala, J., Artto, K., (2007) The marketing strategy of a project-based firm: The Four Portfolios Framework. Industrial Marketing Management, Vol 36, 2, pp 194-205

# APPENDIXES

## Appendix 1: Interview questions

1. Kerro itsestäsi ja omasta roolistasi Vismassa.  "Tell about yourself and your role in Visma."

2. Millaisia ovat yrityksenne kohdeasiakasryhmät? "What kinds of target customer groups does Visma have?"

3. Miten myynti kohdennetaan kohdeyrityksen sisällä? "To whom are sales efforts targeted within companies?"

4. Mitä asiakkaat odottavat tuotteiltanne? "What kinds of expectations potential customers have for your products?"

5. Millaisia syitä heillä on järjestelmän hankkimiselle? "What kinds of reasons lie behind the purchase of ERP system?"

6. Mitkä ovat yleisimmin käytetyt myyntikanavat? "What kinds of sales channels does the company use?"

7. Mitä erilaisia reittejä pitkin ensikontakti asiakkaaseen tulee? "Typically, how do you make the first contact with potential customer?"

8. Millainen on henkilökohtaisen myyntityön merkitys? "What is the role of personal selling?"

9. Kuvaa yrityksenne myyntiä prosessina. "Describe your sales process."

10. Millainen on suhteiden ja verkostojen merkitys liiketoiminnassanne? "Describe the role of relationships and networks in your business."

11. Millainen on hinnoittelustrategianne? "What kind of pricing strategies do you use?"

12. Miten käsitätte markkinoinnin yrityksessänne? "How do you understand marketing in your company?"

13. Onko taustalla jonkinlaista markkinointifilosofiaa tai vastaavaa? "Do you follow some underlying marketing philosophy?"

14. Kuka vastaa markkinoinnista strategisella/operatiivisella tasolla? "Who is in charge of marketing on operational level?"

15. Minkälaisia markkinointikanavia käytetään? "What kinds of marketing channels do you use?"

16. Miten kanaviin käytetyt panostukset jakautuvat eri kanavien välillä? "How are your efforts divided between different channels?"

17. Millaisia ovat markkinoinnin pääasialliset tavoitteet yrityksellenne? "What are the main goals of marketing in your company?"

18. Kuvaa omin sanoin yrityksenne markkinointistrategiaa. "Describe your marketing strategy."

19. Miten laskette uuden asiakkuuden arvon? "How do you determine the value of new clients?"

20. Miten asiakas pyritään sitouttamaan yrityksenne tuotteisiin? "How do you get the customers committed to your products?"

21. Pyritäänkö olemassa oleville asiakkaille jatkomyymään? Miten? "Do you practice upselling? How?"

22. Millaisia aftersales palveluita tarjoatte? "What kinds of aftersales services do you offer?"

23. Kuinka suren osan markkinointi- ja myyntikulut muodostavat liikevaihdosta? "How big are your marketing costs compared to your turnover?"

24. Miten hyvin asiakkaat yleensä ymmärtävät tarjoomanne ottaessaan yhteyttä? "In general, how good an understanding do potential customers have about your products?"

25. Millaisia asioita olisi hyvä ymmärtää ennen järjestelmähankintapäätöksen tekemistä? "What kinds of things should be considered before ERP purchase decision?"

26. Mitkä ovat yleisimpiä kohtaamianne ongelmia/huolenaiheita liittyen tuotteisiinne/tarjoomaanne? "What kinds of fears or conserns do you encounter related your procuts?"

27. Millaisia ovat suurimmat ongelmakohdat mitä asiakkaanne kohtaavat? "What are the biggest problems your customers encounter?"

28. Millaisena näette toimialanne tulevaisuuden? "How do you expect your sector to develop?"