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## Why Chiquita Said 'No' to Tier 1 ERP Providers and 'Yes' to SaaS Apps from Upstart Workday

– Thomas Wailgum , CIO

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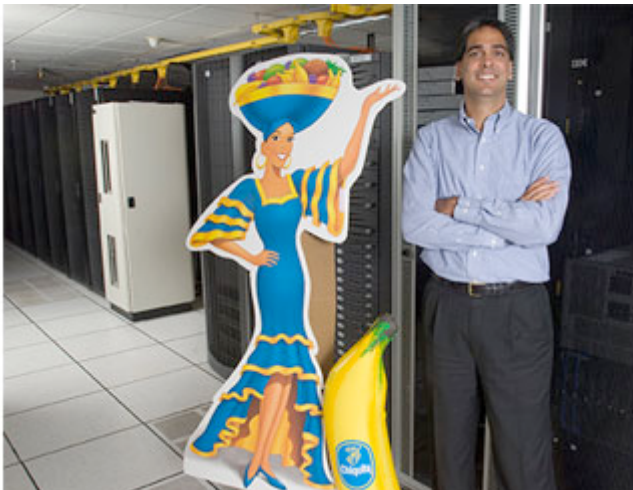
It seems like a straightforward and simple question that your typical HR application and corporate ERP system should be able to answer: How many employees are working for our company today?

At [Chiquita Brands](#), the Fortune 500 company best known for its blue-stickered bananas, "We couldn't answer that question," recalls Manjit Singh, Chiquita's CIO since September 2006. "It would take us a couple of weeks to get the answer pulled together and by that time, of course, it was all incorrect."

Chiquita boasts a global workforce of 23,000 employees in 70 countries on six continents, though most of the workers are predominantly in Central America. Up until 2008, the Cincinnati-based food manufacturer had employed a hodgepodge of legacy HR systems that were inadequate at managing the complex demands of its decentralized workforce.

Manual, inefficient workarounds (Excel spreadsheets and paper-based processes) were frequently used. When Chiquita hired a new employee, for instance, the HR paper-trail process could contain 20 to 30 steps, Singh notes.

"At any point, if that paper gets lost, things are going to fall through the cracks," he says. "Many times new employees have shown up and haven't had an office, a PC or a phone. Obviously that causes pain to the employee, it doesn't make the employer look good, and you've lost productivity from the moment the employee walks through the door."



*Manjit Singh, CIO of Chiquita Brands*

Chiquita needed an IT system overhaul and big business-process change. But just how much would that cost Chiquita, which had been battling to improve its profitability? Chiquita's 2008 results, for instance, missed analyst expectations—and [its stock price tumbled](#) after the company

announced its earnings. While revenue reached \$3.6 billion for 2008, Chiquita reported a [net income loss from continuing operations of \\$325 million](#).

In [investor and financial analyst presentations](#), Chiquita executives stressed the themes of paying down outstanding debt, reducing inefficiencies and growing margins in product lines that will eventually lead to more analyst-friendly profitability.

As a result, it wasn't an opportune time for an 18-month, multimillion-dollar ERP implementation of an HR app that needed to work as flawlessly in the offices of Cincinnati as it did in the jungles of Costa Rica.

## Sticker Shock

Both Chiquita's HR and IT departments knew what the company needed. "What we were looking for was a global HR system that could truly not just manage a database of employees but actually help us manage employees more effectively from a talent management, performance management and skillset perspective," Singh says. "And, oh yeah, adding payroll would be a 'nice to have' as well. That's how we started the journey."

Which vendor could provide that system, and exactly how much that would cost, were less obvious at the outset, however. In early 2007, Singh and his staff started gathering HR system requirements. Several months later, he began a vendor-selection process with the usual Tier 1 enterprise software players. He declines to specify if those were [Oracle](#) and [SAP](#), "but as a global Fortune 500 company," he says, "we only deal with the top-tier vendors."

With the requirements in hand and vendors at the ready, Singh [suffered some sticker shock](#). "Very rapidly we came to the conclusion that the amount of capital required to invest in those systems was going to be prohibitive to us," Singh says. "We'd rather divert that amount of capital into our transformational product sets instead of spending it on IT or HR."

Into the vendor discussions soon entered [Workday](#), the on-demand ERP vendor cofounded by Dave Duffield, who had himself founded ERP juggernaut PeopleSoft in 1987. "Obviously, Workday had a great pedigree," Singh says of his first impressions. (Workday's other founder is Aneel Bhusri, who had been at PeopleSoft since 1993. For a profile of Workday, see ["Can Two Legacy ERP Guys Get IT Executives to Buy into On-Demand Applications?"](#))

Duffield was well aware of the competition. The plan he and Bhusri constructed in order to win the deal involved three things, he says via e-mail: "Demonstrating we could deliver a modern solution that would support their global HR operation; establishing a SaaS model that delivered significant cost savings; and then building a trusted partnership between our organizations."

## "Going with a Startup Is Always a Little Bit of a Risk"

Chiquita would be, by far, Workday's largest implementation to date. Chiquita had dipped its toes in some SaaS applications, Singh says, but "we were not very adept when we started this process." Therefore, Singh and the senior management team had plenty of questions for Workday, beyond what they would have asked a Tier 1 on-premise vendor, such as about the vendor's application roadmaps, multiple language capabilities and customization options.

One of the long-standing hesitations around adopting SaaS-based ERP apps concerns storing critical corporate data offsite. This actually wasn't an issue for Singh, since his data centers are already outsourced. Next up was whether Workday had the capabilities to support Chiquita's global operations. "The established players had solutions that had existed for many years and

had built out various localization modules," Singh says. "Would Workday have a development path that would meet our own internal time table for deployment?"

Then, there were the important "viability of the vendor" risk-management discussions, Singh says. "Going with a startup is always a little bit of a risk." First, what if Workday's growth exploded and Chiquita "was no longer a big fish in a small pond," Singh says. "Would we continue to get the attention and the resources?" On the flip side, of course, was what if Workday went belly up: What would be the implication for Chiquita's internal processes that were now tied to a solution that didn't exist anymore? In addition, would Chiquita be able to get its HR data back and make it usable again?

Workday's Duffield and Bhusri went to work in the latter half of 2007 to prove their product's mettle to Chiquita. Says Duffield: "Aneel and I personally spent a lot of time working with the Chiquita team to build that relationship."

## **ERP + SaaS = Successful Enterprise Strategy or Bad Plan?**

When *CIO* magazine surveyed 400 IT leaders about their ERP systems in late 2007, CIOs said they [remained committed to on-premise, traditional ERP systems](#)—despite aggravating integration and high-cost headaches.

The results weren't *that* surprising. CIOs have been reluctant to take chances storing the sensitive data (accounting, HR, supply chain) contained in their ERP systems in another company's data center. In the survey, just 9 percent of respondents reported using an alternative ERP model, which included [SaaS](#) applications. SaaS [has also suffered](#) from a [perception that it's "for SMBs only."](#)

Not even two years later, things have changed considerably. SaaS ERP providers such as Workday and NetSuite have experienced greater acceptance of their house-your-ERP-data-offsite models, which in turn has [allowed them to go from upstarts to viable industry players](#).

And [enterprise giants have rolled out SaaS apps](#) with increasing regularity. General Electric, for example, implemented a SaaS supply chain application from a relatively unknown vendor in GE's global supplier network: 500,000 suppliers in more than 100 countries that cut across 14 different languages. (See ["GE CIO Gets His Head in the Cloud for New SaaS Supply Chain App."](#))

[Ray Wang](#), VP and principal analyst at [Forrester Research](#), says that market research and anecdotal conversations with Forrester clients demonstrate that many more companies—and most importantly, of all sizes—are open to going with SaaS vendors and applications. "The SaaS stigma has already changed," he says, "because the areas where companies are looking for innovation and not getting that from their existing vendors—like incentive compensation, talent management, e-recruitment—those are the areas where SaaS has proven itself in terms of delivering innovation."

SaaS has also become attractive to companies facing massive and expensive upgrades to their ERP systems. "For some people who didn't stay current on upgrades, the decision to move to the next release or the next version is almost the same [price] as doing a replacement," Wang points out. "And the cost of doing that makes it very comparable."

## **Selling ERP F.U.D.**

Since Duffield and Bhusri founded Workday in January 2005, they've never missed a chance to bash the traditional ERP model that had enriched them so much, while propping up their new

SaaS model. What traditional ERP vendors don't provide and what Workday does offer, Duffield contends, is a model that delivers modern capabilities at a fraction of what organizations currently spend on HR or financials.

Another difference relates to innovation. "Workday delivered four major updates to our solution in 2008," he says, "adding significant functionality that goes immediately into the hands of every one of our customers."

In Singh, Workday found an ideal big-company CIO for its product. "Manjit really deserves a ton of credit for not only being open to Workday's SaaS model," Duffield says, "but working as an internal advocate for leveraging SaaS within Chiquita."

"I believe SaaS is one of the transformational changes in the IT industry similar to when we moved off mainframes and minicomputers and into the PC world," Singh says. "It's a game-changer for how CIOs should be thinking about how adding value back to the business."

Even though the Tier 1 vendors that Singh had brought into the vendor-selection process knew where he stood, they weren't going to walk away quietly from the potential deal. "Naturally, the incumbent software vendors today are trying to create some FUD around on-demand and SaaS," Singh says. "Certainly we saw and felt that, because SaaS is a threat to the ongoing business model of these companies."

Singh has become even more resolute about the merits of SaaS after the selection process. "I'm a strong believer that the [current software-license model is broken](#); it is favoring the vendors, and it's not favoring the customer," he says. "For the most part, I don't believe I'm getting the value for what I'm paying for." The most aggravating fact is that with an HR and ERP-type solution, Singh says he's paying every year for the potential to upgrade the product even though, realistically, he's likely to upgrade every five or seven years. "That's not where I want to spend my dollars," he adds.

During vendor negotiations with the Tier 1 providers in late 2007, depending on how aggressive they wanted to get, some vendors would keep lowering the license costs to try to seal the deal, Singh says. "But then we came back [to maintenance costs and implementation costs](#), which really, again, were the big drivers around why it became cost-prohibitive for us," Singh says. "The economics didn't work."

## **Time to Walk the Walk**

Four months after commencing the vendor-selection process, Chiquita settled on Workday's Human Capital Management application and began implementation in early 2008, becoming Workday's first Fortune 500 customer. (Workday has since signed a larger deal with Flextronics, with 150,000 employees in 30 countries.) Forrester's Wang says landing Chiquita "was definitely a big deal."

When examining the total licensing and implementation costs of Workday's product versus those of the on-premise ERP vendors, Singh says there was nearly a 30 percent difference in price that favored Workday. (He wouldn't provide a specific dollar amount.) Since SaaS offerings require ongoing payments versus upfront payments for off-the-shelf solutions, Chiquita used a five-year ROI to get to "an apples to apples comparison" base, Singh writes in an e-mail. "Our ROI assumed we would embark on a system upgrade at the end of five years for an off-the-shelf solution—something that is unnecessary for a SaaS solution."

In October 2008, Chiquita went live on Workday HCM with 5,000 U.S.-based employees and 500 managers across 42 countries. Singh took advantage of customization options Workday offered when necessary. But he and his team tried to minimize customization as much as possible, so that they [could shorten implementation time lines](#) as they continue phased rollouts to 18,000 Latin America-based employees and nearly 3,000 employees throughout Europe, which are scheduled for 2009 and 2010.

He says Chiquita was surprised that the rigor of integration work in the SaaS world is as difficult as it is in the on-premise world. Chiquita has also experienced challenges in accessing the bandwidth-intensive HR application in remote areas of the world where Chiquita has operations and bandwidth is in short supply and expensive. "The [SaaS] vendor is going to make the assumption that bandwidth is always free, cheap and easy," Singh says.

Today, Chiquita's North American operations enjoy the fruits of the new system, including core HR functions such as employee hiring, job changes, compensation tracking and more. "We can see exactly where in the process the employee is, or how the hiring is going, who is holding it up and why it's being held up, so that we can guarantee when an employee walks through the door, they have an office, a phone, a PC, and they've been given access to all of the systems they need to have access to.

"That's big, when you talk about the number of employees we hire in a given month," Singh continues. "That drops dollars back down to the bottom line."

Lastly, the new HR system has freed up many of Chiquita's 200 IT staffers to focus on higher-value projects. "I want my folks sitting arm and arm with business folks, talking about process transformation and trying to figure out how to bring products to market even quicker," Singh says, "not keeping the lights on running a system."