



IDC ANALYST CONNECTION



Raymond Boggs
Vice President, SMB Research



Mickey North Rizza
Vice President, ERP and Digital Commerce

Small and Midsize Businesses Put ERP at the Center of Digital Transformation Strategies

January 2018

Digital transformation is fundamentally changing the value of enterprise resource planning (ERP) software, allowing businesses to transform decision making and enhance business outcomes. Digital transformation encourages businesses to rethink their technology strategies, and that includes moving beyond legacy ERP and back-office systems. New sources of innovation and creativity to enhance experiences and financial outcomes are paving the way toward cloud-enabled ERP software. Small and midsize businesses have put cloud-enabled ERP systems at the center of their transformation journeys because of the technology's ability to achieve the business' performance goals.

The following questions were posed by SAP to IDC's Ray Boggs, vice president of SMB research, and Mickey North Rizza, vice president of ERP and Digital Commerce research, on behalf of SAP's customers.

Q. When does digital transformation require updating a current ERP system or acquiring an ERP system for the first time? What critical needs should drive investment decisions?

A. The fundamental needs of a business change as a company grows, but this is not always obvious to the company. For small businesses, managing via spreadsheet and basic accounting becomes inadequate and harder to sustain as the organization expands and becomes more complex. Midsize to large companies with a traditional ERP system will face similar challenges. As businesses expand operations and locations, a growing number of employees will need transparency, visibility, and real-time information on a range of performance dimensions.

Approaches that may have worked in the past are no longer adequate as more enterprisewide management tools are needed. There is a need for one "truth point" and supervision beyond spreadsheets and multiple disparate functional systems. A key indicator of a firm having outgrown current technology is when it becomes difficult to connect data between functions, making it a challenge to assemble a comprehensive view of business operations. This inability and the related frustration are clear signals to management that processes lack effective coordination. Islands of line-of-business functionality need to be connected (HR, finance, procurement, supply chain, etc.). Companies outgrow simple solutions as problem-solving becomes more complex, and as a result, they are more reactive

to internal performance or external customer support issues rather than being proactive in anticipating and addressing potential problems. This is a clear indication that effective resources are needed. Unfortunately, throwing additional staff at a problem may only complicate things. But moving to an ERP system will help a business identify the issues and manage the changes across the entire business, enabling the company to shift from a reactive to a proactive business cadence that manages outcomes rather than problems.

Business transactions are critical to a company's success, of course, and firms actively participating in the digital economy can appreciate that an ERP system is more than a system of record. Today's organizations need frictionless transactions, instantaneous ordering capabilities, and higher levels of engagement while focusing externally on meeting the customer's requirements in real time, anywhere and anytime. Utilizing a modern ERP system moves a business beyond internal-facing processes to a view that includes suppliers and customers.

The goal, in keeping with digital transformation, is to become a proactive, insightful business that makes decisions in real time, positively impacting profitability and future revenue. ERP software provides comprehensive capabilities that support that goal. It allows a growing company to integrate and manage key performance metrics for maximum effectiveness. Businesses of all sizes need an ERP system that grows with them, and the right ERP system will do that, independent of entry point and company life-cycle position.

Q. With digital transformation in mind, what are the benefits of ERP, especially near-term benefits that will have immediate impact?

A. Business process improvement and better management are critical benefits of an effective ERP system. But it is also important to think about the larger group of stakeholders and different constituencies, external as well as internal. The entire value chain is significant to enhancing a business, increasing market share and improving both short-term and long-term profitability. Tying business processes from end to end in the value chain reduces overlaps in processes and time, bringing greater efficiency.

Small and midsize companies' major customers typically have performance requirements that make an effective ERP system essential for obtaining and retaining business. It is critical to understand customer requirements and an organization's points of intersection to manage customer expectations. ERP systems enable a business to manage customer requirements while meeting the full spectrum of customer needs. For businesses with simpler customer requirements, tracking order status, inventory, and projects can set the stage for new business acquisition while improving business performance.

In a similar way, a company's suppliers may be looking for higher levels of engagement in a more automated way, perhaps even with price incentives. Being able to collaborate and work through issues is of paramount importance; tying that capability to the modern ERP system makes it much more efficient for both the buyer and the supplier. Being able to provide information essential to the success of both suppliers and customers will help strengthen relationships as well as business outcomes for all participants. IDC believes that supply chain pressure and consolidation will likely make the information gathered by ERP systems increasingly valuable (and worth compensation) not only to a company but also to the suppliers working with that company.

Q. What are the business "pain points" that an effective ERP solution addresses?

A. The stress posed by the increasing pace of change in the competitive environment is encouraging firms to rethink their use of management and reporting resources. And the same holds for business growth as firms move to the next level of size, complexity, and performance obligations.

International expansion or potential mergers and acquisition decisions can also place new demands on organizational resources. Something as basic as working with multiple currencies and localized legal requirements (including taxes) can be especially challenging. Companies, in part because of their success, can feel that the business is getting out of control, especially if different systems have evolved over time. This can show up as a difficulty closing the books in a timely way, an inability to tie financial results to inventory, or an inability to quickly bring forward profit and loss, balance sheet, and cash position reports.

The need for a "single point of truth" can also be apparent over time in growing firms, where there may be multiple pockets of information that are assembled independently. The ability to coordinate and align multiple information streams in a way that's compatible with growth (i.e., a scalable solution) is essential if managers are to understand and guide operations.

In addition, companies of all sizes can face a lack of data-driven insights when making decisions and identifying potential opportunities and risks. They can be challenged with tedious, sometimes duplicative manual processes that slow employees down and ultimately impede cash flow. Organizations can also face new requirements that push the limits of existing IT solutions and tools.

Having multiple processes for the same pieces of information across the business means managing the information workflow twice, recreating data points and additional audits of the business processes. One point of truth, transparent to the entire organization, removes redundant workflows and allows the organization to quickly move to fact-based decisions.

Q. How can ERP serve as the center of the digital transformation journey, a framework for moving forward?

A. IDC surveys show that small and midsize firms worldwide overwhelmingly prefer to build incrementally off current resources where possible, even while applying new and innovative solutions to take business performance to the next level. ERP solutions can serve as an effective framework for those adding an ERP system for the first time as well as those updating and adding incremental solutions such as HR management or CRM. Some ERP solutions tailored for the midmarket can even be purchased as an integrated suite that includes HR or CRM modules that can be "turned on" as a company grows or when it's needed to help enhance coordination while avoiding disruption (another key concern that small and midsize firms cite when making major technology investments). For first-time ERP users, this capability can help future proof an investment to ensure that capabilities can be added when the time is right.

Effective digital transformation must be a companywide, board-level, strategic reality for companies wishing to remain relevant or maintain or enhance their leadership position in the market. Digitally transformed businesses have a repeatable set of practices and disciplines used to leverage new business, 3rd Platform technology, innovation accelerators, and operating models to disrupt businesses, customers, and markets in pursuit of business performance and growth.

The digital economy has encouraged businesses to focus on the front office and the customer experience. For many, digital transformation efforts are incomplete because of this front-office emphasis. As the digital economy progresses, it becomes clear that ERP is at the center of effective digital transformation strategies, which means that many organizations must now improve their back office to catch up to updated front-office capabilities.

Q. What are the deployment options for ERP, and what are the benefits to different approaches?

- A. There are two primary deployment options for ERP: on-premises solutions and cloud-based solutions. On-premises software is installed locally, on a company's own computers and servers. Cloud-based software is typically hosted on a technology provider's servers and accessed through a web browser.

On-premises solutions are, in most cases, capital expenditures as a one-time perpetual license fee with recurring fees for support, training and updates. In addition, if there is any customization to workflows, updates may also require customization. On-premises solutions, often preferred by large enterprises, can require major up-front investment in software and hardware. Large enterprises typically customize their workflows and want more control over the ERP rollout and implementation processes.

Cloud-based solutions are usually considered operating expenditures. Because cloud-based solutions have a lower cost of entry compared with the substantial upfront investment of on-premises options, cloud-based solutions have become the modern ERP deployment method of choice for a growing number of organizations of all sizes. Cloud-enabled software can provide a flexible, agile ERP system that is configurable, quick to implement, and scalable. Small and midmarket businesses find that they now have the ability to purchase and implement cloud-enabled ERP systems, allowing their businesses to quickly expand and grow.

Cloud solutions are also appealing because of the ability to continually upgrade and enhance resources. Software improvements can be shared automatically so that everyone is using the latest version of resources, and the connectivity of cloud-based resources also ensures that everyone is working from the same critical data sources.

Cloud-based solutions are now used by most small businesses and over 90% of midsize firms in the United States, with worldwide cloud use approaching similar levels. While cloud was once attractive primarily because of lower pricing (the "pay for what you use" model), the real appeal today is cloud's ease of deployment, effective management, and ability to integrate resources into a firm's current IT environment. For these reasons, cloud-based ERP solutions have particular appeal.

Q. What role can ERP — particularly cloud-based ERP — play in preparing my firm for the future?

- A. ERP helps improve basic operations, of course, keeping companies organized and providing a framework for growth. But it also enables innovation and stronger competitiveness in the long term.

IDC survey work found a strong commitment to innovation investment among midsize firms, with the average IT budget allocated to operation (60%) and innovation and transformation processes (40%). This is similar to what IDC found among larger firms and quite different from smaller firms, which devote a larger share of their spending to near-term "keeping the lights on." Midsize firms also expect their balance of spending will continue at the same ratio over the next two years. This commitment to innovation while supporting current operations is precisely what IDC recommends — a tactical and strategic view that sets the stage for long-term success.

ERP can play an important part in this success, improving operations that will enhance both competitive position and long-term flexibility. Small and midsize firms are competing not just with larger firms in their industry but with the best-of-breed performance of any firm with which a customer may work (such as Amazon) that can instantly provide information such as order status and the location of shipments in transit. For firms with direct customer contact,

the ability to sharpen customer-facing resources will be increasingly important. Cloud-based ERP solutions tied to ecommerce and other capabilities can help in streamlining the online transaction process. Sharpening back-office processes while presenting an effective front-office experience to customers will be an essential part of success in both consumer engagement and business engagement in the digital economy.

The digital economy requires cloud ERP to support innovation and easier, more consumable business process changes for the entire organization. For example, cloud-enabled ERP software packages are becoming increasingly intelligent with cognitive aspects such as machine learning, deep learning, natural language processing, and advanced analytics on top of large curated data sets and in many cases using an assistive UI to navigate and uncover insights. These cloud-enabled ERP solutions embedded with intelligence allow users to quickly establish more impactful data-driven business processes and decisions, reduce time to value, and significantly improve the ability to generate more revenue, cash flow, and profitable growth. Moreover, critical to profitability, operating costs are reduced because routine tasks have been simplified, human errors eliminated, basic business processes automated; and the need for additional drilldowns, data extraction, and analysis eliminated.

Digital transformation has changed the way companies conduct business because they can do business anywhere and at any time. Cloud brings companies the ability to do business across the globe, all the time. Small and midsize companies have put cloud-enabled ERP systems at the center of their digital transformation journey because they can now run their businesses like large enterprises — and with even more efficiencies and less frustration.

ABOUT THESE ANALYSTS

Ray Boggs has a diverse background in the communications, computing, and office automation industries as well as consumer and channel research. He manages IDC's Small and Medium Business (SMB) research practice. As part of his work, Mr. Boggs directs survey research, forecasting, and market analysis for advanced technology products and services designed for small (under 100 employees) and midsize businesses (100–1,000 employees, with additional information on firms with up to 5,000 employees).

Mickey North Rizza is program vice president for IDC's Enterprise Applications and Digital Commerce research practice. She leads a team of analysts responsible for IDC's coverage of the next generation of enterprise applications, including ERP, financial, procurement, supply chain automation project and portfolio management, enterprise asset management, services resource planning (SRP) and related project-based solutions software, and the digital commerce business network.

ABOUT THIS PUBLICATION

This publication was produced by IDC Custom Solutions. The opinion, analysis, and research results presented herein are drawn from more detailed research and analysis independently conducted and published by IDC, unless specific vendor sponsorship is noted. IDC Custom Solutions makes IDC content available in a wide range of formats for distribution by various companies. A license to distribute IDC content does not imply endorsement of or opinion about the licensee.

COPYRIGHT AND RESTRICTIONS

Any IDC information or reference to IDC that is to be used in advertising, press releases, or promotional materials requires prior written approval from IDC. For permission requests, contact the IDC Custom Solutions information line at 508-988-7610 or gms@idc.com. Translation and/or localization of this document require an additional license from IDC.

For more information on IDC, visit www.idc.com. For more information on IDC Custom Solutions, visit http://www.idc.com/prodserv/custom_solutions/index.jsp.

Global Headquarters: 5 Speen Street Framingham, MA 01701 USA P.508.872.8200 F.508.935.4015 www.idc.com