SPOTLIGHT
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The digital world has arrived requiring rapid business change with an agile organization, which quickly navigates new directions continuously. At the core of meeting these performance requirements is ERP modernization.

Future Proofing the Organization with ERP Modernization

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Introduction

Businesses are moving at lightning speed in the digital economy. Speed, scale, agility, and resiliency are requirements for organizations that wish to thrive and remain competitive in the digital world. IDC's 2023 *SaaSPath Survey* finds organizations are moving to a new enterprise resource planning (ERP) system for a variety of reasons including speed, scale, and agility.

Organizations are finding they need to invest in digital acceleration to create their future-ready foundation, and this includes utilizing cloud ERP systems to consume data quickly, adapt to changing business conditions as they occur, scale quickly, and innovate.

Globally, organizations are undergoing fundamental business changes to accommodate the digital world, and legacy ERP systems are not able to support this new world. This digital world means organizations are accelerating innovation, selling through new digital channels, creating new digital products, entering new markets, and even implementing new business models. These changes severely challenge legacy ERP configurations. Furthermore, making changes to traditional, on-premises ERP is often a very complex and time-consuming process. IDC finds that by early 2025, organizations still on legacy systems will need to modernize their applications immediately to survive and adapt to the digital world already surpassing them.

AT A GLANCE

KEY STATS

The key desired business outcomes from ERP modernization investments are:

- » Digital enablement
- » Improved customer experience
- » Improved agility
- » Optimized processes
- » Reduced costs
- » New levels of automation

KEY TAKEAWAY

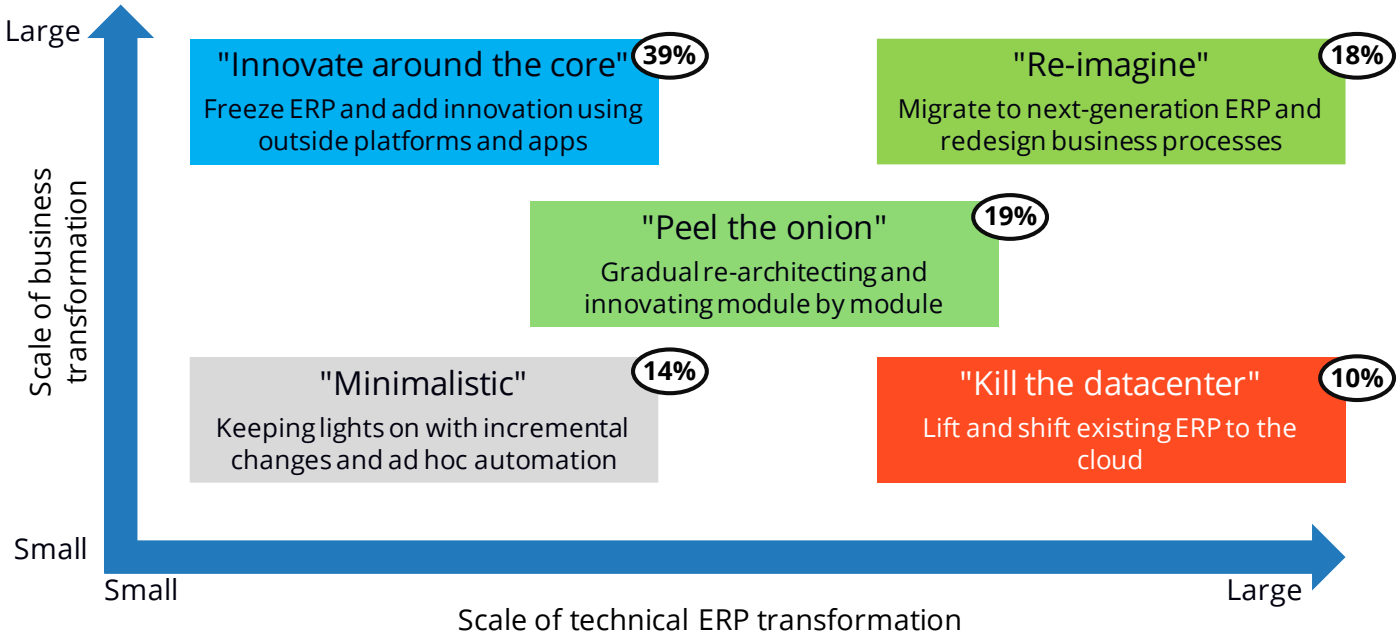
Many organizations take a simplified route to ERP modernization, where the journey is broken into multiple, financially justifiable steps. No matter what journey is chosen, IDC believes that moving to next-generation, cloud-based ERP systems will future proof the organization for the long term, yield new levels of strategic agility, and encourage continuous innovation, enabling the organization to navigate and pivot quickly.

IDC's 2023 *SaaSPath Survey* found 46% of companies plan on replacing their current ERP system in the next 36 months and 44% of organizations plan on investing in a SaaS ERP system during the next 36 months. However, moving from one ERP system to another has traditionally been a costly and complex exercise, which entails significant business risks. ERP systems are typically mission critical; if these systems are disrupted, organizations cannot invoice customers, pay suppliers and workers, present mandatory financial statements, and so forth. So, while almost all organizations are keenly aware of the need to modernize ERP, some may be hesitant to do a straight migration to a modern, cloud-based ERP system.

IDC views ERP modernization along two axes: technical ERP transformation (e.g., moving from on-premises ERP to the cloud) and business transformation (e.g., acquiring new business capabilities related to planning or process automation). On the basis of these two axes, IDC has identified five distinct ERP modernization archetypes (see Figure 1). Figure 1 also shows the proportion of perceived ERP modernization strategies among the respondents. This is discussed in more detail in the ERP Modernization Journeys and Trends section.

FIGURE 1: ***ERP Modernization Archetypes***

Q ***Which of these approaches best describes the current approach the organization is using or is considering for its main corporate ERP system?***



n = 1,021

Note: For more details, see ERP Modernization Strategies (IDC #EUR247475221, March 2021).

Source: IDC's Workday Global ERP Journey Survey, January 2022

Definitions

ERP, short for enterprise resource planning, is a packaged integrated suite of technology business applications with common data and process models that digitally support the administrative, financial, and operational business processes across organizations. These processes manage resources including some or all of the following: workers, finances, capital, materials, suppliers, production, supply chains, customers, products, projects, contracts, orders, and facilities.

Typically, ERP solutions are architected with an integrated set of business rules and metadata, accessing a common data set (logical or physical) from a single, consistent user interface. ERP solutions have been and continue to be available as on-premises, hybrid cloud, and cloud SaaS deployments; however, many organizations are now selecting SaaS and cloud-enabled solutions.

Next-generation ERP applications are delivered as cloud services with fixed upgrade cycles so that all customers are on the latest release. They have a consolidated data foundation and architecture, which is built for change and for frequent reconfiguration as new business requirements appear. They have built-in analytics facilities, are extensible via APIs, and utilize machine learning/artificial intelligence for improved insights, automation, and personalized experience.

ERP modernization refers to the process of improving a legacy ERP installation by upgrading, adding business capabilities, lifting and shifting to the cloud, or migrating to a next-generation ERP system.

Benefits of Next-Generation Cloud-Based ERP

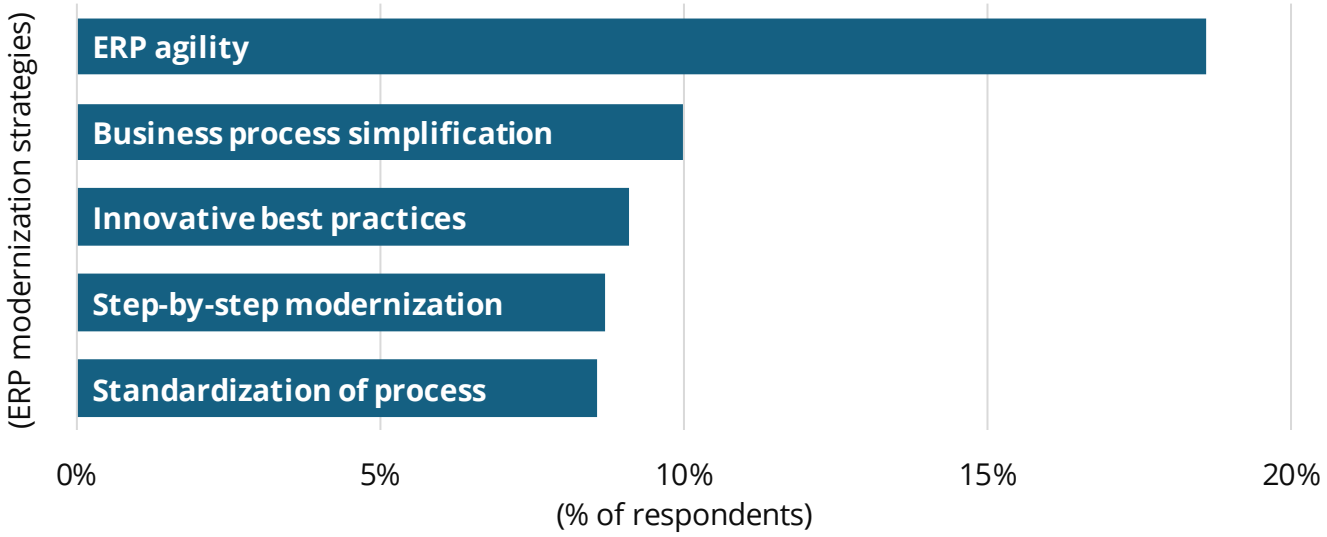
Improved Planning and Business Agility Are Key ERP Modernization Business Objectives

Organizations want to modernize their older ERP systems for a plethora of reasons. Some of the many reasons are reducing operating costs of the existing ERP system, avoiding new datacenter investments, and avoiding a looming "out of standard support" date for the current on-premises ERP application. In addition, organizations want to move into the digital age with better planning and forecasting; increased speed, scale, and agility; more productive user experience; and more innovative products. In fact, IDC finds that by mid-2025, artificial intelligence (AI) will create an organizational cultural shift, and new technology frames will augment the workforce, slowly reshaping the enterprise toward more technology usage, thereby enhancing performance. For many organizations using modern ERP systems, this is already occurring as ERP systems are now updated with AI, improving the work streams, reducing the clicks, improving decision velocity, and bringing more insights in real time to the employee. All of these benefits are ultimately improving the time to decisions and customer delivery.

IDC's *Workday Global ERP Journey Survey* also prompted respondents to iteratively rank a number of ERP modernization objectives relative to each other. Interestingly, this exercise showed the clear winner among the modernization objectives was "maximizing ERP agility to support business changes." In other words, organizations are — on average — very keen to have more agile enterprise systems to adapt more rapidly to changes in business conditions. The top 5 ranked objectives are shown in Figure 2.

FIGURE 2: ***Top 5 ERP Modernization Objectives***

Q ***In this exercise, we will show you a number of scenarios. In each scenario, we'll show you five objectives an ERP modernization strategy could have. We'll ask which objective (among this set of five) is most important and which is least important to the organization.***



n = 1,021

Source: IDC's Workday Global ERP Journey Survey, January 2022

Building the Business Case for ERP Modernization

While IT and line-of-business decision-makers have a broad understanding of how next-generation ERP can drive wider business transformation, many organizations struggle to estimate and quantify these benefits in business cases. In ERP modernization business cases, IDC categorizes value realization in five categories:

- Cost reductions
- Value erosion and operational risks (aka the cost of doing nothing)
- Resilience
- Revenue generation
- Transformational value

IDC finds that most organizations focus on only one of the five: cost reductions. This category is often "owned" by IT, relatively simple to estimate, and directly related to the ERP modernization initiative. For example, if an organization migrates an older, inflexible on-premises ERP system facing a hardware refresh to a modern, software-as-a-service (SaaS)–based ERP application, the items likely to be included in a business case are the avoided costs of the hardware refresh and the operating costs of the legacy ERP system.

However, a more accurate business case would quantify any operational risks and opportunity costs related to system restrictions (costs of doing nothing) alongside the more strategic benefit categories. The issue is that these benefits not only are difficult to quantify but also occur mostly outside the IT department, across various line-of-business functions. Stakeholders outside IT have to be involved, investigate benefits, and commit to a business case. So building a wider business case and orchestrating a broader coalition of stakeholders to back ERP change are difficult for many organizations and are key barriers to change. IDC offers an ERP modernization value model to help organizations compose a broader business case that goes beyond mere cost savings (see *The Business Case for ERP Modernization,* IDC #EUR148088620, July 2021).

IDC's January 2022 *Workday Global ERP Journey Survey* showed that this "coalition for ERP change" is likely to consist of the CEO (who typically owns the ERP business case), the CIO (also a typical business case owner as well as budget holder), and the CFO (the typical ERP budget holder). Other potential coalition members are the COO, the CHRO, and line-of-business executives as well as other IT leaders such as the CISO and the CDO.

ERP Modernization Journeys and Trends

It is clear the vast majority of organizations are on an ERP modernization journey. Furthermore, most organizations aim to eventually reach a next-generation application platform in the cloud. This destination is often referred to as an "evergreen" ERP backbone because it is continuously upgraded and hence evergreen. However, IDC has found that there are many journeys toward this destination; some are more direct, whereas others have multiple intermediate steps.

The reason that many organizations do not simply jump straight to next-generation ERP has to do with an inability to match immediate, tangible business gains with the perceived costs and risks of an ERP migration. To overcome this inability to create a compelling business case for the full migration, a significant proportion of organizations have chosen a staged approach. The direction of such a multistep approach is often dictated by the conditions, pains, and business priorities of the individual organization. Other organizations have chosen a more direct path to next-generation ERP, typically facilitated by more compelling business cases involving a broader coalition of executives and value drivers outside the IT department.

These multistep ERP modernization journeys come in many variations depending on the organization. Some journeys involve solving the most immediate pains first, such as modernizing HCM, procurement, or finance in anticipation of a full ERP modernization. Other organizations implement adjacent technologies related to analytics, automation, strategic sourcing, employee listening, or customer experience on top of the legacy ERP system, knowing that these technologies are compatible with a next-generation cloud ERP solution as well.

One global manufacturer is lifting and shifting its existing ERP systems to a cloud platform as a cost-neutral, initial ERP modernization step in a journey toward next-generation ERP. Another global ERP customer has already lifted and shifted its legacy ERP solution to a cloud platform and is now working with a specialized systems integrator to reduce the ERP data footprint significantly in preparation for an upcoming migration to a next-generation ERP application.

Most ERP modernization journeys imply a trade-off between incremental ERP steps with immediate and tactical benefits and more costly and ambitious ERP platform migrations with more lasting and transformational benefits. The ERP modernization archetypes shown in Figure 1 illustrate how organizations are falling into two camps almost equally.

One is focused on reimagination/transformation, and the other is more focused on preservation. The reimagination archetypes include the full migration ("reimagine" at 18%) as well as the module-by-module or layer-by-layer type migration ("peel the onion" at 19%).

The preservation archetypes include adding niche solutions to the existing ERP system ("innovate around the core" at 39%) or moving the existing ERP system to a cloud platform ("kill the datacenter" at 10%). These preservation strategies can yield short-term business benefits and help reduce the overall migration risk but cannot substitute the strategic agility gained when migrating to a next-generation ERP system.

The "kill the datacenter" approach is suitable as a destination strategy only if there are no major architectural or functional ERP constraints, meaning that business stakeholders are content to have the existing ERP capability running outside the datacenter and that the existing code can be rehosted to the cloud. This method unfortunately continues to bring more bottlenecks hindering real-time data access and agile response mechanisms. Interestingly, "innovate around the core" strategies were attributed by survey respondents as being preferred by their CEO, not their CIO — due perhaps to CIOs knowing well the practical difficulties of integrating multiple adjacent technologies together with a legacy core.

IDC believes that none of the ERP modernization destinations are final. Rather, the ERP modernization journey is perpetual and, when finally on the cloud, continuous for most organizations in the sense that the completion of one implementation is always followed by a new project stage. Even in the case of next-generation ERP platforms, such implementations are typically followed by custom extension projects, further rollouts to different regions, the addition of specialized industry-specific cloud applications, continuous updates and innovation, and so forth.

Considering Workday

Workday is a leading provider of enterprise cloud applications for finance and human resources, helping customers adapt and thrive in a changing world. Workday applications for financial management, human resources, planning, spend management, and analytics are built with artificial intelligence and machine learning at the core to help organizations of all sizes around the world embrace the future of work.

Central to Workday's proposition is the Workday Enterprise Management Cloud, which delivers a consolidated data core that ties finance, people, suppliers, and plans together. The company delivers product updates once a week and releases major features twice a year. Workday sells its solutions primarily through direct sales and offers professional services, both directly and through Workday services partners.

Workday's application suite has a number of attributes. The suite is conceived and natively architected for multitenant SaaS delivery. And the suite is built on a single data core, which connects all master and transactional data in the organization in one coherent structure, with the ability to ingest large volumes of non-Workday data for use with Workday data. This facilitates simpler configuration, more secure data management, and embedded analytics. The suite also offers business planning, business execution, and business analytics in an integrated fashion, meaning that the three applications are tightly integrated. The Workday suite also comes with an embedded business process framework, which is a single native toolset that enables customers to define and maintain core process flows to automate and change business processes. Finally, Workday comes with tooling to extend its application suite with new capabilities that offer the same user experience and data structure as the standard application does. Together, these capabilities deliver an adaptability that surpasses conventional ERP approaches.

Challenges

Workday started out in core HR management and has since added other talent and workforce management capabilities along with Financial Management, Procurement, Planning, Analytics, and industry-specific components. Although the company serves product-based industries with its HCM, Planning, and Sourcing offerings, the Financial Management application suite of Workday has primarily focused on services-based industries such as financial services, healthcare, professional services, retail, hospitality, higher education, government, technology, and media.

Another challenge for Workday is related to its SaaS model. Some prospects might require certain data to be located in-country or even in the datacenter or prefer on-premises or private cloud software deployments. Such deployment options are not supported by Workday and could sway cloud-wary prospects to look for alternative providers.

Conclusion

IDC believes that the ERP modernization wave will continue unabated in the years to come. The ERP system is considered by many to be the spine of an organization, and spinal surgery is a costly and complex affair. However, the urgency to achieve speed, scale and agility, and higher employee productivity is driving organizations of all sizes to modernize their ERP systems. IDC has found that building a business case for migration to next-generation ERP platforms requires quantifying costs and benefits across many different organizational units and requires orchestration across multiple stakeholders.

IDC believes that moving to next-generation, cloud-based ERP systems will future proof the organization for the long term, yield new levels of strategic agility, and encourage continuous innovation, enabling the organization to navigate and pivot quickly.

Many organizations take a simplified route to ERP modernization, where the journey is broken into multiple steps, each of which is simpler to justify financially. No matter what journey is chosen, implementing next-generation, cloud-based ERP systems will yield exceptional results because the organization can navigate and pivot quickly.

About the Analyst

Mickey North Rizza, *Group Vice President, Enterprise Software*

Mickey North Rizza leads the Enterprise Applications and Strategies research service along with a team of analysts responsible for IDC's coverage of next-generation enterprise applications including employee experience, enterprise asset management and smart facilities, ERP, financial applications, HCM and payroll applications, procurement, professional services automation and related project-based solutions software, talent acquisition and strategies, and an abundance of CX areas. In her role, Mickey and the team advises clients on these intelligent, modern, and digital world enterprise applications for businesses of all sizes, with an emphasis on the key trends, opportunities, innovation and the IT and business buyer concerns, requirements, and buyer behaviors.

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