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The Journey to Enterprise Cloud ERP

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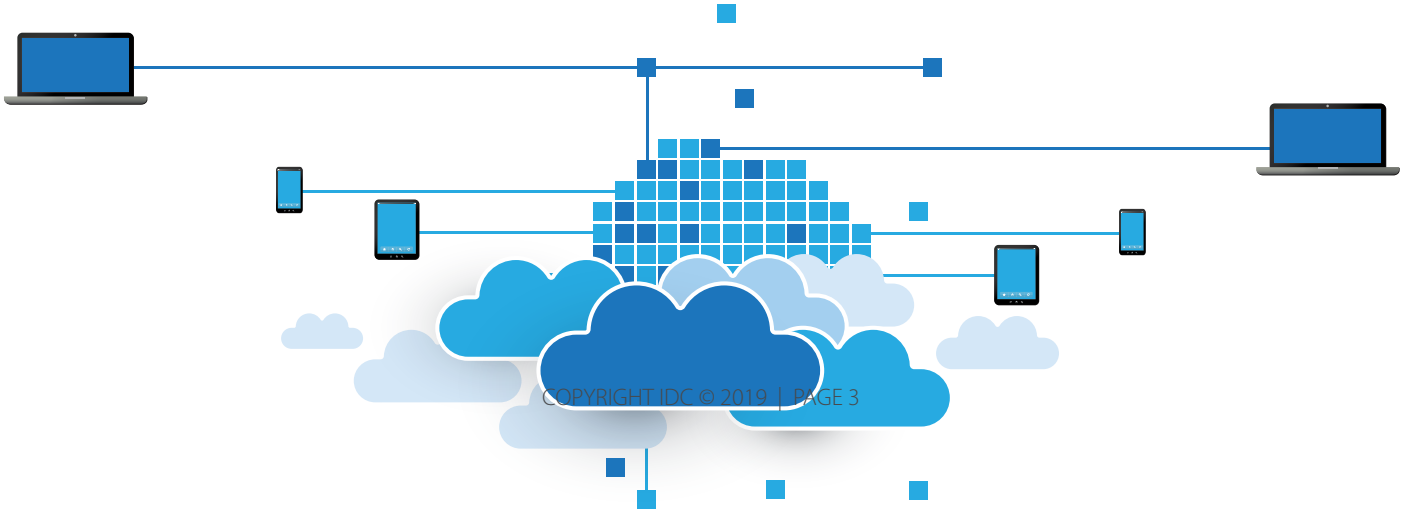
Table Of Contents

IDC OPINION

The buying decision for enterprise business applications such as ERP is a painstaking process requiring weeks or even months of planning. The process requires active participation by stakeholders in different roles and with varying responsibilities and influence. ERP is unique in that, as a system of record for the business, it is accessed by more users and supports more business-critical workloads and processes than most enterprise applications. It is precisely because of the enterprisewide impact of ERP that the buying decision is the shared responsibility of a steering committee made up of key stakeholders and orchestrated by an IT-appointed lead evaluator.

ERP systems have been in place for years at many organizations; some have had them for decades. Over time, the ERP system becomes laden with customizations and integrations, slowing response time, increasing complexity and cost, stifling innovation, and frustrating users. Data is often locked away in silos, blocking access to valuable insights that are essential to digital transformation. Modernizing enterprise business applications such as ERP is a top priority for CIOs. While digital transformation is the primary directive for many organizations, the decision to move to cloud ERP is primarily driven by forces that are more operational than aspirational. Chronic and systemic problems compel the business to act. Interestingly, a digital transformation initiative may already be underway when the organization is compelled to address the problems caused by a failing ERP. Outdated business processes that were designed to accommodate cumbersome legacy systems, spiraling maintenance costs, and increased security and compliance risks make it impossible to stay with the status quo. It is under these conditions that many CIOs begin their journey to cloud ERP. While each journey is unique, businesses can and should leverage the many use cases and lessons learned to plan an efficient move to cloud ERP, avoid unnecessary disruption, and increase outcome predictability. Apart from economic sponsorship, the primary goal for the CIO and the CFO is to ensure the change supports the business strategy. However, the steering committee shares responsibility for identifying, evaluating, and recommending a cloud ERP solution.



IN THIS WHITE PAPER

This white paper offers unprecedented insight into the experiences of CIOs and other IT leaders who have sponsored the move to cloud ERP. To support the themes of the paper, IDC conducted in-depth interviews with CIOs, VPs of IT, and IT directors of multinational midsize and large organizations from North America, APAC, and EMEA and across industries including manufacturing, healthcare, travel and hospitality, engineering services, and media and entertainment.

EXECUTIVE SUMMARY

Businesses are at an inflection point with legacy ERP systems that fail to keep up with the velocity of change in the digital economy. Companies across all industries have been deploying innovative customer-facing web and mobile applications to facilitate better customer experiences while relying on legacy back-end systems. Past concerns about data security and resilience in the cloud have delayed the move to a modern system of record such as cloud ERP. Today, the situation has reversed. IT leaders acknowledge that they are unable to provide in their own datacenters the level of security offered by leading cloud service providers such as Microsoft. In fact, concerns over the security and compliance risks of legacy ERP systems can accelerate a move to cloud enterprise business applications.

For most participating CIOs, the move to cloud ERP was triggered by recurring ERP system failures. The complexity, cost, and escalating risk of running a failing ERP had reached critical mass. It became impossible to justify the cost of operating company datacenters that could not efficiently keep pace with the exponential growth in data and the need for real-time access to information. Inefficient and misaligned businesses processes that were designed to run on piecemeal systems created customer churn and dissatisfied employees. The cost of ongoing legacy ERP application development under these conditions was unsustainable with shrinking IT budgets. The confluence of these factors and others, including unplanned downtime and more frequent security breaches, forced these organizations to act. Several participants shared that the time spent patching and updating the ERP system left little time for innovation.

Large-scale projects such as replacing an ERP system require an all-hands-on-deck approach. CIOs cited focused teamwork and the application of change management best practices as paramount to a successful migration. These practices include effective governance and complete transparency. IT leaders are consistent in approaching the move to cloud ERP as a business decision, so qualified people from the business side are staffed for the migration initiative. These key stakeholders bring expertise in using the ERP and the business processes and workflows supported by the system. Participants explained that the time invested in preparing a comprehensive business case significantly increases the likelihood of a streamlined approval process and better

outcomes. While each company's business case is unique, participants noted several common outcomes, including improved IT efficiency, faster IT execution speed with DevOps, reduced capex, increased simplicity through standardization and ITIL, greater agility and the ability to proactively address the changing demands of business units (BUs), dynamic data management and better use of information, reduced maintenance costs, and increased productivity through strategic redeployment of talent. Most participants work closely with a trusted consulting partner to conduct capacity planning and to create the business case. Buyers who have a preferred ERP supplier engage the partner early in the journey. For others, consulting and technology partners, colleagues, and peers remain a critical source of insight into potential ERP suppliers. Members of the committee are mostly self-directed during the initial discovery phases of the journey. In fact, it is not until the committee believes it has enough information about supplier offerings that it engages with the supplier's sales representative. By this time, the committee expects an in-depth and highly technical conversation about the ability of the solution to meet business case requirements. Presentations and demonstrations are scheduled once the committee has eliminated from consideration all but two or three ERP suppliers that it perceives will best meet the requirements. Participants went on to explain that an effective supplier demonstration has considerable influence in a decision to move forward with a more formal evaluation and possibly a proof of concept (POC). Participants cited direct and continuing involvement on the part of the selected ERP supplier as one of the most important considerations. Several CIOs stressed that the ongoing engagement and support from Microsoft help ensure their success with cloud ERP. Early results include successfully addressing the challenges that prompted the decision to migrate. Many said that they are just scratching the surface of what is possible.

30% reduction in datacenter costs

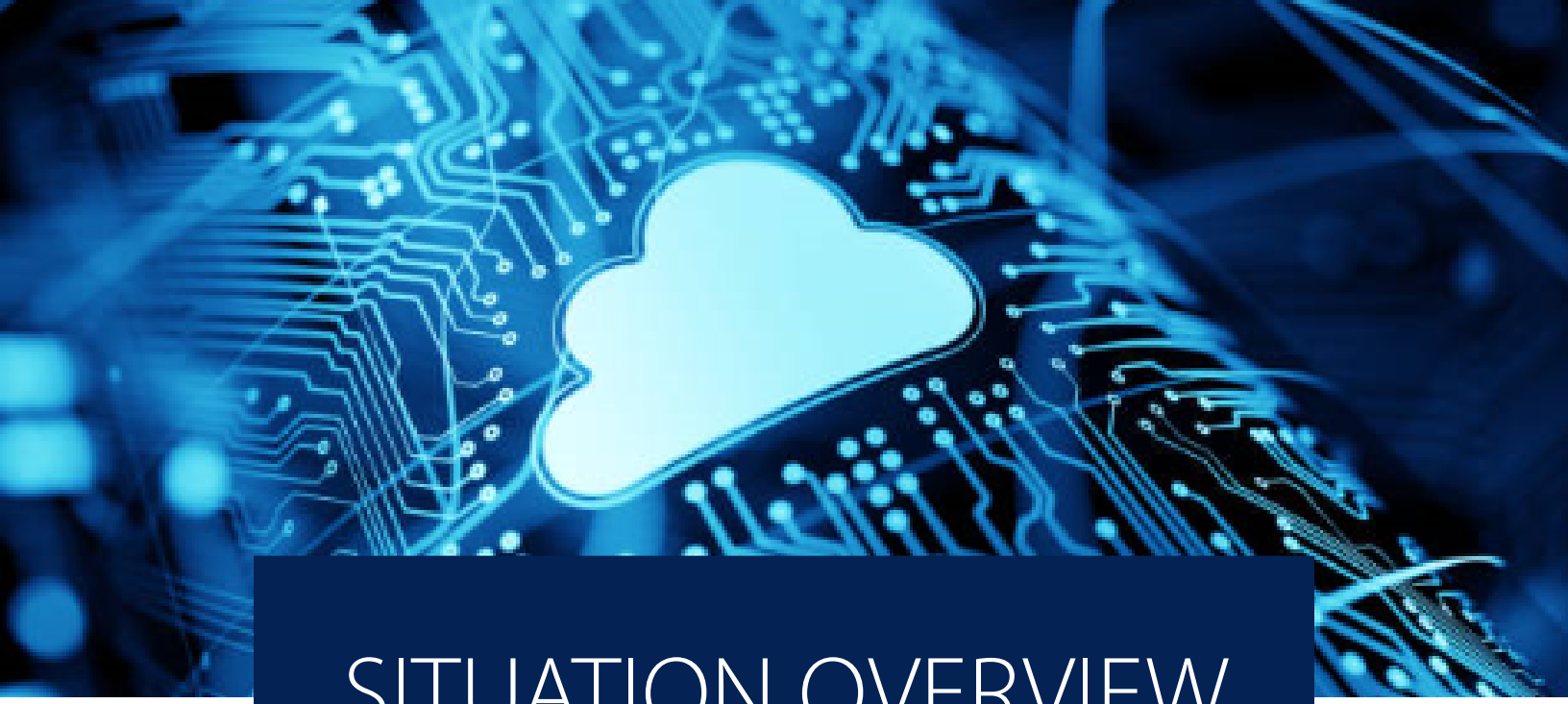
40% improvement in finance process efficiency

Up to **10% improvement** in uptime

Faster access to accurate data for decision support

Increased operational efficiency through automated ordering and payment

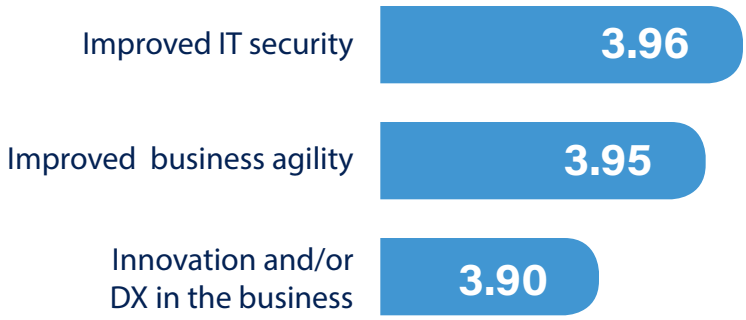
Substantial **time saved** on manual data entry



SITUATION OVERVIEW

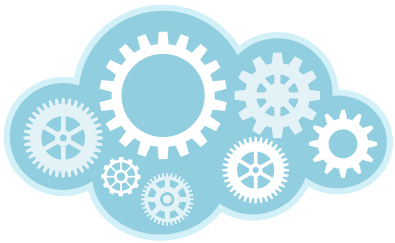
We read about the many successes associated with IT modernization and digital transformation initiatives. Many of these success stories are directly or indirectly related to cloud migration. According to IDC's 2019 Industry CloudPath global survey, cloud initiatives are meeting buyer expectations for improved IT security, business agility, and innovation (see Figure 1).

FIGURE 1 Buyer Expectations for Cloud



n = 1,940 Source: IDC's Industry CloudPath 2Q19, May 2019

Note: Respondents rated their expectations on a scale from 1 to 5, where 1 = "did not meet our expectations" and 5 = "significantly exceeded our expectations."



Yet many companies continue to struggle with cultural and change management issues and the lack of skills and training needed to transform. Respondents acknowledged that applications must be modernized to successfully address the myriad challenges confronting the business, including:

- Inefficient labor-intensive processes
- Inconsistent execution
- Rising datacenter costs
- Limited visibility into operations because of siloed data
- Inability to access innovation accelerators such as artificial intelligence (AI) and machine learning (ML)

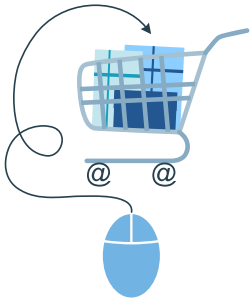
Technologies such as AI, ML, and Internet of Things (IoT) need the massive compute, storage, and scalability of public cloud. These technologies are increasingly embedded in software-as-a-service (SaaS) and cloud enterprise business applications, which means they are quickly moving off the road map and into the mainstream. In fact, most users will experience these technologies in the applications they use to get their jobs. IDC's 2019 *SaaSPath* Survey found that 31% of organizations have implemented cloud ERP and 21% plan to implement cloud ERP to access AI and ML.

Cloud ERP is foundational for modernization and transformation. However, for many businesses, the operational problems created by a legacy ERP are the primary driver of cloud migration. As the IT director of a global manufacturer with 10,000+ employees stated, *"We lost business focus. We even lost clientele. As a global company, the ERP wasn't working the way it should. One of the biggest reasons is we were running it ourselves without the expertise to do this."*

The CIO of a global travel and hospitality company based in Mexico shared a similar experience, *"As far as the ERP goes, it was one of the first things I addressed when I got here. We were doing a lot of processes manually, especially the financial processes. Getting financial figures to bundle and tier up to an executive level as a group was very difficult and time consuming. We experienced a lot of delays getting financial information together."*

Key Takeaway

Whatever the motivating factor, the decision to move to cloud ERP is a prime opportunity to assess the broader possibilities and transformative impact of change. In design thinking parlance, it is referred to as journeying from "what is" to "what if." The move to cloud ERP generates greater potential for innovation. Tapping into that potential requires a reimagining of how the business creates value for customers and greater economic surplus for the business. In other words, replace legacy thinking along with the legacy system. With cloud ERP, organizations have faster access to new features and functionality, including AI and IoT, that can transform experiences for all stakeholders.



The Cloud ERP Buying Decision

The sections that follow provide insight into the four key elements of a cloud ERP deployment:

- **Priority initiative:** Trigger event for the move to cloud ERP
- **Decision criteria:** Desired capabilities and attributes of the new solution
- **Barriers to success:** Challenges encountered along the journey
- **The buyer's journey:** Steps taken to identify, evaluate, and choose a best-fit solution

The Priority Initiative

What drives organizations to change a business-critical system such as ERP? Research shows the catalyst for change is frequently an acute or chronic problem with the incumbent system that cannot be masked with patches and workarounds. The complexity of the system drives up cost, and stopgap measures only compound the problem. For some companies, acquisitions introduce even greater complexity that exacerbates the problem. The ERP system is inflexible and failure prone. Manual processes created to address system limitations are inefficient and misaligned with today's user and customer expectations. In these cases, the move to a cloud ERP is about survival.

> *"Sitting on the executive team and listening to my peers talk about — this didn't get paid and we didn't have this … when you hear this, you know it is not just a system problem; it's a process problem. We were on a failing platform. There had been so many patches and customizations done on JDE that we needed to start with a clean slate."*
>
> **– CIO, Healthcare, United States**

> *"We were running six different solutions across different companies. The cost of many ERP licenses is very high. We needed to build up six VPNs to different locations, and security was just not good enough."*
>
> **– CIO, Manufacturing, China**

Key Takeaway

Companies cannot patch their way out of the problems created by a failing legacy ERP system. It is time to accelerate the move to cloud ERP to avoid the problems that will continue to multiply without the appropriate action. The experiences shared in this white paper should make it clear that waiting to modernize ERP is clearly not a strategy designed for the future. Management needs to identify the processes that are inefficient, limit agility, and negatively impact the customer experience. We live and work in a time of constant disruption, which mandates that companies have core systems that provide fast access to information to enable continuous improvement.

Enable Scale and Innovation

IT leaders expect greater agility, scalability, and resilience from cloud ERP. Participants also look to cloud applications for access to innovation accelerators such as AI, machine learning, advanced analytics, and IoT. Cloud enterprise business applications enable companies to leverage these technologies without onboard skills and experience, a significant barrier for participating companies that have yet to tap into their potential.

For participating companies engaged in modernization and transformation efforts, the innovation potential of cloud ERP is a priority. The volume and velocity of data have surpassed the capacity of legacy systems of record. Innovation is constrained by the lack of access to information when and where it is most needed. Data is generated from an increasing number of sources, including endpoints and sensors. The data is

dispersed across geographies and datacenters, further complicating modernization efforts. When demands from lines of business (LOBs) for new services are added to the mix, it becomes apparent that technologies such as machine learning, AI, and advanced analytics are competitive necessities.

> *We have 4,000 different vehicles that run around project sites. To get optimal utilization, I'm working on an innovative strategy using IoT, robotic process automation [RPA], and AI. Basically, preparing some of the models.*
>
> **– CIO, Engineering Services, India**

> *The goal is to have one key data repository. We don't want different data elements at different datacenters. One data source for analytics and insights.*
>
> **– Regional Director of IT Services, Manufacturing, United States**

Digital Transformation

Moving to cloud ERP is a necessary step in what could be a years-long transformation journey. That journey includes identifying opportunities to automate and streamline business processes to improve efficiency and create better experiences for employees and customers. Employees want to feel empowered by, and not constrained by, the systems they use to do their job. It has become increasingly important for organizations to create a digital culture where employees can feel productive and innovative. Engaged employees help create exceptional customer experiences.

CIOs engaged in digital transformation initiatives recognize that modernizing their ERP system is a necessary step toward becoming a data-driven business and the shortest path to deploying innovation accelerators. IT leaders cited user experience as a critical consideration when evaluating ERP as part of a broader transformation effort.

> *We have been doing elements of digital transformation over the past several years. This includes digitizing manual processes and our strategic reporting initiative to take advantage of the rich functionality we have with our new ERP and Office 365.*
>
> **– IT Director, Manufacturing, United States**

> *We have several POCs for robotic process automation. The cloud ERP uses bots for accounting and human capital management. For accounting, whenever we complete payment processing and look up bills, it's completely automated.*
>
> **– CIO, Engineering Services, India**

Mature cloud organizations have priority initiatives for modernization and digital transformation that extend beyond replacing legacy systems. In these cases, moving to a cloud ERP connects to the business strategy, overall enterprise architecture, and master data plan. One IT director from a United Kingdom–based manufacturer shared that the company will use the move to cloud ERP to kick off a broader transformation initiative with the help of Microsoft. IDC predicts that these digitally determined companies will represent nearly half of all businesses by 2020.

> *"The transformation started three years ago when the company realized it needed to act. Hotels were changing our property management systems, restaurants were replacing POS. It impacts all our merchandise locations and mobile efforts. Microsoft was the only company that came at this from a holistic approach, trying to understand our business goals."*
>
> **– CIO, Travel and Hospitality, Mexico**

> *"Transformation is necessary because the line between process automation systems and business systems is blurring. The technologies we use to support process control and automation [are] the same that we use to support the corporate environment. We need a consistent set of processes."*
>
> **– VP of IT and Process Automation, Manufacturing, Canada**

Key Takeaway

Digital transformation is complicated and time consuming. However, with vision, governance, and transparency, the effort has far-reaching potential for growth acceleration. IT leaders cited the need for a comprehensive data strategy as part of the transformation initiative. Therefore, the business needs a modern system of record such as cloud ERP to eliminate data silos and run advanced analytics to track and measure progress.

Reduce Costs

Cost reduction is an important consideration for all organizations. For some, replacing technology that is end of life eliminates the expense of legacy technology. While important, reducing technology cost is not the primary reason why businesses replace a legacy ERP. As one CIO shared, the savings from increased operational efficiency exceed any reduction in IT spending. In cases where the burden of running the legacy ERP system becomes unsustainable, significant cost savings are realized by improved uptime and process efficiency.

> *I have a CEO that used the phrase that migration to cloud ERP would save money. I was like, it won't save money on IT, but it will save money on [expired] inventory.*
>
> **– CIO, Healthcare, United States**

> *The downtime we experienced resulted in some stiff costs. When we receive orders from large clients, we need to know the availability of stock immediately. We lost connection to our cohosted datacenter, and it caused tremendous pain for us. If we don't meet SLAs, we get hit with significant penalties for shipments.*
>
> **– Director of IT Services, Manufacturing, United States**

> *I'm going to control the cost of the materials as well as services, all of this is saving time as well as money. For other tangible benefits, our operational efficiency has increased and we have faster access to accurate data for timely decision making. This has helped every person involved and saved an enormous amount of time.*
>
> **– CIO, Engineering Services, India**

Consolidating disparate ERP systems resulting from mergers and acquisitions triggered a move to cloud for several of the participants interviewed. The CIO of a United States–based global manufacturer whose division had been divested from the parent company was given six months to migrate ERP data from the former parent's ERP system.

> *The company made over 200 acquisitions over the past five years. Each acquisition comes with its own CTO, CFO, and CEO. It's very distributed with 5,000 users currently on ERP. We're measured on client profitability; the priority was to get finance on a system that can report on this metric across the enterprise.*
>
> **– CIO Global Platforms, Multinational Media and Digital Marketing, United Kingdom**

Building the Case for Cloud ERP

Once an organization determines that the ERP status quo is unsustainable, and before it embarks on the journey, it creates a business case to capture and communicate the justification for change and the impact that this change will have on the organization. The desired outcomes included in the business case address the current challenges and the greater potential economic impact of change.

Justification involves quantifying the cost of cloud ERP, including the reduction in IT capital investment, the elimination of costs associated with maintenance and support of legacy systems, improved agility and process efficiency, and massive scalability. Buyers have come to realize that the security offered by the large cloud service providers exceeds what their organizations can provide in their own datacenters. In fact, security has become a key driver of cloud services for many organizations.

In most cases, the greatest value for the business comes from the increased efficiency of automating and streamlining processes and having the agility to respond to changes in the market. Businesses making their first foray into cloud ERP rely on consulting partners to help identify the key value drivers for the business case. Other benefits cited by participants and captured in the business case are as follows:


Standardization and increased manageability


Reduced security and compliance risk


Faster onboarding of acquisitions


Reduced capital expense


Improved staff productivity — focus on new service creation


Increased agility


Multiplied innovation


Massive scalability

> *We did a formal business case with respect to what we are going to improve in operational activities. I prepared an ROI based on the capital and operational studies and [cloud ERP] implementation — what will be the breadth, how we are going to get the ROI, and where we will see improvements. Based on that, management has taken this decision.*

– CIO, Engineering Services, India

> *In terms of the executive board, it was all about moving operational workloads to a cloud-based platform, the reduction of capital spend on infrastructure, and a bit more focus on new service development.*
>
> **– IT Director, Healthcare, United Kingdom**

> *I don't want to be in the datacenter [business]. I want to take those network people and use them on other functions.*
>
> **– CIO, Healthcare, United States**

Key Takeaway

The business case serves as the guidepost for how the organization will achieve its desired outcomes. Terms such as greater agility and ability to innovate must be defined in ways that can be measured (KPIs) and tracked over time. Of course, what to track varies by organization. Some of the more common metrics cited by participants are as follows:

- Five-year cost of operations
- Five-year return on investment
- Payback period
- Reduction in infrastructure
- Percentage of unplanned downtime
- Customer satisfaction
- Developer productivity
- IT team efficiency costs (ROI)
- Resource utilization
- Application visibility
- User productivity
- Deployment agility

Decision Criteria

Many of the triggers that prompted the search for a new ERP solution inform the essential criteria for the new cloud solution. Top among participants' decision criteria for a new ERP solution are performance and other capabilities including uptime; elastic scalability; modern user interface (UI); ease of integration; support for public, private, and hybrid cloud deployments; and enterprise grade and resilience. Business value takes precedence over TCO for many buyers. Agility, efficiency, and innovation are key priorities.

Buyers often talk about the cultural and structural fit of a solution, which mainly refers to the supplier's reputation in the buyer's industry and familiarity with the buyer's business as well as the supplier's engagement model, competitive ranking (market leader), and history of innovation. An enterprise architect or a cloud architect usually collaborates with business leads to define a high-level architecture for the solution based on the business requirements.

> *"With Dynamics, we are experiencing what we originally hoped for. When we need to add a new product or stand up a new facility, we can do that much faster than in the past."*
>
> **– VP IT and Process Automation, Manufacturing, United States**

> *"Another important thing in terms of the [ERP] selection is time to value; how long does it take to implement. We don't want to put a lot of capital investment into it."*
>
> **– CIO Global Platforms, Digital Marketing, United Kingdom**

> *The first thing was to find which ERP system is best for our business model and the business processes. The software must be worldwide and have distribution in many regions. It also must be good for a Chinese company.*

– CIO, Manufacturing, China

Provider Relationship

IT leaders expect to have a close working relationship with their cloud ERP provider that spans planning, migration, deployment, and operation. Most businesses acknowledge that they lack the necessary in-house skills to be successful on their own. A hallmark of a great SaaS company is the ability to work side by side with customers to make them successful. Often, feature parity makes it difficult for buyers to choose between providers. In these cases, the value of the relationship rises to near the top of the list of selection criteria.

> *Our processes were all over the place. The relationship is what brought us to Microsoft. They made the effort to understand and work with us.*

– IT Director, Manufacturing, United States

> *The one company that came at this with a holistic approach and wanted to understand our business goal was Microsoft. We have a team of Microsoft architects who worked with our team to find opportunities for new features. We told them if we are going to take this leap from on-premises, you better be arm in arm with us. I give them a lot of credit; they've done this.*

– CIO, Travel and Hospitality, Mexico

Integration and Customization

The degree to which the cloud ERP must be customized and connected to other systems varies greatly by organization. The one constant is that both are important considerations for buyers. Some of the people interviewed for this white paper have skilled internal DevOps teams within their businesses that can perform the necessary customizations and integrations. Participants from these organizations cited their preference for solutions that are easy to customize and that have prebuilt integrations and modern application programming interfaces (APIs) to reduce the time and effort required to connect systems. At the other end of the spectrum are those who seek

an ERP system designed for their industry and look for processes and workflows that are built into the application. Organizations also evaluated the level or type of skills required in-house and the level of support needed from the supplier or the supplier's ecosystem of partners when making their decision.

> *"What we were operating on wasn't that good. We had a generic, off-the-shelf [configuration] that was highly customized. I would say we're looking at about 30% of the workload that had to be customized to what we wanted."*
>
> **– IT Director, Manufacturing, United States**

> *"There were two things that brought me toward the chosen supplier — the relationship aspect and how well they understood what we wanted and were willing to customize because our processes were all over the place."*
>
> **– IT Director, Manufacturing, China**

> *"We want good APIs and links into the common providers; ease of connection, good quality tools, and security layering so it's compliant."*
>
> **– CIO Global Platforms, Global Media and Digital Marketing, United Kingdom**

Minimal Disruption

Given that replacing the ERP system has a disruptive impact on the business, buyers must consider the time it will take to complete the move and the degree to which business operations will be disrupted. Obviously, the preference is for a shorter migration period that causes little to no disruption to the business. Businesses planning the move to cloud ERP should take advantage of cloud service provider programs and tools that incorporate automation features to accelerate the move, reduce risk, and improve efficiency.

> *"We had grumps in the company who said we couldn't move fast enough; you wouldn't have the integration setup. The more we roll out Dynamics, the more we learn and the faster we can move."*
>
> **– CIO Global Platforms, Global Media and Digital Marketing, United Kingdom**

> *We didn't have the opportunity to run a legacy system in parallel. Our implementation was a 'big bang' over four days and extended weekends. With the help of Microsoft, we flipped the switch from using Oracle to using Dynamics 365 in all four workstreams.*
>
> **– VP of IT and Process Automation, Manufacturing, Canada**

Security and Compliance

Customer and regulatory compliance are critical considerations for all businesses, but especially for businesses operating in highly regulated industries. Compliance considerations for most participating organizations relate to financial reporting, the type and location of data, auditability, and role-based access. While many prominent cloud ERP solutions address these issues, specific customer criteria and benchmarks may further complicate the decision.

Barriers to Success

Organizations encounter challenges along the journey that can impede or prevent the move to cloud. Most often, there is apprehension regarding the complexity of moving core business processes and causing disruption of mission-critical applications and tasks. There can be concerns over timelines, training, or support for a new process across the various management and user roles in the organization. There may be organizational memory of failed migrations in the past, fears of cost overruns, or fears of systems failing to deliver on their promised benefits or ROI. Some organizations see customization as a requirement; others see it as a barrier. Customization may be thought to interfere with or prevent system upgrades, thus creating a significant maintenance problem. It is important for both buyers and suppliers to understand these perceptions and to address them as early in the process as possible.

> *Even though we have an IT department, there was a naivete about how to address key elements of migration. That was addressed through our close relationship with Microsoft.*

– IT Director, Manufacturing, United Kingdom

> *Anytime you start customizing it, you get into a lot of issues keeping up with the current release. We've learned our lessons from that, and it's not something we want to repeat.*

– Regional Director of IT Services, Manufacturing, United States

> *The data support is across so many geographies and datacenters. We are trying to identify all data sets and where they are. It took a year working with our consultant to map out dependencies.*

– IT Director, Healthcare, United Kingdom

The Buyer's Journey

Participants share a relatively common sequence of events that represents the journey to cloud ERP. The stages include planning, identification of suppliers, supplier demonstrations, evaluation of supplier solutions, and recommendations and final decision. For participating companies, the duration of a cloud ERP buying journey, from planning to final decision, ranges from several months to two years depending on size and scope. For many, the cloud ERP buying decision is part of a broader company IT strategy or digital transformation initiative.

Planning

Analysis of the affected business processes and workloads is a large part of the planning process when migrating to a new ERP solution. Organizations will identify which existing processes will be affected and what new functions will be added. Specific focus will be on high pain points such as outdated or failing processes or redundancies across LOBs. The planning must address the criteria previously designated, which should include user requirements and abilities. Schedules or timelines for the process and rollout as well as budget will be key parts of the planning process. During the planning stage, participants rely on consulting partners with intimate knowledge of their business.

"We identify the processes that are out of date, what is inefficient, what is disjointed, etc.; then we bring that together with the vendor we're using and work with them to be on top of everything."

– IT Director, Manufacturing, United Kingdom

"We asked ourselves, what is our internal expense, what kind of modules do we need, and what internal processes need to change. I had multiple meetings with different departmental people and the entire team. And based on [this], I summarized the capabilities we needed, the number of ERP users, [and] the type of reports and information needed."

– CIO, Engineering Services, India

"It all started with a commitment to the process. That means everyone is on board with what needs to take place, including the sacrifices of time and effort needed to implement a new ERP. The old method of customizing the ERP to accommodate outdated processes won't fly."

– CIO, Travel and Hospitality, Mexico

Supplier Identification and Evaluation

IT buyers are reluctant to approach a new supplier feeling uninformed and vulnerable. Buyers seek guidance first from peers and trusted partners to help them understand their options. In fact, today's IT buyer is more than halfway through the journey before even contacting a supplier sales representative.

In this phase, buyers create and prioritize the list of solutions and assess the supplier's implementation services and processes. Buyers look to trusted partners, colleagues and peers, and industry associations such as HIMSS in healthcare for recommendations, seeking the top industry solutions. Buyers have even involved external auditors in their buying decisions. Some buyers prefer only tier 1 vendors with relevant skills and experience. Lists may involve only one or two suppliers; some start with a list of 10 or more. Ultimately, these lists are vetted until there are only a few remaining candidates for evaluation. Where there is a strong incumbent ERP provider and a company has in-house skills around an incumbent supplier's offering, there is a higher hurdle for a new supplier. Yet despite incumbency, buyers will consider alternative suppliers that can demonstrate superior business value, including price performance.

> *We consider ourselves a multicloud customer; it really depends on what we think of [the potential supplier] as a leader in the market when it comes to cloud delivery. We take a best-of-breed approach or tier 1 vendors who can help us achieve certain goals.*
>
> **– Senior Director of IT, Manufacturing, United States**

> *We went through a very laborious process of doing an assessment with two suppliers. We kept them in parallel through the work. A third-party partner would do the negotiations.*
>
> **– VP, IT and Process Automation, Manufacturing, United States**

Many of the participating companies issued a request for proposal (RFP) to prospective suppliers. Responses were then assessed and assigned a score for each of the selection criteria. The two or three suppliers with the highest cumulative scores were often invited to participate in presentations to a buying committee. A proof of concept helped the buying committee evaluate how the solution performed across different use cases. Pilots can involve stress testing to extreme demands such as high transaction traffic. In other cases, the timeline may prohibit a lengthy evaluation. One company interviewed did not do a POC but relied on representational demonstrations to key test scenarios.

The steering committee is actively involved in supplier evaluations. Companies may have committee members visit existing supplier customers. Teams included representatives from functional areas such as HR, finance, supply chain (inventory management, purchasing and contracts, invoicing); multiple IT areas; and project management as well as external auditors or consultants. Another company had its team visit public cloud suppliers' datacenters.

Roles and Responsibilities in the Buying Decision

The CIO or the CFO is typically the economic sponsor of a cloud ERP purchase. However, the steering committee is empowered to conduct a thorough evaluation of supplier solutions and present its recommendations to the CIO and other executives for approval. The committee is fully aware of management's goal for the project and has vetted its thinking through a series of project reviews with the sponsoring executive. IT leaders interviewed for this white paper elected to go with the committee's recommendation.

The buying or steering committee is made up of stakeholders from across the business, including functional business leads, heavy users from the impacted business units, and representatives from security, finance, HR, and legal. The influence of each stakeholder varies based on the individual's role, relevant knowledge and experience, and user profile — heavy user versus light user. Enterprise organizations may have an executive steering committee and a buying committee; the former provides executive oversight and guidance, and the latter is responsible for identifying, evaluating, and recommending a best-fit solution.

Considerable influence is applied by the heaviest users of the ERP system, which for most participating businesses include finance and HR. Trusted consulting and technology partners also have considerable influence throughout the journey.

> *"We had a steering committee with people from across the company as well as external advisors as part of the process. We also had an executive leadership team at the VP level across our organization and people from the ERP program management office that included business leads, representatives from our advisory team and, eventually, the implementation partner."*
>
> **– VP of IT and Process Automation, Manufacturing, Canada**

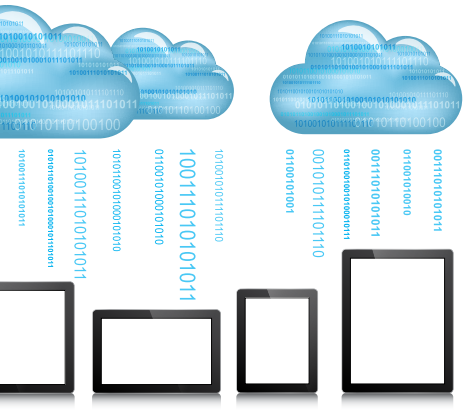
The lead evaluator (typically reporting to IT) is most "hands on" during the evaluation process. This role serves the interests of both IT and the lines of business. While lead evaluators are often not the final decision makers, they have significant influence during the buying decision. An enterprise architect is the logical choice because this role functions as the bridge between IT and business domains.

Line-of-business functional leads who are impacted by the move to cloud ERP serve as key members of the committee. While some business units have their own IT staff, the core IT organization drives the process of selecting a new ERP solution. Engaging the functional leads early in the process is key to securing the full support of the business.

> *"I always get the business units involved early because if you don't, from my experience, they will come back and say 'IT chose it; let IT figure it out.'"*
>
> **– CIO, Healthcare, United States**

> *I always go to the business first to get buy-in. We're conducting monthly engagement meetings with the key users from the business in each market and brand to say here's where we are today, here's what's coming next, here are the features and functionalities that will be switched on.*

– CIO Global Platforms, Media and Digital Marketing, United Kingdom



Migrating to Cloud ERP

Often, organizations perform a phased migration with a modular rollout of locations and application functionality, beginning with the least disruptive locations. Occasionally, the entire system is migrated over the course of a weekend when the impact on users is minimal. One organization opted to migrate end user–facing functions last. Regulated workloads in industries such as healthcare may choose to run the new ERP in a private environment — enterprise private cloud or hosted private cloud. An organization may choose to run the legacy system in parallel with the cloud ERP for a period while testing or tuning the new system, but this approach was less common among the organizations we interviewed.

Migrating sensitive data to a cloud ERP and dealing with compliance challenges are top concerns for participating businesses. In most cases, a team of analysts is tasked with preparing and transforming the data for capture in a single repository that is ideally in the cloud. However, participants recognize that certain data elements may have to be stored in the company's own datacenter to comply with regulations or company policies. Most businesses choose to work closely with their cloud ERP supplier or a trusted third party to move data to the cloud. Several participating businesses leveraged supplier tools and services to help with data migration. One CIO described how the tool helped "predict how the data will flow into the new ERP," which helped build trust within the team. Most businesses prefer to use migration tools and services directly from the cloud ERP provider in an "end-to-end process." Differences between the legacy and cloud ERP can sometimes require that the data be manually entered into the new system.

> *We are using the migration tool from our ERP supplier for cleaning, exporting, and importing data. The user prepares the data in Excel, marking every field in the system, and then sends a system table using the [tool] to import into the system. You can do*

some analysis in Excel before importing. It was less of a problem to migrate to the new ERP system than we expected.

– IT Director, Manufacturing, China

Cloud ERP suppliers work collaboratively with their clients to ease the migration process. Most businesses rely on the supplier's engineers to assist with many of the required migration tasks. Some companies hire systems integrators (SIs) to help with integration; others tend to commit significant internal resources. One company interviewed had teams of key users assigned to each functional area affected in the migration process, with members from both IT and the BUs. The overall ERP migration had a total of 45 team members (25 internal staff and 20 external consultants) for full installation and migration of all functions. Note that this company did not use migration tools other than data upload templates; all migration was manual. The entire project duration was seven months from the start to the "go live" on the new system, on a private on-premises cloud. Another company interviewed had teams of two to three key users from the departments affected. The project involved migrating a total of six business units to cloud ERP and took more than five years.

Microsoft gave us a team to work with; they came on board with us. We told them exactly what we needed; we showed them where we were today and where we wanted to be, so they put the right people in front of us to work with my engineering team.

– IT Director, Manufacturing, United Kingdom

The migration to cloud ERP can be a culture shock for some users in the IT organization as they adapt to new processes such as the timing of new releases or new functions and system updates. Many cloud ERP solutions offer tools and new features to address these challenges. Many users were pleasantly surprised by the tools and features of the new ERP.

We've had to adapt our organization to how we handle updates. Do we have things set up the right way? Do we have automatic regression testing? Another thing that Microsoft did for us was use their regression testing tool. You can send your automated scripts, and they'll run them against the new release so they can filter out any bugs earlier than when you get it, and that's quite nice.

– CIO Global Platforms, Media and Digital Marketing, United Kingdom

Early Results

Nearly all the participating businesses cited complete relief from the challenges that initially triggered the move to a new ERP system. From improved uptime and overall resilience to a significant reduction in datacenter costs, participants said they are only scratching the surface of what is possible.

- On average, **30% reduction** in datacenter costs
- **Enterprisewide** access to accurate, real-time analysis and reporting
- **40% improvement** in finance process efficiency
- **Improved** IT and business staff productivity through a reduction of owned infrastructure and automation
- Accounting process consolidation **reduced from 30 days to 12 hours**
- **Faster** execution speed and agility
- **Increased** focus on development and ITIL
- **Faster** inventory turns
- **Simplicity** through standardization

> *"We have enjoyed the lessened burden on the infrastructure group with respect to backup and recovery. We've also enjoyed the intuitiveness of the solution, which is much more user friendly and easier to ramp up for new hires. We've been impressed in terms of the configurability of the system. It's easier to redirect the ship when we need to based on changing business requirements. The reporting is what we hoped for; the ease of self-serve reporting for the users and being able to integrate our legacy systems into the reporting."*
>
> **– VP of IT and Process Automation, Manufacturing, Canada**

Guidance for Buyers

We asked participants to share how they would advise a peer who was planning the move to a cloud ERP. While the guidance may seem like common sense to many, it is certainly not common practice for most.

Invest in planning and training. As the saying goes, "plan the work and work the plan." Buyers are consistent in their emphasis on creating a comprehensive migration plan that includes an accurate accounting of the current IT environment, capacity planning, a clear vision of where the company will land post-migration, and what it will take to get there. An engagement with this breadth of business impact needs a strong commitment from the executive sponsor and executive and steering teams. The commitment will come once the team has a full understanding of the process, impact, and outcomes associated with the migration. Engage the heaviest users of the ERP system at the earliest stages of the journey, including supplier evaluation and demonstrations. Questions and insights from the user community are indispensable throughout the process. In a few cases where the training requirement was underestimated, adjustments were made to provide users with additional training.

Recognize that migration to cloud ERP is a business decision. ERP migrations are often thought of as IT-led initiatives, but nothing could be further from reality. The decision to move to a cloud ERP must be grounded in a solid business case that describes in unambiguous terms the business performance improvements that will follow migration. Many participants described how each business unit includes a team assigned to look after specific processes or applications and that typically sits within the business function. This team is intimately familiar with current process challenges and often works across functions to assess cross-function workflows and opportunities for improvement. A change management ingredient needs to be added to every work plan.

Communicate early and often. There are many areas where proactive communication can reduce friction and avoid unnecessary disruption. Ask users for input on how features of the new ERP will impact their individual jobs. Encourage input from users on potential process improvements, including the tasks and processes that could benefit most from automation. Successful companies establish a process where users can experience new application features to

help determine the potential impact on business performance. Access to a continuous pipeline of new features is one of the key advantages of SaaS and cloud applications. It can also be highly disruptive for companies that are not prepared to take advantage of continuous innovation. In response to customer demand, Microsoft recently announced One Version with the goal of helping customers take advantage of a single, continuously updated version of a SaaS application such as ERP while ensuring that new features do not negatively impact the mission-critical needs of individual users. Businesses manage regular monthly update cadence so that they can test and validate updates such that extensions, integrations, and customer-specific configurations are not adversely impacted. One Version supports customer-specific regression testing, leveraging the business process modeling and recording tools included with Dynamics Lifecycle Services to validate the update in a sandbox environment. Dynamics 365 Finance and Operations uses low code/no code extensibility, making it easier for businesses to tailor the application and eliminating the need for expensive, time-consuming customizations.

Leverage supplier migration offerings. Supplier migration offerings such as the Microsoft FastTrack program are born from hundreds of successful cloud ERP migrations. FastTrack is a customer success service designed for a smoother transition from on-premises ERP to Dynamics 365. The program provides access to Microsoft engineering resources and guidance about implementation best practices. Businesses should take full advantage of migration programs to avoid common implementation mistakes and take advantage of lessons learned by the industry's digital pioneers. Programs such as FastTrack are created and staffed by people who understand and have solved common migration challenges. In fact, many of the companies participating in this research acknowledged that considerable time and effort may have been saved had they been fully aware of these migration programs.

LEARN MORE

- ***DX Reinvention — The Race to the Future Enterprise*** (IDC #DR2019_GS4_MW, March 2019)
- ***The Rationalization, Modernization, and Transformation of Enterprise Applications*** (IDC #DR2019_T5_MNR, March 2019)
- ***Buyer Insights: Transform Buyer Personas with Contextual Insight*** (IDC #US43819818, October 2018)

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