

White Paper

Taking The Fast Track To ERP Innovation Is Essential For SMEs

Sponsored by: Microsoft

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IN THIS WHITE PAPER

This white paper describes the top priorities for South African small-to-medium size organizations (SMEs) when deploying and using enterprise applications, specifically those classed as enterprise resource planning (ERP) solutions. It discusses the findings of end-user research conducted in 2021, and the broader insights of IDC's best-practice guidance for these customers. This paper and the associated research were sponsored by Microsoft: Microsoft Dynamics 365 Business Central is a full-spectrum enterprise application solution for SME customers.

METHODOLOGY

IDC surveyed 107 SME executives with responsibility for ERP and enterprise application solutions in their organizations. Respondents were split between Johannesburg and Cape Town, with representation across all major vertical markets and a variety of job titles. The research was conducted in 2021Q1, after a year of the market conditions imposed by the COVID-19 pandemic, and interrogates a number of topical areas including business outcomes, technical challenges, procurement preferences, and line-of-business specific requirements.

SITUATION OVERVIEW

In the current South Africa, small-to-mid size organizations face unprecedented pressure to transform their operations. The immediate urgency of resizing operations, reducing costs, and improving efficiency was only a phase; the next phase will demand agility and speed as organizations pivot to reshape their operations and take advantage of new opportunities. All this takes place within the context of an ecosystem, from suppliers to customers, which has undergone similar transformations. The needs and expectations of that ecosystem will reward those players who are able to step up to the plate, and punish those who are not.

The COVID-19 pandemic was a rare worst-case scenario, but it cannot be viewed in isolation. The lessons learned throughout the crisis will prepare organizations for future crises, but also equip them to rebound effectively as well.

IDC South Africa conducted multiple surveys of CIOs during the pandemic, and consistently found that digital transformation had continued throughout the crisis, including access to budgets and human resources. However, an urgent reprioritization of projects took place in most organizations, moving forward technology projects which would yield immediate business benefit in the most critical areas such as continuity, remote workforce, collaboration, and security, while less urgent areas such as artificial intelligence or conversational customer-interaction bots moved to the backburner.

This reprioritization yields an important insight; effective digital transformation may depend on the organization's ability to reallocate resources and shift focus at short notice, and deliver material business outcomes within a calendar quarter or less. Agility and speed, in other words, will be critical to DX outcomes; conversely, organizations which fail to transform may face a second crisis when their competitors move more swiftly to rebuild business opportunities in the future.

This takeaway is echoed clearly in IDC's SME ERP survey results, contrasting the key business priorities, and the technical difficulties experienced with current solutions. At present, business priorities center around customers, skills, and brand, but the top-ranked concerns were of updates taking too long, a lack of feature innovation, and poor ROI. The two sets are not well aligned, resulting in failed projects and business disappointment.

FIGURE 1

Business priorities for enterprise application/ERP decision-makers in 2021



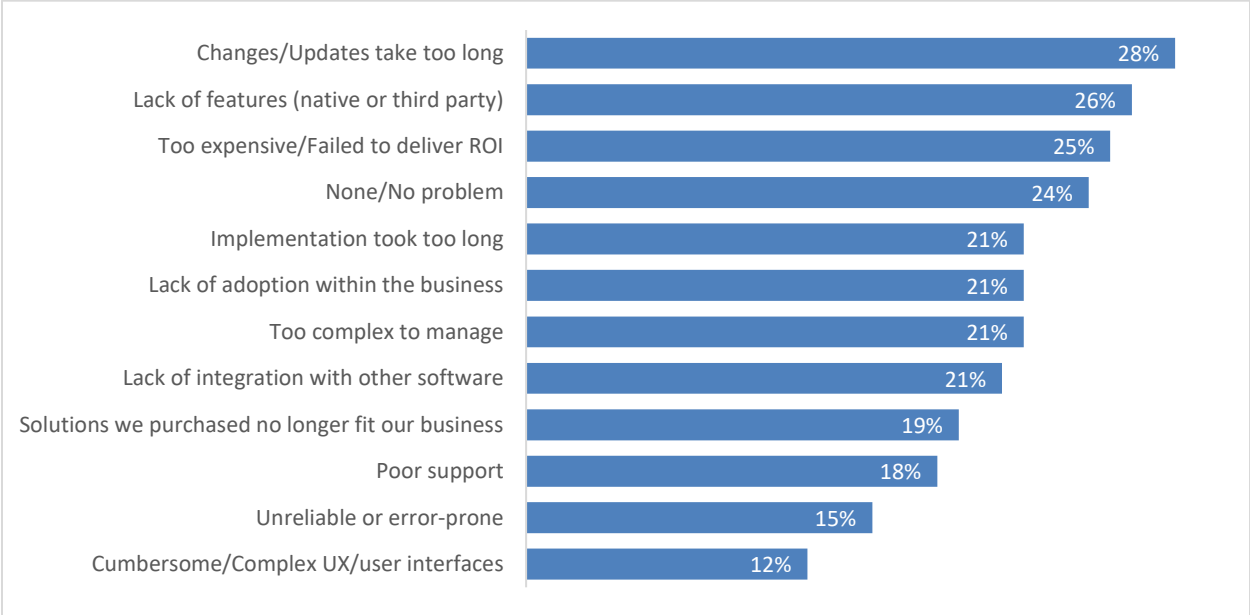
Source: IDC SME ERP Survey, 2021

Business managers are struggling with ERP products - and in many cases with IT platforms in general - which are taking too long to adapt to their needs. As a result, the business is not being served as expected in capability or in ROI, and the situation is likely to escalate as businesses reposition for growth in the near future.

FIGURE 2

Technical difficulties

Q. Do you experience the following technical/IT problems with your ERP applications?



Source: IDC SME ERP Survey, 2021

Changing Expectations

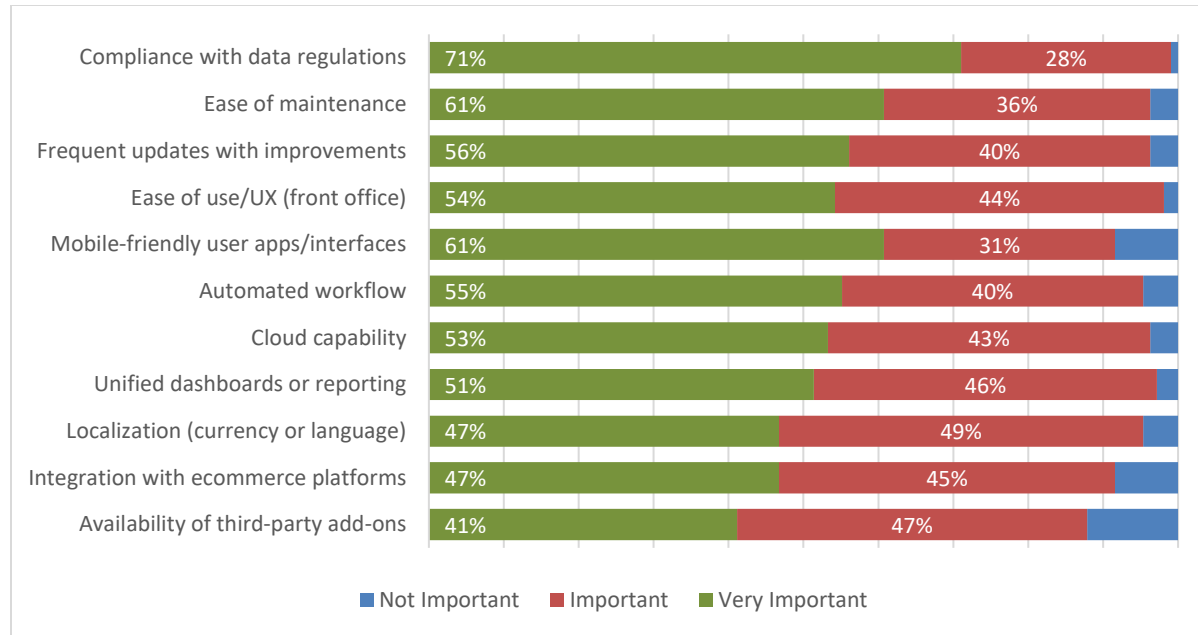
Many SME line of business managers do not even see themselves as ERP customers; they engage with very specifically defined enterprise IT solutions which do not express their role within a greater ecosystem. A customer relationship management (CRM) solution, for example, is a prime example of software which benefits from integration across a suite, with access to customer data, inputs to sales forecasting, inventory management and more. Yet a CRM manager may be confined to a silo of capability and data, without access to the capabilities which make an effective ERP value proposition more than the sum of its parts.

This is frequently a concern with very narrowly-scoped solutions, deployed - often by line managers without the oversight of an IT manager - to service a singular business need such as CRM or time management. No matter how sophisticated the tool, that specific use case within the customer will evolve. A point solution delivering real business value is likely to become more deeply embedded within the business operations, requiring integration with other systems both internally and across partners or customers.

IDC advises organizations, particularly those without deep technical resources available, to be cautious when selecting point solutions, in particular considering how solutions will integrate with each other and with existing line-of-business solutions in the organization.

FIGURE 3

Important features of an enterprise application/ERP suite



Source: IDC SME ERP Survey, 2021

Our survey respondents articulated this very clearly; among the most sought-after features of a successful enterprise application suite are frequent improvements and unified dashboards, ensuring the combined value of each component within the whole.

That is not to say that very specific solutions have no place - many organizations use them to great effect and they are highly recommended in certain use cases. IDC's recommendation is to take a balanced approach, weighing up the alignment of immediate needs with longer-term strategic digital transformation goals.

A similar transformation is taking place in other parts of the marketplace. Customers are the most important, with business customers and consumers exhibiting a rapid evolution of expectations. There is now very little tolerance for doing business with a supplier who cannot demonstrate a sophisticated and well-integrated digital experience, including procurement and sales, customer service, and business process optimization.

Expectations within the business ecosystem are undergoing changes too, with employees and external partners demanding - and getting - greatly improved collaboration, analytics, and access to data. The rapid rise of shadow IT was testament to the growing influence of line of business managers in IT choices, and the enforced remote-working of the COVID-19 pandemic rushed many DX enablement projects to the fore!

Integration, Personalization, and Customization

Cross-product integration is a fundamental characteristic of one of the key innovation platforms of modern business: cloud computing. Among other specifications, IDC characterizes cloud platforms as being environments offering:

- Scalable provisioning of resources, with options to be self-provisioned;
- Elastic pricing, reflecting consumption; and
- APIs to facilitate integration with other products

These capabilities combine to deliver services which can be provisioned, scaled, and extended, in accordance with the changing needs of the customer. These are not capabilities exclusive to public cloud - many of these advantages can be achieved with on-premise solutions or with private cloud technologies - but public cloud platforms consistently bring highly evolved, tightly integrated, and agile solutions to mid-size organizations without the deep technical resources which may be required to achieve the same results.

In key areas such as integration, automation, and security, this capability is particularly highly valued, as the respondents to IDC's SME ERP survey showed. Privacy and data governance are now top of mind for most managers, and enterprise applications need to support efforts to ensure compliance; managing data across multiple silos in a compliance context can be difficult and error-prone. Cloud solutions commonly tackle this by ensuring a high grade of security and compliance with a blanket standard such as the EU's GDPR, and then working through local operating companies and partners to ensure that also meets compliance with local regulation. Most countries in Africa have passed data protection legislation; IDC recommends reviewing the compliance of data handling processes should be a high priority, especially for small and mid-size firms, which endure disproportionate impact in the event of a data breach or audit since they often lack the internal skills to manage it effectively.

It was inevitable that these pressures would lead enterprise applications, as in many other areas of software, to migrate towards the cloud. IDC has tracked the steady migration of customer spend from on-premise solutions towards cloud providers for many years, from a share of under 15% in 2016 to over 50% in 2021. In many enterprise applications such as ERP, acceleration of cloud-based spend is many times greater than on-premise, with the gap forecast to diverge sharply in the future.

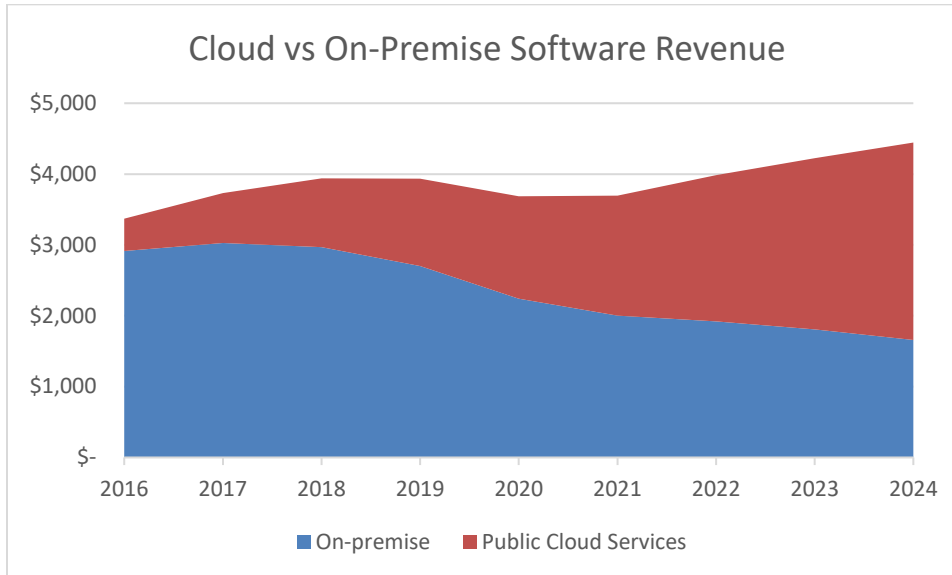
During the peak of the COVID-19 pandemic, ERP was one of the areas which saw the greatest movement towards cloud, driven by the specific factors highlighted in this research: speed of deployment, minimum disruption, and rapid ROI. As organizations move into a phase of economic recovery and position for growth, the capabilities of cloud-based solutions to offer tight integration with other parts of the vendor's portfolio, third-party solutions, and external organizations, will be highlighted as strategic advantages in turn.

South Africa's growing adoption of cloud is also marked by an expanding middle class of businesses; SMEs accounted for 16.2% of software revenues in South Africa in 2019, a share which is forecast to grow to 18.5% of a market worth more than \$3.2 billion in 2024, growing at 10.4% compound annual growth compared to the enterprise market's slower 7.0% growth. Most of that growth, particularly in SME customers, will be driven by cloud adoption of enterprise applications.

FIGURE 4

Cloud and On-Premise Software Revenue in South Africa

SME contributions are growing at 10.4%, vs enterprise at 7.0%



Source: IDC Worldwide Software Blackbook, 2020H2

Mobility and Ease of Use

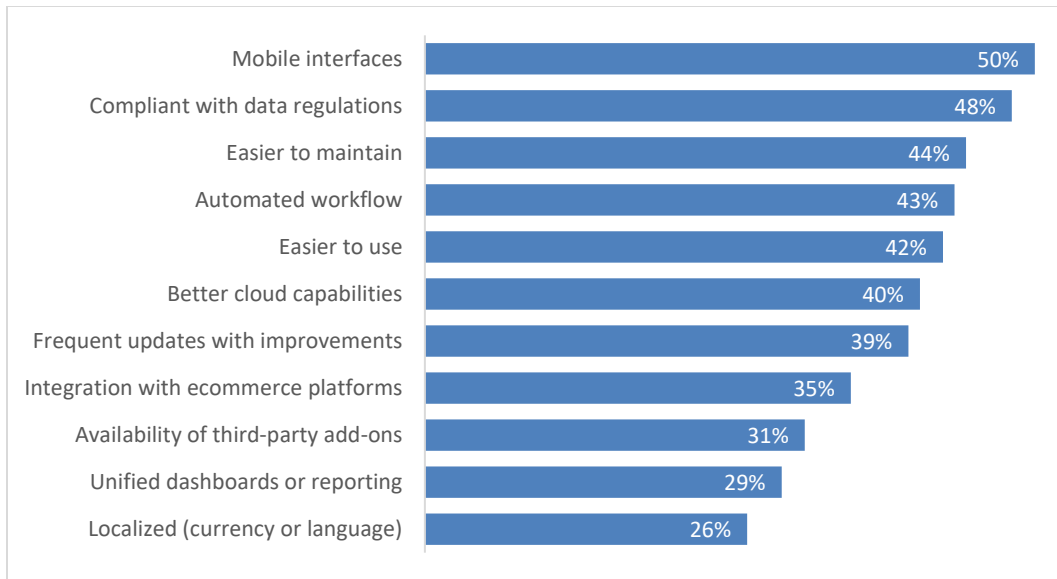
The COVID-19 pandemic forced entire workforces to work remotely, bringing to a head a trend which had been several years in the making; the importance of mobile and remote access to enterprise applications.

FIGURE 5

Extending remote applications to remote workers, without complex backend reconfiguration or additional security risk, is a game changer for business; those who had already adopted flexible application platforms found themselves able to make the change with relative ease, while their competitors hastened to catch up.

This is also mirrored in user experience (UX) trends at play; mobile apps have demonstrated that complex processes and cluttered applications can be reinvented, streamlining the experience for the user and thereby achieving faster, more consistent adoption. Mobility and data compliance top the list of motivators to switch ERP platforms, but ease of use and workflow automation fill out the rest of the top five.

Motivators to switch ERP platforms



Source: IDC SME ERP Survey, 2021

Automation and Intelligence

A key focus area starting to rise up through the charts of features most sought after in new ERP/enterprise applications is that of automation. We are seeing tremendous focus on automation from IT management to business processes, in particular accelerated by a workforce driven to work from home without access to office- and paper-bound processes.

Automation is a power tool, promising much greater speed of operation, consistency and reliability of outcome, and reduced dependence on legacy resources. Since it depends heavily on integrated components, automation is frequently accompanied by an improvement in agility as well.

Many areas of software are seeing investment in automation capabilities, but rarely as strongly as in enterprise applications and ERP, where vendors have significant investments into line of business applications and workflow enhancement already. Leveraging cloud capabilities, and intra-suite data interfaces, customers should expect many workflows to be either automated out of the box, with the capability to create new workflows and automations in the hands of internal IT as well as third-party implementation specialists.

In larger enterprises, there is also a great deal of focus on intelligence; the evolution of the value stack built on data and analytics. A key goal in many cases is the ultimate deployment of machine learning and artificial intelligence technologies, able to sift patterns from mountains of data and derive strategic gains.

Where business intelligence and analytics was once an arcane science, accessible only to highly qualified (and expensive) professionals equipped with commensurate computing resources, modern application suites such as Microsoft PowerBI are integrated directly into familiar tools like Excel, and plug directly in enterprise applications and data sources to deliver advanced analytics and superior decision-making capabilities to a far greater audience.

IDC's forecast for advanced analytics is that many of the cutting-edge AI research of the present day will become commodity features within enterprise applications in the future. As the AI/ML market matures, vendors are integrating the underlying technologies directly into enterprise applications, bringing the same capabilities into the reach of mid-market customers. We are not yet at the stage of commodity products, requiring little or no direct intervention to yield benefit across a ERP platform, but that is the direction we are taking.

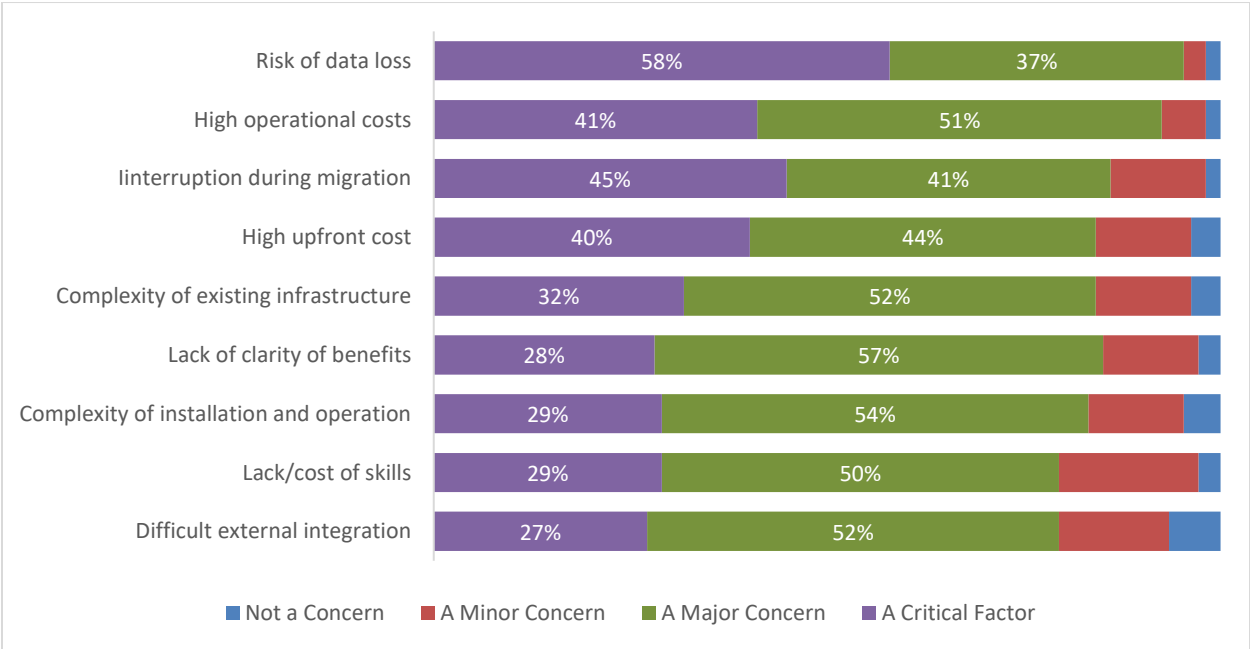
IDC has also predicted that the competitive advantage of having these technologies available to your applications and data is likely to become a key buying consideration within the near-to-medium term. The roadmap and combination of intelligence and automation should be a top consideration for any ERP platform you consider.

Cost, Risk dominate adoption concerns

SME ERP managers voiced clear concerns with deploying a new solution. In *Fig. 6* we see the emergence of three clear bands within the "Critical Factors" numbers. Data loss is far and away the main concern - data is the lifeblood of any modern business, and any exercise which risks loss of data can be calamitous. A second band, centered around operations and related costs, is next; the risk of business interruption scoring closely with the perception of high or unpredictable costs both up-front and in OPEX.

FIGURE 6

Considerations when adopting an ERP solution



Source: IDC SME ERP Survey, 2021

The rest fall into a third band, largely concerned with technical detail. It is data security and cost that dominate the discussion, and this comes full circle to the cloud discussion - using a platform which allows resources to be brought online, scaled up or deprovisioned on a month to month basis allows an organization to up- and down-scale with great agility and a minimum of risk. This places a lot of pressure on vendors and channel partners to constantly demonstrate value too - this has changed the nature of many customer/supplier conversations in the cloud era!

We also asked respondents what the most important criteria were for software providers or system integrators, and experience dominated that question. A proven track record of solutions was top, and marginally less highly rated was experience with customers in specific industries (such as finance or manufacturing). One of the characteristics of the South African market for the last several years has been a migration towards managed services; the emphasis on skills and experience among partners, and the lower focus on skills internally, shows that trend in force.

Line of business priorities: finance officer

Within all organizations, the influence exerted by line of business executives in selecting enterprise applications continues to grow. Effective digital transformation cannot happen without the close involvement of the teams it is intended to benefit, and this has shaped a more collaborative and consultative approach to IT strategy.

Key managers in this position include the financial and operations officers, who have insight into all operational parts of the business, and the marketing officer, who is directly responsible for customer interaction and analytics.

FIGURE 7

Strategic finance, inventory, and supply chain-related priorities



Source: IDC SME ERP Survey, 2021

We also asked respondents about specific priorities for financial operations. As expected, business efficiency and improved reporting were high on the list. Also rated highly was IT integration with customers and suppliers outside the organization: this reflects an emphasis on reducing and simplifying business processes, achieving consistency and reducing human error, but most importantly on delivering the responsive business experience these customers and partners demand in the modern business era.

The expectations of these partners and customers are very high, shaped by the prevalence of sophisticated e-commerce, online financial services, and responsive applications in other areas - they are much less likely to tolerate inefficiency from any suppliers, and expect that same high standard in all business interactions. That is challenging for mid-size organizations, which often lack the extended teams of application development and integration expertise.

Selecting cloud-based enterprise application suites which achieve the underlying integration and coordination is the optimal route to achieve this alignment across all related internal business processes, and then integrating with external systems through standard interfaces.

Organizations which do not achieve this alignment typically see greater prevalence of shadow IT, as teams take the initiative to procure the capabilities they require, resulting in short-term productivity gains but long-term silos. Bringing strategic alignment back from the platform up can effectively "de-shadow" these projects, delivering on the line of business needs as well as the customer expectations.

ABOUT MICROSOFT BUSINESS CENTRAL

Microsoft Dynamics 365 Business Central is a comprehensive business management solution that helps small and midsized companies connect their financials, sales, service, and operations to streamline business processes, improve customer interactions and make better decisions.

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Combine your multiple disconnected systems into one. Boost efficiency with automated tasks and workflows—all from within familiar Office tools like Outlook, Word, and Excel. Get an end-to-end view of your business, with built-in intelligence when and where you need it.

Dynamics 365 Business Central puts flexibility at the core of your business, enabling you to start quickly, grow at your own pace and adapt in real time. Easily tailor and extend the application to meet your unique business or industry-specific needs.

Microsoft Dynamics 365 Business Central is fully cloud-enabled, delivering hyperscale-grade data security, rapid deployment, frequent updates and new features, and usage-based cost optimization on a monthly basis. A network of local and global partners and third-party solution developers provide support and customization, with an extensive library of approved add-on modules at your fingertips.

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