> Most legacy ERP systems do what they were made to do: financial reporting, invoicing customers, paying providers, and so forth. But they are not compatible with the future requirements for rapid business change, agile organizations, and digital business models.

ERP Modernization Is Business Transformation

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Introduction

Recent IDC surveys on C-suite priorities have shown that the modernization of ERP and core business applications is a top technology priority among executives. Organizations have endured a pandemic that exposed inadequate financial and operational planning, created hybrid workforce structures, disrupted supply chains, pivoted sales from stores to online, and overall revealed a need for more agile and cloud-based back-office systems to better support volatile business conditions.

On top of these exposed inadequacies, most organizations are undergoing fundamental business changes that their current ERP systems might not be able to support. They 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 current ERP configurations. Furthermore, making changes to traditional, on-premises ERP is often a very complex and time-consuming process.

AT A GLANCE

KEY STATS

The key desired business outcomes from ERP modernization investments are:

» Better business sights

» Increased business agility

» Improved employee productivity

KEY TAKEAWAYS

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 yield new levels of strategic agility and business insights for most organizations.

Almost all organizations (94%) have decided upon or are in the process of establishing an ERP modernization strategy, knowing that something must be done about their ERP systems. 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, a sizable share are 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). Based upon these two axes, IDC has identified five distinct ERP modernization archetypes, as shown in Figure 1. The figure also shows the proportion of perceived ERP modernization strategies among the respondents. More about that later.

This Workday-sponsored paper aims to shed light on how organizations are tackling ERP modernization, how they are building business cases and handling barriers to change, and how Workday is helping customers go beyond ERP with an adaptable enterprise management cloud. It is based on a worldwide survey of ERP modernization decision makers across 16 countries completed in January 2022.

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?*
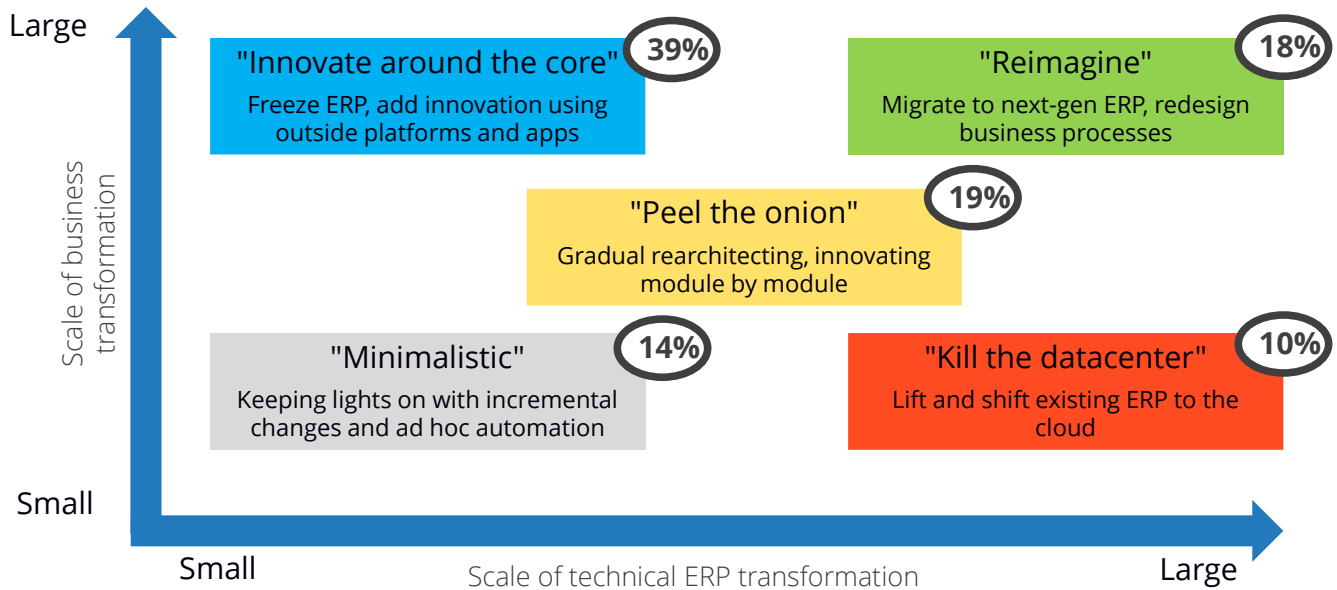
n = 1,021

Source: IDC's Workday Global ERP Journey Survey, January 2022 and ERP Modernization Strategies (IDC #EUR247475221, March 2021)

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 the following: workers, finances, capital, materials, suppliers, production, supply chains, customers, products, projects, contracts, orders, and facilities.

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.

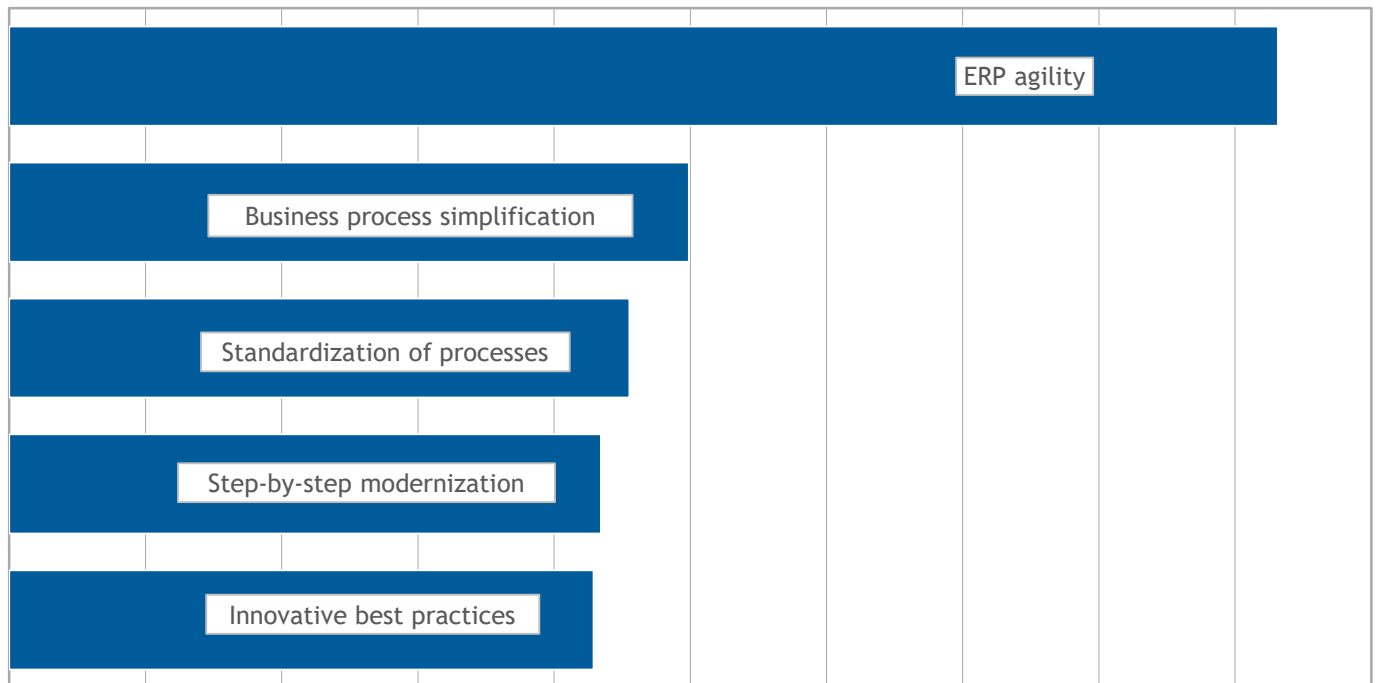## Benefits of Next-Generation Cloud-Based ERP

Improved Planning and Business Agility Are Key ERP Modernization Business Objectives

Organizations want to modernize their older ERP systems for both tactical and strategic reasons. Tactical reasons include reducing operating costs of the existing ERP system, avoiding new datacenter investments, and avoiding a looming out-of-standard-support date for the current ERP application. Strategic reasons include better planning and forecasting, greater business agility, and more productive user experience.

The 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.*

ERP agility

Business process simplification

Standardization of processes

Step-by-step modernization

Innovative best practices

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).

The 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 (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

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 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 shapes. 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. 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 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, addition of specialized industry-specific cloud applications, and so forth.

Considering Workday

Workday is a leading provider of finance, human resources, planning, spend management, and analytics cloud applications for midsize and large organizations. Workday was founded in 2005 by David Duffield (founder and former CEO of ERP company PeopleSoft) and Aneel Bhusri (former PeopleSoft chief strategist). Today, Bhusri serves as co-CEO alongside Chano Fernandez, who was promoted to co-CEO in 2020. The company serves over 9,500 organizations from medium-sized businesses to more than 50% of the Fortune 500 and employs over 15,900 employees worldwide.

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.

IDC counts a number of strengths of the Workday application suite. First, the suite is conceived and natively architected for multitenant SaaS delivery. Second, 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. Third, the suite offers business planning, business execution, and business analytics in an integrated fashion, meaning that the three applications are tightly integrated. Fourth, Workday 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 better business insights, greater business 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.

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. IDC believes that no matter what journey is chosen, implementing next-generation, cloud-based ERP systems will yield new levels of strategic agility and business insights for most organizations.

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About the Analyst

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Bo Lykkegaard oversees the enterprise-software-related expertise centers in Europe. His team focuses on the $172 billion European software market, specifically business applications, customer experience, automation, data and analytics, and artificial intelligence.

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A partner like no other

Devising your ERP modernization strategy in the context of a multi-cloud environment means that you are investing in an ongoing relationship with a technology partner for several years. Choosing that partner requires evaluating your organization's short-term goals and long-term vision, and then selecting a partner that best matches your values and strategy. Will they provide an ownership experience with quality you can measure in performance, data privacy, usability, support, and long-term value? At Workday, we take this as a personal challenge. We hold ourselves accountable for providing customers with continuous access. In fact, Workday services availability is 99.99%. Additionally, we are the only vendor that provides a performance SLA, and we aim to maintain a customer satisfaction rating of over 95% and achieved a 97% customer satisfaction rating in our latest survey. Learn more at www.workday.com/suite

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