THE FUTURE OF ERP

Moving at the speed of change

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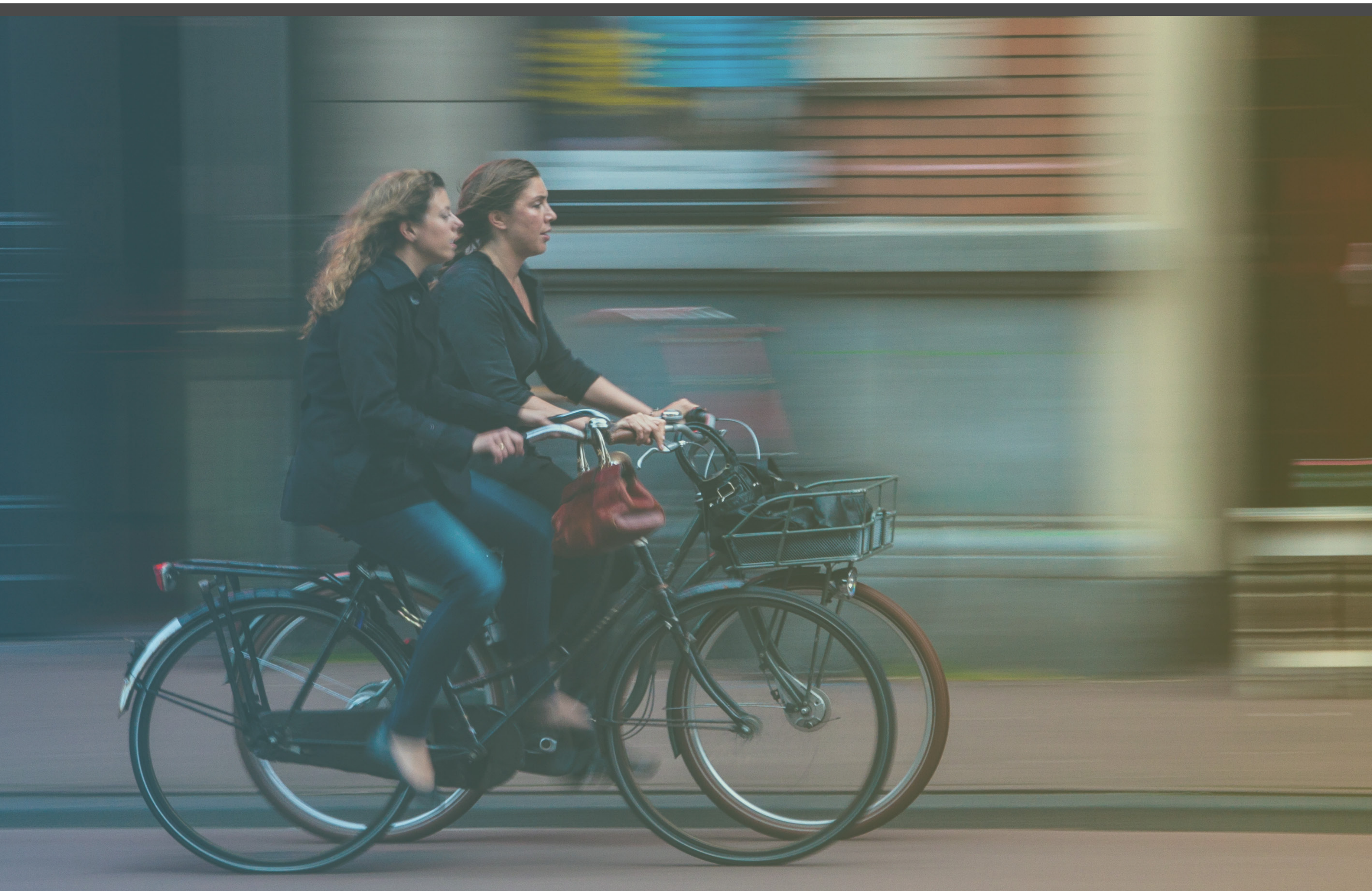

Introduction

If we look back a generation business tended to be static. While it is undeniable that innovation occurred, it tended to at a much slower pace. While Henry Ford's manufacturing and distribution models certainly marked disruption for the horse and buggy industry, this was a change that took decades.

Fast forward to today and we see the rate of change moving faster than ever. Every industry would appear to be facing an existential threat as new entrants, modern technologies, and innovative approaches knock once great marquee off their pedestals.

40 percent of today's F500 companies on the S&P 500 will no longer exist in 10 years.

While it has become something of a cliché to quote the statistics about how many Fortune 500 companies that existed mere decades ago no longer do so, it is an appropriate cliché. And perhaps more glaring is the fact that this rate of change for businesses is increasing. A study from the John M. Olin School of Business at Washington University estimates that 40 percent of today's F500 companies on the S&P 500 will no longer exist in 10 years.

In the face of this ongoing and increasing transformation, organizations are looking to innovate not only their products and services, but their business models, channels and entire business focus.

This paper will set out the drivers for change, the areas that organizations need to invest to drive change and some common models that businesses are using when reinventing themselves.

Agility is the new capital

In the old economy, access to capital was the key barrier to growth. If we think about the industrial age and all that business empires created in this era - from railroads to automobile manufacturers, from shipping lines to media conglomerates – they utilized capital as their fuel for growth. Whether it was through investment in infrastructure, through creating distribution channels, or through employee-created scale, these organizations were a product of a capitally-constrained economy.

The latest technologies and distribution models have changed the playing field and being capitally constrained is no longer necessarily an impediment to growth. The growth of Airbnb and Uber, two storied (and somewhat clichéd) examples, speaks to this. Respectively the biggest accommodation and transportation providers in the world, these companies own no hotels or cars. What they do, however, is leverage technology to build networks and connect suppliers with consumers. They are fundamentally reworking models by being connectors rather than providers.

It is not the big that eat the small but rather the fast that eat the slow.

We contend that these are two examples of how speed rather than size are the best predictors for growth. There is a saying among Silicon Valley technology start-ups that it is not the big that eat the small but rather the fast that eat the slow. The growth of these companies, along with a host of others, is an example of this.

But it is not only in the virtual space that speed is increasingly the most crucial factor. GE, the huge manufacturers of industrial equipment and airplane engines, famously calls itself a software company. Its leadership believes that only by leveraging software and the new business models that software enables, will it be able to remain competitive in the years ahead.

Your operating platform needs to be an enabler, not a barrier, to agility

The reality is that often it is not a lack of vision or market awareness that hampers an organization's ability to innovate, but rather the inflexibility of its core system. In our experience consulting to many traditional organizations – across telecommunications, transportation, banking and manufacturing – we have witnessed time and time again how the core operation systems upon which the organization relies are rigid and unable to evolve.

While technologists joke about the number of day-to-day tasks that are underpinned by software running on mainframe computers, this is, alas, the reality of the current world. There is, in our experience, a growing realization of the risks that this reliance on legacy technology brings and have seen first-hand many large businesses that have been rearchitecting their systems to deliver agility.

> It's not a lack of vision, it's the inflexibility of its core system.

While it is fairly easy to understand that a more modern system will give greater ability to an organization to configure the way it runs its business, there are deeper, yet even more valuable benefits that a more modern technology stack deliver:

The ability to adopt and adapt

While core legacy systems stymie the ability of an organization to adopt to a new status quo, this is not a "one time" issue. As we have said previously, the operating environment for businesses is more dynamic than ever before, requiring almost constant iteration of products, services and business models. Flexibility in core operating systems drives the ability for organizations to continuously adapt to changing environmental factors.

Ability to be modular

Increasingly organizations are realizing that large monolithic technology solutions, the types of solutions that cost hundreds of millions of dollars and take years to implement, create huge risk by their very monolithic nature.

A common platform, can make more rapid use of predictive analytics.

Organizations are increasingly looking for more modular solutions that allow specific functional areas to be swapped in and out at will. We see this extensively in the ERP space where an organization might use a legacy vendor to roll up all their individual subsidiaries for financial reporting purposes, but will use a more flexible solution at a business-unit level. As we will see later, the move to more services-based business models accelerates this trend.

Analytics – it's all about the data

Organizations far and wide are starting to understand the role that predictive analytics can play in their operation. Given the ever-increasing amount of data that exists both within an organization's core systems and on the broader internet, it is understandable that there is a desire to mine that data for valuable insights.

The issue comes however when all that data lives in disconnected and disparate solutions. It is very hard to know the intersection of existing customers, social media sentiment and the service history of a product unless the individual solutions capturing those different data points exists on a common platform.

By resolving to a common platform, organizations can make more rapid use of predictive analytics to better inform their product, sales and marketing strategies.

Modern IT and the platforms of old

As we have pointed out, no matter what industry you're in, today your operating environment is highly dynamic and uncertain. Given this factor, you need tools and processes that give you the ability to respond to threats and opportunities as rapidly as possible.

Unfortunately, modern IT has been built much like ancient civilizations – on the ruins of what has gone before. And, like the way that ancient cities are a hodgepodge of disconnected and incongruent themes and designs, many organizations' IT systems live in different databases, utilize different technologies and have no consistent reporting solutions.

Human intervention opens the opportunity for human error.

This situation exists even for some seemingly modern platforms – when a platform is made up of component pieces that have been cobbled together with an M&A-first, rather than a technology-first perspective, all that is achieved is a modern version of the problems of the past.

This is problematic on several levels. Firstly, having to utilize different systems and having to enter information into multiple locations is a big drain on efficiency and accuracy. Whenever human intervention is required to ensure that data is updated accurately in multiple locations it opens the opportunity for human error to occur.

However, the accuracy of information is one of the less troublesome impacts of siloed solutions. When it comes to building new capabilities, or changing the way processes work, or encouraging the utilization of pan-organizational teams, it is difficult, time-consuming and expensive to do so across disparate solutions.

Services increasingly the future direction

This move towards agility has seen perhaps the biggest impact on the business models that organizations use. Whereas traditional models saw everything – from newspapers to automobiles, from entertainment services to industrial equipment – priced on a lifetime cost basis, the modern approach is to price in a service-centric way.

GE no longer sells jet engines, it sells a service based on the achievement of predefined service level agreements (SLAs). And whereas I used to have the choice of buying a newspaper via a long-term subscription, increasingly I have the ability to consume content on a per-article or other far more granular basis.

Over the past 5 years, subscription-based services have become significantly more important.

In recent research[1], FinancialForce found that over a third of surveyed CFOs stated that subscription-based services have become significantly more important for their companies over the last five years. Roughly the same number (26.9%) see those types of services as an important part of the company's growth plan over the next two years.

But this isn't simply forward-looking concepts, it is a change that is well underway. Currently, 71% of CFOs report that more than half of their revenue comes from services, and almost a third report that all their companies' revenues are service-related. More than half (55%) say that services generate a higher percentage of revenues today than they did five years ago.

[1] http://www.financialforce.com/2017-CFO-Research

Ensure your platforms and people are ready for this change

The move to subscription-based businesses is a huge cultural and organizational shift. Traditional businesses need to think about the operational DNA of their employees and leaders, and whether they have the necessary attitudes and aptitudes to drive this change.

This transition to an economy based largely on services is changing the underlying architecture of business, as well as changing the role of the CFO. It brings the office of finance into conversations on customer experience and satisfaction as contract and subscription renewals become more important to overall business performance.

Finance executives are under substantial pressure to change their finance team's mindset to be more customer-centric and focused on renewal revenue streams. In addition, these financial executives are increasingly becoming more involved in product and service pricing decisions.

These new challenges mean that CFO and other financial executives need to learn new skills that go beyond the core functional ones – strategic planning, staffing, and day-to-day operations beyond the purely financial aspects are increasingly within the purview of CFOs.

At the same time, the way CFOs will measure and report on performance is changing. As we explained earlier, the value of data cannot be underestimated and executives need to choose platforms, and mold operating behaviors to develop, report on and act upon these new metrics.

But beyond the cultural aspects, there are some technology challenges at play which need to be resolved. Despite the shifting business model many CFOs lack confidence that their operational and technological infrastructure is suitable to handle the increase in service-related revenues.

These organizations need to look to their core systems and spend time thinking about their future business models and see where there is a disconnect between the two. If the technology platform in use doesn't easily embrace data, doesn't allow flexibility in pricing, and doesn't allow organizations to take full advantage of the opportunities inherent in a move to services-based revenue – it may well be time to investigate a change.

Conclusion

Change, the adage goes, is the only constant. This is a situation that exists more today than it ever has before. And whenever a state of change exists, we see some organizations fail to embrace the change and cease to be relevant.

New technology approaches and market demands mean that organizations from all sectors and verticals are increasingly looking to service-based offerings as a way to compete and differentiate from their peers.

While this is a massive opportunity, the fact is that legacy, and many so-called modern platforms that organizations use to manage their business, are ill-equipped to enable this move to service-based revenue.

Spend time modelling what products and services might look like in the future.

Our advice is for organizations to spend time modelling what their products and services might look like in the future, and thinking about how well the operating systems they currently use are able to fulfil those requirements.

While changing core operating systems is never a decision to be made lightly, it is our contention that in many cases it is a non-negotiable requirement for future survival.

About Diversity Limited

Diversity is a broad-spectrum consultancy specializing in SaaS, Cloud Computing and business strategy. Principal and founder Ben Kepes provides diverse services including:

Commentary – Ben is a noted commentator about Cloud Computing and enterprise software – he has written for a broad selection of media outlets, and is often quoted as a subject matter expert and influencer.

Consulting – Ben is in demand with large organizations who turn to him for advice on technology starting. He spends time with both customers and vendors advising on all aspects of their strategy.

Advisory – Ben sits on several boards, both formal and informal. He enjoys helping start-ups get to market and grow to scale.

Investment – Ben is an investor in many different companies. These investments revolve around Ben's focus of delivering technology that can make a difference in how organizations work.

About the author

Ben Kepes

Ben Kepes is a technology evangelist, an investor, a commentator and a business adviser. His business interests include a diverse range of industries from manufacturing to property to technology. As a technology commentator, he has a broad presence both in the traditional media and extensively online. Ben covers the convergence of technology, mobile, ubiquity and agility, all enabled by the Cloud. His areas of interest extend to enterprise software, software integration, financial/accounting software, platforms and infrastructure as well as articulating technology simply for everyday users.

He is a globally recognized subject matter expert with an extensive following across multiple channels. His commentary has been published on IDG Media, Forbes, ReadWriteWeb, GigaOm, The Guardian and a wide variety of publications – both print and online. Often included in lists of the most influential technology thinkers globally, Ben is also an active member of the Clouderati, a global group of Cloud thought leaders and is in demand as a speaker at conferences and events all around the world.

As organizations react to the demands for more flexible working environments, the impacts of the economic downturn and the existence of multiple form-factor devices and ubiquitous connectivity, Cloud computing stands alone as the technology paradigm that enables the convergence of those trends – Ben's insight into these factors has helped organizations large and small, buy-side and sell-side, to navigate a challenging path from the old paradigm to the new one.

Ben is passionate about technology as an enabler and enjoys exploring that theme in various settings.