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# IMPACT OF **ERP DATA MODERNIZATION** ON DIGITAL TRANSFORMATION INITIATIVES

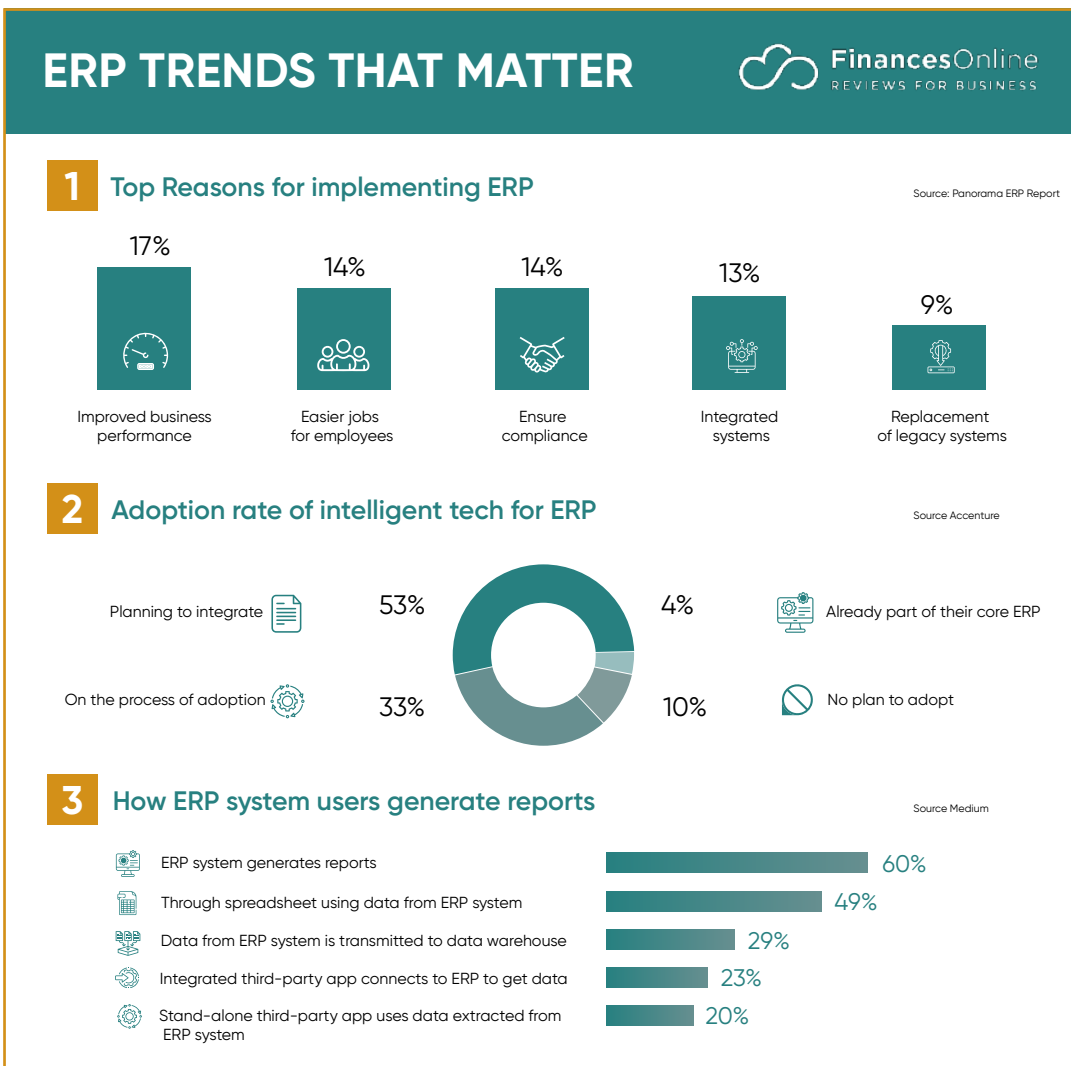**Abhinav Kumar**

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# INTRODUCTION

Automation has long made an impact on the manufacturing industry, and over the past couple of decades, data engineering has seen substantial technology enablement across the services industry.  A 2020 report notes that 51% of businesses implement automation initiatives to boost efficiency. It is obvious from this finding that digital transformation is no longer just a buzzword it's a crucial factor for success. One key aspect of this transformation is the often-overlooked role of **Enterprise Resource Planning (ERP) data.** When done right, modernizing ERP data can significantly change how businesses operate. This effort focuses on four key benefits: **driving innovation, promoting transparency, improving efficiency, and optimizing business models.** These advantages are reshaping modern business practices.

What makes things even more interesting is that CIOs are discussing and bringing about a **digital transformation** on the ERP front. The advancements in ERP systems and the progress in cloud computing, AI, IoT, and other new technologies are propelling significant improvements in how organizations operate. Unlike traditional ERP upgrades focused on efficiency, today's digital transformation is about creating new and innovative business models. This shift offers immense potential rewards but also requires navigating a **complex landscape of technology choices.** The ERP initiatives should align with a clear strategic direction and overarching business objectives to succeed in this transformation, drawing from past lessons learned during earlier ERP implementations.

## ERP TRENDS THAT MATTER

FinancesOnline
REVIEWS FOR BUSINESS

**1 Top Reasons for implementing ERP**

Source: Panorama ERP Report

| 17% | 14% | 14% | 13% | 9% |
|---|---|---|---|---|
| Improved business performance | Easier jobs for employees | Ensure compliance | Integrated systems | Replacement of legacy systems |

**2 Adoption rate of intelligent tech for ERP**

Source Accenture

Planning to integrate — 53%

On the process of adoption — 33%

4% — Already part of their core ERP

10% — No plan to adopt

**3 How ERP system users generate reports**

Source Medium

| ERP system generates reports | 60% |
|---|---|
| Through spreadsheet using data from ERP system | 49% |
| Data from ERP system is transmitted to data warehouse | 29% |
| Integrated third-party app connects to ERP to get data | 23% |
| Stand-alone third-party app uses data extracted from ERP system | 20% |

Image via Finances Online

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# CUSTOMER-CENTRICTY FOR BETTER BUSINESS OUTCOMES

Prioritizing **customer experience (CX)** is crucial for success in the modern business world. An article published by McKinsey suggested that **"a strategy focused on improving the experience of existing customers can deliver breakthrough growth for incumbent companies — often more than double that of their industry peers."** Not surprisingly, more than 70% of CXOs have made customer experience a key performance indicator (KPI) for their teams. And it is abundantly clear that ERP systems play a crucial role in achieving this goal, given that they are tools for day-to-day operations. They are also valuable assets that can systematically integrate CX into the organizational and operational structure, helping businesses deliver a seamless and personalized customer experience.

Successful ERP implementation can help companies achieve their CX transformation objectives, such as fostering ambition and purpose, reshaping business processes, and facilitating overall transformation. The powerful **data analytics and insights** offered by ERP solutions can help companies gain a deeper understanding of customer needs and accurately predict them. Per a McKinsey report, this could result in a **20% increase in customer satisfaction and a 15% spike in sales conversions.** The report also notes that cost-to-serve can be reduced by 30% by streamlining ERP systems that enhance employee engagement. ERP serves as the foundation for businesses striving to excel in CX transformation by enabling a more customer-focused approach that permeates every aspect of the organization and fundamentally changes how businesses engage with their customers.

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# REIMAGINING BUSINESS PROCESSES WITH ERP

## Centralizing data for informed decision-making

In today's data-driven world, the ERP system is the central hub for collecting and analyzing data, providing immediate insights into various aspects of the business. They are essential for **breaking down barriers** and encouraging **teamwork,** especially in a work environment where remote work and global teams are prevalent. For instance, a multinational company using ERP ensures consistent access to data across different regions, which improves collaboration and **speeds up decision-making.** Similarly, a retail chain utilizing an ERP system can keep track of inventory levels in real-time across its various stores, enabling it to make well-informed decisions about restocking, pricing, and promotions. This functionality allows for **flexible pricing strategies** and **inventory management models** that can significantly boost operational efficiency and customer satisfaction.

## Boosting collaboration and efficiency

ERP systems facilitate seamless sharing of real-time data and **standardization of processes across global corporations,** promoting uniformity and minimizing mistakes. Within ERPs, integrated project management tools support effective project collaboration, even when teams are dispersed across different locations, simplifying progress tracking and bottleneck identification. Consolidating information through ERP systems improves communication between departments, streamlines workflows, and reduces redundant efforts. With **universally accessible real-time data,** decision-making becomes more data-informed and aligned with company strategy. The scalability and flexibility of ERPs make them ideal for adapting to expanding business needs, while resource management tools ensure optimal asset utilization. Beyond just managing data, ERP systems serve as **catalysts for cohesive and efficient operations** in a global business landscape.

## Operational agility

Transforming ERP data with advanced technologies like AI and **machine learning** can greatly improve business operations. This goes beyond just automation, introducing **predictive analytics and smart decision-making** into everyday processes. For example, a logistics company could use an AI-powered ERP system to optimize routes and delivery schedules, reducing transit times and costs. With its ability to quickly process and analyze large amounts of data, this technology translates into a more **responsive and adaptable business model.** This leads to faster decisions with greater accuracy, resulting in increased customer satisfaction and a stronger competitive edge.

## Enhanced supply chain management

With ERP systems, businesses can enjoy a **comprehensive view of their supply chain,** from procurement to distribution. This means they can proactively respond to changes in supply and demand by closely monitoring raw material availability, production schedules, and distribution logistics. By anticipating disruptions and adjusting accordingly, enterprises using ERP for **supply chain management** can ensure a more **resilient system** that can withstand challenges such as market fluctuations or logistical constraints while maintaining efficiency and customer service levels. With the bird's eye view provided by ERP, businesses are no longer stuck reacting to problems but instead have the tools to stay ahead of them.

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## Compliance and risk management

Compliance is a must in industries with strict regulatory requirements, such as banking and healthcare. Fortunately, modern ERP systems provide a **robust framework for managing compliance and minimizing risks.** These systems automate critical tasks like data collection, storage, and reporting to ensure accuracy and reduce the chances of facing penalties for non-compliance. With features such as tracking changes in legislation and real-time alerts, an ERP system can help organizations maintain **proactive compliance measures.** By prioritizing compliance, businesses not only protect themselves but also build trust with customers and regulators.

## Cost savings

Strategically modernizing ERP data can result in significant organizational cost efficiencies. With **automation** and streamlined processes, ERP systems reduce the need for manual intervention, leading to lower labor costsand a decreased risk of human error. An ERP system can minimize holding costs and reduce the likelihood of obsolete stock by optimizing stock levels and improving inventory management. In addition, **enhanced data analysis capabilities** allow businesses to identify areas of waste or inefficiency, enabling targeted cost-cutting measures. These savings add up and can substantially impact the financials and overall profitability.

# KEYS TO SUCCESSFUL ERP DATA MODERNIZATION

## Process reengineering for effective growth and differentiation

Integrating **digital channels with business models** can openupnew monetization opportunities. To ensure this process is effective and efficient, have a detailed plan in place that outlines each step of the integration. Additionally, **leveraging digital transformation** can help you differentiate your services and identify ways to improve or innovate your current offerings. This requires a comprehensive analysis of your services and a thorough understanding of leveraging digital tools for success.

## Optimized operations for efficiency

Optimizing supply chains and services can be achieved with the implementation of **analytics and AI.** This involves a comprehensive evaluation of current processes, identifying inefficiencies, and proposing **automated solutions covering all aspects of operations.** It is important to thoroughly examine each business process to determine its potential for automation. This includes considering how humans and machines can work together to create a comprehensive approach that maximizes efficiency.

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## Mitigating risks with in-depth strategies

Create dynamic and informative **business graphs** with the help of advanced digital transformation tools. These graphs can evolve into **knowledge graphs** that analyze decisions made over time, offering valuable **insights into potential risks** and their mitigations. This process ensures a comprehensive understanding of your business operations for informed decision-making.

## Designing with the end in mind for effective adaptation

Develop a forward-looking technology strategy that **anticipates future needs** in analytics, automation, and AI. This will involve a comprehensive design process, incorporating attributes like resilience and real-time cloud analytics. Utilize a **backward design approach** by defining the future state and working backward to ensure the design is comprehensive, detailed, and effective in meeting set goals.

## Build or buy: Balancing customization with practicality

The decision between building a custom ERP solution or buying an off-the-shelf system depends on aligning the ERP with **strategic objectives, investment levels,** and **risk tolerance.** Companies like Amazon and Tesla opt for **custom-built ERPs** to gain a competitive edge through complete customization and independence from vendors despite the higher cost and disruption. Most companies will choose to purchase a core **off-the-shelf ERP system** and supplement it with customized features and third-party solutions for their specific needs. This allows them to benefit from the expertise of the ERP vendor while still tailoring the system to their business requirements.

## Driving sustainability

Create strategies to enhance the assessment and control of sustainability. This should encompass a thorough strategy for **capturing and tracking ESG factors** over time, guaranteeing a comprehensive scope of sustainability concerns.

## Reducing transformation risk with efficient and in-depth planning

Develop a compelling business case outlining **ERP modernization's monetary and non-monetary benefits.** This should include a detailed and comprehensive analysis of how this transformation will increase **efficiency** and **effectiveness.** Adopt best practices from the tech industry and integrate them into your ERP modernization process. Conduct an in-depth analysis of these practices to ensure they are efficiently incorporated into your strategy. By learning from industry leaders, you can ensure a successful and streamlined modernization process for your business.

Enterprises often face critical decisions when implementing or upgrading an ERP system. These choices can greatly impact their long-term operational efficiency and strategic alignment. Here are some key considerations to keep in mind for a successful implementation.

## Early adopter or fast follower: Timing the technological leap

When adopting new technologies, there are two main approaches: being an **early adopter** or a **fast follower.** Early adopters, typically smaller and more disruptive players, may gain a competitive edge by working directly with the vendor to develop the system or by using industry solutions from third-party vendors. However, this requires patience and collaboration with the vendor to improve the system. On the other hand, larger companies, less inclined towards risk-taking, tend to follow suit quickly, allowing others to iron out any issues before investing in more established products. While this may be a cost-effective strategy, it also carries the risk of falling behind in innovation while waiting for the ideal solution.

## Brownfield or greenfield: Choosing the right upgrade path

When considering a new ERP system, there are two main approaches: a **brownfield approach** and a **greenfield approach.** The brownfield approach involves upgrading existing systems and is typically less costly and disruptive, making it suitable for simpler setups. On the other hand, the greenfield approach involves deploying new solutions and is ideal for highly complex or customized systems. While this may require a significant investment, many executives see it as a once-in-a-generation opportunity to invest in a more robust and adaptable solution to improve operational agility. Ultimately, committing at this level can be difficult and should be based on how heavily the business relies on its current ERP system.

## Upgrade only or rationalize: Streamlining for long-term benefits

When it comes to streamlining your ERP systems, the debate between only upgrading and rationalizing can be a tough one, especially with mergers and acquisitions. While **technical upgrades** may seem easier and more cost-effective for companies with complex architectures resulting from mergers and acquisitions, **consolidating multiple systems into one** can offer long-term benefits. Despite the potential for higher initial costs and disruptions, this consolidation can lead to improved maintenance, data quality, and integrated reporting in the long run. Ultimately, most organizations will see greater benefits from consolidating their systems than simply upgrading them piecemeal.

## On-premise or cloud: Aligning with IT strategy

Decisions about **hosting** should align with the broader IT strategy and consider the importance of the ERP system. While it is generally recommended to transition operational systems to the cloud, existing investments in on-premise software will necessitate a gradual migration. Given the multitude of existing applications and significant investment in on-premise licensed software, **cloud migration** is expected to span several years. Some legacy applications that quietly perform their functions in the background may be better suited to remain on-premise.

ERP vendors can support this transition by establishing integrative connections to the cloud. As these systems become increasingly cloud-based and interconnected with other cloud-based applications and data sources, customers will feel more confident and find it easier to move more of their workload to the cloud. Companies that overlook these cloud connections risk missing out on access to top-notch solutions that could provide them with a competitive edge.

Organizations can successfully modernize their ERP systems by focusing on effectiveness, efficiency, comprehensiveness, detail, and depth in each decision area. This approach will ensure that their strategy aligns with key principles for success and enables them to navigate the complexities of upgrades and transformations for long-term benefits.

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# 10 QUESTIONS THAT CAN ALIGN YOUR ERP NEEDS WITH THE SOLUTION

As you would have observed from the above section, there are several **imponderables** when it comes to finding the right ways and means to achieve digital transformation of an existing legacy ERP system. While there are experts in the field who offer consulting services to make your journey effective and cost-efficient, we believe it would be easier for you as a business leader or a technology implementer if there could be a checklist of sorts. Below is a list that could help you identify your needs and chalk out the journey better. As we said before, do not forget to reach out to **specialist consultants** who can guide you right from the planning and initiation stage till implementation and testing.

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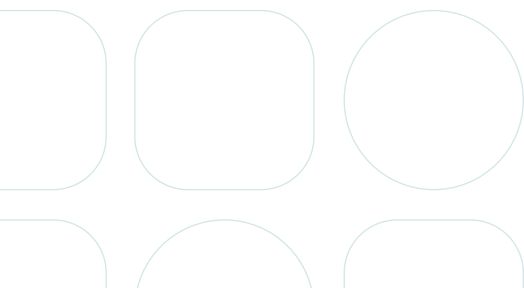
# THE ULTIMATE ERP CHECKLIST

### Who is leading the ERP transformation, IT or business?

Understand the leadership dynamic for aligning the transformation with both the technical and strategic business objectives. **Business leaders** should ideally steer the direction and scope, leveraging IT for their technical expertise.

**1**

### What is the business case for this transformation?

Develop a clear business case, including **ROI projections,** for setting internal expectations and focusing on the transformation's most beneficial aspects, providing a **governance framework** for the project.

**2**

### How does the ERP transformation align with your key business objectives?

This question ensures that the transformation is not just a technical upgrade but a **strategic move** aligned with the company's mission and goals to unlock new opportunities and foster **innovation.**

**3**

### Are you effectively accelerating time to value through this transformation?

It is important to assess whether the ERP project enhances **operational speed, agility, and efficiency** - key elements in today's digital-driven business environment.

**4**

### What strategic improvements do you expect from the new ERP system?

Before diving into technology specifics, have a clear vision of the **desired business transformation outcomes,** such as growth in revenue, efficiency improvements, or inventory optimization.

**5**

### What change management systems within the organization are necessary for ERP integration?

This involves **evaluating** if structural changes or new business models are needed to support the new system effectively.

**6**

### Are the proposed organizational changes realistic and manageable?

Assessing the organization's **readiness and risk tolerance** is critical for ensuring that the transformation is feasible and that there is a **plan for risk mitigation.**

**7**

### How will you manage the impact of this transformation on our people?

Identifying the **scope of change** and its **impact** on staff is key to developing a tailored **change management strategy,** including communication and training plans.

**8**

### Which technologies will best support your transformation goals?

Selecting technologies should be a decision informed by the **strategic needs and goals** of the transformation, ensuring that the technology **enables,** rather than dictates, business change.

**9**

### What is your strategy to address the above questions?

Integrate insights from the above areas into the planning process to address **potential challenges** related to people and processes, aligning the strategy with business objectives.
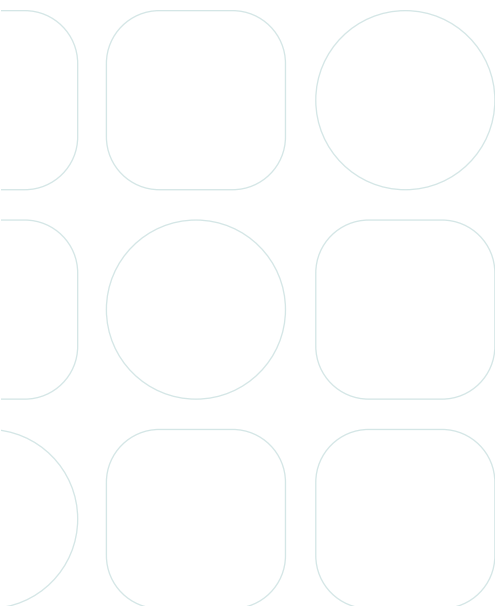
**10**

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# THE LAST WORD

The changing landscape of purchasing behavior, supply chain disruptions, inflation, and new regulations has created a need for businesses to adapt and modernize their legacy systems. This presents an opportunity for proactive leaders to design and implement a path forward for digital transformation and ERP modernization. Upgrading to the right ERP platform can mitigate future risks and create growth opportunities in this evolving market.

But an ERP transformation is more than just a technology project; it's a holistic business transformation that impacts every aspect of an organization. From processes and data management to customer interactions and employee collaboration, an effective ERP transformation can bring about increased efficiency, informed decision-making, improved customer experiences, and, ultimately, higher competitiveness.

However, organizations should recognize ERP transformation is not the end goal but a means to achieving their broader business objectives. It is a continual journey towards greater agility, innovation, and resilience in an ever-changing world. Therefore, companies should approach ERP transformations with a clear understanding of how they align with their strategic goals and view it as an ongoing process of constant improvement and adaptation.

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