

IDC PERSPECTIVE

SaaS and Cloud-Enabled ERP: The Perfect Storm to Move Beyond Legacy ERP and Spreadsheets

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EXECUTIVE SNAPSHOT

FIGURE 1

Executive Snapshot: The Perfect Storm to Move Beyond Legacy ERP and Spreadsheets

SaaS and cloud-enabled ERP systems are the de facto replacement for legacy on-premises ERP systems. Organizations have spent millions on outdated legacy ERP systems over the decades, creating a technical debt that is a nightmare to untangle. Most of these antiquated systems are over 10 years old, predate current ecommerce systems, and are not able to work within the digital economy. With the advent of the digital age, businesses need a new digital core that includes SaaS and cloud-enabled ERP software.

Key Takeaways

- The pace of technology continues to accelerate, making legacy ERP systems more archaic by the day.
- 40% of businesses are stuck in an ERP technical debt with heavily customized systems or too many spreadsheets.
- SaaS and cloud-enabled ERP systems are paving the way for enterprises to be more modern and stay current with technology innovation.
- Digital transformation requires back-office systems to be at parity with the front-office systems.
- The digital core is a modern architecture, accelerating digital transformation for the enterprise.

Recommended Actions

- Strategize your DX platform to create a network of connected customers, suppliers, and partners.
- Invest in the digital core and architecture to take the business into the digital economy.
- Move beyond legacy ERP and spreadsheet jockeying to SaaS and cloud-enabled ERP systems.
- Utilize the IDC MarketScapes on SaaS and cloud-enabled ERP for your ERP search.
- Move forward now. Waiting only prolongs the agony.

Source: IDC, 2018

SITUATION OVERVIEW

Over the past few years, SaaS and cloud-enabled ERP systems have become the de facto replacement for legacy on-premises ERP systems. Organizations have spent millions on outdated legacy ERP systems over the decades, creating a technical debt that is a nightmare to untangle. Most of these antiquated systems are over 10 years old, predate current ecommerce systems, and are not able to keep up with the digital economy. Premodern ERP systems have too many customized workflows, high maintenance and hardware costs, and countless upgrades. All of these legacy system attributes have yielded little or have yet to be done by enterprises, rendering the ERP system archaic, inefficient, and cumbersome. As companies move forward into the digital age, they need a new digital core for their business that runs on SaaS and cloud-enabled ERP software.

SaaS and Cloud Enabled

Leading businesses of all sizes have turned their focus to SaaS and cloud-enabled ERP software because they need an agile ERP system that is configurable, continuously updated, quick to implement, available anywhere and anytime, and scalable. Cloud computing is defined as accessing shared IT resources "on demand" and over the internet. IDC further defines cloud services through six key attributes from the perspective of the end users of the service:

- Shared or standard service built for multitenancy among or within enterprises
- Solution package defined as a "turnkey" offering that pre-integrates required resources
- Self-service provisioning and management typically via a web portal
- Elastic resource scaling that is dynamic, rapid, and fine grained
- Elastic pricing supported by service metering
- Interface with web services and other common internet APIs

Cloud principles are the same regardless of location, resource tenancy, or management model, although key measures such as uptime, latency, management, and provisioning may vary depending on the form of deployment.

SaaS and cloud-enabled ERP software makes innovation easier than ever before, specifically when the technology partner understands innovation strategies are critical success factors in the digital economy. SaaS and cloud-enabled ERP brings the 3rd Platform and innovation accelerators to a business quickly, making the innovation strategies a critical success factor. As an example, SaaS and cloud-enabled ERP software packages are becoming more intelligent with machine learning, deep learning, natural language processing, and advanced analytics on top of large curated data sets. The SaaS and cloud-intelligent ERP solutions allow organizations to quickly establish more impactful data-driven business processes and decisions, reduce the time to value, and significantly enhance the ability to generate more revenue, cash flow, and profitable growth. Operating costs are reduced because routine tasks have been simplified, human errors reduced, basic business processes automated, and additional drilldowns, data extraction, and analysis eliminated. All of these benefits of intelligent systems have a direct impact on a business' bottom line.

Additional innovation elements, such as assistive user interfaces (UIs) and IoT connections, harness the ability of mobile workforces to make more informed decisions quickly. For example, assistive UIs help employees navigate business processes and find answers to questions before critical decisions are made. IoT connections provide machine data for better manufacturing and a more efficient and

effective workforce. SaaS and cloud-enabled ERP software, coupled with continuous innovation, can quickly become your biggest asset in the digital economy, in which speed is a necessity for survival.

The Perfect Storm

The pace of technology innovation and the opportunity it brings to businesses has increased substantially over the past 10 years. This has provided a pathway for businesses to become more agile and answer their customers' needs fast. Add to this technology pace the complexity required to keep up with business-to-business and business-to-consumer requirements and also the need to tie the front of the business to the back end, and the ERP technology needs are understood. The enterprise quickly realizes its back-end systems are outdated and cannot support the business at the front end and at the right pace.

Large enterprises and midmarket businesses have invested in back-end legacy systems that are heavily customized, such that every upgrade is a costly and painful process, not to mention the sunk costs in hardware and maintenance. In many cases, upgrades have been ignored, which means businesses have chosen to live in the past because there are too many customizations and large capital investments to upgrade their legacy ERP system. For small businesses, too much spreadsheet jockeying and little visibility has brought more work, with little to show for the efforts. These pain points have created the perfect storm for SaaS and cloud-enabled ERP systems to become the new front-runner in deployment modules.

Adding to it is the opportunity provided by SaaS and cloud-enabled ERP systems is the ability of these systems to be more agile and flexible, seamless or relatively issue-free system updates, and innovation from technology vendors that brings more mobile, social, data and advanced analytics, IoT, advanced security, cognitive/artificial intelligence (AI), and 3D printing to the forefront for businesses to continuously improve. Innovation is critical in today's digital economic world. Artificial intelligence alone will significantly and forever alter business resources and processes such that more workloads shift to the technology platform, eliminating many transactions and business process steps across the entire enterprise. In addition, massive amounts of data can be brought into the business processes so that employees can quickly gain insights and positively impact business outcomes and financial performance. At IDC, we call this step change "intelligent ERP," which leads to an intelligent enterprise.

The last piece of this perfect storm is the digital transformation (DX) journey companies are currently embarked upon. The DX journey requires back-office systems to be in parity with their front-office counterparts. Improving customer experience is not just about the customer and his/her customer but also the enterprise stakeholders and operational business. At the central point of this DX journey is the digital core, the new platform that brings the businesses into the digital economy.

Digital Core

IDC defines the digital core, or "DX platform," as the future technology architecture that accelerates DX initiatives for the enterprise, enabling the rapid creation of externally facing digital products, services, and experiences, while aggressively modernizing the internal IT environment in parallel.

The key objective of the DX platform is to create a network, or ecosystem, of connected customers, partners, and suppliers that use (and pay for) the information and services available to them. In addition to this external focus, this platform aggressively modernizes legacy environments to redefine processes and capabilities for both internal and external purposes.

In the new platform, everything is connected to everything else. Data comes in to your organization through connected assets, your employees, and connected processes or as other data streams through APIs. This data circulates through the intelligent core, which can pull out insights. Those insights circle back into your organization as improved internal processes. But data also comes in through your ecosystem engagements through bots, mobile devices, AR/VR, connected vehicles, and so forth. This data circulates through the intelligent core, which turns the data into actions to be taken when engaging with the ecosystem.

At the heart of this platform are the algorithms, code, and models that enable you to glean insights and actions from your data. The core is supported by three other sets of services – integration and orchestration, development, and engagement – which together support the dual goals of modernization and transformation.

The bottom line is growing businesses are moving beyond the legacy and spreadsheet issues by rethinking their ERP system strategy, seriously considering and buying SaaS and cloud-enabled ERP systems as part of their new digital core.

ADVICE FOR THE TECHNOLOGY BUYER

Moving Beyond Legacy ERP and Spreadsheet Jockeying

Moving to a more modern SaaS and cloud-enabled ERP system is crucial for businesses of all sizes. In a recent IDC webinar, we found 33.3% of participants were actively pursuing, researching, or investigating a more modern ERP system over the next 12 months. For these businesses, we provide IDC MarketScapes for SaaS and cloud-enabled ERP. These vendor assessments aid in the selection process of ERP software. The three recently published documents include:

- *IDC MarketScape: Worldwide SaaS and Cloud-Enabled PSA ERP Applications 2017 Vendor Assessment* (IDC #US42215717, September 2017)
- *IDC MarketScape: Worldwide SaaS and Cloud-Enabled Midmarket ERP Applications 2017 Vendor Assessment* (IDC #US42216017, September 2017)
- *IDC MarketScape: Worldwide SaaS and Cloud-Enabled Large Enterprise ERP Applications 2017 Vendor Assessment* (IDC #US42219217, October 2017)

However, a large percentage of businesses globally have long-term investments in legacy systems, with some contracts going out as far as 2025. Our IDC webinar uncovered 26.7% of participants were interested in a more modern ERP system; however, they are currently tied to their legacy ERP system for the foreseeable future. Businesses of all shapes and sizes must review their current ERP strategy and weigh the pros and cons of their legacy debt for the next six to eight years while also curtailing continuous improvement, greater efficiencies and economies of scale, and innovation that is quickly becoming a competitive advantage across many industries. For businesses that want more modern ERP systems but are tied to legacy systems, a DX investment strategy is required.

But most surprising is that 40% of participants specified a more modern ERP system that is SaaS and cloud enabled were not yet on their radar because of other investments the company was making. When we took a deeper look in this area, we found these businesses are laggards that have overinvested in their legacy products, are devoting more to the front office, or are neglecting their business IT strategy such that it will impact their business in the short and long terms. The companies

that are not yet interested in a more modern ERP system that is SaaS and cloud enabled are playing Russian roulette as the digital economy expands.

Get Moving!

It is time for your enterprise to shed itself of its technical debt and move beyond legacy ERP systems. No action is a costly proposition for any business in the digital economy. Cost in terms of technical debt, little continuous innovation, competitive advantage, and financial performance are possibilities if your ERP systems is not modernized. With a perfect storm of opportunity to move to a modern ERP system, our IDC advice is, "Get Moving"!

LEARN MORE

Related Research

- *DX Platform: A Framework for the Intelligent Core* (IDC #US43384517, January 2018)
- *How the Digital-Native Enterprise Is Winning the Future, Now* (IDC #US43195117, November 2017)
- *IDC MarketScape: Worldwide SaaS and Cloud-Enabled Large Enterprise ERP Applications 2017 Vendor Assessment* (IDC #US42219217, October 2017)
- *Worldwide Enterprise Resource Planning Software Market Shares, 2016: Year of Complete Cloud Suites* (IDC #US43067217, September 2017)
- *Worldwide Enterprise Resource Planning Software Forecast, 2017-2021: Go Cloud or Go Home* (IDC #US43068817, September 2017)
- *IDC TechBrief: Intelligent ERP* (IDC #US43033617, September 2017)
- *IDC MarketScape: Worldwide SaaS and Cloud-Enabled PSA ERP Applications 2017 Vendor Assessment* (IDC #US42215717, September 2017)
- *IDC MarketScape: Worldwide SaaS and Cloud-Enabled Midmarket ERP Applications 2017 Vendor Assessment* (IDC #US42216017, September 2017)
- *Worldwide Software as a Service and Cloud Software Forecast, 2017-2021* (IDC #US42014217, July 2017)
- *IDC PlanScape: Intelligent ERP for Digital Transformation* (IDC #US42800017, June 2017)
- *Organizing the Organization for Digital Transformation Success, Part 1: Defining Digital Transformation, Types of Transformation, and Core Competencies* (IDC #US42580217, June 2017)
- *Organizing the Organization for Digital Transformation Success, Part 2: Successful Digital Transformation – Key Considerations* (IDC #US42580317, June 2017)
- *i-ERP (Intelligent ERP): The New Backbone for Digital Transformation* (IDC #US41732516, September 2016)

Synopsis

This IDC Perspective discusses the need for businesses to move to SaaS and cloud-enabled ERP software.

"The perfect storm has arrived for SaaS and cloud-enabled ERP systems. Large enterprise and midmarket businesses have invested in legacy systems that are heavily customized, such that every upgrade is a costly and painful process, not to mention the sunk costs in hardware and maintenance. For

small businesses, too much spreadsheet jockeying and little visibility has brought more work, with little to show for the effort. The 3rd Platform of social, mobile, big data/analytics, and cloud is quickly becoming married with the innovation accelerators of advanced security, AI/cognitive, and 3D printing. Digital transformation is front and center, requiring back-office systems to be at parity with their front-office counterparts. And the DX platform is the future technology architecture that accelerates DX initiatives for the enterprise, enabling the rapid creation of externally facing digital products, services, and experiences, while aggressively modernizing the internal IT environment in parallel," says Mickey North Rizza, program vice president, IDC's Enterprise Applications and Digital Commerce research practice.

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