An ERP Transformation Is a Business Transformation

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Lengthy, costly, and disappointing enterprise-resource-planning projects may be a tradition, but ERP that propels your digital vision is the future. Here’s how to get there now.

Companies moving to next-gen enterprise resource planning (ERP) solutions often describe the experience in the same words. Unfortunately, it’s not a dream team of adjectives. Frustrating, lengthy, costly, disappointing—the list goes on. Why does a project
intended to deliver great outcomes return little value, or take so long to deliver value, or bring results that no one is even sure is value?

A big reason is that many companies approach ERP transformation as an IT project, planned and managed from a technical perspective. In fact, it’s a business transformation. And like any business transformation, ERP requires a value perspective right from the start. Where does the business value reside? How can we optimize that value? How should ERP fit within our digital architecture and ambitions?

These are questions to ask before embarking on a multiyear journey. By taking a value-based approach, companies can zero in on the business case for next-gen ERP and see returns as they go—instead of waiting for a grand unveiling. They can reduce the complexity and increase the flexibility of their ERP landscape. And they can lower the cost of the transformation, in our experience, by 20% to 35%. That frees up funds to put into digital initiatives—the route to more value still.

Seizing the Potential of Next-Gen ERP

New ERP platforms like SAP S/4HANA can deliver powerful capabilities, especially in the way they work with data and leverage technologies like AI. They’re conducive to a modular approach to platforms and processes, allowing companies to enhance or expand with surgical precision, move quickly, and strike just the right balance between simplicity and differentiation.

Yet companies often implement these solutions in a way that doubles down on complexity and rigidity. They spend years in development but scant time linking their ERP roadmap to their business ambitions. When they finally flip the switch on their new system, the only gasps are from the accountants.

The value-based approach lets companies realize the full potential of next-gen ERP—and, in the process, sync their ERP transformation with their digital transformation. There are three main prongs.
First, identify the value drivers. Zero in on where ERP is the enabler of broader digital transformation and the ways in which the new solution can generate observable, quantifiable returns.

Second, build the foundation for creating that value. This means deploying ERP in a modular, flexible way, so you can keep the core lean yet enhance in just the right places and add new capabilities as needed. It also means ensuring ERP’s fit within your data and digital architecture.

Finally, get to value quickly, and visibly, by delivering agile innovations while transforming the core. By doing so, you generate buy-in—and help fund the journey.

Making all this work requires transparency, strong governance, and robust change management. Companies that check these boxes can make course corrections in an agile way and foster effective business–IT steering. They keep teams focused on value and rein in the complexity and scope that often hinder its creation.

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So what does this approach look like in practice? What follows is a look at each key element.

Value Drivers

Many ERP transformations start for technical reasons. The rationale often boils down to “It’s our provider’s new solution” or “It’s something we need to do for the new license.” The value-based approach starts with a business case. That business case is crucial as it shows you where, and how, ERP brings measurable returns. It explains why you are doing
the ERP transformation and helps you focus your time and resources on what matters most.

Value will lie in different places for different companies. But generally there are four levers that drive value from next-gen ERP:

- **Harmonization.** An ERP transformation is an opportunity to set—and use—common processes and data models throughout the business. This harmonization lets you reduce complexity and, in turn, costs, effort, and development waste (such as the rework that happens when every business unit designs its own data model instead of sharing a common model that would suffice for all). The key is to look closely at where uniformity does—and doesn’t—work. In some cases, it may make sense for a department or business unit to go its own way. But for most tasks (say, processing an invoice), there’s no real need to be different. In our experience, harmonization typically accounts for 20% to 30% of the value an ERP transformation can bring.

- **Standardization.** Companies will often customize an ERP solution. The rationale: to meet needs that standard, out-of-the-box features don’t address sufficiently. But there’s a cost to customization. It adds complexity and often makes for expensive, difficult, and time-consuming upgrades. Over time, that complexity grows, as companies add new layers of customization on top of older layers. Yet next-gen ERP solutions make a much stronger case for sticking with default settings. Improved and refined, out-of-the-box capabilities will serve well for many processes—and companies taking advantage of this can reap significant rewards. Indeed, we’ve found that standardization accounts for some 10% to 20% of the value in an ERP transformation.

- **Innovation.** Next-gen ERP platforms offer an array of advanced features and tools, including near-real-time databases and integration with the cloud, AI, and other key technologies. These capabilities can help companies digitize their business and reimagine the way they work. But extracting maximum value requires a holistic view: a deep understanding of how ERP can integrate with, and enhance, digital initiatives, end-to-end processes, access to data, and the company’s operating model. When
Understanding how these levers can create value isn’t always straightforward. To zero in on the answers, close collaboration between the business and IT is essential.

**Value Creation**

Next, the nuts and bolts: how do you deploy your ERP solution to create the value you’ve identified?

Savvy companies understand that to maximize value creation, you have to integrate a wide array of enablers. Today’s digital leaders are bionic companies. They blend the power of technology with the flexibility, adaptability, and experience of human beings. They think holistically and end to end. ERP needs to be part of and connected to that bionic framework. It should be linked—closely and seamlessly—with digital initiatives and technologies, as well as with intelligent and automated processes.

Value creation also requires agility and flexibility: the ability to make changes and to innovate quickly. That means you should be able to enhance and expand your ERP solution in just the right places, in just the right way, with speed.

Finally, value creation requires on-demand access to business data—every kind of business data. Your ERP solution isn’t an adjunct to your data architecture but a core component of it.
This may seem an ominous to-do list, but it’s not—for companies that embrace a data and digital platform. A DDP liberates data from silos and makes it available to preexisting systems, new digital solutions, and future applications alike. Its modular architecture—with APIs and microservices forming the connective tissue—lets companies launch new solutions with maximum agility and minimal disruption, using whatever technologies best serve their specific needs. With a DDP, you can more easily and more rapidly build smart business layers above your core IT. You also can integrate your solutions, resources, and operating model in new, value-creating ways—for example, linking ERP with real-time data and analytics to create intelligent processes.

Another key benefit: a DDP lets you more easily take advantage of the ERP ecosystem, integrating functionality from other providers with your core ERP system (should another vendor better fit your requirements in a specific area, such as HR).

This list is why it is so important to deploy your ERP as an element of a DDP.

Value Delivery

ERP deployments are rarely praised for their speed. Yet few companies have the luxury of waiting years to get to value. So how do you quicken the pace? The key is to build a roadmap along value plateaus.

Companies tend to view ERP transformation as one long journey, from starting point to target state. With value plateaus, you’re thinking of it—and executing it—as a series of smaller journeys. At each plateau, there’s a return on investment: maybe just part of the

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total payoff but enough, ideally, to build support and funding for the next phase of the transformation.

The challenge is to prioritize efforts so that you are steadily delivering value—and starting the flow as soon as possible. One idea is to adopt a dynamic release schedule, focusing on functions like data management, sales, finance, procurement, and planning to drive value early. The modular nature of next-gen ERP can shrink the timeline for deploying these functions. Many companies have had all-too-memorable experiences with more traditional (read: long) timelines, so they don’t realize that they can move faster today. That mindset needs to change.

Value Assurance

The steps above provide a framework for identifying, creating, and delivering value in an ERP project. When well planned and executed, that project can be a great enabler of digital transformation and growth. Some best practices can help steer the course.

The first is strong governance from design to rollout. A program management office (PMO) plays a key role here, tracking performance, managing risk, and making sure that partners are focused on value (and reducing scope and complexity wherever possible). The best PMOs will also foster collaboration (particularly between IT and the business), transparency, and rapid decision making. And they are supported from the top, with management serving as active—and visible—advocates for the ERP transformation.

Agile ways of working are essential. But so too are the mechanisms for embedding the methodologies in the organization: coaching, digital collaboration tools, and sprint planning and review, to name a few. Indeed, none of this works without robust change management: the training, reskilling, and communication that help the people who propel your business adapt to new processes—and propel the business even further.

ERP projects are often about replacement, not innovation. But the most successful companies innovate in every aspect of their business: how they operate, how they develop new offerings, how they interact with customers. They constantly, even relentlessly, ask
how they can innovate to create value. ERP transformation should be—and can be—a true transformation, planned and executed through that same value lens. By taking this approach, companies can know exactly where the value is and how next-gen ERP can unleash it. They can get to that value quickly. And they can describe their ERP journey with a new, and better, vocabulary.

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