ADAPTIVE ERP STRATEGY

In today's constantly evolving business environment, there is no one-size-fits-all when it comes to ERP deployment. The key ERP dilemma most large enterprises are faced with is not whether they are ready for the Cloud, but is the Cloud ready for them?

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In today's constantly evolving business environment, there is no one-size-fits-all when it comes to ERP deployment. The key ERP dilemma most large enterprises are faced with is not whether they are ready for the Cloud, but is the Cloud ready for them? The answer might not be either/or and while most CIOs who are truly aligned with the business are seeing Cloud as a powerful tool to deliver business value, they are looking to define an "Adaptive ERP" strategy that

» meets their business' needs not just for today, but one that grows and evolves as these needs change,
» ensures a smarter use of the technology to bring about true business differentiation.

As firms embrace the cloud to efficiently manage their IT infrastructure costs and introduce agility, scalability, and transparency in their business models, there is a concurrent

increase in demand for cloud-based **enterprise resource planning** (ERP) solutions.

The benefits of cloud computing are no secret: lower costs, standard and scalable technology, frequent updates and reliable technical support offered on a monthly subscription basis. An ERP solution is one of the most important tools for an organization to increase visibility, access key intelligence from across the value chain and crucial in providing management with the information needed to make business decisions. It is little surprise that companies across most industries are jumping onto the Cloud ERP bandwagon.

While concerns over data security and uptime still exist, the advantages of cloud computing clearly outweigh the hassles of updating or replacing on-premise enterprise solutions. The proposed flexibility, ease of use, real-time connection with mobile and social technologies, increased business visibility, and the potential for a more integrated supply chain through cloud ERP solutions, as promoted by most

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vendors, can not only boost an organization's competitive advantage but also create new avenues for growth.

Cloud ERP solutions are adaptable, scalable, efficient, and affordable, facilitating seamless upgrades, rapid deployment, and easy customization within enterprises, unlike on-premise ERP solutions, that require high cost maintenance and upgrades, across processes and locations.

Cloud ERP, like any software-as-a-service (SaaS), allows applications to be deployed across multiple servers and database resources, delivering significant cost savings to users. Enterprises that opt for cloud ERP enjoy a high visibility of the costs, which traditional ERP solutions do not provide. The flexibility, scalability, and cost-efficiency that cloud ERP delivers enable CIOs to utilize their IT budgets optimally.

The Cloud ERP Journey

Macroeconomic uncertainties and dynamic consumer trends are forcing business models to become more agile, flexible, and scalable. Cloud ERP solutions are fast evolving in response to the emerging business demands, unlike traditional ERP that seldom kept pace with the business changes. The early versions of ERP were designed under constraints of bandwidth, disk storage, processing speed, CPU availability, etc. Consequently, the ERP software was primarily designed to automate labor and computationally intensive tasks.

Major ERP providers largely followed a static model with a major release (read innovation, new functionality) every 2–3 years. To keep pace with the business needs, companies that deployed these ERP software packages paid out millions of dollars to customize them. These hydra-headed systems were then managed by highly skilled consultants and outsourcing vendors resulting in huge maintenance costs. The ERP upgrades that took place every 3–4 years also entailed huge spends for the enterprises as the customized objects would not easily fit in with the upgrade.

The cloud is the potential disruptive force, poised to transform this environment. Innovation in this space is today driven by vendors who come up with no less than 2–3 major releases or functionality enhancements—every year. Moreover, the releases are automatically pushed into the user environment. This allows firms to focus resources on their core business, rather than spending time and effort on activities like upgrades and maintenance.

Early Adopters, Soft Followers & Others

The market for cloud ERP solutions, as with any change adoption, can be segmented as 'early adopters', 'soft followers' and 'laggards'. The 'early adopters' largely comprise innovating companies that seek to leverage the cloud ERP solutions to develop new lines of business. High-tech companies and a number of manufacturing firms have recognized the potential of cloud ERP and have been more proactive in its adoption.

Small and medium businesses (SMBs) across industries are also among the 'early adopters' of cloud ERP as the 'pay-per-use' model helps them overcome the high up-front investments required for on-premise solutions.

Financial firms which tend to be skeptical about switching to the cloud owing to concerns regarding data security, make up a large part of the 'soft followers'.

Key Challenges

While Cloud ERP is geared for widespread adoption, there are a few challenges to be addressed.

1. Are the Cloud ERPs ready for large enterprises?

2. Are these enterprises ready to move off their current investments in on-premise, and at times, highly customized ERP? Does it even make sense?

For the answer, let us borrow a couple of assertions made in Stephen Covey's famous book, 'The 7 Habits of Highly Effective People'.
» Begin with the end in mind (your business challenge and business direction—not in isolation, but with the socio-economic context in play)
» Put first things first (define, align and adapt your ERP strategy to the business need before jumping on to the cloud)

For the last several years we have seen the adoption of Cloud ERP as a viable, and sometimes preferred delivery and acquisition model for enterprise software, specifically in certain functional areas. Examples like salesforce.com, Google Apps, SuccessFactors, Taleo, Netsuite and Workday show how SaaS/Cloud can be an advantageous model in certain functional areas. They were not core ERP functions but solutions for peripheral or sub-processes like talent management, recruitment, supply chain in manufacturing, etc. But core ERP has seen a slower adoption rate. Why?

The slow adoption was primarily, due to the lack of a true Cloud ERP solution that can offer the depth and completeness that an on-premise ERP system delivers today. Cloud ERP solutions cannot yet claim to provide companies with a way to share the efficiencies inherent in an up-to-date ERP system across all functional areas. And the days of a single monolithic ERP system might as well be over.

There needs to be a fundamental shift in the way ERP applications are deployed—moving away from the traditional 'module' approach and moving to the 'process' approach. An understanding of how end-to-end processes need to work is the key starting point and while most of the large ERP players/vendors (Oracle, SAP etc) have moved their sales pitch to the 'process' view even for their on-premise applications, it is critical that the organizations define their process from their own consumer's context. This should include defining the end business outcome, i.e. the intelligence that business users have been asking for, determining the best way to deliver this process flow, elegant user experience and even re-aligning the basic operating procedures.

While many organizations would love to use one technology (read ERP solution) for everything and have it stored in one place (cloud or hosted or on-premise) on a global basis, it will never happen again, nor should it—cos of the multiple sources of interaction and information that a said 'process' needs to engage with. If a single solution is force-fitted, the process would lose its most important winning trait—Agility.

Each business has highly differentiated ERP needs, so the Cloud ERP solution will have to be highly customizable. Further, in planning cloud migration, firms need to be aware that cloud ERP is only one component of a business solution. In migrating to the cloud, the CIO will need to initiate a series of change management steps, as well as prepare for a rigorous integration process as the cloud ERP infrastructure would not work in isolation- but needs to interact with

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the on-premise applications, other 3rd party providers and so on. There is a need to define a comprehensive Cloud Management strategy – across monitoring, integrating, security and management of this 'hybrid' model.

Maximizing business productivity relies on customizing some tasks, automating some tasks, and changing some tasks to conform to standard business practices. The exact mix depends on the individual business, the regulatory environment, and the maturity of the process in the company. And no Cloud ERP solution offers this 'complete' flexibility today.

Data security and secrecy is another big concern in the cloud space, especially for organizations operating in the pharma and healthcare, and financial services sectors. However, cloud data security standards are fast evolving, and as more firms become aware of the improved security standards, the pace of cloud ERP adoption will increase at a faster pace.

The Cloud ERP Journey

While the Cloud ERP market evolves, organizations might be able to gain the cost savings and many of the other advantages of Cloud and tap new business opportunities through their existing ERP systems - in the cloud (ERP in the Cloud)

Non-cloud applications deployed on a cloud infrastructure can also help achieve some of the benefits offered by the cloud. Granted, they fall short in certain areas of true rapid deployment (software licensing requirements) and cross platform compatibility, but they would still be able to offer the benefits of virtualized servers, cloud monitoring, dynamic provisioning of non-production environments, multi-tenant provisioning systems, and other components that contribute to Infrastructure-as-a-service (IaaS) and Platform-as-a service (PaaS). ■

MODEL FOR THE FUTURE

Cloud ERP is a fast emerging and potentially disruptive model that may provide a great opportunity to capitalize on ERP investments. The Cloud ERP model encourages standardization through visible economic drivers and provides the opportunity for greater focus on strategic activities.

Importantly, Cloud ERP adoption is not to be viewed in isolation, but as an integral part of a firm's business and IT strategy. ERP is rightly looked at as an enabler of business and innovation, and today has to enable businesses overcome challenges and drive the next wave of growth through variabilization. A business strategy for the next wave of growth that does not integrate a Cloud ERP strategy has already lost out on a significant competitive advantage.