Digital business calls for postmodern ERP

*The term enterprise resource planning or ERP was coined by Gartner in 1990, but a lot has changed since then. Gartner's **Denise Ganly** explains why the ERP megasuite is dead and why postmodern ERP is a vital foundation for digital business...*

ERP remains one of the biggest enterprise software spending categories. Australian organisations are forecast to spend almost A$780 million on ERP software in 2015, while in New Zealand, spending is forecast to reach more than NZ$100 million. Both markets showed healthy growth rates over last year.

Many Gartner clients are concerned about the future of their ERP suites. Large organisations find the problem formidable, with many moving parts and interdependencies that create a leave-it-alone mentality. Consequently, most organisations are overwhelmed with tactical issues, such as reducing licensing costs, pursuing instance consolidation, managing upgrades and interfacing with cloud services. This leaves little time for strategic planning on how ERP can enhance value and support the pace of business change.

Introducing postmodern ERP

ERP technology has evolved during the past 30 years from a collection of stand-alone, best-of-breed applications to an increasingly comprehensive end-to-end integrated suite. However, this technology vision has been killed by external market forces and the fact that, for most, a one-size-fits-all approach does not work. There are a number of reasons for this, the most important being the availability of cloud services.

Cloud vendors are selling the vision of easy-to-use and manageable applications with new, modern user interfaces in areas such as sales force automation, talent management, and travel and expense management. Many users who found their ERP applications hard to use now use these cloud applications.

Vendors now offer core elements of ERP and even full suites in the cloud. Cloud services offer not only new user functionality and a different buying model, but also the reality of faster feature updates and enhanced technical scalability due to the underlying cloud infrastructure. As organisations look at extending their ERP to support mobile access, multi-enterprise working and better decision making, they're forced to re-imagine the role of ERP, its provision, and which vendors will dominate.

Gartner uses the term 'postmodern ERP' to describe the deconstruction of suite-centric ERP into loosely coupled applications that are indifferent to the source of process provision and will enable innovation instead of stifling it. The concepts and benefits of an ERP should be preserved where it makes sense to do so, but today there is no automatic quest for on-premise solutions, or a single instance/megavendor, or for operational efficiency over business agility.

Many traditional ERP deployments stifle innovation, because they are rigid and slow, and they value integration and standardised processes over agility. Gartner predicts that heavily-customised ERP implementations will soon be referred to routinely as 'legacy ERP'. Within five years, hybrid ERP environments will be the norm, with a mixture of on-premises, cloud and outsourced components.

Postmodern ERP has emerged at the same time as many CIOs have focused on ERP investments. Gartner's 2015 CIO Survey showed that in Australia and New Zealand, ERP ranked as the fifth priority overall for new spending. It is vital that CIOs making investments in ERP understand the impact of postmodern ERP and don't throw more good

money after the bad, old way of doing things.

Defining an ERP strategy

Many organisations have inherited their ERP through a combination of tactical decisions made at the business unit level and merger and acquisition activities. Senior executives often see standardising on a single, monolithic ERP suite as a way to rationalise, delivering operating and process efficiencies and forming a foundation for future growth. Although this approach can deliver significant benefits, it is a high-cost, high-risk initiative that could compromise the business if it is ineffective.

The biggest mistake many ERP projects make before the implementation starts is failing to define and agree on a business-led ERP strategy. Instead, executives get excited about the potential benefits

Overall, this means that the ERP market is in transition. Choosing a single vendor and hoping that vendor could do it all, without defining a business-led ERP strategy, was a high-risk approach in the past. In the postmodern ERP world, it's pretty much a guarantee of failure.

IMC in the postmodern ERP era

The real future of ERP lies in in-memory computing (IMC). It breaks down the wall between ERP and business intelligence. By 2018, at least 50 percent of global companies will use in-memory computing to deliver significant additional benefits from investments in ERP.

Gartner defines IMC as an architecture style where applications assume all the data required for processing is located in the main memory of their computing environments. Broadly speaking, IMC technologies in ERP and CPM applications will deliver three types of benefits: performance improvements, advanced analytics and process innovation. These potential benefits (and the hype around them) may make IMC seem like a must-have technology investment, but the benefits will vary by organisation size, functional domain and industry. The potential benefits of IMC will not be restricted to large organisations, because midsize organisations will benefit from advanced analytics and may be able to innovate processes faster than larger, less nimble organisations.

Postmodern ERP using IMC will be a key technology enabler in digital business because organisations will be able to react to business moments in near real time by identifying their potential impact on strategic business objectives.

Using a traditional ERP system in digital business is like building a house on sand. As a first step, understand your business' appetite for digital transformation and what processes will change, and start to renovate your ERP systems for the digital age. 🔊

of ERP and encourage IT to rush straight to vendor selection, hoping that a vendor's ERP suite will solve all their business process and change management issues. Although this can work (more by luck than anything else), in most cases, it causes end users to resist using the ERP system.

Consequently, CIOs and application leaders must work with business users and senior executives to define and agree on an ERP strategy before considering any technological choices. This is one of the foundations for ERP success: 83 percent of the organisations that exceeded the business payback identified in their original business case had an ERP strategy that was approved by the business.

Four tenets of postmodern ERP

Although the fundamentals of ERP and defining an ERP strategy are still valid, the emergence of postmodern ERP adds another layer of complexity. CIOs and application leaders need to understand:

1. The megasuite is dead, killed by cloud specialist vendors that just develop a subset of the megasuite really well.

2. No vendor in the world can build a suite fast enough to keep up with the specialists, particularly cloud specialists. ERP vendors have stopped developing some areas that traditionally fell within the scope of ERP (such as talent management) and are acquiring cloud specialist vendors to deliver the required functionality.

3. New, loosely coupled ERP solutions are emerging in the cloud, based on developed and acquired products plus integration services.

4. Integration becomes more complex; however, vendors are hiding complexity in the cloud.

ABOUT DENISE GANLY //

Denise Ganly is the research agenda manager for Gartner's ERP and Enterprise Applications Strategies research group, based in Melbourne. In her 15 years at Gartner, she has advised many clients on life cycle challenges for enterprise applications including ERP strategy, business cases, benefits realisation, selection, implementation and change management.