ERP COMPLEXITY VS. BUSINESS GROWTH—AT ODDS OR IN ALIGNMENT DEPENDS ON YOUR APPROACH

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The pressure on CEOs to deliver strong growth in revenues and profits year over year has never been greater. In many sectors, CEOs today are pushing for double-digit business growth. According to the CEB, the typical $11 billion global company will have to generate $2.14 billion in purely organic revenue growth during 2015 and 2016 just to pass muster.¹

There are a number of forces at work here, and the rise of the activist investor—typified by the strong-minded private equity firm captain—may well be one of the most influential. It’s no coincidence that the recurring message from leaders of large global companies is to expand revenue bases quickly and trim cost structures in the process. Do more with less. Then do it again.

The implications are myriad, including reluctance on the part of CEOs and CFOs to invest large amounts of capital in information technology (IT) strategies that carry business risk. When it comes to enterprise resource planning (ERP) technology, the first thing that comes to mind for many senior business executives is the phrase “over budget and over schedule.” They recall difficulties encountered more than a decade ago when these truly promising and powerful software solutions were first implemented. And that’s unfortunate, because the reluctance to step up and authorize a program to standardize processes, data models, and ERP systems in the end may be a drag on the assertive growth plans that have been placed on the table.

A recent research program conducted by APQC, with support from Cognizant and SAP, set out to document the conundrum faced by business leaders who are eager to push forward with ambitious growth plans but run the risk of failure because they lack the will or wherewithal to address operating frictions caused by ERP landscape complexity. The research concluded that senior executives would be wise to undertake a sensible review of their current technology frameworks and consider remedial actions that do not require lengthy and widely disruptive change.

This research points to the heart of the problem: most executives are now committing to growth strategies that they fully admit are more assertive than in the past and will be hard to achieve under any circumstances (Figures 1 and 2).

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In your opinion, will growth targets over the next 3 to 5 years be harder to achieve than previously?

![Figure 2](image_url)

**RESEARCH METHODOLOGY**

APQC fielded a quantitative survey in June of 2015 and received a total of 172 valid responses from companies that are bona fide global operators. It’s important to note that more than 60 percent of survey participants were from large companies (approximately 30 percent reported that their firms had $1 billion to $10 billion in annual revenues, and 31 percent reported more than $10 billion). Approximately 45 percent cited an employee population of more than 10,000 workers. Such large organizations often find that it’s tough to compete against relatively smaller innovators that can achieve meteoric market capitalizations seemingly overnight.

Survey respondents represented a mix of professional backgrounds, most with managerial responsibilities:

- 27 percent = process management
- 24 percent = IT management
- 20 percent = general management or operations management
- 13 percent = finance or supply chain management
- 16 percent = assorted other roles

A mix of primary industries was also recorded (Figure 3).

**Primary Industry**

![Figure 3](image_url)
APQC was surprised to see so many survey participants reporting current targets for annual revenue growth in the double digits (Figure 4).

Again, it’s useful to recall that this survey population represents global companies, with over two-thirds operating in the United States. By extension, it’s a fair assumption that a good number of respondents are based in the United States. According to MarketWatch, a unit of Dow Jones & Co, U.S. companies that comprise the S&P 500 garner just a tad over 50 percent of their revenue from U.S. markets. Given that Europe has only recently stepped out of a double-dip recession, and given that the pace of GDP growth in China has been slowly withering for the past several years, it’s reasonable to wonder how these highly assertive growth targets will be achieved. With this challenge as a backdrop, it’s understandable that CEOs and CFOs are willing to vigorously pursue organic growth options alongside bold M&A options (Figure 5).

Which item below best describes your organization’s growth strategy over the next 3 to 5 years?

<table>
<thead>
<tr>
<th>Growth Strategy</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual revenue growth (50% or more)</td>
<td>2.9%</td>
</tr>
<tr>
<td>Annual revenue growth (40 to 50%)</td>
<td>2.9%</td>
</tr>
<tr>
<td>Annual revenue growth (20 to 40%)</td>
<td>12.3%</td>
</tr>
<tr>
<td>Annual revenue growth (10 to 20%)</td>
<td>28.1%</td>
</tr>
<tr>
<td>Annual revenue growth (5 to 10%)</td>
<td>29.8%</td>
</tr>
<tr>
<td>Annual revenue growth (less than 5%)</td>
<td>8.8%</td>
</tr>
<tr>
<td>No growth strategy</td>
<td>1.2%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>14.0%</td>
</tr>
</tbody>
</table>

N=171
What will be the primary means for achieving growth targets over the next 3 years? (Select the top two.)

<table>
<thead>
<tr>
<th>Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic growth via new product/services (N=111)</td>
<td>66.1%</td>
</tr>
<tr>
<td>Organic growth via improved customer satisfaction and retention (N=76)</td>
<td>44.7%</td>
</tr>
<tr>
<td>Mergers/acquisitions to expand in current markets or adjacent markets (N=32)</td>
<td>11.8%</td>
</tr>
<tr>
<td>Mergers/acquisitions to enter new business arenas (N=26)</td>
<td>13.5%</td>
</tr>
<tr>
<td>Mergers/acquisitions to expand our geographic footprint (N=23)</td>
<td>18.8%</td>
</tr>
<tr>
<td>Mergers/acquisitions to enable innovation (N=20)</td>
<td>15.3%</td>
</tr>
<tr>
<td>Other (N=9)</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

In your opinion, is your ERP landscape unnecessarily complex?

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>58.5%</td>
</tr>
<tr>
<td>No</td>
<td>31.0%</td>
</tr>
<tr>
<td>Don't know</td>
<td>10.5%</td>
</tr>
</tbody>
</table>

THE ELEPHANT IN THE ROOM

Smart growth depends on sound information quality (IQ), which APQC defines as information that is turned into practical, concise, fresh, and reliable insights that enable fast-paced decision making about unfolding performance trends, risks, and clever options for reaching intended destinations. In short, smart growth depends on great seamanship.

The challenge for the large organizations surveyed by APQC is that their ERP landscapes (systems, processes, policies, governance models, data models, and so on) tend to be highly convoluted (Figure 6).
Indeed, most survey participants are held back by multiple ERP systems and inconsistent processes and data models from one business unit to the next (Figure 7). The modern ERP system is very capable of enabling sound decision making by providing an integrated view of activity across core business processes, all tied together by ERP application software and a common database. Unfortunately, many organizations do not receive optimal value from their ERPs—due largely to the proliferation of multiple, individualized platforms, so often the result of ambitious acquisitions strategies.

**What best describes your current ERP landscape?**

![Pie chart showing the survey results](image)

- Single ERP system with single version of the core app and consistent process and data models across the organization (27.3%)
- Single ERP system with multiple versions of the core application and different process and data models (12.2%)
- Multiple ERP systems (i.e., various vendors) and common infrastructure platform (34.3%)
- Multiple ERP systems with disparate infrastructure platforms (16.9%)
- Not sure/don’t know (9.3%)

*N=172*
It’s no coincidence that the majority of survey respondents told APQC that they struggle to integrate newly acquired businesses (Figure 8). The reasons most commonly cited are:

- lack of business process standardization,
- lack of common data model, and
- lack of IT systems cohesion.

Successful integration of newly acquired assets does not depend solely on the level of ERP standardization. Many other dynamics, such as talent development, play a crucial role. But tolerating ERP system complexity doesn’t help.

**How problematic is it for your organization to integrate newly acquired businesses?**

![Figure 8: Graph showing the percentage of respondents for each level of difficulty in integrating newly acquired businesses.](image)

**Fix it or Not?**

On one level, it’s hard to understand why less than one in four survey participants said their senior management teams are aware of the problems posed by ERP complexity and are prepared to lead the charge for change. On another level, it’s easy to see that many CEOs worry that committing capital to ERP landscape harmonization would not deliver requisite ROI. Many would rather hang on to spare capital for the next acquisition opportunity.

Moreover, there is an awful lot at stake for a multibillion dollar company when (as the survey suggested) mid-level business unit managers don’t appreciate the problem and resist any talk of a fix. Mention the specter of business disruption risk and the topic is easily set aside for another day. Finally, when the enterprise strategy calls for fast growth—and careers hang in the balance—any project that is bound to slow things down drives away potential proponents.

Somewhat contradictory, however, is the survey view that showed that many business executives are convinced ERP landscape simplification would be beneficial (Figure 9).
If your organization were to embark on ERP landscape simplification, what would be the top objectives? (Select top three reasons.)

<table>
<thead>
<tr>
<th>Objective</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access high-quality information more quickly to better support decision making</td>
<td>73.7%</td>
</tr>
<tr>
<td>Lower operating costs</td>
<td>57.9%</td>
</tr>
<tr>
<td>Improve collaboration across the business</td>
<td>56.7%</td>
</tr>
<tr>
<td>Improved ability to integrate newly acquired assets or businesses</td>
<td>31.6%</td>
</tr>
<tr>
<td>Less resource redundancy</td>
<td>24.0%</td>
</tr>
</tbody>
</table>

Figure 9

A FINAL WORD

One third of survey respondents said they would consider an alternative to large-scale ERP change: invest in a software solution that will enable fast and relatively easy consolidation of financial data from across a spectrum of ERP system brands and instances. There have indeed been advances in technology that can help COOs, CFOs and others gain a highly practical dashboard of performance metrics showing, for example, throughput or orders delivered on time. So, there are sound approaches to pursue that do not require enterprise-wide ERP harmonization and all the change and disruption that implies.

The key takeaways of this research program are:

- The pressure is on for aggressive business growth, and for many organizations ERP landscape complexity is or will become an insurmountable obstacle to the pursuit of growth targets.

- Many business leaders realize that ERP landscape complexity compounds the challenges of integrating newly acquired assets, but they persist in “kicking the can down the road.”

- It is much more sensible to undertake a review of the current versus future state and seek out remedial actions that will, over time, help to align the enterprise technology strategy with long-term business strategy.

- There are alternatives to costly, time-consuming, and disruptive enterprise-wide efforts to overhaul a complex ERP landscape.

- The first step ought to be a careful review of the potential benefits of incremental remedial steps.
In the past couple of years, there has been considerable progress around tools specifically designed around consolidations, making the journey less risky, more structured and more cost-effective.

Two examples of these are Cognizant’s AD³ methodology and SAP’s S/4 HANA and Simple Finance offerings.

**AD³**

Cognizant’s Analysis and Due Diligence Diagnostic is a dedicated consolidation assessment methodology based on successful projects. It consists of four pillars:

It is highly recommended that all four of these dimensions are addressed, since they are closely related and synergistic, and ignoring any one would lead to missed opportunities or even a distorted view.

The deliverables resulting from this methodology-driven exercise are as follows:

1. Alignment with the long-term corporate strategy
2. Assessment of the current state: processes, applications/data, people, technology
3. Rationalization and commonality assessment
4. Definition of the future state: processes, applications/data, people, technology
5. Detailed, step-by-step roadmap
6. Business case and value realization plan
These deliverables, typically achieved after an 8- to 12-week engagement, reduce the risk of a consolidation considerably and provide a simple, clear, and cost-effective way to take the necessary first step, including a detailed, phased roadmap as well as a compelling business case that can be presented in order to obtain internal approval for the project.

Alignment & Due-Diligence Diagnostic (AD³)
THE DIGITAL ECONOMY HAS CLEARLY ARRIVED. And while digital technologies offer businesses a new set of opportunities to create value, the digitalization of the business world is pushing traditional IT to its limit.

Over the years, growth in transactional databases and other data sources as well as their associated systems have complicated enterprise applications and infrastructure. As we see in this report, IT complexity delays the delivery of new tech capabilities, raises capital and operational costs, and makes it harder for IT to help the business. However, technology can be a liberating force that helps companies reinvent themselves.

SAP S/4HANA is the next-generation business suite designed to run simple in the digital economy. It was designed to break the limitations of the past by simplifying IT with massive simplification and innovation. It is built on the most advanced in-memory platform today, SAP HANA, and offers a personalized user experience with SAP Fiori. Deployable in the cloud or on-premises, SAP S/4HANA is built to drive instant value across lines of business and industries.

✦ Reimagined Business Models. Simplicity to connect to people, devices, and business networks in real time to unlock the potential of the digital economy and deliver new experiences and value to customers. The Internet of Things and Big Data become accessible to any business—no more complex business collaboration and interactions.

✦ Reimagined Business Decisions. Simplicity to get any insight on any data from anywhere in real time: planning, execution, prediction, and simulation are now all done on the fly at the highest level of granularity to drive faster business impact—no more complex data consolidation through spreadsheets

✦ Reimagined Business Processes. Simplicity to focus on the essential tasks in real time and gain flexibility and agility to change business processes as needed for new efficiencies—no more extensive batch processing

Now is the time for IT to spend less time managing complexity and more time leading the enterprise digital transformation. SAP S/4HANA represents the digital business foundation of the 21st century to help drive this transformation across industries, business functions, and roles with the ultimate sophistication: simplicity.
ABOUT APQC

APQC is a member-based nonprofit and one of the leading proponents of benchmarking and best practice business research. Working with more than 500 organizations worldwide in all industries, APQC focuses on providing organizations with the information they need to work smarter, faster, and with confidence. Every day we uncover the processes and practices that push organizations from good to great. Visit us at www.apqc.org and learn how you can make best practices your practices.

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