ANALYST CONNECTION

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Cloud ERPs enhance operational visibility, provide real-time insights, and drive agility, flexibility, and scalability. These systems can help product-based companies unlock business value and maximize the potential of AI.

Cloud ERPs for a Competitive Advantage in Product-Based Industries

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Questions posed by: LTIMindtree

Answers by: Sreenivas Duvvuri Venkata, Research Analyst, Enterprise Services

Q. How do cloud ERPs drive value?

A. Many organizations are striving to become digital businesses in response to rapid advancements across the Internet of Things (IoT), AI and generative AI (GenAI), the cloud, and other emerging technologies. According to IDC's December 2024 *Future Enterprise Resiliency and Spending Survey,* 90.3% of organizations across the manufacturing and retail sectors depend on digital technologies to create value. As part of their strategy, organizations are making sizable, long-term investments in ERP systems to help run their businesses.

These systems offer a centralized platform that integrates processes across functions and operations, such as financial management and accounting, human resource management, customer relationship management, inventory and supply chain, procurement, and project management. Industry 4.0, sustainability, remote work, and the shift to cloud are among the factors paving the way for cloud-based ERP systems. These systems can incorporate telematics data from sensors, enabling Industry 4.0 use cases. Modules focused on environmental, social, and governance concerns can help track and monitor sustainability metrics and ensure regulatory compliance. In addition, cloud ERPs provide offsite data access and operational control for remote collaboration. These systems are secure and support accessibility features such as mobile applications.

With greater emphasis on maintaining agility, cloud ERPs are gaining popularity among large organizations. They are equally as important for small and midsize players because of their scalability, flexibility, and cost-effectiveness. These platforms create an integrated, real-time business solution with a digital core that supports industry-specific functionalities, AI-driven insights, and automation. Cloud ERPs enable better resource management, faster response to disruptions and ultimately, a stronger market position.

Q. Which business capabilities matter to product companies?

A. Product-based companies across sectors are investing in digital initiatives to drive business priorities and address challenges. In manufacturing, for example, according to IDC's July 2024 *Manufacturing Industry Core Survey,* the top priorities are improving supply chain performance and resilience, reducing operational risk, and enhancing manufacturing operations excellence. Organizations are concerned about increasing operational costs, demand variability, and cost pressures from inflation. The top digital transformation priorities in retail include improving customer experience and increasing operational efficiency, according to IDC's July 2024 *Global Retail Survey*. Profit margin is the top KPI in measuring success across organizations in manufacturing and retail, as indicated by IDC's June 2024 *Digital-Native Business Survey*.

Cloud ERPs lay a strong foundation for accelerating the fulfillment of these priorities and tackling challenges. These systems provide real-time visibility into inventories and operations and support AI-powered modeling for enhanced forecasting accuracy, which reduces inventory holding costs and risks of stock-outs or overproduction. This visibility can help with the efficient allocation of resources, such as machinery, labor, and materials, in addition to streamlining supply chain management. Cloud ERPs offer automated scheduling and monitoring systems that can rapidly create work orders, dynamically update production schedules, and provide alerts to address potential risks. These systems further active collaboration across the organization, communicating changes to distribution or production plans instantly, thus enabling improved customer satisfaction and supporting operational resilience. Cloud ERPs are available with lower up-front and ongoing costs, reducing the investment and overall cost of goods and improving profit margins.

Q. How secure are risk management and compliance?

A. Organizations face risks across sectors, including supply chain disruptions, data breaches, third-party risk, and fraud, as part of their day-to-day operations. Managing these risks can be tricky, especially in today's fast-paced business environment. IDC's February 2024 *CEO Survey* identifies risk management as the second most important focus area for leaders at product-based companies, with 43.3% of CEOs maintaining that improving risk management posture is a top priority for their role. Although regulators establish compliance norms that provide guardrails for safety, they can be challenging to implement, track, report, and maintain. To further complicate matters, certain product-based companies are more regulated than others, especially across areas such as oil and gas, pharmaceuticals, and electric vehicles.

Cloud ERPs can help in making risk and compliance management easier. They offer capabilities such as real-time insights for enhancing operational visibility, centralized data management, enterprise-grade security, and automation. Cloud ERPs continuously update their solutions to stay compliant with changing regulations. They offer built-in tools for navigating compliance and risk management, including audit trail management, compliance document generation, role-based access control, and automated workflow management. This establishes an integrated risk management solution that extends beyond IT departments, maintaining comprehensive focus across the organization. With a suite of tools to manage risk and compliance, cloud ERPs drive organizational resilience and release valuable enterprise resources that can be deployed on the core business of production and distribution.

Q. What benefits can organizations derive from cloud ERPs? How do they track and measure them?

A. According to IDC's October 2024 *Future Enterprise Resiliency and Spending Survey,* a quarter of product-based organizations expect to significantly increase spending on modernizing core enterprise applications. To maintain the pace of investment, organizations must adhere to a well-articulated business case document, including an exhaustive cost-benefit analysis that is complete with metrics across result areas. These areas and metrics tend to be layered, tracking improvements across growth, financial, operational, productivity, and customer-focused aspects of the business model. Some of these metrics are:

- **Growth:** Improved time to market for new products, increased transaction volume, and market share
- **Financial:** Return on investment, cash flow improvement, decrease in financial closing time, and cost savings from IT infrastructure, operations, and auditing
- **Operational:** Inventory turnover ratio, reduced carrying costs, reduced decision-making time, and improved forecast accuracy
- **Productivity:** Reduced manual labor with automation, decreased error rates, and increased employee output
- **Customers:** Reduced order fulfillment time, improvement in CSAT, increased customer lifetime value, and growth in repeat business

Creating a comprehensive business case, tracking metrics, and associating those metrics with tangible results can be a demanding task. While some metrics can be easily quantified, others may require careful deliberation. These considerations and baseline measurements are essential to clearly identify the extent of improvement. A successful business case incorporates a shared understanding across functional areas, aligning stakeholders' priorities with overall business objectives, well before the project is implemented.

Q. What strategic considerations should be kept in mind while implementing cloud ERPs? How can service providers help?

A. Cloud ERPs come with greater ease of implementation than on-premises ERPs. They involve faster deployment, require fewer IT resources, offer simpler configuration, and provide more integration options. However, challenges such as scope creep, cost overrun, software compatibility, data integrity, and organizational resistance can wreak havoc on their implementation if the organization does not critically assess these elements beforehand. Successful implementation requires carefully considering certain details before embarking on a transformation. These include:

- Processes that are a priority for implementation
- Expected outcomes from implementing a cloud ERP
- Strategic investment outlook and time frame for transformation

- Infrastructure availability and cost considerations
- Implementation approach (all out or phased)
- Integration with existing tools and software
- Level of customization available
- Data migration from legacy systems
- Data security
- Compliance with industry standards
- Change management, resource training, and adoption considerations

Selecting a cloud ERP and a transformation approach can be a challenging process. Service providers with a track record of successful transformations have a close understanding of the nuances and best practices necessary to extract value from cloud ERPs. They can also support business case development, utilizing proven accelerators that are perfected over several transformation initiatives. In addition to planning and implementation, offerings across managed services such as ongoing support, optimization, training, and change management can be instrumental in long-term value creation. Trusted service vendors with comprehensive offerings incorporating IP, domain knowledge, and technical expertise can prove instrumental in navigating complex transformations and accelerating time to value.

About the Analyst

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Sreenivas Duvvuri is a research analyst with IDC's Enterprise Services practice. His core research coverage includes managed IT services, including managed application and infrastructure services. Sreenivas also covers topics and technologies that drive services demand such as cloud, artificial intelligence and automation, and digital transformation. Sreenivas is responsible for syndicated research and custom projects that address the continued impact of emerging trends on technology service providers in Canada.

MESSAGE FROM THE SPONSOR

Adopting a digital core through Cloud ERP implementation is becoming crucial for corporate success in the AI era. This approach enables companies to innovate efficiently with reduced costs and risks while maintaining competitiveness. The out-of-the-box enterprise solutions in Cloud ERP provide a robust digital foundation that can be built upon incrementally.

By leveraging preconfigured industry best practices and an MVP approach, organizations can quickly establish core functionalities and gradually add specialized features. This strategic implementation method allows businesses to achieve faster digital transformation while ensuring scalability.

LTIMindtree's Core++ program exemplifies this approach, offering complimentary expert advisory services and utilizing a fit-to-standard methodology that accelerates implementation timeframes. The program enhances traditional ERP capabilities by incorporating GenAI solutions across key business functions, delivering predictable outcomes and maximizing value. Visit LTIMindtree.

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