

ORACLE®
Small and Medium
Business

Plotting Your Path to a Modern ERP

A step-by-step
guide to find the
right ERP Cloud
solution for your
growing business



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Embark on Your Journey to Modernize ERP

Migrating to a new enterprise resource planning (ERP) solution is not an easy decision. Chances are, the idea has been idling in the back of your mind for a while, but now you are noticing some telltale signs that your legacy ERP system is just not keeping up with today's digital marketplace. For example:

- Does data have to be downloaded and manually re-entered into different systems?
- Are customer complaints on the rise?
- Has decision-making stalled due to a lack of accurate, trusted data?
- Are spreadsheets used more than your current ERP system?
- Does it take an unnaturally long time to close the books?
- Do you have the functionality to support new revenue models and forecasting methods?
- Are you working with a variety of point solutions that are poorly integrated?
- Have you (and your employees) lost trust in your data?
- Has vendor support ended or have support costs skyrocketed?

If the answer to any of these questions is “yes,” now is the time to start working towards a modern ERP solution. However, selecting the best one for your business today, and tomorrow, can be tricky.

This ebook is your guide to selecting your best-fit ERP solution. Simplify your journey to a modern ERP (with all the benefits that modernization offers), with practical tips, advice, and an easy-to-follow checklist to ensure that your choice is the right one for your employees and your business.



What Value Can a Modern ERP Offer?

ERP modernization is the re-architecting, re-platforming, re-hosting, replacing, re-engineering, or retiring (to name a few) of software to align it more closely with current business needs. The overall goal is to create new value.¹

Growing companies can't afford to become complacent with these business-critical applications and workloads. In this era of mobility, big data analytics, and always-on transactional demand, your ERP system must perform faster, handle more capacity, and be 100 percent reliable. Not only that, but those same applications must support new capabilities such as machine learning, blockchain, digital assistants, and artificial intelligence

Key drivers that encourage the modernization of ERP in the cloud are:²

- Increased efficiency (which leads to cost savings)
- Scalability (which lets companies rapidly expand their ability to process a higher number of business transactions during peak business cycles)
- Lower capital expenditures (which are replaced with a 'pay as you go' computing model)
- Simplified system management and updates (thanks to a common suite of application and infrastructure management tools)
- Improved marketplace agility (which is made possible by a better understanding of profit winners/losers, better data for expansion initiatives, etc.)
- Greater mobility and flexibility (employees have access to needed information wherever they are, boosting job satisfaction levels and removing process bottlenecks)

That is a lot to digest, and it is difficult to know where to start. Therefore, this guide lays out the steps in five easily digestible chunks to help you modernize the business-critical applications that should deliver additional significant value to your business.

¹ Nagendra Bommadevara, Andrea Del Miglio, and Steve Jansen, "Cloud Adoption to Accelerate IT Modernization," McKinsey & Company, April 2018, [mckinsey.com](https://www.mckinsey.com).

² Mark Bilger, "Application Modernization and the Cloud Connection," Virtualization and Cloud Review, January 14, 2013, [virtualizationreview.com](https://www.virtualizationreview.com).

A Modern ERP is a Cloud ERP

The cloud is a means, not an end. No one should move to the cloud and expect “modernization” and “transformation” to happen spontaneously. “Cloud” and “modernization” are not interchangeable terms.

But the cloud drives successful application modernization initiatives thanks to improved efficiencies, scalability, improved agility and flexibility, and reduced IT overhead costs (by up to 40 percent).³

For your growing business, this translates to:

- Eliminating slowdowns during high-traffic, seasonal sales periods
- Funneling cost savings to other revenue-generating areas
- Providing a multitude of self-service options and lowering cost-of-sales
- Having the functionality needed for growth initiatives (adopting a new revenue model, entering a new geography, or expanding your product line)
- Shortening time-to-market and gaining first-mover advantage
- Shifting from reactive to proactive customer service

LIFT-AND-SHIFT IS NOT ENOUGH

Moving your legacy applications to the cloud—a “lift-and-shift”—will not automatically yield the benefits that cloud infrastructure and systems can provide.⁴

Neither can your AS/400-based infrastructure, or your client-server configuration (no matter how thin), or even browser/web-based solutions. But the cloud can.

^{3,4}Nagendra Bommadevara, Andrea Del Miglio, and Steve Jansen, “Cloud Adoption to Accelerate IT Modernization,” McKinsey & Company, April 2018, mckinsey.com.



Five Steps to a Modern ERP Cloud Solution

Modernizing ERP can feel like an overwhelming and all-consuming process. To help you through it, read the rest of our ERP selection guide. We have broken the selection process down into five steps to help you successfully choose the right ERP software solution for today, and tomorrow.

- 1. Assemble the Selection Team**
- 2. Understand the Scope of Your IT and Business Needs**
- 3. Build the Business Case**
- 4. Prove the Investment's Worth**
- 5. Pick the Right Partner**

Assemble the Selection Team

The first step in any successful ERP modernization is assembling the right selection team. The ERP solution and vendor you choose will have to tick a lot of different boxes for a lot of different people. Therefore, the best way to make sure that everyone's needs are met is to get all of the right people involved in the decision-making process from the start.

In order to select the ERP solution that best supports the strategic direction of the business and delivers value, the selection team should include:

- A senior-level executive sponsor
- A project leader
- Stakeholders from every department (not just Finance) touched by the processes you want to transform
- Senior stakeholders who understand the processes covered by an ERP application
- A steering group of employees with responsibilities that span the breadth of ERP

By bringing this group together into a formalized selection committee, you will be able to see the full scope of what your ideal ERP solution must do to meet everyone's needs, including:

- Which areas and processes relating to ERP (such as finance, procurement, order and project management, planning, forecasting, and budgeting) are in the most immediate need of modernizing
- Inefficiencies and functional gaps that need to be eliminated/filled by a modern ERP solution
- Areas where current solutions are not meeting expectations



Understand the Scope of Your IT and Business Needs

After you have received input from the selection team, you will need to define the project's scope. Focus on building a comprehensive list of system requirements and business processes. To do this, you will need to ask your selection team some questions. Some general ones to ask include:

1. How many users will the ERP solution need to support? (Note: Take any seasonal demand fluctuations into account)
2. What level of self-service is planned for customers and/or partners? Which pieces of data within the ERP system need to be available?
3. Will your user count grow? If so, will it grow significantly or only slightly?
4. What other non-finance apps must be integrated with the new ERP system in order to share data? Supply chain management, HR, and/or sales and service?
5. Will the ERP solution be fully mobile-enabled (not just accessible through a web browser) so that employees can easily access needed data anywhere, anytime?
6. Will disparate users from across your organization be able to connect to and use the solution effectively, with the right provisioning in place?
7. What is the need for forecasting, budgeting, and planning capabilities? What level of integration is needed to provide needed data easily?

The more specific you can be, the better. Few things derail project budgets and timelines as the 'assumptive' or missing requirements, so make sure you engage with your selection team as much as possible.

When you join their answers to your list of questions, you will be able to scope out exactly what you are looking for. The next step is to build the business case to get the executive buy-in you need.

Integration is the key to a modern, customer-centric ERP solution. Online sales have opened new channels that customers use to research and order products. Therefore, implementing a customer-centric ERP that is integrated across the board allows all solution sets (supply chain, ecommerce, customer relationship management [CRM] and enterprise performance management [EPM]) to leverage product and customer data effectively.⁵

⁵ Brian Ball, "Customer-Centric ERP for Wholesalers and Distributors," Aberdeen Group, October 2017.



Build the Business Case

With your selection team built and your IT and business needs outlined, you are ready to start building your business case. A compelling and convincing business case is critical; it is your key to securing executive buy-in and getting more company sponsors on your side.

A good business case outlines the reasons for acquiring a new ERP solution along with solid, quantifiable issues that need solving. Focus on the benefits the new solution will provide for the entire company and not just the finance department. Transformative, modern solutions should benefit every employee (either directly or indirectly), and the case you make for the migration needs to reflect that as fully as possible. So think in terms of the business issues that the executive team wants to address. Focus on how a modern ERP solution will help:

- Support specific elements of the business's current and future growth strategy
- Solve problems that are already well known
- Overcome a variety of macro-level growth challenges
- Compete effectively against other companies in the market
- Improve common finance key performance indicators (operating cash flow, working capital, accounts payable turnover, etc.) against current benchmarks

Finally, always keep in mind that company executives want dollar amounts that show exactly the kind of financial return and value that the business is likely to see from this investment.

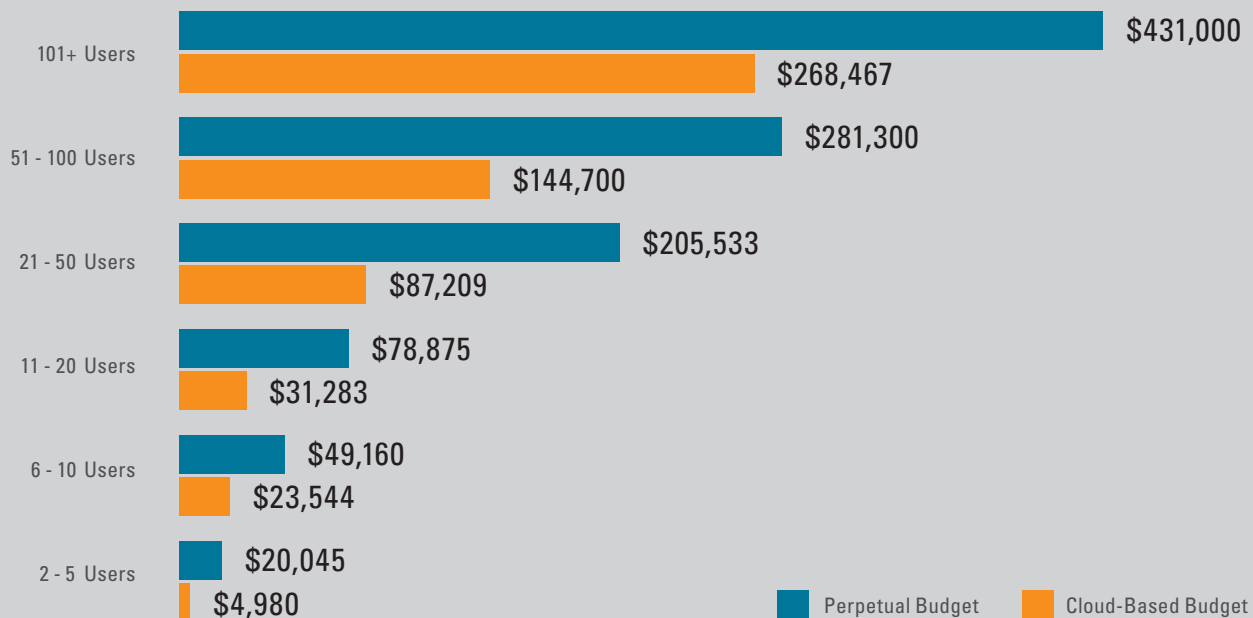
Prove the Investment's Worth (Total Cost of Ownership and Return on Investment)

To win the support and buy-in of senior executives, you will have to demonstrate that you have considered exactly how modernizing your ERP system will positively affect the company's bottom line.

When it comes to demonstrating the value of investing in a modern ERP cloud solution, you need to quantify the cost savings that are associated with moving an on-premises ERP system to the cloud, including:

- A reduction/reallocation of ERP resources, thanks to increased automation and self-service tools
- The insight granted by new built-in analytics
- The increased efficiency of individual processes, especially those that may still be spreadsheet-based
- The cost savings that occur by improving visibility to all ERP processes
- Better control over budgets, forecasting, and procurement
- The lower initial price point and ongoing operating expenses (vs. capital expenditures)

Estimated Budget for Perpetual Licenses (for On-Premises ERP) vs. Cloud-Based ERP Systems⁶



Determining Total Cost of Ownership (TCO)

TCO provides a realistic and holistic measure of the long-term costs required to acquire and operate technology solutions, and it is usually the top consideration when evaluating potential business application options, especially when those options have the same goals and the same processes to achieve those goals.

However, a TCO analysis encompasses more than just software license/subscription costs. It includes:

- The costs of the planning and selection process
- IT infrastructure costs (hardware, software, and support)
- Application subscription costs /application license costs
- Application design, configuration/customization, integration, end-user support, and administration costs
- Initial and ongoing training costs
- Implementation costs

Research has found that a cumulative **TCO of a cloud ERP solution was** (on average) **45 percent less than an on-premises ERP** solution for small-to-medium business (SMBs) over a four-year lifespan. The cost advantages remain significant across all deployment sizes but do taper off (slightly) as the number of users rises. The cost of IT infrastructure is the most significant difference between the two models. IT infrastructure costs for cloud ERP are zero because the cloud provider includes this as part of the annual subscription. However, infrastructure costs are significant in the on-premises scenarios, accounting (based on deployment size) for approximately \$550K to \$1.1 million over the course of four years.⁷

Delivery of the cloud-based solution is also about 70 percent less expensive than on-premises since cloud software does not need to be deployed on-premises, which eliminates many of the issues that pop up in company-specific data centers.⁸

A Word About Return on Investment (ROI)

ROI is another method commonly used to evaluate and prioritize technology investments. It is typically used to compare investments that uncover new top-line revenue and growth opportunities. The ROI and long-term benefits of a modern ERP solution are extensive.

Before the executive team approves a large expenditure, they want to know that the money will enable improvements/initiatives/innovation that are worth more than the investment. Otherwise, they would be better off putting the money elsewhere or not spending it at all.

To provide an answer, compare the costs and the return (i.e. the quantifiable value of benefits). Then calculate how long it will take to earn back the investment (payback period) or the equivalent percentage “interest” the benefits represent (internal rate of return). This simple ROI analysis should help decision-makers compare projects and other uses of the money so they can make the best investments. The idea behind cost/benefit analysis seems quite simple and straightforward, but remember the subjective nature of ROI. Many “hidden” costs can be easily overlooked.

For example, not investing in a modern ERP cloud solution has costs as well. Slow processes, bottlenecks, delays in rolling out new functionality, or even long upgrade processes all have an opportunity cost. Is that cost one you can afford?

The business case for the cloud continues to increase, with cloud deployments now delivering 3.2 times the ROI of on-premise solutions. For Oracle on-premise customers, moving to the cloud today is an easy way to reap returns.⁹

Pick the Right Partner

Once you've secured your funding and executive buy-in, the real decision-making begins. There will likely be several vendors that can meet the basic requirements, so how do you choose one? Your first task at this stage is to create a shortlist of potential offerings that meet most of your general, agreed-upon requirements. Then, with those options outlined, you can start digging a little deeper to discover what it is that truly sets them apart from one another.

Here, you will need to look beyond the basic list of features and functions; you need to look at the entire service you will receive with each potential partner. Ask yourself the following questions as you look into each option:

- What is their support offering like? Will you be able to get the assistance you need, when you need it?
- Do they provide training to get everyone up to speed to start getting the most from it immediately?
- Will they help migrate data from your legacy system and make the deployment process as simple as possible?
- Do they have a proven track record of providing cloud software services reliably, with negligible levels of downtime?
- Do they address your security concerns? For example, do they isolate your data from that of other companies and do they have market-leading security features?
- What other cloud services do they provide? Would those complement your new ERP cloud solution in the future?
- Is the vendor at the leading edge of emerging technologies?
- What are the planned functionality enhancements in upcoming releases that will ensure that your growing company always has access to the latest and greatest features and functions?

At this stage, the vendors themselves will have prepared most of the information you gather. It is still valuable, but to get a complete view of the solutions you have shortlisted, you should add an additional data source to complement that information and give you a fresh perspective.

Your Cloud ERP Acquisition Checklist

I. Assemble Your Team

- ✓ Identify your executive sponsor
- ✓ Appoint a project leader
- ✓ Identify stakeholders from every department (not just Finance) touched by the processes you want to transform
- ✓ Recruit senior stakeholders with a deep understanding of the processes covered by an ERP application
- ✓ Form a steering group of employees with responsibilities that span the breadth of ERP

II. Understand the Scope of Your IT and Business Needs (answer the following questions):

- ✓ How many users will the ERP solution need to support?
- ✓ How much will your user count grow?
- ✓ What other applications does the ERP solution need to integrate with?
- ✓ What level of mobility does the solution need to support?
- ✓ Is self-service functionality required? If so, what data needs to be shared between systems?
- ✓ What level of provisioning is needed across the company?
- ✓ What is the need for forecasting, budgeting, and planning capabilities?

III. Build Your Business Case

- ✓ Identify critical issues (current and future) that the solution could help solve
- ✓ Speak in broad terms about business benefits; do not just focus on the impact to people within Finance
- ✓ Quantify improvements and define the benchmarks for key KPIs that a new ERP solution will help improve
- ✓ Create a compelling ROI forecast that demonstrates what your proposed acquisition will do for the bottom line

IV. Prove the Investment's Worth

- ✓ Quantify the cost savings associated with moving from on-premises to the cloud
- ✓ Conduct a total cost of ownership (TCO) over (at minimum) a four-year life cycle
- ✓ Calculate return on investment (ROI), including payback period and internal rate of return (IRR)

V. Pick the Right Partner

- ✓ Draft a shortlist of potential solutions that meet your criteria
- ✓ Look beyond the basic list of features and functions; look at the entire service package from each vendor
- ✓ Assess each option on your shortlist based on what it can offer you today, how the partner adds value beyond the solution itself, and what the future could hold

Integrated Cloud Applications & Platform Services

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