Four Drivers of a Successful ERP Consolidation

Published 9 August 2021 - ID G00744802 - 14 min read

By Analyst(s): Dixie John, Denis Torii

Initiatives: ERP

Consolidating multiple ERPs can deliver savings and standardization, but it is challenging to execute. CIOs can avoid common consolidation missteps by preserving their competitive differentiation, using composable architectures, enabling shared processes and embracing balanced benefits.

Overview

Key Findings

- ERP consolidation efforts often focus too narrowly on technical simplification using a single-instance suite approach. This mindset can result in a consolidation that undermines enterprise value and flexibility, rather than the desired more composable mindset, which delivers both standardization and competitive advantages.
- ERP consolidation projects should take a composable approach and open the door to new opportunities to provide common solutions for common functional requirements across the enterprise. This will drive greater efficiency within the operating structure while still delivering on cost savings.
- A single monolithic ERP solution is unlikely to cover all of your requirements with standard functionality.
- A consolidation effort exclusively focused on cost savings will often overlook opportunities to identify and track non-cost-related transformational benefits.

Recommendations

CIOs evaluating ERP consolidation should:

- Establish ERP consolidation as an enabler of strategic outcomes and simplified operating models, without taking standardization too far. Preserve the organization’s unique geographic and/or business unit competitive capabilities.

- Underpin common functional synergies using the consolidated ERP instances as an enabler, especially at times when the operating model is moving toward standardization or you witness greater collaboration across teams.
- Use composable solution architectures and advanced integration solutions to deliver cohesive capabilities across technologies or geographies. This would extend the application to support business unit autonomy during their last mile of service delivery.
- Optimize the benefits of the consolidation effort by looking beyond just IT cost savings to a broader set of blended tangible and intangible benefits and opportunities.

Strategic Planning Assumption

By 2024, over half of global enterprises will revise their ERP consolidation strategy to focus on a more composable approach.

Introduction

Many large multinational organizations have heterogeneous ERP application portfolios built up over time, either from acquisitions or as an outcome of their historical evolution. These disparate applications are maintained for business continuity and customer value creation. When these organizations decide to consolidate their ERPs, senior executives are often attracted to the idea of reducing costs and simplifying the portfolio by standardizing and centralizing the ERP applications.

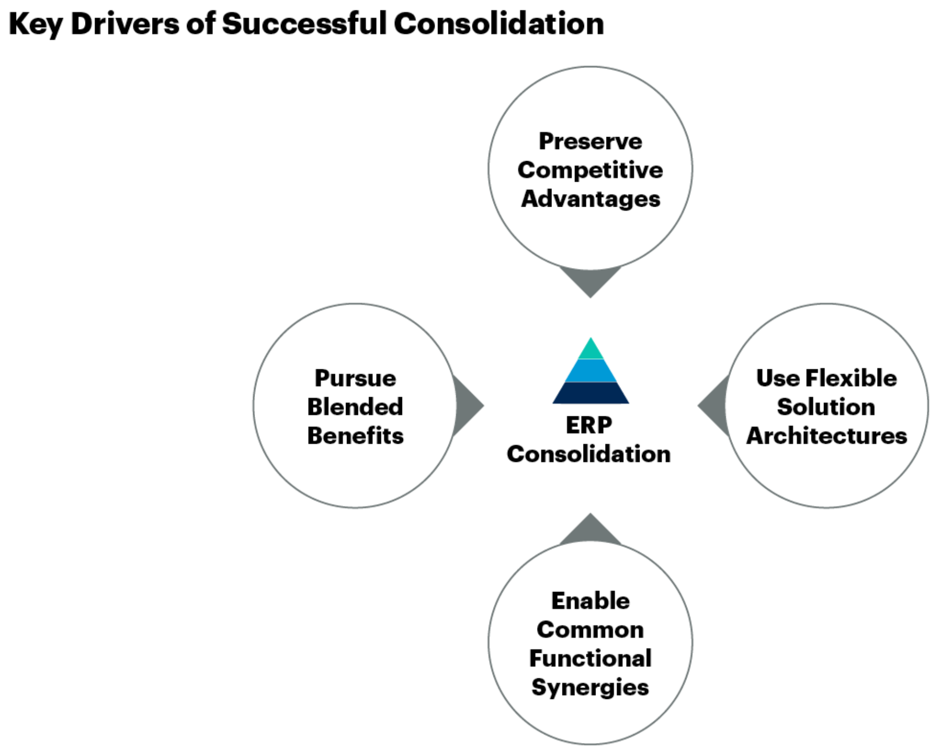
The CIO has to balance the flexibility and fitness of the application portfolio with the drive for simplification if the portfolio becomes overly heterogeneous. These aspirations can be in direct conflict with each other.

Solving this complication by pursuing a single instance ERP consolidation may be a great way of saving money in IT infrastructure and support. However, it can also be a costly and high-risk exercise involving significant business disruption, major organizational change management or challenges to the business case as nondepreciated assets need to be written off. Having a composable mindset when consolidating ERP instances will help drive decisions that keep operational and administrative capabilities interoperable and flexible to meet future business needs.

How can the CIO help the enterprise see that the ERP consolidation agenda may actually serve as a strategic enabler, then help explain the options and suitable approaches to recompose the current state? CIOs must ensure that consolidation initiatives are focused on business outcomes, rather than solely on the aspiration for a single instance or vendor. They must drive for a more flexible application architecture, and make use of flexible deployment options to facilitate solution architectures that can stay relevant to the business objectives. CIOs can consider the four drivers detailed in this research to present additional business value aspects of ERP instance consolidation, rather than having a conversation solely based on cost savings (see Figure 1).

Within a global digital business context, the right instance consolidation strategy can improve the organization's capacity to reshape its application portfolio and distinguish itself. It will place the organization on the path to create capabilities more quickly based on the more modularized nature of packaged business capabilities (PBCs), as stated in The Future of ERP Is Composable. A "single instance for everything" strategy within this context will be even less compelling, and is not an approach that Gartner generally recommends.

Figure 1: Key Drivers of Successful Consolidation



Source: Gartner
744802_C

Analysis

Preserve Unique Geographic and/or Business Unit Capabilities

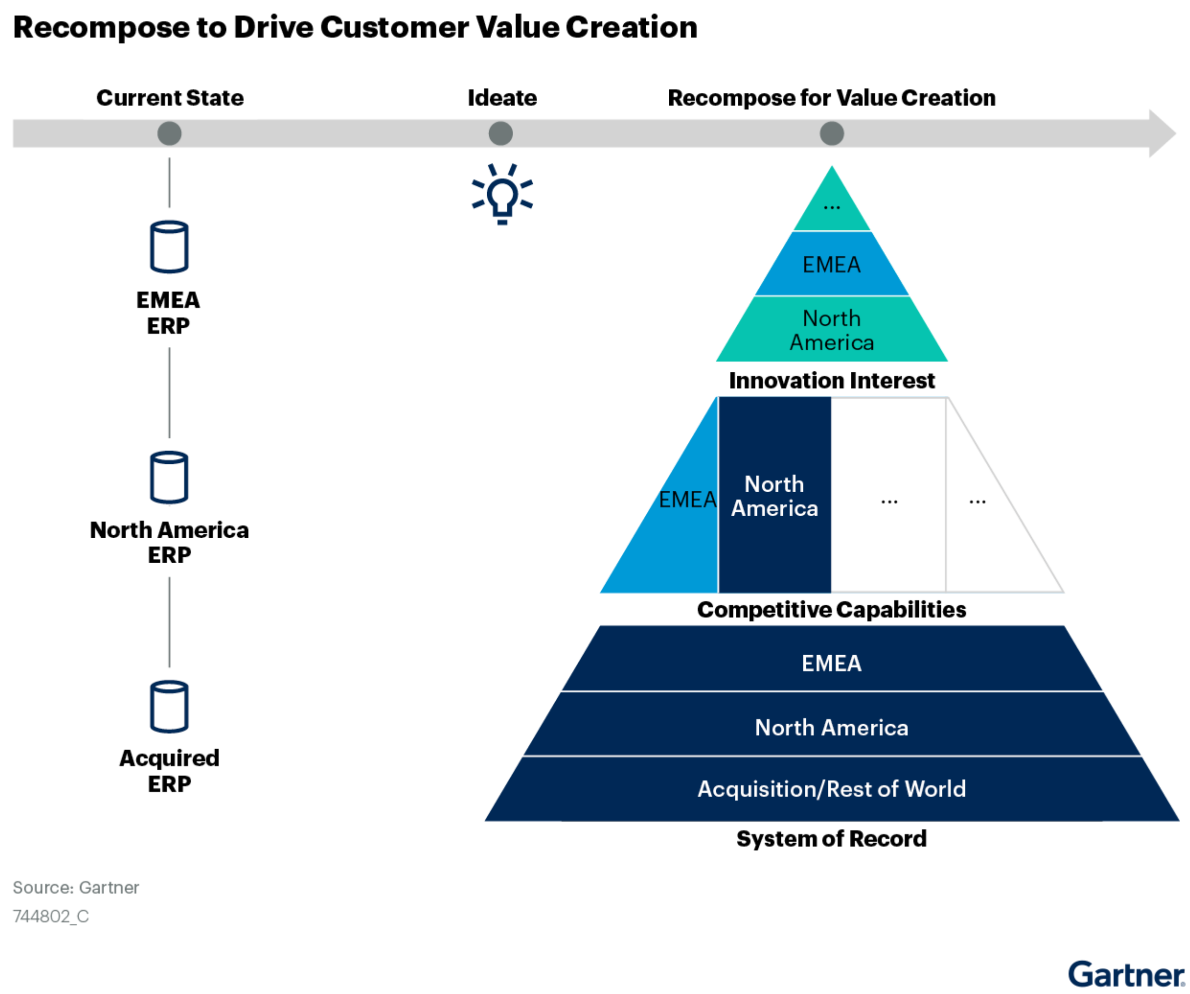
Business applications enable organizations to compete in unique ways. Well-architected applications can make it possible to do something in a completely differentiating way compared to the competition. These capabilities may be unique to a geography or business unit (e.g., how to sell and provide service, unique production methods or customer interactions). Given the current priority lended to flexibility and business agility, it is, therefore, inappropriate to force the entire business to adopt a single-vendor megasuite at the cost of these competitive advantages.

Consequently, CIOs must commission an ERP instance consolidation exercise that:

- Pursues business-driven objectives.
- Rationalizes the mix of capabilities that should be harmonized at the enterprise level (i.e., things that we should do the same).
- Protects capabilities that are allowed to differentiate for competitive advantages.

Figure 2 highlights how to do this. Here, our company starts with a heterogeneous group of ERP applications that are geographically separated. Through ideation, using Gartner's pace-layered architecture, the CIO redesigns the portfolio to differentiate the various businesses, with a focus on centralizing the system of record (SOR) applications. These priorities establish a game plan for vendor and technology evaluations.

Figure 2: Recompose to Drive Customer Value Creation



Recommendations:

CIOs should prioritize a business capability modeling exercise with business unit and functional domain stakeholders. The goals of this pace-layered exercise are to:

- Formalize the business capabilities that are the best candidates for standardization across business units. Do this before proceeding to vendor and technology evaluation. These will typically be SOR processes.
- Identify differentiated capabilities in individual business units that create competitive advantages. Ensure that the effort to consolidate instances does not compromise these competitive advantages. This could mean excluding systems of differentiation or innovation from the consolidation project. It might also be possible to achieve sufficient differentiation through configuration.

- Prepare for the interoperability of the consolidated core with the extended business unit capabilities. Integrate and use the standardized components to extend business unit processes that can grow the business through differentiation (see Choose the Best Integration Tool for Your Needs Based on the Three Basic Patterns of Integration).

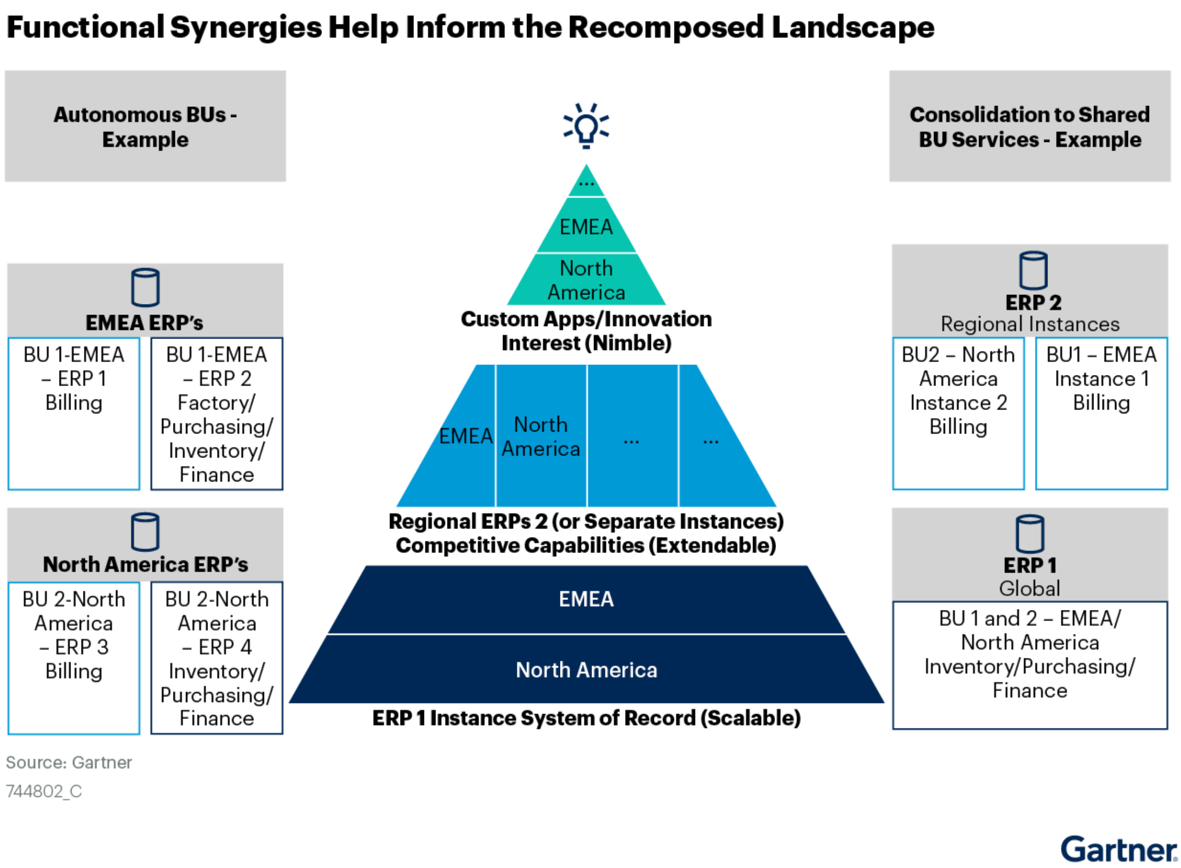
Exploit Opportunities to Enable Common Functional Synergies

CIOs should insist that ERP consolidation plans map clearly to the organization's desired operating model. An operating model reflects how people and processes are organized to create and deliver customer value. For example, an operating model strategy is reflected in an organization's decision to consolidate their sourcing activity if it was previously executed by separate business units. The ERP instance strategy should be part of this blueprint to support this new method of value creation and delivery. In this example, common sourcing business processes and ERP capabilities should be delivered in conjunction to support the consolidated teams.

The application that you deploy to support the common business process can be deployed via legacy on-premises or as a new cloud SaaS. CIOs should consider newer cloud SaaS applications, because they provide an opportunity to standardize based on the vendors' best practices for that particular business capability.

In the more detailed example in Figure 3, the decision on how to consolidate the ERP solutions is driven by a desired operating model to overcome large swings in commodity volatility in the marketplace and better control the spend on raw materials. These processes were previously managed in silos in the individual regional instances, which increased the time to consolidate (i.e., process inefficiency) and measure the impacts of commodity swings. In order to avoid expensive import purchases and better negotiate enterprise costs, the organization identified the ERP redesign as an opportunity to consolidate the procurement and financial processes across business units and regions. Still, the organization desired regional autonomy to drive growth and respond to local needs by retaining instances that delivered specific billing, so as not to compromise these benefits for the sake of consolidation. CIOs should still challenge the regions or business units in order to simplify their ERP footprint. Ultimately, operational synergies, as well as areas of unique value, are the drivers of the future ERP instance strategy.

Figure 3: Functional Synergies Help Inform the Recomposed Landscape



Avoid designing a new ERP instance strategy that fails to enable the desired business operating model. Together with key business stakeholders, identify current and future operating models. Focus the instance consolidation effort on capabilities that are the same across multiple divisions and/or regions. For business units with different business models, continue to look for places where similar business capabilities overlap, and consolidate when advantageous to do so.

For additional discussion on application consolidation, see When Application Standardization Works, and When It Doesn't, where we identify many of these potential benefits and risks of application consolidation.

A variant of a single-instance approach may be suitable for some organizations. For instance, smaller organizations that only have administrative ERP requirements for their HCM, procurement or financial reporting may find a single suite sufficient. However, the availability of SaaS applications and advances in infrastructure technologies make it more compelling to consider options beyond the single-instance ERP strategy. Instead of centrally mandated ERP solutions, business units can adopt SaaS applications for specific capabilities, which create local competitive advantages in areas such as CRM or sourcing.

Recommendations:

- Prioritize the key business operating requirements that qualify for transformation, and determine the extent to which the current design is able to meet those requirements.
- Determine where to drive autonomy, and where to consolidate for economies of scale. Revise the ERP instance strategy to enable the "envisioned" business capabilities (i.e., to drive autonomy or consolidation within certain capabilities). If the business wants common processes in sales, finance or logistics, but those processes are currently delivered across disparate ERP instances, work to determine how to redesign the instance strategy to more seamlessly execute on this common approach.
- Create a roadmap of the steps that will be taken to transform the instances. Express in terms of business outcomes that will be accomplished along the way.

Use Solution Architecture to Gain Flexibility

It is possible that, after the instance strategy achieves greater harmonization at the enterprise level, greater complexity will arise at the business unit level. For instance, a business unit in the previous example may have ended up with multiple ERP instances, as opposed to only the regional instance prior to the consolidation. As you work to globally standardize procurement on one system, while differentiating specialized regional billing using another, the individual business unit is faced with an incremental integration requirement of the two instances for end-to-end process execution. The CIO must proactively define the integration strategy as a key enabler of a successful instance consolidation effort.

True enterprise consolidation occurs when, in addition to a well-formulated ERP instance strategy, a cohesive application integration and data management strategy is coordinated to orchestrate as one, inclusive of your competitive requirements

Having decomposed the original instance composition and redesigned the new one, you now have to standardize global processes with point solutions and services, perhaps deployed from multiple clouds and on-premises solutions from different vendors. This is an opportunity to redefine the value you can derive from more advanced integration techniques that employ:

- Applications built on mini- and microservices architectures to maintain connectivity and increase flexibility among the remaining instances and other applications.
- Built-in readiness to initiate web services that will combine suites to meet specific needs.
- Exposure and mediation of application APIs to extend core capabilities in support of more unique features.
- Data management that exposes up-to-date data at well-defined hand-offs to increase the ability to deliver event-driven capabilities where desired.

Unless you are one of those rare (or small) organizations that can use a single suite, proactively build your future integration strategy. In Create a Future-Proof Integration Strategy for Your ERP, we compile these evolving capabilities to describe the integration requirements of the next-generation ERP strategy. The CIO must use the instance consolidation effort as an opportunity to further mature their integration capabilities for increased responsiveness in an environment that will continuously increase in complexity.

Recommendations:

- Do not simply reuse the old integration strategy after recomposing the new instance strategy. Determine in advance the scope of the processes that will be required to span across instances or other technologies, and incorporate these requirements into a new more modular and flexible integration strategy.
- Build the instance consolidation strategy inclusive of techniques that make use of harmonized capabilities, then flexibly extend functionality (i.e., API, web services) that orbits a common data model.

- Anticipate and communicate the organizational change impacts of the new solution architecture of the instances. Be realistic about how the revised solution architecture (i.e., web service rather than application front-end) will influence the way employees interact with the application and their data. Use this opportunity to innovate ways for the solution to promote different working styles and improve employee effectiveness.

Pursue Blended Consolidation Benefits

ERP instance consolidation can enable strategic business objectives. The CIO and business stakeholders must assess and express a comprehensive set of tangible and intangible benefits. This will help clarify the capabilities and value to be delivered as part of the effort. Although difficult to quantify in absolute terms, intangible goals must be included in the assessment, as they are impactful and enable business transformation.

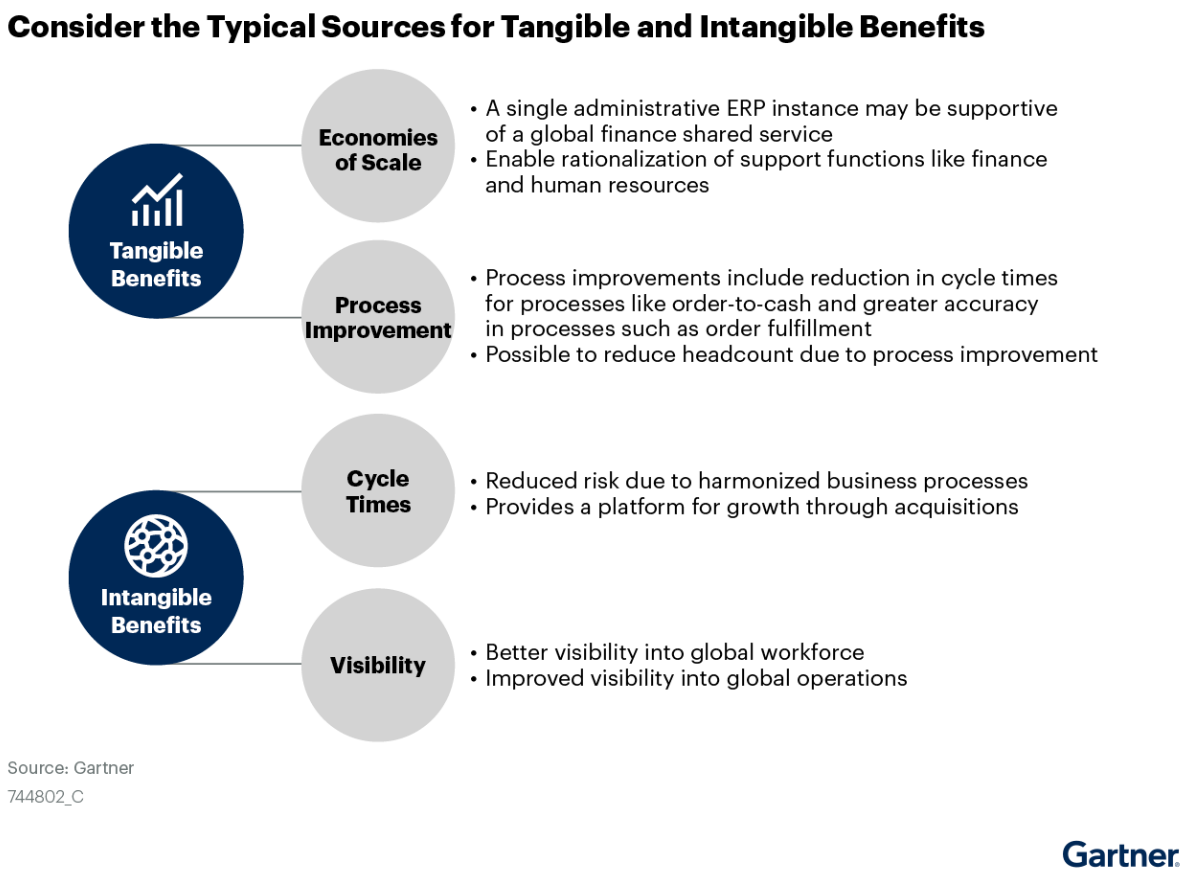
Although Gartner has seen organizations over the years report tangible savings in their ERP operations and support budgets after instance consolidation, major ERP instance consolidation initiatives are expensive and create significant business disruption. The wider the scope of the consolidation initiative, the greater the risk of business disruption. We have yet to see any major ERP instance consolidation initiative justified on the basis of IT cost savings alone. It is, therefore, important to focus the benefits discussion on how the ERP consolidation will improve business outcomes with a blend of tangible and intangible goals, rather than focusing solely on cost savings.

CIOs can use the following guiding principles when discussing the benefits and risks of any instance consolidation initiative:

- The wider the scope of consolidation, the higher the potential benefits and cost reduction, but also the greater the risk and cultural challenges.
- The narrower the scope of consolidation, the lower the risk, but also the lower the benefits and reduction of IT complexity.

Figure 4 provides examples of business benefits (both tangible and intangible) that we have observed from ERP instance consolidation initiatives (in addition to tangible IT cost savings):

Figure 4: Typical Tangible and Intangible Benefits



Since modern ERP instance consolidation efforts come with more options, it is important to assess the tangible and intangible benefits and the total cost of ownership for each option. Reducing the number of ERP applications will, in all likelihood, reduce IT infrastructure and support costs, but you should also consider some of the remaining costs of perpetual licenses or capital investments that could still be in play after consolidation.

Recommendations:

- Create a team of key stakeholders who represent a solid cross-section of the business. Commission this team to construct the blended benefits with a clear definition of how changing the ERP instance strategy will help enable the business objectives.
- Create a prioritized benefits-driven consolidation roadmap, beginning with quick wins. Clearly articulate the opportunities, implications and risks in order to build understanding and trust with your key stakeholders.

- Build momentum by collaborating with stakeholders to draw up balanced corporate and subsidiary outcomes in order to define the path of least resistance. If you are not delivering both corporate and subsidiary benefits at the same time, use a well-vetted roadmap to explain when constituents will be served.
- Senior executives frequently cite intangible benefits as reasons to pursue ERP instance consolidation. Caution needs to be exercised to avoid intangible benefits becoming the majority of reasons, as that will make it difficult to measure the benefits and effectiveness of the initiative.

Evidence

Gartner's 2020 Cloud End User Buying Behavior Study was conducted to understand how technology leaders approach buying, renewing and using cloud technology.

The research was conducted online from July through August 2020 among 850 respondents from midsize and larger ($100M+ in revenue) organizations in the U.S., Canada, the U.K., Germany, Australia and India. Industries surveyed include energy, financial services, government, healthcare, insurance, manufacturing, retail and utilities. All organizations were required to currently have cloud deployed.

Respondents have been involved, either as a decision maker or decision advisor, in new purchases, contract renewals or contract reviews for one of the following cloud types in the past three years:

- Public cloud infrastructure (IaaS)
- Public cloud platform (PaaS)
- Public cloud software (SaaS)
- Private cloud infrastructure
- Hybrid cloud infrastructure
- Multicloud infrastructure

Respondents were also required to work in IT-focused roles, with a small subset of procurement respondents.

The study was developed collaboratively by Gartner analysts and the Primary Research Team.

Disclaimer: The results of this study do not represent global findings or the market as a whole, but reflect the sentiment of the respondents and companies surveyed.

Document Revision History

What CIOs Need to Know About ERP Consolidation - 20 May 2019

Recommended by the Authors

Some documents may not be available as part of your current Gartner subscription.

Two-Tier ERP: A Useful, Composable ERP Strategy for Complex Organizations

The Future of ERP Is Composable

Demystifying the ERP Simplification Decision for the CFO

When Application Standardization Works, and When It Doesn't

Choose the Best Integration Tool for Your Needs Based on the Three Basic Patterns of Integration

© 2021 Gartner, Inc. and/or its affiliates. All rights reserved. Gartner is a registered trademark of Gartner, Inc. and its affiliates. This publication may not be reproduced or distributed in any form without Gartner's prior written permission. It consists of the opinions of Gartner's research organization, which should not be construed as statements of fact. While the information contained in this publication has been obtained from sources believed to be reliable, Gartner disclaims all warranties as to the accuracy, completeness or adequacy of such information. Although Gartner research may address legal and financial issues, Gartner does not provide legal or investment advice and its research should not be construed or used as such. Your access and use of this publication are governed by Gartner's Usage Policy. Gartner prides itself on its reputation for independence and objectivity. Its research is produced independently by its research organization without input or influence from any third party. For further information, see "Guiding Principles on Independence and Objectivity."