Finding The Right Technology Strategy For Your Unique Business Priorities

How ERP Strategies Align To Business Goals In Small To Midsize Manufacturing And Distribution Companies

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Executive Summary

Small to midsize businesses (SMBs) in manufacturing and distribution industries are focused on growing revenue, reducing costs, and improving customer experience (CX). However, nearly 40% of companies don't believe their current business infrastructure and applications (e.g., enterprise resource planning) are adequate for delivering these business priorities. With all the different solutions in the market and so much buzz about cloud, AI, and platforms, many SMBs struggle to know where to start and are hesitant to make any major changes without a clear enterprise resource planning (ERP) deployment strategy. But understanding that ideal strategy can be challenging.

To gain deeper insights into how SMBs are approaching their ERP technology investments, Sage commissioned Forrester Consulting to evaluate what technology strategies, specifically those related to cloud and ERP, are most effective in supporting desired business priorities and outcomes. Forrester conducted a US-based survey of 309 technology decision makers from SMBs to understand how they are making changes to their ERP solutions to support business priorities. From the survey, we classified respondents into primary groups based on business priorities: 1) the continuous improvers, whose top priority is revenue growth; 2) the operators, whose top priority is reducing cost; and 3) the innovators, whose top priority is improving CX. An examination of these three groups emphasizes that there is no one-size-fits-all solution and that companies must carefully map their ERP strategies to their specific business priorities and competitive context.

KEY FINDINGS

› **Nearly two-thirds of companies are deploying at least some of their front- and/or back-office applications in the cloud, but there is no one "right" cloud solution for every firm.** The best-fit solution for every firm accounts for its unique priorities, capabilities, and resources.

› **Firms cite a long list of business priorities, including revenue growth, cost reduction, and improved customer experience.** However, 51% of companies surveyed report that their current ERP solutions are inadequate to deliver on their business priorities.

› **Companies that prioritize revenue growth (i.e., continuous improvers) take a more cautious approach to cloud.** They invest more in updating existing systems rather than new solutions.

› **Companies that prioritize reducing costs (i.e., operators) are focused on optimizing internal processes.** Therefore, they are less likely to make immediate changes to ERP systems. Manufacturing companies ware represented most heavily in this group.

› **Companies that prioritize CX (i.e., innovators) have a greater appetite for technology investments.** These companies have more even interest between cloud and on-premises ERP solutions.

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Modern Business Requires New Technology, But Getting Technology Right Is Challenging
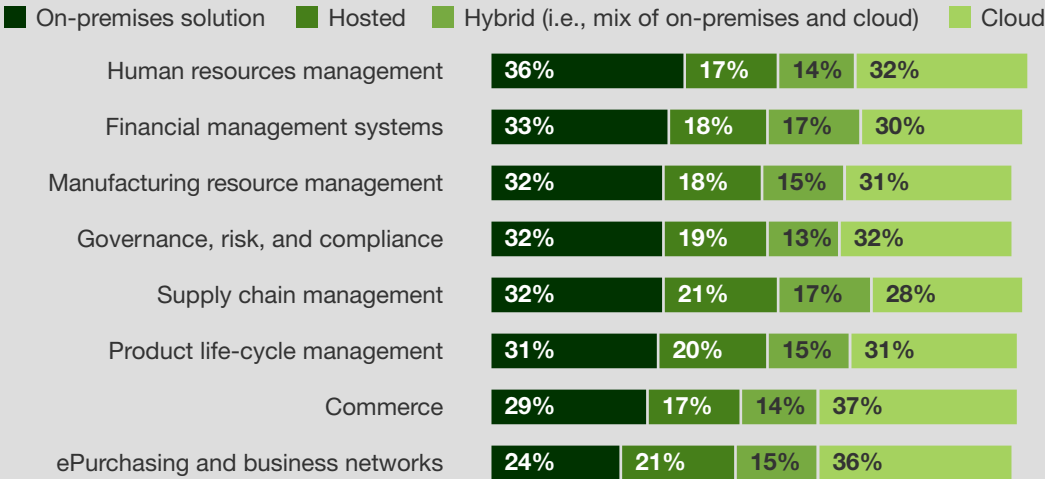
Technology is the backbone of modern business, but the pace at which business priorities can change is leaving some SMBs scrambling to find the best technology to support their immediate (and long-term) business needs. Our survey found that 63% of companies surveyed (i.e., SMBs in manufacturing and distribution) are constantly trying to keep up with the latest capabilities and solutions because they know technology is an important part of their businesses. However, this rapid speed of change is a double-edged sword: While survey respondents want a technical foundation to adapt quickly to changing business requirements, they also struggle to keep up with the latest technology.

Cloud is an important component of this technology evolution, and companies equate transformation with cloud migration. Nearly two-thirds of companies surveyed are deploying at least some of their front- and/or back-office applications in the cloud. In a recent Forrester Analytics Business Technographics® survey — filtered specifically for US-based SMBs in manufacturing and distribution industries — Forrester found that 70% of respondents were migrating existing apps to the cloud as part of their business modernization plan.[1]

CLOUD IS PART OF THE SOLUTION, NOT THE SOLUTION IN AND OF ITSELF

Despite this rising adoption of cloud, cloud is not the right approach for everything. Our survey found that companies are taking a hybrid approach — mixing on-premises and cloud-based solutions for different systems — as they try to right-size their technology strategies for the best overall outcomes (see Figure 1).

Figure 1: Businesses Utilize A Mix Of Cloud And Noncloud Deployments For ERP Systems

Legend: ■ On-premises solution ■ Hosted ■ Hybrid (i.e., mix of on-premises and cloud) ■ Cloud

System	On-premises solution	Hosted	Hybrid	Cloud
Human resources management	36%	17%	14%	32%
Financial management systems	33%	18%	17%	30%
Manufacturing resource management	32%	18%	15%	31%
Governance, risk, and compliance	32%	19%	13%	32%
Supply chain management	32%	21%	17%	28%
Product life-cycle management	31%	20%	15%	31%
Commerce	29%	17%	14%	37%
ePurchasing and business networks	24%	21%	15%	36%

Base: 309 ERP decision makers
*Note: Not all responses shown
Source: A commissioned study conducted by Forrester Consulting on behalf of Sage, February 2019

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When comparing the challenges and desired benefits that companies experience with cloud and on-premises ERP solutions, we found a number of overlapping responses (see Figure 2).
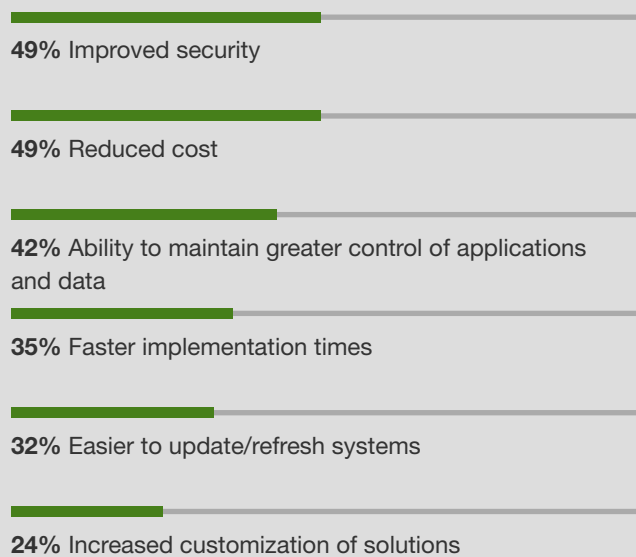
› Companies see several advantages in **cloud-based solutions**: They are easier for managing updates, less expensive (over time), and more secure than their on-premises counterparts. Respondents list lack of control, inexperienced employees (likely due to newness of solutions), and data sovereignty (i.e., where data resides) as the top barriers in working with cloud solutions.

› On the flipside, the advantages companies see in **on-premises solutions** are improved security, lower cost, and the ability to maintain greater control of applications and data. Respondents most commonly cite inexperienced employees (likely due to aging systems), security, and total cost of ownership over time as the top challenges in working with on-prem solutions.

This overlap in benefits for cloud and on-prem solutions suggests that additional factors are likely at play in driving cloud decisions, such as compliance and regulatory concerns. This is something that was not explored as part of this study.

On the surface, this data tells us that there is no silver bullet for ERP deployment, as SMBs each have their own unique combination of priorities, internal skills, and resources that must be considered. This leads us to the next logical question: If there is no one-size-fits-all solution, then how can SMBs determine the right ERP solution for their businesses going forward?

Figure 2

Primary advantages for on-premises ERP solutions
(Top six responses shown)

49% Improved security

49% Reduced cost

42% Ability to maintain greater control of applications and data

35% Faster implementation times

32% Easier to update/refresh systems

24% Increased customization of solutions

Base: 268 ERP decision makers who do not use cloud-based solutions for certain ERP capabilities

Primary advantages for cloud-based ERP solutions
(Top six responses shown)

43% Easier to update/refresh systems

43% Reduced cost

42% Improved security

41% Faster implementation times

38% Reduced burden on internal IT staff

38% Ability to leverage expertise from cloud provider
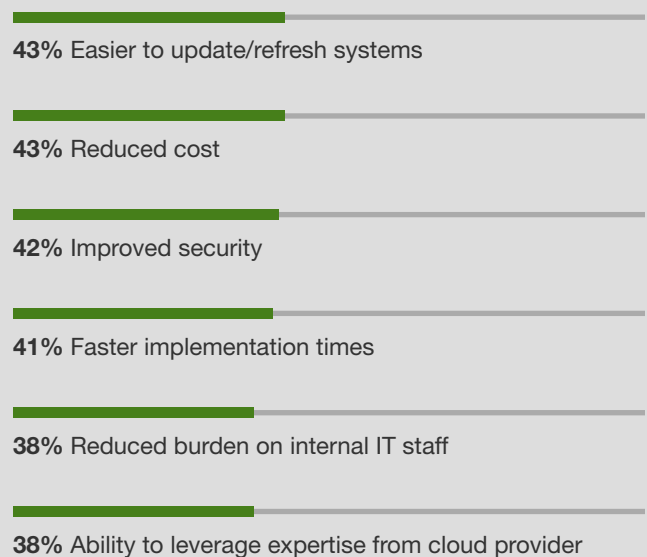
Base: 244 ERP decision makers who use cloud-based solutions for certain ERP capabilities

Source: A commissioned study conducted by Forrester Consulting on behalf of Sage, February 2019

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Business Priorities Must Inform The ERP Technology Road Map

The top business objectives of small to midsized firms in the US have remained relatively consistent over the past few years. According to Forrester Analytics' Global Business Technographics® Priorities And Journey Survey, 2019, revenue growth, cost reduction, product and service improvements, and improved customer experience are all consistently the top objectives. Our survey yielded similar results (see Figure 3). However, the way in which companies prioritize these objectives can have a significant impact on what their business needs are from an ERP.

Many organizations' priorities and what was technically possible looked very different the last time they significantly invested in their ERP technologies. These organizations must evolve their approaches to achieve their desired business goals. Unfortunately, current technology choices coupled with only short-term technology fixes hinder business success for too many organizations — with 51% of companies surveyed stating that that their current ERP solutions are inadequate to deliver on business priorities. An updated approach aligned with today's business mandates is critical to sustain business growth and customer relevance. To effectively map out the correct technology path, businesses must clearly define their top priorities first to find the right technology to support them going forward.

Based on current business priorities, we categorized survey respondents into three primary groups: those focused on revenue growth (continuous improvers), those focused on reducing cost (operators), and those focused on improving CX (innovators). A closer look at each of the groups demonstrates how business priorities are driving varied approaches to ERP solutions, and it emphasizes the idea that businesses should be deliberate in how they leverage cloud to ensure it drives desired outcomes.

Figure 3

Top ranked priorities:

■ % ranked as top three priority

74% Drive revenue growth

66% Reduce costs

59% Improve customer experience

56% Improve products/services

45% Business agility

By industry:

■ Manufacturing   ■ Distribution

Drive revenue growth
- 22%
- 29%

Reduce costs
- 41%
- 21%

Improve customer experience
- 15%
- 24%

Business agility
- 11%
- 15%

Improve products
- 12%
- 11%

Base: 309 ERP decision makers
Source: A commissioned study conducted by Forrester Consulting on behalf of Sage, February 2019

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FOR THOSE WHO PRIORITIZE REVENUE GROWTH — THE CONTINUOUS IMPROVERS

Companies whose top priority is growing revenue are likely working toward a state of continuous improvement. These companies likely have a solid foundation of products/services and operating model but recognize there is always room for improvement and continued investment needed to keep pace with the market. We found that companies that prioritize revenue growth generally:

› **Couple revenue growth with customer obsession.** Firms understand that the most sustainable way to grow revenue is through putting the customer first. To support revenue growth, 56% are focusing on acquiring new customers, 55% are focusing on growing their customer bases in existing markets, and 46% are working to retain more of their current customers. These companies place a secondary focus on the product side: Focusing on emerging markets, launching new products, and revised pricing models are on the agenda (see Figure 4).

› **Take a cloud-cautious approach.** These SMB companies focused on growth perceive that the path forward is made easier by not introducing new technology solutions that could slow progress. Forty percent of respondents list on-premises solutions and 15% hybrid when considering the type of technology deployment model for ERP systems that would best enable them to achieve revenue growth. They see the ability to maintain greater control of applications and data as the top advantage of using on-premises applications.

› **Invest moderately in updating their ERP.** Companies that prioritize revenue growth are the least likely to have changed ERP providers or shifted deployment models over the past few years, with 65% opting for functional updates over more substantive changes. The top concern for these companies in using cloud-based solutions is the total cost of ownership over time, indicating the concern companies have with the time and investment needed to manage new ERP deployments, which could adversely impact revenue growth.
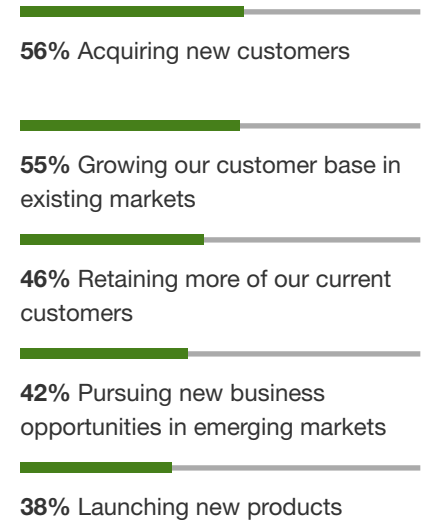
RECOMMENDATIONS FOR CONTINUOUS IMPROVERS

Challenge the status quo for your cloud strategy. Companies focused on revenue growth must be diligent on frequently reevaluating whether their current technology choices are still the right fit for driving growth — and that starts with education on what new technologies and solutions are available. Of the companies that have recently made a significant tech investment to change their ERP deployment model, the top motivations for doing so were to increase revenue growth and improve customer experience. However, companies focused on growing revenue feel they need more education around new technologies and solutions to update their ERP systems.

The survey found that companies that prioritize revenue growth feel that the primary challenge with using on-premises solutions is the difficulty keeping up with competitors on new digital capabilities, which may not immediately affect revenue growth, but could have a longer-term impact on business success. What may be good enough today could limit the business agility to make customer experience or product improvements necessary to drive growth tomorrow.

Figure 4

"What are the key actions your firm is taking to achieve your objective of <u>growing revenue</u>?"

56% Acquiring new customers

55% Growing our customer base in existing markets

46% Retaining more of our current customers

42% Pursuing new business opportunities in emerging markets

38% Launching new products

Base: 225 ERP decision makers who prioritize revenue growth
Source: A commissioned study conducted by Forrester Consulting on behalf of Sage, February 2019

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FOR THOSE WHO PRIORITIZE REDUCING COSTS — THE OPERATORS

Companies whose primary priority is reducing cost are likely to take an inside-out approach to business and tech improvements — focusing on operations and processes. Manufacturing companies in particular tend to be more focused on cost reduction, with 41% of manufacturers surveyed identifying it as their top priority. In contrast, retail suppliers have the lowest focus on cost reduction, with only 18% citing it as a top priority. Companies that prioritize cost reduction often:

› **Start with internal processes and employee experiences.** To reduce costs, 42% of firms plan to improve employee retention, 38% plan to improve or simplify their supply chains, and 36% seek automation to improve employee productivity. Further down the line, firms plan to simplify product design and production processes while looking for ways to lower IT and contact center costs (see Figure 5).

› **Plan to forge ahead without significant changes to their core apps.** Sixty-five percent of companies whose top priority is cost reduction and who are already using on-premises solutions for supply chain management intend to stay with on-premises or hybrid solutions. Companies focused on costs are also less likely to have changed ERP providers or shifted deployment models over the past few years, with 63% opting for functional updates compared to just 30% for changing providers.

› **Express concern about the lack of control and the desire to minimize disruption.** Companies that prioritize reducing costs are primarily concerned with lack of control over updates with cloud-based solutions (45%), emphasizing the concern companies have of abrupt changes impacting their employees and disrupting workflows. These same companies see two top advantages in on-prem solutions: improved security — which could benefit both employees and customers — and cost reduction.

RECOMMENDATIONS FOR THE OPERATORS

Factor in opportunity cost of long-term business agility. When it comes to determining whether on-premises or cloud solutions are more cost-effective, respondents were split with reduced costs being rated as one of the top advantages of both cloud and on-prem solutions. For companies focused on cutting costs, migrating solutions to the cloud does come with the additional costs of training employees, working with partners to revamp processes, and integrations.

However, the ROI for cloud solutions hinges on innovation potential — specifically, on gaining fast access to, and adoption of, new features such as machine learning and AI. Cost analysis should factor in the value of access to these new features, and not purely just total cost of ownership.

Figure 5

"What are the key actions your firm is taking to achieve your objective of reducing costs?"

42% Improving employee retention

38% Improving and/or simplifying our supply chain

36% Improving employee productivity through automation

27% Increasing procurement purchase controls

26% Optimizing our marketing spend to create efficiency at a lower cost

Base: 207 ERP decision makers who prioritize reducing costs
Source: A commissioned study conducted by Forrester Consulting on behalf of Sage, February 2019

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FOR THOSE WHO PRIORITIZE CUSTOMER EXPERIENCE — THE INNOVATORS

The bar for a great customer experience has been raised dramatically as companies across industries recognize the importance of using digital advances to create better experiences for customers. Companies whose top priority is customer experience are likely to have a more of an innovator's mentality and greater appetite for significant technology investments. Companies that prioritize customer experience:
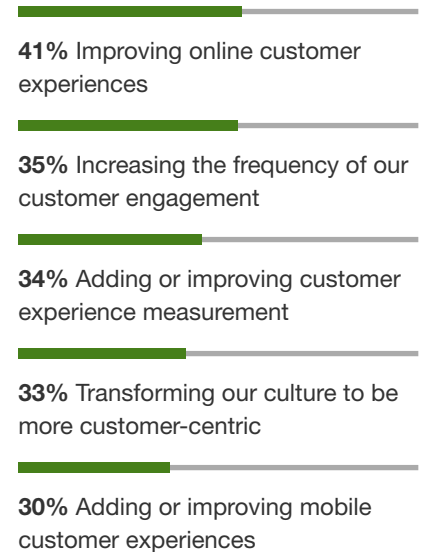
› **Use digital to up their CX maturity.** To improve CX, 41% of firms plan to improve online customer experiences, 35% are increasing the frequency of customer engagement, and 34% are adding to or improving their CX measurement. These companies are looking to create a more robust online experience for their customers by adding onto or improving their social media presence and improving mobile app experiences for customers. There is also a focus on improving experiences between branches and cross-channel, so that customers come to rely on one streamlined experience no matter how they interact with the brand (see Figure 6).

› **Are more likely to favor a hybrid approach over on-prem.** When asked what type of technology deployment model for ERP systems would best enable them to achieve their top priority of improving CX, 36% of respondents said on-premises and 11% hybrid, indicating a more even split between cloud and on-prem options.

› **Have varying cloud appetites based on industry.** These different preferences are partially driven by industry, with distribution leaning more toward on-premises solutions and manufacturers toward cloud. Manufacturers specifically value cloud solutions as they can shift expenses from capex to opex, enabling them to invest in more customer-focused software and technology. Distributors, on the other hand, like the security that on-premises solutions offer as it allows them to maintain greater control of applications and data.

RECOMMENDATIONS FOR INNOVATORS

Resist going cloud for cloud's sake. While cloud solutions can enable greater business agility with access to real-time insight, frequent updates introducing new features can increase the burden on IT staff and will require new ways of managing applications. Many companies equate cloud with better visibility and productivity across all applications — but benefits vary widely.

Figure 6

"What are the key actions your firm is taking to achieve your objective of <u>improving the experience of your customers</u>?"

41% Improving online customer experiences

35% Increasing the frequency of our customer engagement

34% Adding or improving customer experience measurement

33% Transforming our culture to be more customer-centric

30% Adding or improving mobile customer experiences

Base: 182 ERP decision makers who prioritize customer experience
Source: A commissioned study conducted by Forrester Consulting on behalf of Sage, February 2019

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Overall Recommendations: Key Steps For Optimal ERP

Every company wants the confidence of having the right ERP strategy in place to support key business priorities without being held back by legacy tech. For companies struggling to develop and/or deploy the right ERP approach, Forrester recommends the following:

Start by evaluating the degree to which your current ERP systems support *your business'* top priorities. Executives responsible for ERP must get real about whether their current ERP technologies are the right fit for their business strategies. In many cases, ERP solutions were deployed in a past era — when both technology possibilities and business needs were very different.

Identify where you can get the most bang from a cloud investment. While most companies won't go all in on cloud, it's still a critical evolution of tech strategy for modern companies, and companies can experience benefits of cloud connectivity without going cloud-native. Solutions with large and fluid user bases will benefit from easier-to-use cloud-based applications.

Take inventory of what level of control you must own. Both sides of the cloud versus on-premises solutions debate can argue over which option is more secure. At the end of the day, companies must decide where they are willing to give up control in exchange for certain capabilities. The solution doesn't have to be black or white. A hybrid approach can allow companies to maintain control over preferred systems while enabling other systems to be managed in the cloud.
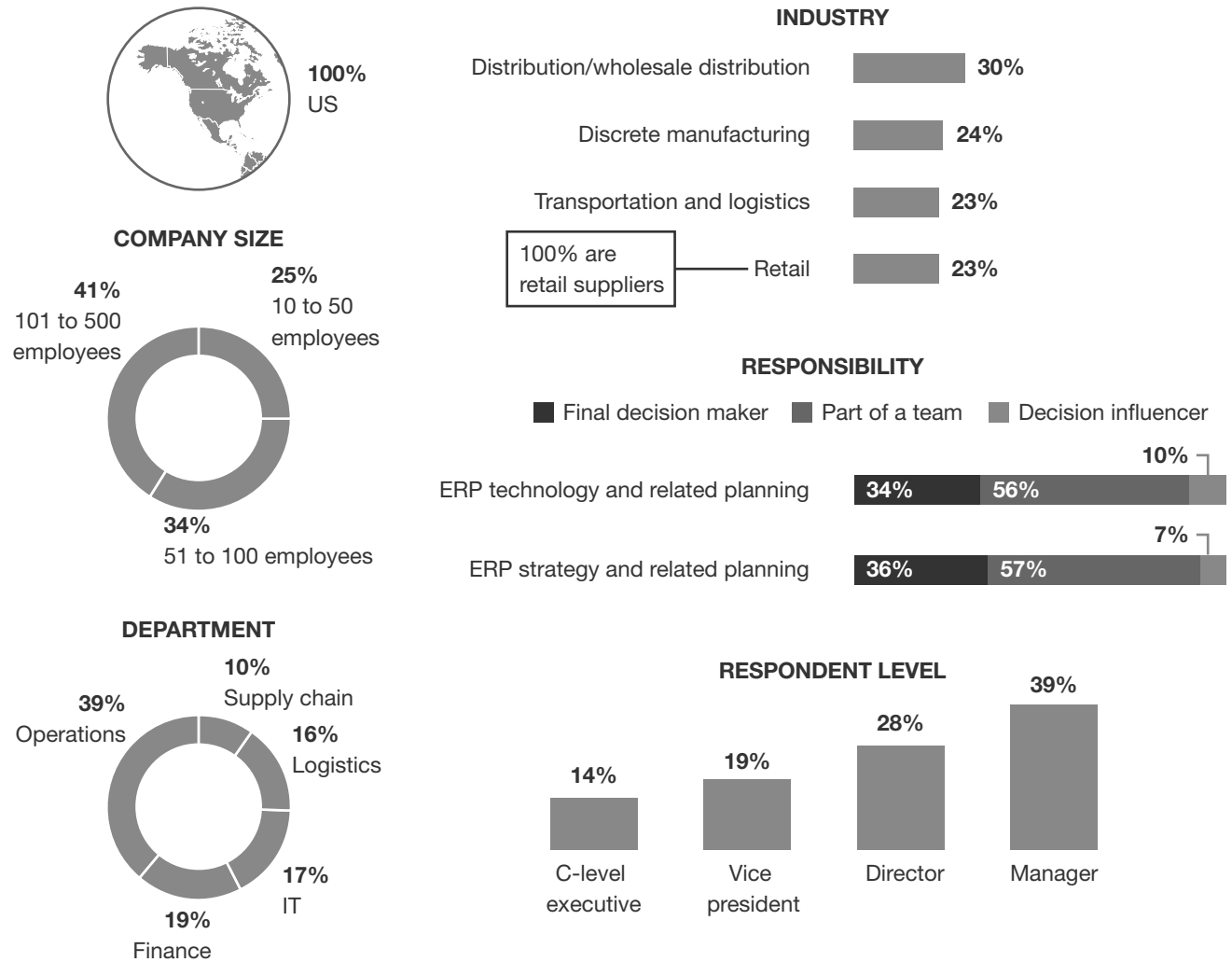
Invest in education on new technologies and capabilities. Even if you are not a company that lives on the bleeding edge as a disruptor, whatever your priorities are, there is no path that will be safe from disruption by advancing and new technologies. For example, machine learning and automation can be applied use cases that create a delightful new customer experiences or those that cut operating costs. Even slow followers can't ignore innovation being developed that will impact their core applications. Education is key to realizing the value of any tech investment, since technology must not just be implemented, but also adopted and adopted well.

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Appendix A: Methodology

In this study, Forrester surveyed 309 decision makers from small and midsized businesses in the US. The respondent companies were from the distribution, manufacturing, transportation, and retail supplier industries. Survey participants were from a mix of IT, operations, supply chain, and finance roles with responsibility for ERP strategy, technology, and planning. Questions provided to the participants asked about their companies' business priorities and deployment methods for ERP solutions. Respondents were offered a small incentive as a thank you for time spent on the survey. The study was completed in February 2019.

Appendix B: Demographics/Data

100%
US

COMPANY SIZE

41%
101 to 500
employees

25%
10 to 50
employees

34%
51 to 100 employees

DEPARTMENT

10%
Supply chain

16%
Logistics

17%
IT

19%
Finance

39%
Operations

INDUSTRY

Distribution/wholesale distribution	**30%**
Discrete manufacturing	**24%**
Transportation and logistics	**23%**
Retail	**23%**

100% are retail suppliers

RESPONSIBILITY

■ Final decision maker　■ Part of a team　■ Decision influencer

ERP technology and related planning: **34%** **56%** **10%**

ERP strategy and related planning: **36%** **57%** **7%**

RESPONDENT LEVEL

C-level executive	Vice president	Director	Manager
14%	**19%**	**28%**	**39%**

Base: 309 ERP decision makers
Note: Percentages may not total 100 because of rounding.
Source: A commissioned study conducted by Forrester Consulting on behalf of Sage, February 2019

Appendix C: Endnotes

[1] Source: Forrester Analytics Global Business Technographics® Infrastructure Survey, 2018.

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