WITH ERP AND DIGITAL SUPPORT FUNCTIONS, IT'S NOT EITHER-OR—IT'S BOTH

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L ARGE ENTERPRISES HAVE AN order-of-operations problem. The heads of support functions and shared services, such as HR and accounting, want to digitize their offerings to improve service and lower costs, while CIOs want—and, in many cases, need—to modernize their enterprise resource planning (ERP) systems. The ERP upgrade frequently wins this competition for scarce tech resources, while the digitization of support functions is put on hold, often at the urging of IT.

The reluctance to take on too much is understandable. In large enterprises, ERP upgrades typically cost tens of millions of dollars and last many years. Yet the pressure to upgrade is real: Some enterprises have dozens of incompatible ERP systems or a few heavily customized ones. For many, 2025—when SAP says that it will stop supporting releases other than S/4HANA—is right around the IT corner. Against this backdrop, taking on the digitization of support functions can feel daunting.

This should not be an either-or choice.

Enterprises can—and should—do both at the same time. They need the flexibility and automation of digitized support functions *and* the vast power and control of ERP systems.

Support functions are under pressure to work more collaboratively and efficiently. As a result, some vendors, including Salesforce.com and Workday, are successfully selling innovative cloud services directly to the leaders of these functions. And because many of the cloud services are stronger, less complex, and more intuitive than comparable services offered by ERP vendors, enterprises can improve business performance while achieving IT cost savings, often of 20% to 30%, through digitizing their systems.

The smart move is to adopt a best-of-breed approach: ERP remains the system of record for key data elements and processes. But it should be no larger than necessary, given the cost, complexity, and ongoing maintenance required of such systems. Enterprises should also be building a strong

collection of digital capabilities around the ERP "core." By doing both, companies can find the right balance of digitization, flexibility, and industrialization in their IT systems while unleashing more agile ways of working.

How to Build Both ERP and Digital Support Functions

ERP systems will continue to play a critical role in integrating end-to-end processes—such as order to cash, purchase to pay, plan to produce, and record to report—into a complete and accurate management information system. And enterprises still need the ability to share accurate data across departments: accounting, inventory management, and customer orders, for example, are ERP's sweet spots.

Over the years, however, these systems have become bloated as companies have modified and customized them. They have also taken on tasks that they were not designed to perform—for example, acting as the main data repositories for advanced data analytics or data platforms.

Meanwhile, functional heads have strong business incentives, in the form of lower costs and better service, to digitize their functions through cloud services, artificial intelligence (AI), robotic process automation (RPA), and machine learning.

By digitizing support functions and modernizing ERP systems at the same time, enterprises can make the right choices about what belongs in the core and what belongs on the periphery. They can also learn how to manage data so that it is both secure and widely available for analysis.

What belongs in the core? ERP systems will play a leaner role in the future than they do today. If a service available in an ERP system requires modification, enterprises should carefully analyze whether that particular functionality belongs in the core or on the periphery. Companies should focus not only on cost when conducting this analysis but also on flexibility, ability to scale, and user experience. Many enter-

prises, for example, now run recruiting, credit scoring, vendor management, and collection activities outside the core. Other solutions, such as contact to resolve and hire to retire, are generally not part of ERP systems to begin with. Processes such as indirect procurement and logistics track-and-trace, which do not need frequent access to ERP data, can also exist outside the core.

How can AI and RPA be built around the core? Functions such as HR, finance and accounting, and procurement are looking for powerful tools specific to their needs. Some are even looking at AI to predict employee attrition, manage collections efficiently, and automate purchase order approval with built-in fraud detection. They are also using AI to enhance the capabilities of older technologies, such as optical character recognition (OCR).

AI and OCR are often combined with RPA as well as with workflow management and workplace efficiency software. For example, RPA can be combined with basic AI to exercise simple cognitive tasks, such as tagging purchases to product categories.

Where's the data? Data management is critical for all companies, not just those with ERP and digitization initiatives. All enterprises should be creating central, common data platforms to take advantage of powerful digital capabilities. These platforms can help protect the ERP core from being swamped with frequent data requests, while allowing the single source of truth to remain with the underlying application, such as ERP or customer relationship management. Interestingly, data and digital platforms typically generate a return within one year, compared with six years for an ERP upgrade.

A Business Approach to Migration and Digitization

The sequencing of ERP modernization and support function digitization should be mapped out as part of an overall IT digitization effort. For the first three to six months, enterprises should create quick

wins by automating support functions. These initial successes can help fund the subsequent ERP upgrade and generate momentum for change.

It often makes sense to create a full-time agile team of business and IT leaders who are empowered to test, improve, and deliver services as they follow broad directions from senior leaders. This team should work on both the hard and soft sides of the migration—technology, support functions processes, ways of working, and change management—to assure success. After all, it's a business-driven project.

By tackling both ERP and digitization, enterprises can improve flexibility in critical processes (such as order to cash, record to report, and hire to retire) while retaining the strong controls that come with data hosted in core ERP systems. A joined-up approach is the best.

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