

# MID-MARKET ADVISORY: RETHINKING ERP IN A TIME OF GREAT CHANGE

By Daniel W. Rasmus

## Executive Summary

It is time to reconsider ERP investments. The global mid-market sits on a razor's edge, balancing between falling back into the chaos and extreme localness of small business, and taking the leap into the vaunted ranks of the Global 1000. That ability to respond to markets with acute nimbleness helped the mid-market weather the Great Recession, but challenges remain. Large shifts in the global economy, a constantly churning regulatory environment, challenges to expansion beyond domestic markets, poor skills and a lack of definition for future skills along with a number of other issues confront the global mid-market.

In order for organizations to face the demands of the future, they need to grapple with that future in a meaningful way, and they need to deploy ERP systems that will support their strategic, functional and technological goals. Those organizations that make the right ERP choices and implement them well will be best positioned to take advantage of opportunities as the turbulent, post-Great Recession economy continues to evolve.

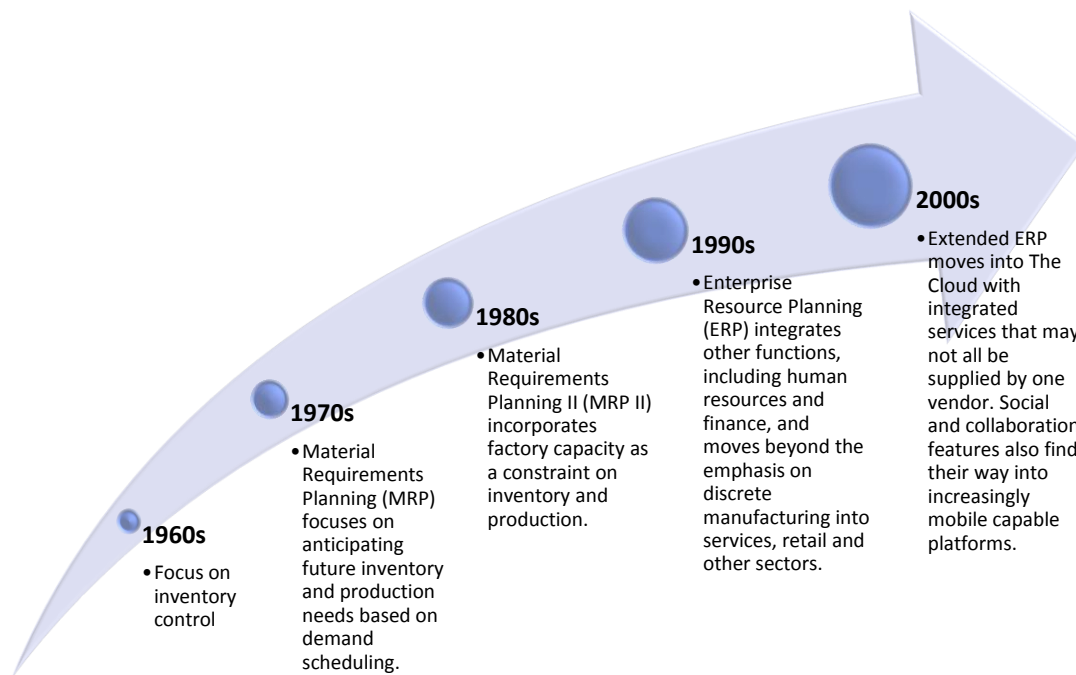


FIGURE 1: THE HISTORY OF ERP

## Change Happens if You are Ready for it or Not

The Great Recession was a surprise to most, and its effects continue to reverberate throughout the business world, though in the mid-market, there was an 82% survivor rate according to The National Center for the Middle Market 2011 research, *Leading from the Middle*<sup>i</sup>. Sometimes change is large and disruptive, sometimes it is incremental. It is always inevitable. The direction of change, however, is nearly impossible to anticipate.

Mid-sized firms need to be prepared for change. They need agile technology and adaptive management practices, both of which are driven by actively monitoring uncertainties and how they unfold. Organizations that do not prepare for and anticipate change will be at a severe disadvantage over those who do.

Organizations that identify uncertainties and learn to navigate them effectively can make better technology decisions. The acquisition of systems based on current operational knowledge, without taking into consideration future circumstances, can result in systems that meet today's needs, but fail to offer the flexibility to adapt to tomorrow's challenges.

The following list, explored in the next sections of this paper, offers mid-market companies a starting point from which to challenge their assumptions and evaluate their futures. Each of these items is extremely critical to the future of the mid-market, and each one is uncertain as to how it will evolve in the future—and each one creates an implication for how organizations implement or maintain their ERP investments.

- The future of globalization
- The sources of demand
- The national and international regulatory environment
- Future skills and retaining talent
- Changes in Technology

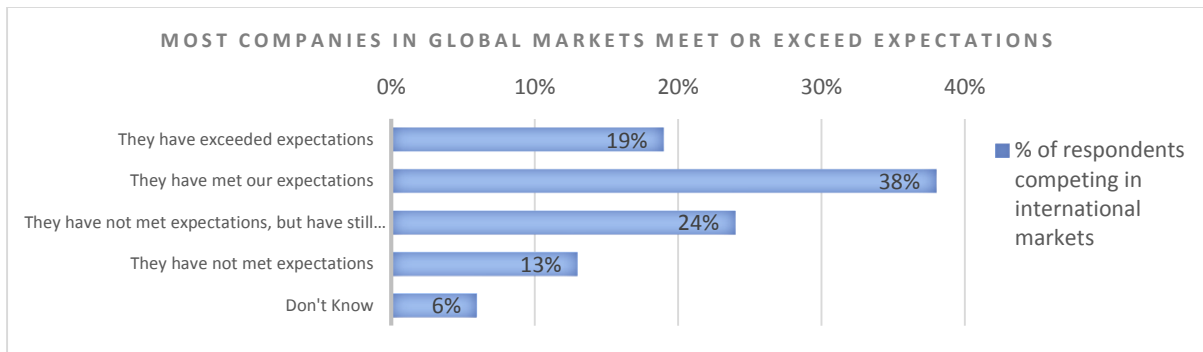
### The future of globalization: the mid-market response

Many mid-sized businesses, those founded in North America, Asia, Europe or elsewhere, remain locked in domestic markets while global opportunity abounds. The National Center for the Middle Market reported that 55 percent of North American firms operated and sold only in North America—and only 27 percent of those plan to expand internationally. Only 5 percent of all respondents in the survey said their focus was primarily international.

While global markets clearly offer growth to the Global 1000, mid-sized business remains reluctant to enter because of the following factors:

- Comfort with existing market
- Lack of foreign market knowledge
- A perception that the costs of expansion will outweigh the benefits

That fear, however, appears to be somewhat unfounded. In the same study, those organizations that did expand internationally found that they either meet or exceeded their expectations.



**FIGURE 2: NATIONAL CENTER FOR THE MIDDLE MARKET AT OHIO STATE UNIVERSITY, ECONOMIST INTELLIGENCE UNIT SURVEY, SEPTEMBER 2012**

Organizations that see clear opportunities for international growth, but remain focused on execution in existing markets, can succeed in expanding beyond their local or domestic markets. Even if globalization fractures or becomes less safe, those positioned to meet the needs of a variety of markets will still find their goods and services in demand.

**ERP Implications:** *ERP systems help organizations manage the exchange of goods and services across markets, currencies and regulatory frameworks. ERP systems must be able to represent and manage the complex global markets, while helping firms simplify how they engage with those markets.*

## The sources of demand: keeping new customers

Loyal customers hang on except in the most negative circumstances. New customer relationships are fragile, and they are constantly tested for relevancy and value. It is important for mid-sized businesses to maintain good relationships with new customers in order to nurture them into lifelong customers.

Mid-sized business should consider the following approaches to help maintain good customer relationships, not only with new customers, but with existing ones as well.

- Engage across all communication channels
- Set communications expectations and meet them
- Keep offers interesting and targeted

## Health Care: A Uniquely American Challenge

According to the National Center for the Middle Market, 91 percent of middle market managers in the US rank health care costs as their number one concern. This is driven by a lack of knowledge about what drives health care costs, what individual businesses can do to control them and deep uncertainty about the ability of government to deliver value from reform that will lower costs and maintain quality.

The necessity of providing health care for employees also drives the configuration of the employee mix, as organizations seek to offset costs by hiring part-time or contingent staff, or outsourcing entire functions.

Managing health care costs requires a number of actions, from negotiating better deals with insurers to shifting the burden of health care to employees.

**ERP Implications:** *Regardless of the approach chosen, organizations must ensure that their payroll, workforce planning and ERP systems are capable of reflecting their choices quickly and accurately in order to realize cost reductions and comply with regulations as swiftly as possible.*

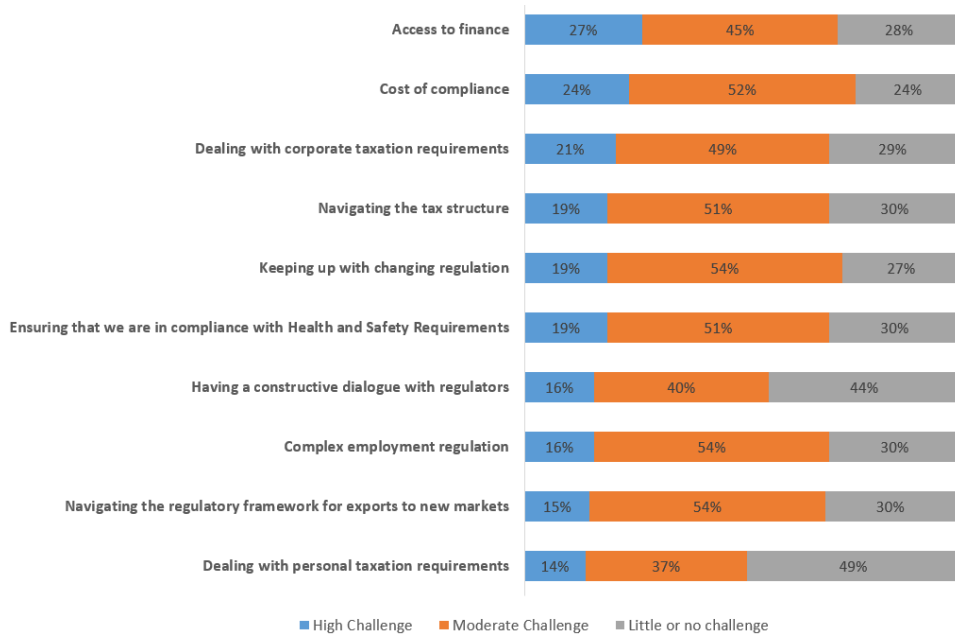
- Encourage customers to create community via reviews and discussions
- Actively seek feedback
- Display thought leadership within your domain and demonstrate professionalism
- Don't let problems linger – fix them rapidly and completely
- Create anticipation and then exceed expectations

The uncertainty related to sources of demand can be reduced by rapid engagement once demand arises. Organizations need to be operationally prepared to quickly leverage new sources of demand, deliver goods and services of high quality and promptly develop demand into relationships.

**ERP Implications:** *The CRM components of ERP systems need to become the center point for all customer engagement, including social engagement. With CRM as the voice of the customer, the facilitator of communications and the repository of customer knowledge, organizations will be able reduce the overhead associated with customer engagement while increasing their ability to focus on feedback and meet customer expectations in a timely way.*

### The regulatory environment

A May 2012 ADP Research Institute<sup>SM</sup> online survey of 507 business owners, C-suite executives, and senior level executives in U.S. organizations with 50-999 employees, indicated the level/volume of government regulations as a major concern, with more than half of the respondents indicating that they are very concerned or extremely concerned about this issue. Taxes stood out among larger companies (those with 151-999 employees). These compliance-related concerns are not particularly surprising given that the mid-sized businesses surveyed have an average of five locations, in 2.1 states and 4.5 tax jurisdictions, which significantly compounds regulatory challenges. One-third of respondents have experienced unintended expenses in the last 12 months related to noncompliance. <sup>ii</sup>



Source: Millward Brown and GE Capital EU-4 mid-market Survey, 2013.

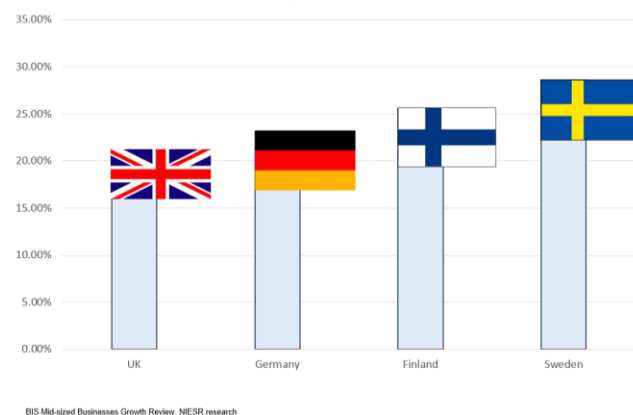
**FIGURE 3: MID-MARKET EU REGULATORY AND TAX ISSUES**

In the International Labour Organization’s 2013 trends report, they encouraged the adoption of policies to improve access for “young people to start and run businesses and improving access to finance (by subsidizing credit, guaranteeing loans and supporting microcredit initiatives) for the operation of sustainable youth enterprises, in particular micro-, small and medium-sized enterprises, cooperatives and social enterprises.”<sup>iii</sup> These policies could come in the form of regulations or deregulations, and could also come from private sector encouragements.

**ERP Implications:** *Regulation is an area where working closing with an ERP vendor or service provider can significantly reduce compliance risks and the associated costs of non-compliance. Encoding national and local regulations into ERP systems to manage compliance is an essential element of selection for global mid-sized firms.*

## Future skills and retaining talent

In many ways, the employment contract is broken. Organizations outsource many functions, curtailing employee growth opportunities to perceived core competencies—and contingent staff has become a way to scale human capital needs without increasing fulltime employment. And while hiring remains soft, according to the KPMG Mid-Market Outlook Survey<sup>iv</sup>, organizations will increase capital spending by 60% while they wait for the recovery to solidify. Organizations are clearly swapping automation for employment, a phenomenon at the center of *Race Against the Machine* by Erik Brynjolfsson and Andrew MacAfee.



**FIGURE 4 EUROPEAN MID-SIZED EMPLOYMENT**

The investment in capital spending stand behind that of just holding cash, and holding cash for investing, which were the primary incremental investment allocations for mid-sized businesses according to the National Center for the Middle’s Q3 2012 Middle Market Indicator.

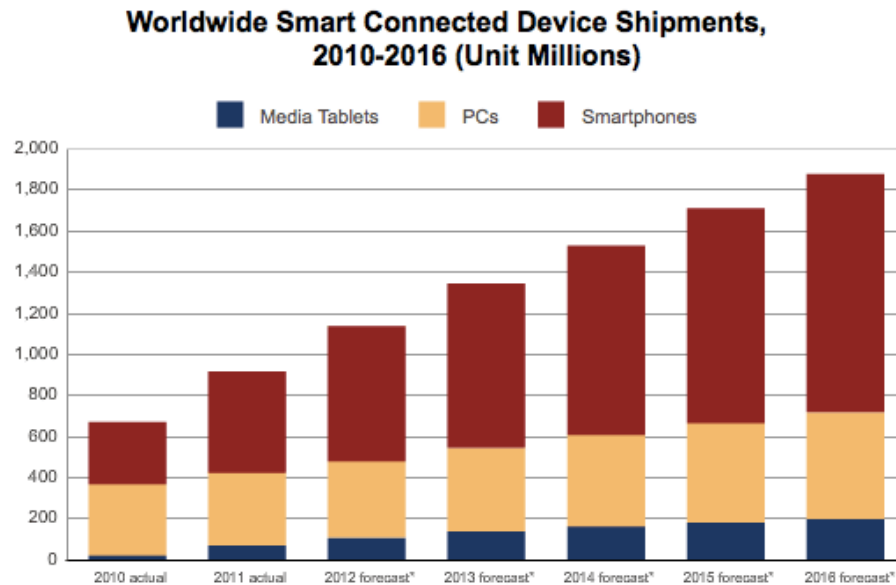
The truth is, the recovery may never solidify in a way that equates to pre-Great Recession employment levels. Freelance work, part time and contingent employment now challenge traditional employment as viable alternatives for increasing numbers of workers. The work relationship and the mix of employees to partners has likely changed for the long term, which means that just hiring skills isn’t enough; organizations will need to build value webs of partners who contribute necessary talent to mutually beneficial business endeavors.

**ERP Implications:** *ERP itself is not going to help attract and retain employees or their skills. If going to work feels like going back in time, then it is time to rethink the work environment. Organizations that want to hire and retain the best talent need to provide a professional business environment, room for growth, along with access to and use of the latest technology. ERP also needs to bring HR and procurement together more effectively so that contingent staff and outsourcing, often managed through procurement, provide visibility into talent and performance traditionally focused on employees only.*

## Changes in Technology

Tablets, smartphones, social media, analytics and a wide range of other technologies are changing the way organizations interact with their transactions systems, how they collaborate around data and where and when people work.

ERP is often the last of the traditional transaction systems to migrate into a modern operating environment, and many times the move to a graphical user interface is accomplished with screen scraping and other kludges. With the consumerization of IT, people working with ERP systems want modern systems that can be reached through their tablets and smart phones—they want to use social media to discuss transactions and mitigate the impact of exceptions—and they want the information within functional ERP silos to be unlocked in order to reveal operational and customer insights.



**FIGURE 5 WORLDWIDE SMART CONNECTED DEVICE SHIPMENTS. SOURCE: IDC**

**ERP Implications:** *ERP systems need to be responsive to emerging technologies as the consumerization of IT drives the expectations of employees and partners for more graphic, mobile and personalized computing experiences.*

## Reinvesting in ERP

Most mid-sized organizations already license an ERP system. They may not, however, have the right one. When most ERP systems were written the economy was booming, the dot-com boom was expanding and terrorism was a local issue. A lot has changed, but many ERP systems remain locked into a transaction-based operating environment delivered on obsolete infrastructures. These older ERP systems will have a hard time adapting to new business models and global opportunities, and old systems do very little to attract young talent eager to learn about the latest technology.

According to *ERP Adoption in Small and Medium Sized Companies*, a study conducted by the Royal Institute of Technology in Stockholm's Gustaf Juell-Skielse<sup>v</sup>, companies use between 70% and 80% of

their ERP systems features, with the highest use going to financial control and accounting, order entry and purchasing.

These functions represent the core of most mid-sized businesses. In a business climate that demands agility, the latest technology to attract and retain talent, rapid response to increasing complexity in tax codes and regulations, it is imperative that ERP be considered not a costly tool, but a strategic asset. Organizations who think they are already set with their ERP systems need to rethink that position in light of the global uncertainties listed above, and the ERP Procurement Considerations in Table 1. If existing investments cannot meet current needs, then it is time to consider a new, more agile system.

ERP Procurement Considerations		
Strategic Alignment	Procurement & Vendor	Technology
Capable of supporting business strategy and vision.	Financially stable with good third-party references	Uses “modern” technology and easily incorporates new technology.
Support core business processes.	Benefits of procuring new systems outweigh acquisition and transition costs.	Flexible and easily customized by end users at process level and by IT at deeper levels.
Offers integrated technology across all business functions.	Solid references within industry.	Compatible with third-party and open source reporting systems.
Reasonable implementation time.	Vendor’s market position aligns with organizational goals.	Performance benchmarks meet expected transaction loads and response times.
Meets important compliance, risk and legal requirements.	Solid service and support offerings.	Clear documentation on architecture.
Accessible to end users and business partners.	Published policy for releases, updates, bug fixes, etc.	Underlying technology infrastructure requirements, such as databases, are flexible.
Addresses key obstacles and uncertainties through flexibility and contingencies.	Education services and other training programs available.	A code base and infrastructure that adapts easily to change.

**TABLE 1: ERP PROCUREMENT CONSIDERATIONS<sup>vi</sup>**

## Strategic alignment: the right solution for today and tomorrow

For ERP to deliver on its promise, it must align with an organization’s strategic vision. Because ERP systems are designed to meet a wide variety of needs, it will be easy to align generic ERP features with strategic goals like reducing procurement costs, managing transactions and efficiently on-boarding employees. It will be harder to determine if the system continues to functional well as a business expands into a new markets or changes its business model. Effectively applying the ideas in Table 1 together will help ensure that not only can a system align with current strategy, but that it is adaptive enough to meet changes in strategy at a reasonable cost.

Strategic alignment also means considering uncertainty. Although how the uncertainties play out can’t be accurately forecasted, the ERP system should be capable of meeting multiple options or contingencies, not just one or two. Technology should not be a constraining factor in making strategic choices and the adaptive ability of the technology must be tested prior to procurement.

## Vendors and procurement: managing the procurement process

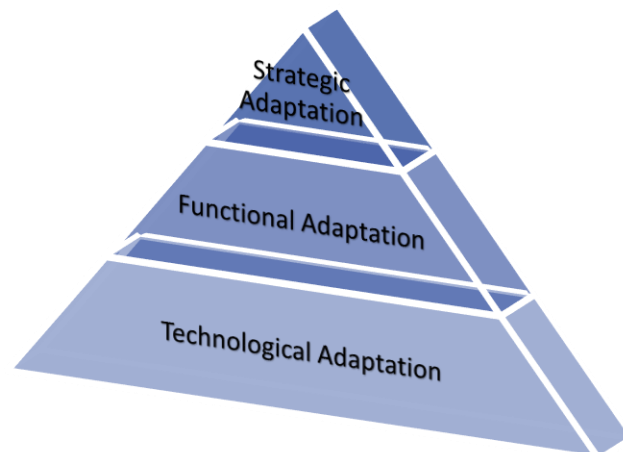
The procurement function is ultimately responsible for ensuring that vendors meet certain business thresholds and that contracts hold a vendor to performance criteria. In addition, procurement needs to

conduct a deeper due diligence by engaging their internal partners to determine the adequacy of a vendor in areas like service and support offerings, software release policies and educational capabilities.

The cost-benefit analysis is not solely a procurement responsibility, but procurement must act as a gate on this process in order to ensure that all interests of the organization are addressed.

## Technology: designing the right implementation

All ERP implementations require customization. As much as practitioners want to deploy systems in their original form, every business has created its own practices, forms, workflows and policies. Organizations, however, should not assume going into an ERP implementation that they must customize everything. ERP vendors reflect years of research from a wide range of industries. Their systems incorporate reasonable practices from which the customer can learn.



**FIGURE 6: THREE LEVELS OF ADAPTATION REQUIRED BY MODERN ERP SYSTEMS**

When selecting an ERP vendor it is important that technology be adaptive on three different, but complementary, levels: strategic, functional and technological. Organizations need to be able to answer the following questions:

- Can the ERP system adapt to external business changes such as an expansion into new markets, or new regulatory rules?
- Can the ERP system adapt to process changes, mergers and acquisitions?
- Can the ERP system adapt to new, disruptive or evolutionary technologies in a timely way?

Although the first two clearly don't involve technology, technology is required to facilitate the answer to both strategic and functional changes. If the technology overly constrains the business and operational options available to management, then the ERP system cannot easily adapt to business changes.

At the technological level, new, disruptive, even evolutionary technologies can provide capabilities that will enhance the functionality, performance or capabilities of ERP systems. Systems built to rapidly assimilate new technologies are better suited to change than those that may require big investments to integrate new technologies.

## The design of the ERP operating environment

Despite the long processes involved in ERP procurement, in many cases, new systems enter an organization that isn't really ready for new ways of working. From small companies, big, ungainly practices evolve. And because those practices appear to work, they remain unchallenged. As companies grow, and new requirements are placed on their process, new additions get grafted on, often attached at uncomfortable spots, until what may have started as a simple process, becomes unwieldy—yet it remains perceived that such a practice is “just the way things are done.”



Successful ERP implementations carefully examine all processes, from on-boarding new employees to returning material for quality defects, in order to streamline those processes. Part of that process includes a mapping of the revised process to the standard ERP process, with an eye toward learning and compromise. The more an organization can align with an ERP process that exists, the lower its implementation costs — but unique requirements must still be included when it comes to market differentiation and regulatory compliance.

Ultimately, the implementation and deployment process leads to a reinvigoration of the organization as time is returned both in terms of automation and process streamlining. When individuals throughout the organization co-design their work experiences, not only does the ERP system reflect a more refined approach to work, but those individuals gain a better sense of inclusion in the process itself. Many organizations regularly attempt to improve processes, and at minimum, gather input, but often it takes a major change in approach to facilitate the transition to improvement. An ERP implementation represents the ideal opportunity to reexamine and improve practices throughout the organization.

### A note on managing management

All technology plans include the following at the top of their success factors list: gain management buy-in and hold people accountable. The problem is those bullets usually stop at the end of the period and fail to define the behaviors and measures required for success.

ERP is a tactical and strategic management tool. Executive buy-in does not mean nodding approval and an e-mail stating support and permission.

Accountability for all others requires functional and personal alignment of ERP capabilities with the work being done. No one can be held accountable if *accountable* remains an abstract term. Organizations must clearly define what accountable means in terms across the life-cycle of ERP, including deployment, adoption and use. From data input, to data quality, to the delivery of insights, it is critical that individuals and team roles, define responsibilities and accountabilities for their functions. Organizations that don't incorporate ERP performance measures and expectations into day-to-day metrics will fail to leverage their investment.

## Avoid Turning Today's Solutions into Tomorrow's Traps

Organizations that don't align their technology investments with their strategic choices will underperform those who do. In a KPMG CFO survey<sup>viii</sup> 60% of respondents prioritized management reporting and analytical systems as key technology investments. Business needs technology to provide operational visibility.

From the advent of early systems like VisiCalc and Lotus 1-2-3, operational insight has been the goal. In the tumultuous business world that continues to churn post-Great Recession, operational insight remains a key for executives in all functions. But good visibility isn't enough. Organizations also need to actively pursue customers with professional engagement across channels, they need to design a positive work environment that meets the needs of employees and contingent staff alike, and they need to recognize and nurture foresight and alternative thinking approaches in order to not just talk about agility, but to practice it.

Choosing the right ERP solution is a critical element in the effort to innovate and grow. Choose the wrong solution, or keep an old solution too long, and money that could be invested in research and development is used instead to force an ERP solution to work for the business, or even worse, to scrap one failed implementation for another. Old technology can become a trap. Processes encoded into a system that become obsolete eventually cost more and more money to maintain until they must be converted, often after those who understand them best have left the company. Digital archeology and process forensics can be very expensive.

The best mid-sized firms will ask their IT organizations and their IT suppliers to keep up with the latest technology, so that when a new business opportunity arises—be it a new channel for customer engagement or a new way to reduce costs, the business can take advantage of it quickly, and without big expenditures.

## Keeping Innovation Alive

The path to innovation and growth is not straight, nor is it flat. Despite the promise of technology to facilitate global transactions, simplify collaboration and open new markets, much of the success of organizations comes not from generic technology availability, but from their ability to execute using very specific technologies that help fulfill strategic objectives.

Innovation requires the early identification of opportunities so that the business can decide how and when it needs to respond. Solid operations help ensure that the business continues to function efficiently, even as parts of the organization investigate, plan and build new products, processes or businesses.

The future of innovation, like mid-market firms, sits on the edge of a razor. Too much focus on execution, too much cost savings, too much reliance on maintaining systems of the past, and the entire organization suffers, sometimes irrevocably. The best mid-market firms of tomorrow will understand uncertainties, develop scenarios for exploring how uncertainty might play out, procure flexible technology and design meaningful work experiences. Organizations who adopt these strategies will be better able to weather any change—more importantly, they will be better positioned to deliver innovations that attract opportunities, and better prepared to turn those opportunities into value.

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## About the Author

Daniel W. Rasmus, the author of *Listening to the Future*, is a strategist and industry analyst who helps clients put their future in context. Rasmus uses scenarios to analyze trends in society, technology, economics, the environment, and politics in order to discover implications used to develop and refine products, services and experiences. His latest book, *Management by Design*, proposes an innovative new methodology for the design workplace experiences. Rasmus' thoughts about the future of work have appeared recently in *Chief Learning Officer Magazine*, *Talent Management* and *KMWorld*. Rasmus is an internationally recognized speaker. For much of his career, Rasmus managed MRP and ERP projects at Dataproducts, Cipher Dataproducts, Western Digital and Hughes Aircraft. He is the former Western Regional Editor of *Manufacturing Systems Magazine*. Rasmus has addressed audiences at CeBIT, KMWorld, The Front End of Innovation, The National Association of Workforce Boards, ProjectWorld, The CIO Association of Canada and Future Trends. He writes regularly for *Fast Company*, *iPhone Life* and *PopMatters*. Rasmus is the former Visiting Liberal Arts Fellow at Bellevue College in Bellevue, WA where he continues to teach strategy and social media.



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Acumatica was ranked "Best SMB CRM Suite" in all four categories including overall value by Gleanster in 2012. The company also topped CRN's list of "Top 20 Coolest Cloud Vendors." Red Herring named Acumatica to its Top 100 Global Tech Companies in 2011.

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- i *Leading from the Middle*. 2011 National Middle Market Summit.  
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  - ii <http://www.adp.com/tools-and-resources/adp-research-institute/insights/insight-item-detail.aspx?id=270D6830-CB20-4CA9-A566-ADF1897F7E91>
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  - vi For a deeper exploration of mid-sized ERP selection literature, see *Approach for Selecting ERP Software at Mid-sized Companies Reflecting Critical Success Factors*, Claudia van der Vorst, University of Latvia, Riga, Latvia. <http://www.davidpublishing.com/davidpublishing/Upfile/10/10/2012/2012101078590545.pdf>
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