

# Enterprise Resource Planning

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## What's next in your ERP Strategy?

**As a business leader, you know that change is the only constant in today's marketplace. Enterprise Resource Planning (ERP) has far outlived what it originally set out to do.**

With most organisations operating multiple legacy systems and facing major implementations, upgrades or consolidations of ERP solutions and other platforms, over 68 percent of them implement ERP to improve business performance<sup>[1]</sup>. Many need to develop better business intelligence (BI) solutions, improve system performance, take advantage of new technologies, and better align with business processes or lower their operating costs.

Others want to improve governance, maximise tax advantages, improve financial reporting, or reduce compliance costs. So what does this mean for the future of ERP?

Traditionally, the value proposition driving investment in ERP strategies has been linked to cost reduction through the streamlining, acceleration and standardisation of business processes and the centralisation of information. In fact, an ERP with predefined workflows that reflect industry best practice can be the

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vehicle for standardisation across departments and businesses. ERP vendors have also made the standardisation process less onerous by building applications with specific vertical industries (verticalisation) designed to fit different businesses. This makes it easier for companies to adopt 'out-of-the-box' functionality, as

components can be easily configured to suit business and process needs without the need for costly customisations. This also means that when the time comes to upgrade, these applications can be upgraded without the associated complications of upgrading customised code. In the long term, this is a less risky move for most companies and reduces business disruptions and the associated costs.

Over the last few years, the increasing need for transparency across the company has also become an important factor driving ERP strategies – ERP and its role in providing visibility across departments, businesses and locations has become a critical element in achieving transparency.

Companies are sitting on large volumes of data often from a number of disparate sources. While ERP systems, with their transactional data, are at the core of this, extensions into

customer relationship management, vendor management etc magnify the volume and variety of data. Companies are realising that value from ERP investments can be increased through the analysis of the consolidated data that resides within the ERP system.

Although ERP provides an auditable system of records and is critical for regulatory reporting requirements, these are now seen as basic needs and an ERP is considered part of the

necessary infrastructure of an organisation. In the context of increasing transparency and bringing order to chaos, the most significant addition to an ERP system is BI, which can be described as a layer that sits on top of an existing ERP or data repository. While an ERP can transform data into information, BI tools are needed to complete the transformation to intelligence. It is this logic that is driving companies to adopt an integrated approach to implementing ERP solutions by considering how BI tools can be used to extract intelligence from the ERP system.

## What's next on the ERP Strategy Roadmap?

Aligning with the business need to reduce costs and increase transparency in a business environment where conditions are constantly changing, a standardised approach to ERP implementation is critical to maintain the ability to see performance comparisons across the business. Whether companies are implementing an ERP for the first time, adding components or upgrading, verticalised ERP solutions can make the standardisation process less difficult. When it

comes to an integrated approach to BI/ERP, a standardised deployment approach is even more critical. For many companies, managing and cleansing data from multiple sources remains a real challenge; however, a standardised process for collecting and integrating data is a critical element in transforming data into meaningful intelligence.

## The Growth of China's ERP Market

After two decades of growth, ERP spending still only accounts for 0.81 percent of IT spending in China. It is predicted that between 2011 and 2015, the ERP software market in China will grow by 20 - 25 percent annually.<sup>[2]</sup>

The key drivers for this change are areas such as wage inflation, increasing demand from small and medium enterprises, penetration of ERP into new industries, the rising need for management effectiveness, rising automobile production and opportunities from Cloud Computing.

As the China ERP market matures, we have seen a transition from the typical use of ERP in finance and accounting to business process related functions, such as supply chain management, product lifecycle management and customer relationship management.

There is now a battle between the four distinct groups of ERP providers: global vendors (e.g. Oracle, SAP), local generalists (e.g. Ufida), local specialists (e.g. YGSoft) and SaaS operators (e.g. Alibaba Labs), so selecting the right ERP system goes beyond technology. Depending on the size of the organisation, selection criteria such as branding, vendor management stability and cost control capability have a major impact on the decision making process. Although global vendors have previously failed, the expected growth of the ERP market in China has forced them to revisit their strategy to take control of the Chinese ERP market. By leveraging their strong technologies and extensive capital, they were able to grab considerable market share through partnerships with local

service providers, distributors and value-added resellers.

As the China software market expands,

key challenges to growth include the increasingly high cost of ERP implementation, cultural issues, lack of ERP experience, communication barriers and profitability concerns for ERP vendors. This will significantly change the mix of providers. We can expect to see increasing mergers and acquisitions to help localise global vendors. Also, with strong government support, solid understanding of local software demands and localised products and services, local Chinese ERP software vendors are catching up due to an accumulation of experience and increasingly skilled talent.

Software vendors are making the most of the fact that China will become an innovation centre using the latest technology and infrastructure to support the rapid economic growth. As this market matures, many factors such as rapid regulatory requirements, the growth of the local software market and the difference in management culture coupled with cultural fragmentation in the market, will influence how ERP continues to evolve.

## KPMG - Translating Business Strategy to Reality

In today's uncertain marketplace, disruptive forces are driving organisations to transform – not just change. To support you in this rapidly changing environment, we will provide you with insights through the 'Enterprise Resource Planning Quarterly Business Update'. If you like to continue to receive these updates or have any questions regarding the information provided above, please contact:

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