What Midsize Enterprise CIOs Need to Know About Composable ERP

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Adapting quickly to market disruptions and preparing for growth are crucial for MSEs looking to compete in today’s business environment. MSE CIOs must understand how a composable ERP strategy is used to create a more flexible application strategy and where its limitations lie.

Overview

Key Findings

- MSE CIOs often struggle to involve the business in ERP initiatives, as business stakeholders view ERP initiatives as an IT-only project. This hampers the achievement of enterprise digital business goals.

- Midsize enterprises’ (MSEs’) extreme focus on a single perfect ERP suite to cover all current business needs hampers the creation of an adaptive and future-proof ERP.

- CEOs and other executives in MSE organizations often request a single ERP vendor approach to deal with the lack of resources to manage technical complexity. This often leads to overcustomization and lack of agility to achieve business outcomes.

Recommendations

MSE CIOs working on a composable ERP strategy:

- Prepare for the future of digital business by engaging business stakeholders in the early stages of ERP strategy development to maximize business growth.

- Withstand the pressure from the business to aim for the perfect ERP suite by focusing on a “good enough” approach to ERP to deliver business value.
Anticipate future business needs and provide integration capabilities from Day 1, by first scrutinizing integration capabilities provided by the ERP vendor. If that is not sufficient, evaluate the use of integration platforms.

**Analysis**

*This research has been adapted from The Future of ERP Is Composable.*

Support Digital Business Enablement by Engaging Business Stakeholders Earlier

Digital initiatives are increasingly important for MSEs (see Figure 1). MSE CIOs must respond to current business requests and proactively anticipate future business needs, based on the business strategy. Both current and future requirements influence the ERP selection, which is part of the broader application landscape.

**Figure 1: Stage of Digital Maturity Among MSE Respondents, 2017-2020**

MSE CIOs must leverage their proximity to business leaders to identify what digital initiatives are on the horizon:

\[ n \text{ varies by year, MSE respondents} \]

Q: Which of these best describes the stage of your organization’s digital initiative — i.e., your organization’s digitalization efforts?

Notes: Dates on the chart reflect year of data collection, not the cover year of the report. May not sum to 100% due to rounding. No Digital Initiative = No Digital Initiative, Desire/Ambition; Initiating = Designing, Delivering; Maturing = Scaling, Harvesting/Refining.
Composable ERP drives agility and flexibility into business strategies through a technology approach that integrates multiple applications and platforms.

IT teams in MSEs often do not have sufficient resources, leading to their work resembling more that of firefighters, than focusing on the important but not urgent tasks (see Figure 2). This must change. MSE CIOs must make an extra effort to find the time to work on their strategies. With more organizations switching to remote work, MSE CIOs now have an opportunity to free up time from office-related activities to take on strategic work.

**Figure 2: Eisenhower Matrix for Prioritization**

<table>
<thead>
<tr>
<th></th>
<th>Urgent</th>
<th>Not Urgent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Important</strong></td>
<td><em>Do Now</em> (Firefighting)</td>
<td><em>Schedule</em> (Strategic Work)</td>
</tr>
<tr>
<td><strong>Not Important</strong></td>
<td>Delegate</td>
<td>Drop</td>
</tr>
</tbody>
</table>

Source: Gartner 347609_C
MSE CIOs must make sure that business leaders take ownership and are accountable. Everyone must acknowledge that they all, business and IT, are “the business.”

For the same reason, business leaders in many MSEs (particularly, the smaller MSEs) tend to be “too busy” to work on the business capabilities for ERP and want to push this crucial task to IT (see Quick Answer: How to Implement a Composable ERP Strategy?).

Recommendations:

MSE CIOs must point out why it is important that every business leader takes part in this exercise, giving them these reasons:

- Acquire a common understanding of the business capabilities and future business needs.
- Identify how business capabilities support business outcomes and the business strategy.
- Develop a common language that is the language of the business and not of IT or technology.
- Develop an understanding of how different business capabilities spread over departmental borders or silos.

This provides clarity for the entire business and IT of the investments necessary. If silo thinking is prevalent, this technique helps bridge the gaps.

Focus on a “Good Enough” Approach to ERP

MSEs often get lost in the details in their ERP selection process. Knowing that ERP systems cannot easily be replaced, they want to get the perfect solution that is a stable solution for the future. MSEs must be aware of their limited resources (finances and staff) and spend them efficiently. They must identify which business capabilities must be supported in the best possible way and which capabilities do not provide a competitive advantage. They must identify where the “good enough” approach is necessary, while still delivering value to the business.
When compared with large enterprise CIOs, MSE CIOs have an advantage: They tend to have closer proximity to the entire organization. MSE CIOs must use this advantage to work with the business to identify where the business can gain competitive advantage and where competitive advantage is not part of the equation.

Gartner’s Pace-Layered Application Strategy approach can help MSEs to identify which systems and modules provide competitive advantage (systems of differentiation and systems of innovation) and which parts of the system are about common ideas (systems of record). (See Figure 3 for an example and What Is Gartner's Pace-Layered Application Strategy and Why Should You Use It?)

**Figure 3: Business Capability Map for Consumer Electronics Manufacturer, Segmented in Pace Layers**
Spending excessive resources on system-of-record capabilities decreases the organization's ability to invest in system-of-differentiation and system-of-innovation work. MSE CIOs must then set clear guidance and expectations that, for such capabilities, it makes sense to:

- **Standardize**: Adopt standard configuration or predelivered industry processes as much as possible. This will reduce spending in the long run, and even third-party support will be easier to accomplish.

- **Limit customization**: Customize only to extend the standardization approach when no configuration is available. Customization must be part of the governance process. Often, customizations are requested, because users are used to a certain process and want to see this very behavior in the new system. However, customization can often be avoided by leveraging the processes of the ERP system.

- **Focus on a “good enough” approach for the organization**: Avoid overengineering and a “we are different” attitude within these processes. Good enough means that the standard functionality will serve its purpose. Better than good enough comes at a cost that is often not justified. When power users or executives state that the organization may need this in the future, let them make the case: Why does the organization need this in the future? What is the business case behind it? Vague ideas make ERP initiatives more expensive and even jeopardize them.

**Recommendations:**

- Get clarity on your ERP priorities, by using the business capability model in conjunction with Gartner's Pace-Layered Application Strategy.

- Educate the business, and provide examples. We find that, in many MSEs, silo thinking results in requesting the “best possible” solution. This might even require a cultural change.

- Make clear that the “good enough” approach to the systems of record frees resources for those capabilities that bring competitive advantage to the organization.
Provide ERP Built-In Integration Capabilities From Day 1

Many MSEs do not have the resources to implement a fully composable ERP strategy, which requires extremely flexible (and highly complex) integration capabilities that may not be fully utilized. Also, extension development, data and analytics, security, user experience, master data management, and mobility add to a full composable ERP strategy. These must be considered beyond merely looking into the functionality of the application. Some of it will be part of the ERP solution in question, and some need to be added, which in turn adds complexity. Integration capabilities, however, are the foundation for all the building blocks of a composable ERP strategy.

Given the limited resources of MSEs, the ERP strategy must be as composable as necessary. Flexibility and agility come at a price. The more agile and flexible the architecture is to enable the organization to be prepared for every possible digital scenario, the more it will cost.

MSE CIOs must balance the ERP initiative and make it as composable as necessary and as “monolithic” as possible. This must be a deliberate choice, based on the business strategy.

Balancing composable with monolithic can be done by taking into consideration native integration capabilities when replacing an ERP system or modernizing it. This is different from mapping, designing and deploying new point-to-point integrations. It is about thinking about how to use this as a gradual step toward a more robust hybrid integration strategy.

MSE CIOs should also look for ERP vendors that can support as many as possible of their current and future business capabilities (according to the business strategy). Every business capability that is supported by the ERP system does not require ongoing maintenance in the long run, as long as it was not implemented through heavy customization. An approach that will make this feasible is to ensure the business capability map accurately reflects a business-supported vision on what is nonstrategic and qualifies as systems of record.
However, no matter what the vendors promise, not all capabilities will be supported natively by the ERP system. As an example, ERP vendors often provide suite-embedded CRM or human capital management (HCM) capabilities. But when the organization scrutinizes those modules, it is common to see that they are just not sufficient for what the organization needs. This means that additional stand-alone systems need to be brought in, leading to new application integration needs.

When selecting an ERP vendor or any additional system, MSE CIOs must consider integration capabilities from the very beginning.

MSE CIOs working on the ERP initiative should ask themselves:

- What other systems are already in place and need to be integrated?
- What are the integration capabilities of those applications? Some ERP systems in the shortlist that the MSE CIO provides may be easier to integrate into the existing application landscape than others.
- What data must be shared with what applications? Which is the leading system?
- How does integration provide data consistency? Master data management and master data governance are tools and practices to achieve data consistency.

MSE CIOs should focus on ERP vendors that provide “good enough” integration capabilities and that provide headroom for future applications. When the ERP vendor does not provide sufficient integration capabilities, MSE CIOs will need to consider external tools (integration platform as a service [iPaaS]) to provide the integration capabilities required. This will add costs, in the short and long term, such as licensing, maintenance fees and support teams’ effort.

Recommendations:

- Balance the ERP initiative and make it as composable as necessary and as monolithic as possible. This must be a deliberate choice, based on the business strategy.
- Make an informed decision with regard to the need for agility. The balancing act between a single ERP solution approach and a composable ERP approach must be done deliberately.
Involve the business throughout the process. This is not about technology — it is about business impact.

Evidence

1 The 2021 Gartner CIO Survey was conducted online from 14 July 2020 through 14 August 2020 among Gartner Executive Programs members and other CIOs. For more information, see 2021 CIO Agenda: A Midsize Enterprise Perspective.

Recommended by the Authors

Midsize Enterprise Application Strategies, Part 1 — Identify the Business Strategy

Midsize Enterprise Application Strategies, Part 2 — Use Business Capability Modeling to Create the Right Application Portfolio

Midsize Enterprise Application Strategies, Part 3 — Create the Application Strategy

API Strategy for Midsize Enterprises

The Future of ERP Is Composable

Expert Insight Video: How to Select an ERP — 4 Steps CIOs Must Take Before Starting

The State of Master Data Management