

Digital transformation, legacy systems, and CFO tensions: The CIO of a global manufacturing company talks candidly about a planned ERP transformation project

As a seasoned CIO with three decades of experience in IT leadership and business strategy, in various industries, you will be an expert in planning, justifying and implementing big and challenging projects.

Still, if your role at large European manufacturing company involves a €150 million, five-to-six year transformation project, it's going to be tricky. Especially, when that project is to overhaul creaking and disjointed enterprise resource planning (ERP) software. When you add in boardroom scepticism - especially from your CFO - it might just be one of your toughest yet.



This is the situation faced by a CIO, who we interviewed recently. The interview was conducted under the condition of anonymity, so the CIO could speak candidly. It also forms part of a series Oracle has undertaken with CIOs to understand their plans to upgrade or transform ERP. In many cases, this involves moving from legacy, on-premises software and infrastructure to more nimble and powerful cloud-based solutions. These ERP transformations, which are usually part of a wider digital transformation projects, create huge opportunities and challenges (technological, financial, organisational and cultural) for enterprise companies.

These ERP transformations are usually part of a broader digital transformation project. These wide-ranging projects create significant technical, financial, organisational and cultural opportunities and challenges for enterprise companies.

Now, the inaction is causing problems. Inflexible on-premises ERP software is a barrier to innovation and digital transformation.

How can CIOs make a convincing case for potentially huge, complex and costly ERP transformations and plan migrations, while navigating departmental egos and turf wars?

For the CIO at the large European manufacturing company we interviewed recently, there are two main reasons for transforming the company legacy ERP.

The first is keeping pace with digital transformation in its industry. The second reason is streamlining numerous business processes - that mushroomed under their current ERP system - mushroomed under the current ERP system, to make the business run more efficiently.



Digital transformation

“The biggest driver for our ERP transformation is the digital transformation we see coming in our industry,” the CIO told Oracle. “[My company] has been organised very locally around the world. As a result, we end up with a very disparate ERP landscape which has always worked fine. We had standardisation on the finance control side and a few other things [but] the rest was fairly local.”

The CIO added: At the front-end, the customer side is becoming much more digital, so that means the business process behind the shop window need to integrate well and be standardized. For us, that’s the trigger to do a complete transformation on the ERP side”

The ERP transformation is “pretty urgent” and will be a complex project, the CIO said.

“In our case, ERP transformation means convergence of business processes. Centralisation of decision making in areas, which goes against the structure and culture of the company because the company is organised to be decentral.”

Creating a business case for a project like this is obviously a challenge. The CIO told Oracle how their business case had yet to be finalised, but could include three parts: the benefits of an integrated IT architecture and data governance; the benefits of harmonised business processes worldwide; and standardised ERP functionality.

Building a business case

Winning over the board is complicated by the change of control over ERP from the finance department to a wider number of business functions. The CIO recognises the necessity of this change and how the CFO - who oversaw previous ERP projects - will need to relinquish control.

“It is a difficult start to the project because the executive sponsor for previous ERP programs was the CFO as the main purpose was standardisation on the finance side. Finance won't lead the ERP transformation because the project will have more impact on customers and business operations outside the finance department.”

“Other people [outside the finance department] need to take over and there is a little bit of a political game going on as to who wants to take on the responsibility.”

In the new ERP project, executives in the company's logistics and supply chain departments will play a bigger role.

The CIO is considering three options for the new ERP: moving to a public cloud; a private cloud; or the company hosting the ERP. Software as a Service (SaaS) is the preferred option.

Cloud migration

Moving wholesale to the cloud has some substantial benefits, including increased computing capacity, speed and creating a more coherent IT infrastructure.

SaaS helps standardise IT infrastructure, provides continuous updates from a single supplier, making it easier to manage, and quicker to change than infrastructure on company premises.

But it will also, of course, come with big risks. The initial risk would be financial, the CIO told us. Moving from traditional software licensing to a SaaS, cloud based ERP could cost the company about 80 million euros in license payments, the CIO said.

Other major risks include the scale and intricacy of the project (changing business processes in all subsidiaries can impact the supply chain and production) and changing decades old working practices.

“There is the human risk,” the CIO said. “People that have done things in a certain way for the past 20 years, now suddenly need to do something else and produce a different result. There is a high likelihood that will not be successful.”

Planning for the project is at relatively early stage, the CIO said. The company has done a pre project study to map the main risks and how they can be mitigated. The company is going to build a new team to manage the ERP transformation project.

The team will include senior staff from IT, finance and the supply chain, but not anyone involved with the old ERP, the CIO said.

The company will likely stick with its current supplier. The big remaining question is which type of cloud it uses. The CIO is confident about the need to transform the company's ERP and will play a key role in it. But with a company's this size, IT will not lead.

“Digital [and ERP] transformation for a company our size is a three-digit million figure... it would never be a [purely] IT or technical argument to make that transformation.”

Speed read:

- The ERP transformation project is determined by business needs - including the need for a better connection between back office functions and a digitally transformed customer-facing front end.
- The business case, ownership, and accountability for the project must come from business stakeholders
- The CIO says SaaS is the preferred option for the ERP transformation

Oracle is committed to supporting IT leaders on their ERP transformation journey. Visit our [ERP transformation self-assessment tool](#) to receive tailored advice on how to make your ERP cloud modernisation a smoother journey with Oracle.

