

Accelerating Business Change Through Next-Generation ERP — Call to Action for the High-Tech Sector

WHITE PAPER

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March 2012

INTRODUCTION

IDC Manufacturing Insights recently published research from a worldwide survey of 375 discrete manufacturing leaders across 12 countries. The resulting white paper — *In Pursuit of Operational Excellence: Accelerating Business Change Through Next-Generation ERP* (IDC #IDCWP47T) — summarizes the key survey findings and provides essential guidance for manufacturers developing their own business strategies. IDC Manufacturing Insights now provides essential guidance and a call to action for high-tech manufacturers in order to achieve success in the current business environment.

SITUATION OVERVIEW

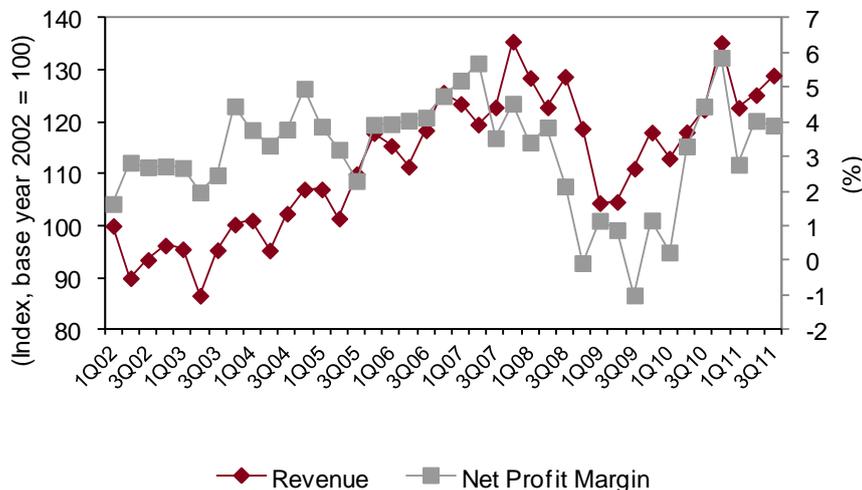
The high-tech industry's business prospects are extremely dependent on today's flickering consumer confidence. Over the last few years of financial crises, high-tech firms have had to deal with very dynamic market demand with consumers rapidly changing preferences toward the latest cutting-edge technologies.

Fast electronic technology commoditization, consumers looking for additional value, the speed of movement from function to fashion, and shorter product life cycles all require continued investment in product innovation and speed in doing business in the high-tech industry.

Market velocity is so high in this sector that companies can go from "high flier" to "crash and burn" very quickly. Even leading established companies have to be extremely proactive in their business strategies to avoid becoming laggards. Only forward-looking companies with outstanding technology and rapid decision-making capabilities can survive and prosper. The industry's performance over the past 10 years is shown in Figure 1, using the IDC Manufacturing Insights global performance index (GPI) benchmarking database. Data assesses the variability, seasonality, and uncertainty of demand in this industry. Data also shows the significant impact of the 2008/2009 crisis on both company revenue and net profit margins. Over the past few years, high-tech manufacturers have managed to bring their revenues and net profit margins back to pre-crisis levels.

FIGURE 1

Worldwide High-Tech Revenue and Net Profit Trends, 1Q02–3Q11



Note: The Manufacturing Insights Global Performance Index (GPI) tracks growth metrics from 800+ publicly traded global firms in the manufacturing and retail industries. The GPI tracks general trends in manufacturing and retail subindustries based on the performance of a sample of companies from those subindustries, and historical data in the index may be adjusted between quarters based on the addition or subtraction of companies in the index or company restatements of historical filings. Estimates by Reuters.

Source: IDC Manufacturing Insights' Global Performance Index, 2012

The Quest for Profitable Growth

The results of our worldwide survey suggest that manufacturers want to make sure they achieve profitable growth. To do so, they will aim to:

- **Sustain more growth.** The essential strategy undertaken by the high-tech industry is primarily focused on sustaining more business growth. More frugal consumer behavior in developed countries and flickering demand from emerging economies are pushing high-tech manufacturers to launch initiatives aimed at achieving greater customer loyalty and expansion into new markets.
- **Invest in product innovation.** No manufacturing industry segment spends more on research and development than high-tech. It is no surprise that the key way to sustain more growth is through product innovation, as cited by nearly 80% of our high-tech respondents. However, three years of recession and weak consumer confidence forced the industry to tighten R&D budgets, while expanding product ranges. Today, success will stem from tighter integration of new technology and sound market planning.

Companies need to make informed decisions that can substantially impact market outcomes. In fact, more effective new product design and introduction that better match new technologies with consumer preferences will guarantee lower cost of developments and greater customer loyalty.

- **Shorten the supply chains.** With the increasing complexity and elongation in the supply chain, more than 60% of respondents are focusing their cost containment initiatives primarily outside the four walls of their enterprise. Their key strategy is focused on shortening the supply chain and reducing the number of suppliers. High-tech companies are also always looking for ways to source components from lower cost regions.

ESSENTIAL GUIDANCE

As seen in the IDC Manufacturing Insights survey, the emerging challenge for the high-tech industry is the dramatic growth in complexity:

- Almost 50% of companies in the industry expect the level of complexity to increase or significantly increase over the next three years. No company expects less complexity in the future.
- Market, operational, and IT complexity are the main business areas that are expected to become more complex. Compared with other discrete manufacturing industries, the high-tech industry has a much higher than average expectation for an increase in market complexity.

Focus on Mastering Complexity

Over the next three years, high-tech manufacturers around the world will undertake a number of critical business initiatives aimed at mastering market complexity and driving out complication from their operational processes and IT systems.

- **Increase sourcing from lower cost countries.** Ensuring profitability in uncertain market conditions requires high-tech manufacturers to have a low cost sourcing strategy, as confirmed by nearly half of high-tech respondents in our survey. But low cost is not enough per se in the hyper competitive high-tech industry and it needs to be combined with an extremely agile and flexible supply chain that can dynamically respond to demand volatility. Over the next three years, high-tech manufacturers will be busy identifying how their supply chains should be better structured to respond to fluctuating demand at a reasonable cost. They will be aiming to create a more dynamic supply network, moving to a variable-cost-driven network as opposed to a fixed-cost-driven network.
- **Better align IT with the business.** Aligning IT with the business means making sure that IT investments are focused on better

serving the business needs rather than merely investing in new technologies per se. This alignment is critical today as IT is considered essential in helping manufacturers beat complexity and improve decision-making speed. Leading manufacturers are those that see IT as a competitive differentiator and that have created IT organizations that understand the business needs and pragmatically invest with business acumen. The results of our recent survey confirm that the high-tech industry is one of the most mature sectors in this respect. Nearly 50% of high-tech respondents expect their company to undertake specific initiatives aimed at better aligning IT with the business over the next three years.

- **Demand planning and forecasting.** Consumer demand volatility has risen sharply and high-tech manufacturers have to cope with a lot of uncertainty in their markets. To counter volatility and improve customer fulfillment, manufacturers need to find new ways of understanding future demand and need to actively sense changes in market demand, translate these changes throughout the entire supply chain, and rapidly adjust production capacities and inventory levels. Based on our recent survey, more than 40% of high-tech manufacturers will undertake initiatives to improve their demand planning and forecasting capabilities over the next three years.

The Role of IT

High-tech manufacturers understand the inadequacy of their current IT systems. They need to overcome the current system fragmentation and encourage a more collaborative environment with greater visibility and intelligence of information, internal to the enterprise and external along the value chain. IDC Manufacturing Insights' survey found that:

- Although the high-tech industry recognizes that the IT systems they have in place are important to their business, they are viewed as ineffective or inadequate to support current business challenges. In particular, they believe that their ERP doesn't support the business well in fast decision-making capabilities, a competence considered extremely important today to be able to react faster to market changes and support rapid product innovation in this fast-paced industry.
- High-tech manufacturers believe the major barrier to effective decision making comes from the inaccessibility of accurate data, data stored in too many different IT systems, and rigid organizational and informational silos. So, in essence, current IT is emerging as the single most critical barrier to mastering complexity.
- High-tech organizations greatly recognize the importance of modernizing traditional IT, leveraging what IDC calls the "four IT forces" — cloud computing, social business, mobility, and big data analytics. Nearly 95% of respondents believe the four IT forces will change the way they work in the near future, and more than

40% believe these will completely change the way the business is managed.

- Delivering IT productivity and business value at the same time is the real strength of the four IT forces. We expect high-tech organizations to make foundational investments in these technologies to improve the value of their IT systems and in particular their ERP.

Call to Action

- Sustain profitable growth:
 - Are you focusing your growth strategy on product innovation?
 - Is shortening the supply chain and reducing the number of suppliers a key priority for you?
 - How can you make sure your new products align with globally dispersed, narrow market segment needs?
- Master market, operational, and IT complexity:
 - Do you have an agile supply chain strategy that balances costs with performance?
 - What types of innovative demand forecasting techniques are you going to adopt to counter consumer demand volatility?
 - How aligned is your IT with the business?
- Implement operational ERP:
 - Do you think the IT systems you have in place are effectively supporting your business challenges?
 - Does your current ERP system support you well in speeding up decision making?
 - Do you recognize the importance of modernizing traditional IT systems with the four IT forces — cloud computing, social business, mobility, and big data analytics?

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