Future of ERP: Empowering businesses and people with AI-guided productivity
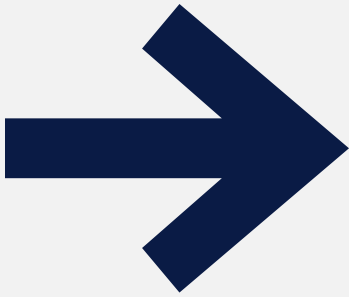
Contents

Prepared for change: Unlocking business success from every angle

The contemporary landscape of macroeconomic conditions and customer needs is experiencing unprecedented change. Advancements in Artificial Intelligence (AI) are revolutionizing traditional technologies and propelling innovative business strategies and operational tactics. Consequently, businesses find themselves in unique situations that require agility and efficiency to adapt swiftly.
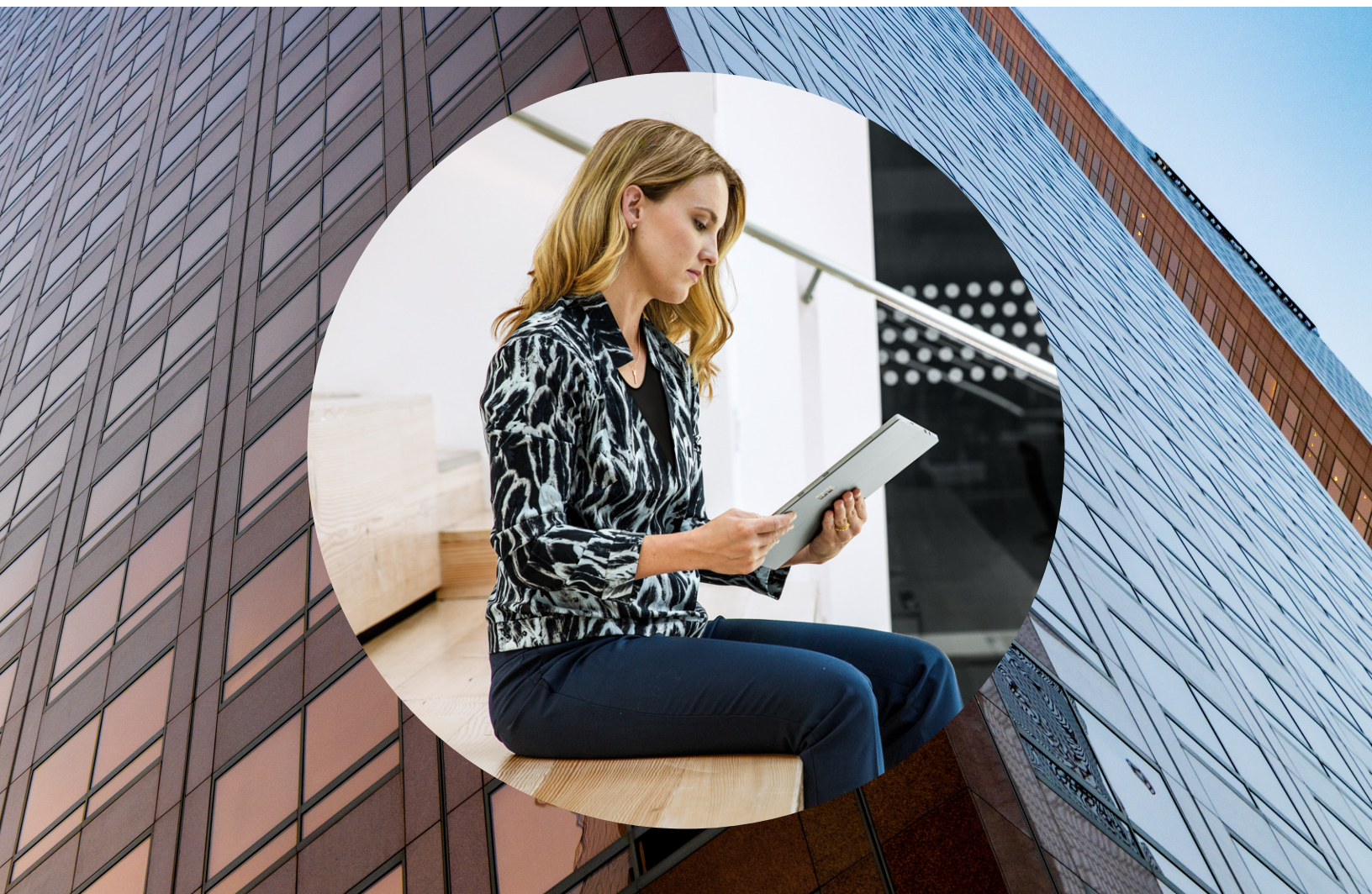
In this climate, businesses that adopt a multifaceted, holistic approach to change are well-positioned for success. To better understand business leaders' mindsets, perceptions, goals, and strategies, Microsoft engaged 500 global business leaders to gather their insights around navigating market dynamics, empowering the workforce, streamlining business operations, and leading with purpose.

The goal? To understand how effective integration of ERP systems can equip businesses to respond adeptly to change and drive innovation. In this report, we dive into the strategies business leaders employ to preserve their core competitive advantages while navigating these multifaceted changes. Our mission is to arm you with insights that can empower your business to navigate future changes seamlessly and from every angle.

Revolutionize

How exactly will AI reshape the way we work?

73%
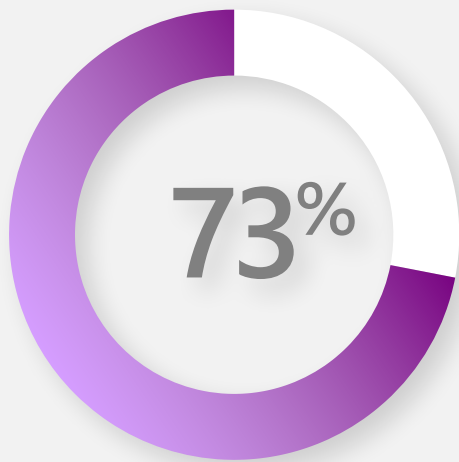
73% of business leaders (81% at C-level, 71% at VP/Director level) have prioritized the enhancement of individual and team-level productivity.

Utilize AI to enhance productivity and decision-making

Amidst the rise of hybrid work models and AI, optimizing employee experiences has become an essential goal for businesses. In our recent survey, business leaders emphasized the need to enhance both individual and team-level productivity, thereby enabling greater focus on creative and strategic initiatives. A key aspect of this approach involves managing remote or flexible work arrangements and fostering collaboration, no matter where the workforce is located.

To achieve this, business leaders are turning to AI, leveraging its power to automate routine tasks and boost productivity. Our research revealed that 80% of leaders consider the use of AI as a fundamental competitive differentiator. Remarkably, 73% are already harnessing AI technology to augment human capacity in both service and manufacturing sectors, driving a surge in operational efficiency.

"Implementing robust data analytics platforms and leveraging artificial intelligence and machine learning techniques can help us gain valuable insights from large volumes of data. By making data-driven decisions, we can identify emerging trends, anticipate customer demands, and proactively innovate our offerings."

**Head of IT**

Technology, APAC

But, how exactly will AI reshape the way we work?

To answer this question, we engaged with 500 business leaders, seeking their perspectives on how AI can help optimize their use of ERP systems. We identified twelve AI features pertaining to collaboration, data-driven decision-making, and productivity. The features business leaders found most valuable were those that offer data-rich insights and support informed decision-making. Features like "predictive analytics", allowing for the analysis of historical data to forecast future trends, and "enhanced decision-making", utilizing real-time key performance data, were their top choices. These were followed by "intelligent automation," a feature that streamlines workflows and automates repetitive tasks, allowing employees to focus on more strategic tasks.

Other appreciated features included "data visualization" to simplify complex datasets and "resource optimization" to analyze resource utilization for efficient allocation, waste reduction, and productivity.

To secure a leading edge in AI-driven competition, this data highlights the necessity of adopting AI-based platforms that provide capabilities that go beyond productivity enhancement to contribute to facilitating higher-order thinking and complex, real-time decision-making.

AI Feature Utility Chart
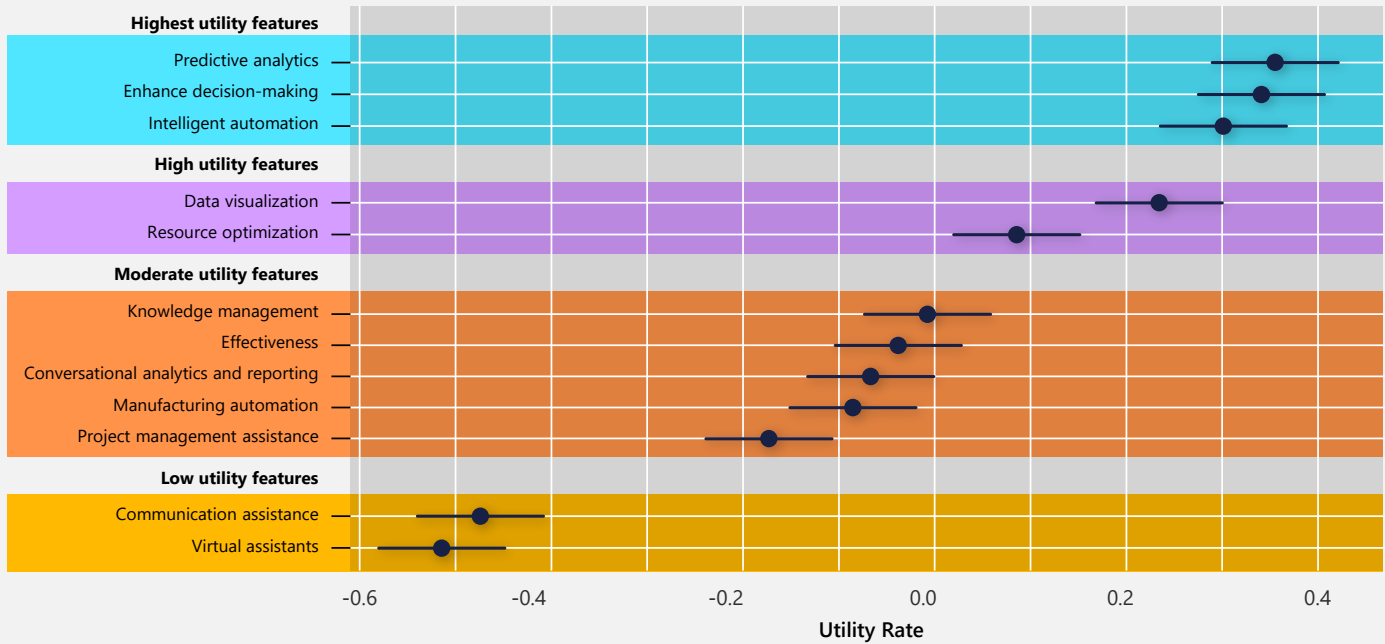
The AI Feature Utility Chart visualizes the utility rates of 12 AI functionalities related to collaboration, data-driven decision-making, and productivity. It delineates which features business leaders find most and least valuable by comparing their utility rates.

Despite acknowledging AI's capacity to elevate ERP collaboration and productivity, only a small percentage of business leaders feel their organizations are technologically equipped to fully harness this potential. A total of 53% of leaders felt prepared to employ real-time data access, data visualization, and predictive analytics, while only 33% felt ready to utilize productivity functionalities, such as virtual assistants, knowledge management, and automation.

In recent years, AI has mainly been lauded for its capacity to augment human effort, liberating employees to focus on strategic and creative work.[1]

Now, organizations must broaden their perspectives to understand the potential of AI as a powerful analytical tool, guiding core business decision-making.

The new era of work requires a fresh look at how AI can be deployed, not only for task automation, but also for higher-order thinking that influences critical and real-time business decisions. In this regard, the true power of AI extends beyond enhancing productivity. Organizations need to leverage high-capacity AI ERP systems to support AI's synthetized analysis of real-time and historical data to profoundly influence core decision-making, transforming how we conduct business.

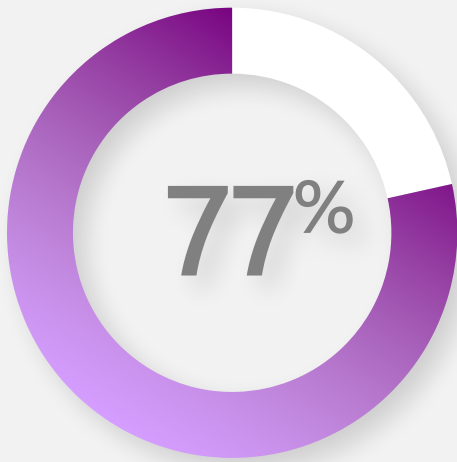[1] *Will AI Fix Work?* Microsoft Work Trend Index Annual Report. May 2023.

Key learnings

→ Business leaders emphasize enhancing productivity, managing flexible work arrangements, and fostering collaboration, regardless of location, as key aspects of the employee experience.

→ Business leaders consider AI usage a key business differentiator. They appreciate its capacity to bolster higher-order thinking, support data-driven decisions, and improve employee productivity, beyond supporting mundane tasks.

→ Despite recognizing AI's potential to enhance ERP collaboration and productivity, a limited number believe their organizations are technologically prepared to harness this potential.

## Staying ahead with agile business strategies

Build agility to stay ahead

In today's dynamic economic climate, the significance of business agility cannot be overstated. As we surveyed business leaders, an overwhelming majority of over 80% recognized agility, customer experience, and technology as pivotal competitive differentiators in an unpredictable market landscape. It is evident that organizations that prioritize agility are better positioned to respond swiftly to evolving market conditions and gain a competitive edge.

Indeed, technology is the conduit through which businesses prioritize and optimize customer experiences. Advanced technologies such as AI, machine learning, predictive analysis, and low/no code tools play a pivotal role in streamlining of customer interactions and experiences through data-driven insights that optimize operations.

77%

77% of business leaders agree that economic downturns and rapidly changing consumer preferences are the most crucial market conditions compelling businesses to urgently adopt agile business operations.

"Prioritize agility to respond swiftly to market changes and customer needs. Regular market research and gathering customer insights are crucial for understanding evolving customer needs, preferences, and emerging market trends. Invest in robust data analytics capabilities to collect, analyze, and interpret data related to customer behavior, market trends, and operational efficiency."

Global Strategic Pricing Manager
Manufacturing, UK and Western Europe

67%

53%
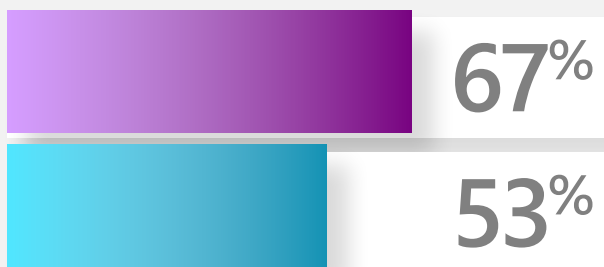
Many business leaders lack confidence in their organization's readiness to enhance agility. That said, service-focused leaders generally feel more prepared (67%) than product-focused leaders (53%).

Despite the recognition of the importance of business agility, not all business leaders are confident in their organization's readiness to enhance agility, especially regarding innovating with technology. Our survey revealed that only 58% of business leaders believe they are sufficiently equipped with the cloud-based business operation software they need to streamline their business processes, efficiently manage data, enhance operational efficiency, scale their infrastructure, and adapt quickly to changing market demands.

Similarly, a mere 42% of business leaders feel prepared to leverage low/no code tools to transform their business processes. By integrating low/no code tools alongside ERP systems, non-technical business users can create custom applications, dashboards, and reports that align with their unique requirements. This integration enhances data visibility, enables real-time data analytics, and facilitates efficient, informed decision-making to quickly adapt to evolving market dynamics

Business leaders are keenly aware of the need to enhance agility, but they often struggle to identify the most effective approaches to navigate unpredictable market conditions. Fortunately, our survey revealed three **key strategies** that have garnered significant traction among business leaders:

1. **95% of business leaders are embracing business model innovation by promptly adapting to evolving customer needs and market conditions. Recognizing the importance of agility, they proactively explore new ways to deliver value, redefine their offerings, and seize emerging opportunities.**

2. **93% of business leaders are leveraging accessible, accurate, and transparent business intelligence software to reduce the time from insight to action. By harnessing the power of data-driven insights, they gain a competitive edge by making informed decisions swiftly and effectively.**

3. **91% of business leaders are utilizing cloud-based operation software to facilitate the business model innovation process. They recognize that cloud technology offers the flexibility, scalability, and accessibility necessary to streamline operations, optimize workflows, and foster collaboration across their organizations.**

Like businesses, ERP software is evolving in the face of constant change. Business leaders can help close the gap in their organizations' readiness to agilely adapt to changing market conditions and customer demands by utilizing a cloud-based operation software that offers the technology and business intelligence to usher in a new era of efficiency and stay ahead in a volatile market.

Key learnings

→ To differentiate your organization in a volatile market, prioritize agility, customer experience, and technology adoption in your ERP strategy and implementation.

→ While business leaders recognize the importance of agility, there is a gap in readiness to enhance agility, particularly in terms of leveraging technology.

→ Technology, including AI, machine learning, and predictive analysis, enables data-driven decision-making and optimization of operations, making it crucial for organizations to leverage these tools.

→ By embracing agility, businesses can quickly respond to changing market conditions, adapt their operations, and stay ahead of the curve.

Elevate efficiency with cloud-based ERP

Innovate

Fostering consistent innovation with ERP

In a world reeling from global instability, rapid technological advancements, and ever-changing customer demands, enhancing business efficiency is no longer an option—it's a lifeline. This urgency to optimize efficiency is keeping many business leaders on their toes. To shed light on this challenge, we asked our 500 global business leaders about efficiency strategies.

Top strategies included business model innovation, business intelligence utilization, and cloud-based ERP adoption. However, readiness to implement these varied significantly.

- **Despite 94% of leaders emphasizing the importance of business model innovation, only about 50% felt adequately prepared to embark on such transformative journeys.**

- **While 93% of leaders advocated the benefits of adopting flexible and integrated ERP systems, a mere 39% expressed confidence in their current ERP system's flexibility and integration capabilities to effectively leverage resources for business model transformation.**

These findings underscore the gap between acknowledging the need for change and being prepared to enact it—a gap that must be bridged for businesses to thrive amidst these disruptive market changes.

To navigate this efficiency revolution, we delved into how business leaders could optimally leverage technology, specifically cloud-based ERP systems. Therefore, we asked:

How do you unlock the full potential of business operations systems?

We identified hurdles leaders face with their current ERPs, such as data fragmentation (93%), cost management (92%), operational scalability (91%), and comprehensive performance tracking (90%). Our recommendation, based on these insights, is to consolidate multiple ERP software, leading to optimized business operations and substantial cost savings.

To extract maximum value from business intelligence systems, we discovered that 95% of business leaders deem it essential to mitigate the complexities and time-consuming integration with existing infrastructure. When deploying business intelligence systems, 94% of leaders voiced concerns about a lack of consolidated data across different business sectors, which could obstruct cross-functional insights. Additionally, 89% of leaders were apprehensive about unreliable insights due to inaccurate, incomplete, or outdated data.

"Data is more important than ever. Many organizations like mine have issues with data being inconsistent, inaccurate or unreliable. My organization, like most I've known, needs better data management to enhance decision making and increase business efficiency in response to rapidly changing trends."

Head of Operations

Retail, UK and Western Europe

Lastly, 91% of leaders stressed the importance of consistent data literacy among employees to maximize the benefits of utilizing business intelligence software. This shows that the business efficiency revolution depends not only on the software in hand but also in the human-AI collaboration that will transform business efficiency.

As businesses struggle with market disruptions and technological advancements, the adoption of innovative, cloud-based ERP systems is a critical path to not just survive but to thrive. By bridging the gap between the importance of business efficiency revolution and organizational readiness, businesses can secure a competitive advantage.

Key learnings

→ Business model innovation and cloud-based ERP adoption are leaders' top efficiency-enhancing actions.

→ Leaders see the need for business model innovation but often feel unprepared. Despite advocating for integrated ERP systems, confidence in current ones is lacking.

→ Consolidation of multiple ERPs could bring substantial insights, operational enhancements, and cost savings.

→ Maximum value from business intelligence systems relies on seamless integration, data consolidation, and effective data literacy training for employees.

Accelerate purpose and profit with ERP-enabled ESG strategies

ERP + ESG for success and impact

Environmental, Social, and Governance (ESG), once a peripheral concern, is now a core component of strategic decision-making as business leaders recognize its transformative potential.[2] Our survey indicates anticipated outcomes of ESG prioritization include enhanced brand reputation (88%), stronger stakeholder relationships (82%), and the buy-in from socially conscious investors (79%).

This paradigm shift is not merely driven by a sense of ethical responsibility; it is rooted in the realization that sustainable business practices deliver tangible benefits that directly contribute to companies' productivity and long-term viability. As sustainability takes center stage, business leaders are increasingly integrating ESG considerations into their core operations, recognizing that sustainable practices not only align with their values, but also yield substantial returns and position them for success in an evolving marketplace.

[2] *How will CEOs respond to a new recession reality?* EY. January 2023.

"Embracing ESG initiatives, such as implementing sustainable practices and supporting social responsibility, aligns with current market trends and customer expectations."

Director of Operations

Professional Services, Europe and Asia

Business leaders highlight the pivotal role of ESG in ethical business practices, with 79% prioritizing responsible corporate governance and 71% emphasizing diversity, equity, and inclusion initiatives. This reflects a growing awareness of the importance of fostering inclusive work environments that celebrate the diversity of talent and perspectives.

Indispensable role of ERP systems in achieving ESG goals

At the heart of driving ESG goals lies the indispensable role of ERP systems. 84% of business leaders agree that companies embracing ERP's digital transformation will be better positioned to track and analyze ESG metrics and make data-driven decisions. While most companies are measuring ESG and utilizing data-driven insights to mitigate and reduce ESG impact, only 43% of business leaders say their companies use a comprehensive product for ESG assessment and action. Furthermore, when asked about their level of ESG development, only 11% of business leaders rank their organizations as "advanced" on the ESG maturity model.
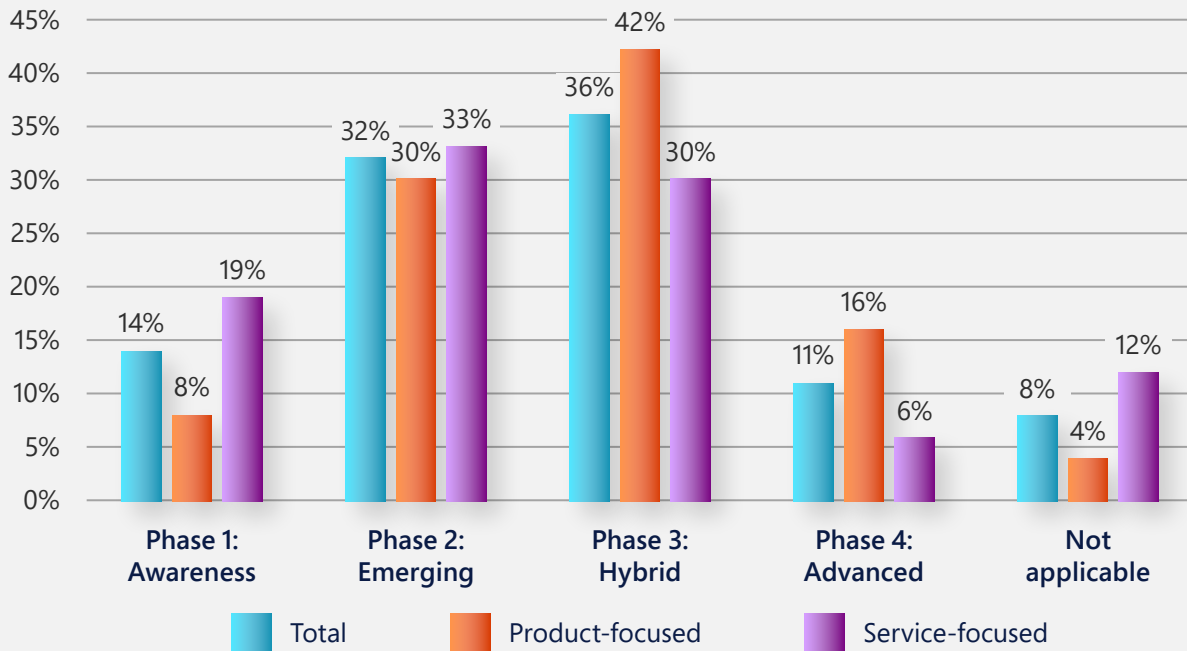
Despite a growing awareness of the importance of ESG, only 11% of business leaders rank their organizations as "advanced" on the ESG maturity model.

Where leaders rank their businesses on the ESG maturity model.[3]

- **14% | Phase 1**
  Awareness: We are aware of the need for an ESG plan and are starting to review our data.

- **32% | Phase 2**
  Emerging: We have initiated work on ESG goals: forming a team and responding to new regulations, investor demands, and competitive threats.

- **36% | Phase 3**
  Hybrid: We are implementing our ESG plan; however, outdated systems limit us, making ESG reporting and decision-making laborious.

- **11% | Phase 4**
  Advanced: We've established a functional ESG plan, ensuring stakeholders can easily access digitalized and centralized insights.

- **8% | Not applicable**
  We haven't considered ESG processes and goals yet.

[3] *ESG Data Insights.* Microsoft. p. 11-13. 2023.

Despite resounding agreement around the synergy between ERP and ESG, few businesses have reached advanced levels of ESG maturity. Traditional systems may struggle with flexibility and scalability demands, hindering the ability to obtain a holistic view of sustainability performance.

To overcome these obstacles and fully leverage the potential of ERP in driving ESG success, organizations need to embrace modern ERP solutions that offer enhanced flexibility and scalability. Cloud-based ERP systems integrate ESG metrics seamlessly across functions, enabling organizations to gain comprehensive insights into their sustainability performance. Such systems facilitate the integration of technologies like AI and predictive analysis, empowering businesses to optimize their sustainability initiatives and drive tangible impact.

By embracing ESG-tailored ERP systems, organizations can overcome traditional limitations, efficiently manage core business data, and align operational processes with sustainable practices. Ultimately, this integration empowers organizations to derive positive ESG impact and business success in the ever-evolving landscape of sustainable business.

Key learnings

→ Business leaders recognize the transformative impact of ESG initiatives and expect positive outcomes for their organizations.

→ These positive business outcomes include enhanced brand reputation, competitive advantage, stronger stakeholder relationships, customer loyalty, and improved access to capital.

→ Business leaders prioritize responsible corporate governance and diversity, equity, and inclusion (DEI) initiatives as top ESG priorities, emphasizing the importance of ethical and inclusive practices.

→ ERP systems play an indispensable role in driving ESG goals by enabling tracking, analysis, and data-driven decision-making for ESG metrics.

Thriving in a dynamic business landscape:
Unleashing the power of AI-enhanced ERP

In this rapidly evolving technological landscape and fluctuating market, organizations need to cultivate a holistic and agile approach, mastering strategic technological integrations to prosper. Embracing AI capabilities emerges as an essential strategy, not only enabling productivity enhancements, but also fostering predictive, data-driven decision-making.

Our research underscores the significance of agility, particularly through astute technological adoption, yet reveals a prevalent readiness gap among institutions. Business model innovation and the adoption of cloud-based ERP systems surface as leaders' top actions for boosting efficiency. According to leaders, maximizing the value of business intelligence systems hinges on seamless integration, data consolidation, and effective data literacy training for employees.

Amid the growing emphasis on ESG initiatives, leaders affirm its transformative impact, with ERP systems playing an integral role in enabling comprehensive tracking, insightful analysis, and informed decision-making. Consequently, in this fast-paced era, leading change through technology is crucial.

We hope that this report inspires informed strategic foresight and bolsters your confidence, enabling your organization to thrive in this dynamic business landscape.

Methodology and Audience Definitions

The survey associated with this report was carried out by an independent firm, Affirma Consulting. We surveyed 500 business leaders from organizations with at least 200 employees and aimed to represent a range of job titles and company sizes. The online survey was conducted in English between May 24th and June 6th, 2023 and lasted 18 minutes.

Our audience included C-Level (20%) and VP/Director level (80%) leaders. Example titles include Chief Executive Officer (CEO), Chief Technology Officer (CTO), Chief Information Office (CIO), VP of Operations, VP of Supply Chain, Head of Finance, and Head of Procurement. This audience was split equally between product-and service-focused industries across five global regions.

500 business leaders
- 20% C-level leaders
- 80% VP/Director level leaders

Product-focused business leaders
250 business leaders in product-focused industries (Manufacturing incl. life sciences and Retail)

Service-focused business leaders
250 business leaders in service-focused industries (Professional Services, Telecom, Healthcare Services)

AIM for the future with Microsoft today

Microsoft recently introduced Dynamics 365 Copilot, the world's first AI copilot integrated into ERP applications from Dynamics 365 in the cloud, that is designed to augment workflows, uncover insights, identify the next best actions, and reduce time spent on administrative tasks. Organizations relying on on-premises applications will struggle to compete with peers embracing these AI-powered technologies in the cloud. It Is paramount for companies to migrate their critical business processes to the cloud now.

We at Microsoft want to empower every organization of any size to adopt these innovative AI powered technologies so that no one is left behind and that is why we are introducing AIM (Accelerate, Innovate, Move).

AIM offers organizations a tailored path to move critical processes to the cloud with confidence. It provides qualified customers with access to a dedicated team of migration advisors, expert assessments, investment offers, tools, and migration support.

AIM truly reflects Microsoft's commitment to guiding on-premises business application customers into the era of AI-guided productivity.

Microsoft Dynamics 365

Get started with AIM today and unlock a brighter future for your business.

References

- *The Total Economic Impact™ Of Microsoft Dynamics 365 Finance.* Forrester. July 2022.
- *The Data-First Enterprise: Reimagining Finance and Procurement with Intelligence-Driven Insights.* Harvard Business Review Analytic Services.