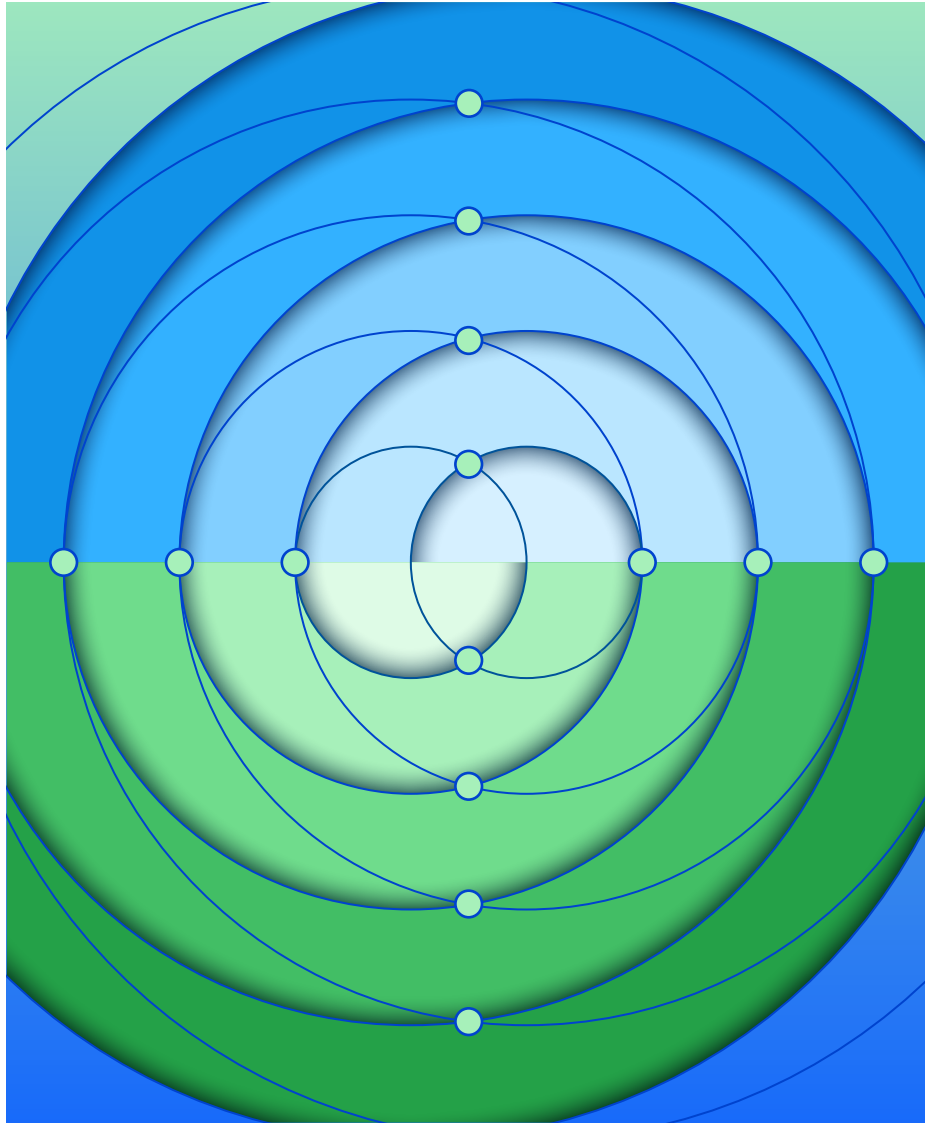




The ERP leapfrog

How Australian enterprises can turn decades of tech debt into AI leadership

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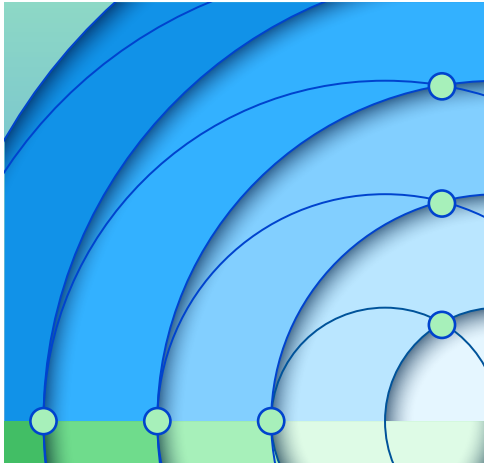
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Key takeaways

Australia's ERP modernization lag offers a clean-sheet advantage to build the world's first truly machine-readable enterprises.

- **Australia's ERP baseline works in its favor.**

Only 11% of Australian organizations run modern cloud ERP (vs 23% in the US/UK), creating a clear runway to modernize directly for agentic workflows instead of retrofitting legacy decisions.

- **The ERP timeline has become an AI timeline.**

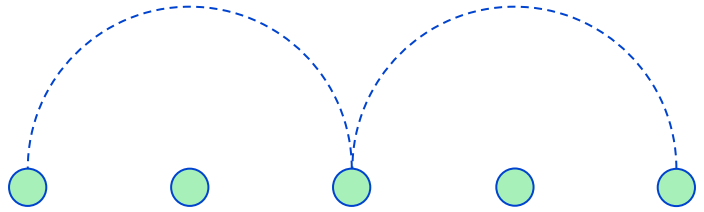
With legacy ERP support ending in 2027 and competitors moving to AI-embedded ERP by 2028, 96% of Australian leaders already agree ERP data is the lifeblood of agentic AI— so early execution becomes an advantage.

- **Every quarter of delay compounds cost—and caps returns.**

Today, AI ROI in legacy/hybrid environments averages 8%, while an optimized AI-native core is projected to unlock approximately 40% ROI— more than a fourfold lift.

Introduction

Australia's ERP leapfrog moment



In the Australian C-suite, there is no shortage of AI appetite. From boardrooms greenlighting nine-figure investments to tech functions spinning up a dizzying array of pilots, Australia is betting big on an AI-infused automated future.² But there's a jarring disconnect between investment and impact. While the ambition is there, results are often stalled. The culprit isn't the AI models themselves; it's the dated ERP foundations they are built upon.

A recent IBM Institute for Business Value (IBV) study across 17 Australian industries reveals a fundamental maturity gap. Only 11% of Australian organizations operate on modern cloud ERP platforms, compared to 23% in the United States and the United Kingdom.

Big AI energy, old-core reality

Australia is in a structural bottleneck.

Yet, 96% of Australian leaders agree that ERP data is the lifeblood of agentic AI despite the fact that half of these programs remain trapped in pilot purgatory. The reason is simple: you cannot run 2026 intelligence on 2012 infrastructure.

But all is not lost. Delay has created a rare strategic window for the nation. While many global peers converted to cloud-based ERP, they built for a world before agentic AI. Many are now finding that their updated ERP systems are already hitting a ceiling and will likely require expensive, complex retrofits to support autonomous agents.

Australia has in fact created a leapfrog opportunity. By upgrading now, Australian business can bypass the "lift-and-shift" mistakes of the last decade and architect for an AI-native future.

But this is a perishable advantage. Leapfrog action needs to start now for two reasons. First, major ERP vendors have set the end of 2027 as a cut off date for their legacy systems. Second, by 2028 AI should be baked directly into the core of modern ERP across major global competitors. Those competitors are moving now. Australian enterprises need to move faster.

Leapfrog—or pay for it twice

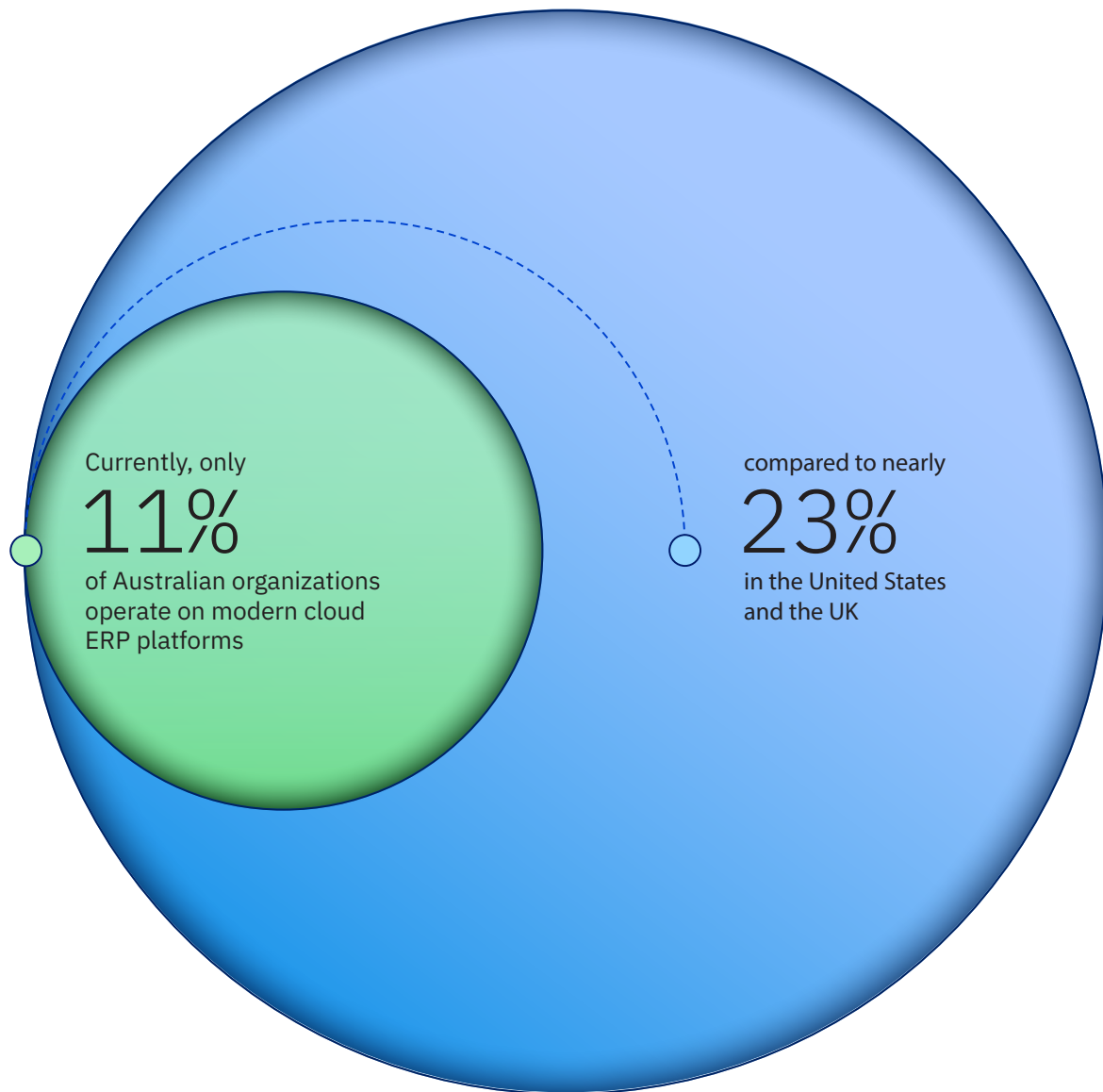
Ignoring the opportunity may risk permanent structural disadvantage. This report outlines how Australian organizations can make the most of this window to leapfrog instead of fall behind.

We'll look at the three realities defining the current moment for Australian enterprise leaders. We'll also detail specific moves that distinguish programs that succeed from programs that stall.

Part One details the "tax" enterprises pay if they delay. Part Two covers what happens when leaders treat ERP as a strategic accelerator rather than a cost to be managed. And Part Three explains why organizations that treat 2028 as a simple infrastructure deadline could find themselves funding a second, corrective program within 24 months—a situation many of their global competitors find themselves in today.

Figure 1

**Australia's modern ERP adoption rate
is half that of the US and UK**



Part 1

The hesitation tax

Why it costs more to wait than to move

Modern ERP is no longer just a system of record; it is a basic requirement for AI performance at scale. Your AI is only as smart as your operational core allows it to be.

Structural barriers to scale

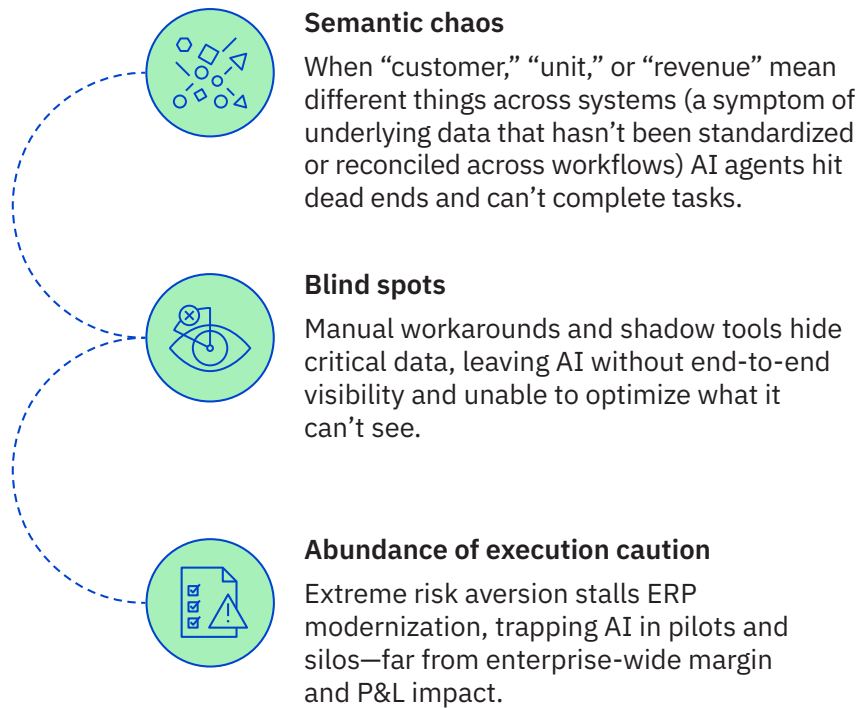
In Australia, the prevalence of legacy environments—heavily customized and trapped in myriad hybrid configurations—creates three specific frictions that prevent AI from delivering enterprise value. (See Figure 2.)

When core systems are fragmented, AI is trapped in a silo. It can perform impressive tasks in a controlled test but cannot connect to the rest of the business to execute real work.

The result is a performance ceiling. AI works perfectly in isolation, but because it can't access or influence your real operations, it has a comparatively low impact on the bottom line.

Your AI is only as smart as your operational core allows it to be.

Figure 2

Three reasons AI stalls in fragmented ERP environments

Accelerating AI ROI

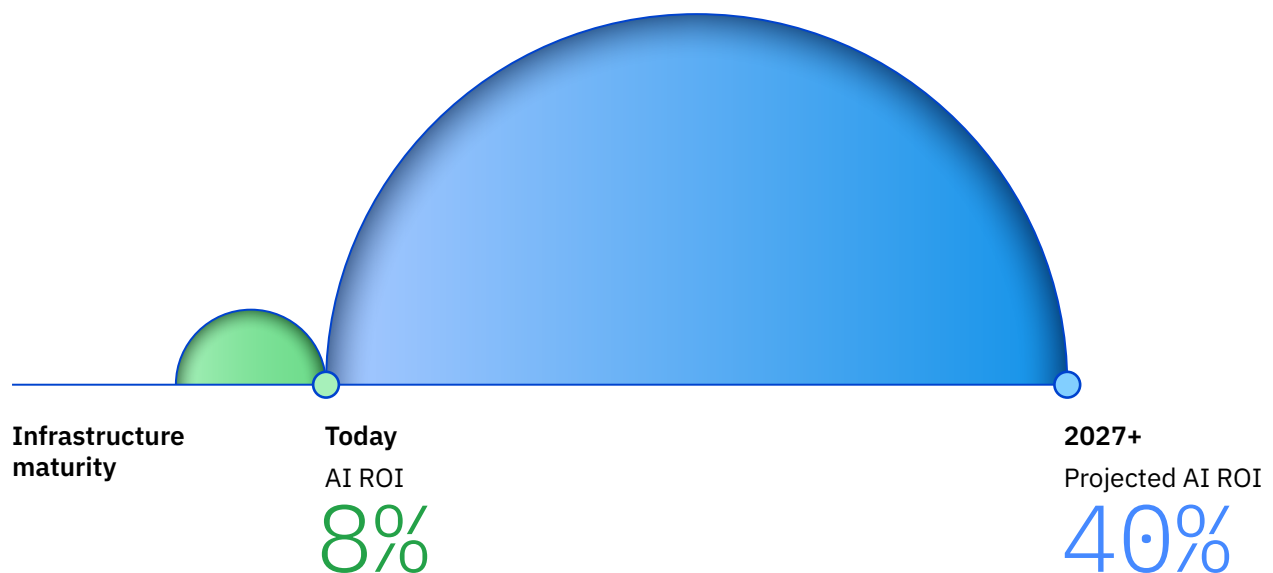
The cost of this delay is now measurable. When systems are disconnected, returns stay stuck at 8%. When the core is modernized, ROI doesn't just grow—it accelerates. Rewards for moving early are much higher than a standard forecast would show, and the penalty for waiting is much more expensive. The ROI on AI investments more than quadruples.

The 8% floor: Why inaction is a tax on future earnings

For Australian business leaders, the objective should no longer simply be moving to cloud. That thinking has become redundant among leading organizations elsewhere. The goal is sequencing ERP modernization so that AI becomes an integrated driver of revenue, rather than a series of expensive, disconnected experiments.

Figure 3

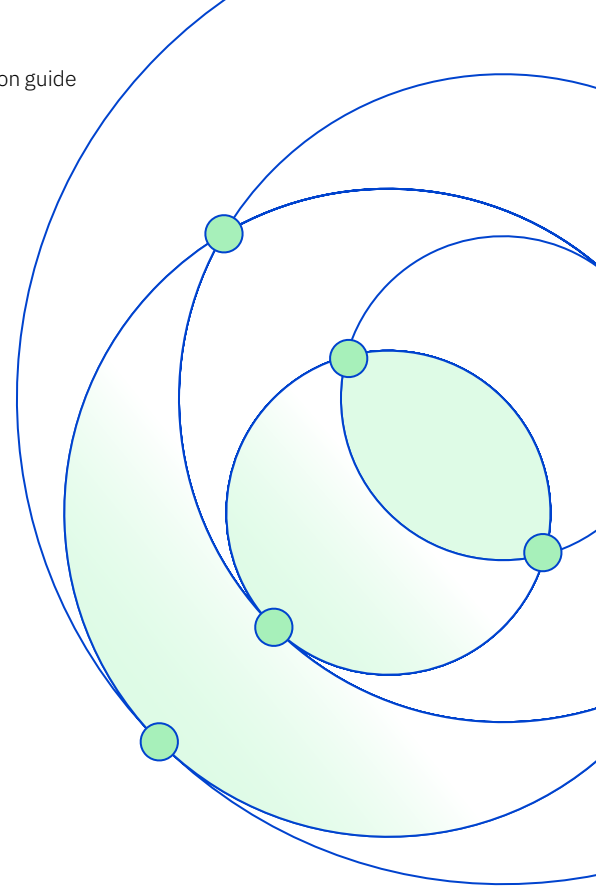
Modernizing ERP can turn 8% AI ROI into 40%



The 8% ROI currently seen in Australia is a floor, not a ceiling. It represents the limit of what AI can do when it is forced to run on top of a fragmented legacy foundation.

Part 2

Transformation that funds itself



The most pervasive error in ERP modernization is treating it as a budget line to be managed rather than a capability to be unlocked.

Too many boards succumb to “maintenance-mode” thinking—a defensive posture driven by vendor deadlines and the looming expiration of legacy code. In this framing, success is a mere matter of hitting a date and a dollar amount. This is a hallmark of the underperforming firm: it pays for a technical refresh while leaving its underlying structural flaws untouched.

The most effective global organizations treat modernization as a forensic audit of operational friction: an honest accounting of where the business is currently subsidizing waste, delay, and error.

The most effective global organizations ignore the “upgrade” narrative entirely. They treat modernization as a forensic audit of operational friction: an honest accounting of where the business is currently subsidizing waste, delay, and error. By anchoring the program in the hard metrics of the balance sheet—cycle times, overhead ratios, and cost-to-serve—modernization ceases to be an IT chore. It becomes a deliberate dismantling of the inefficiencies that have historically capped the firm’s potential.

The true cost of status quo

The business case for modernization is usually stronger than leadership expects because the price of doing nothing is chronically underestimated. While visible expenses such as maintenance contracts are easy to track, the real drain on P&L centers on the structural drag of an aging core:

- **Administrative friction:** The thousands of staff hours lost to manually reconciling data across fragmented silos.
- **Working capital stagnation:** Capital locked in the supply chain because of imprecise, delayed signals from legacy inventory modules.
- **The agility gap:** Execution cycles that take quarters to implement, leaving the organization unable to respond to shifts in the competitive landscape.

When these leakages are aggregated, the gap between the cost of the status quo and the cost of modernization often disappears.

Outcomes, not milestones

The way leadership conceptualizes this shift dictates who owns it. Modernization that lives in the IT budget, governed by technical checklists, inevitably drifts from the commercial priorities that provide the program with its momentum. To maintain C-suite accountability, success must be anchored to value realization metrics rather than server “go-lives”—metrics such as days sales outstanding (DSO), cost-to-serve, and procurement velocity.

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De-risking the delivery model

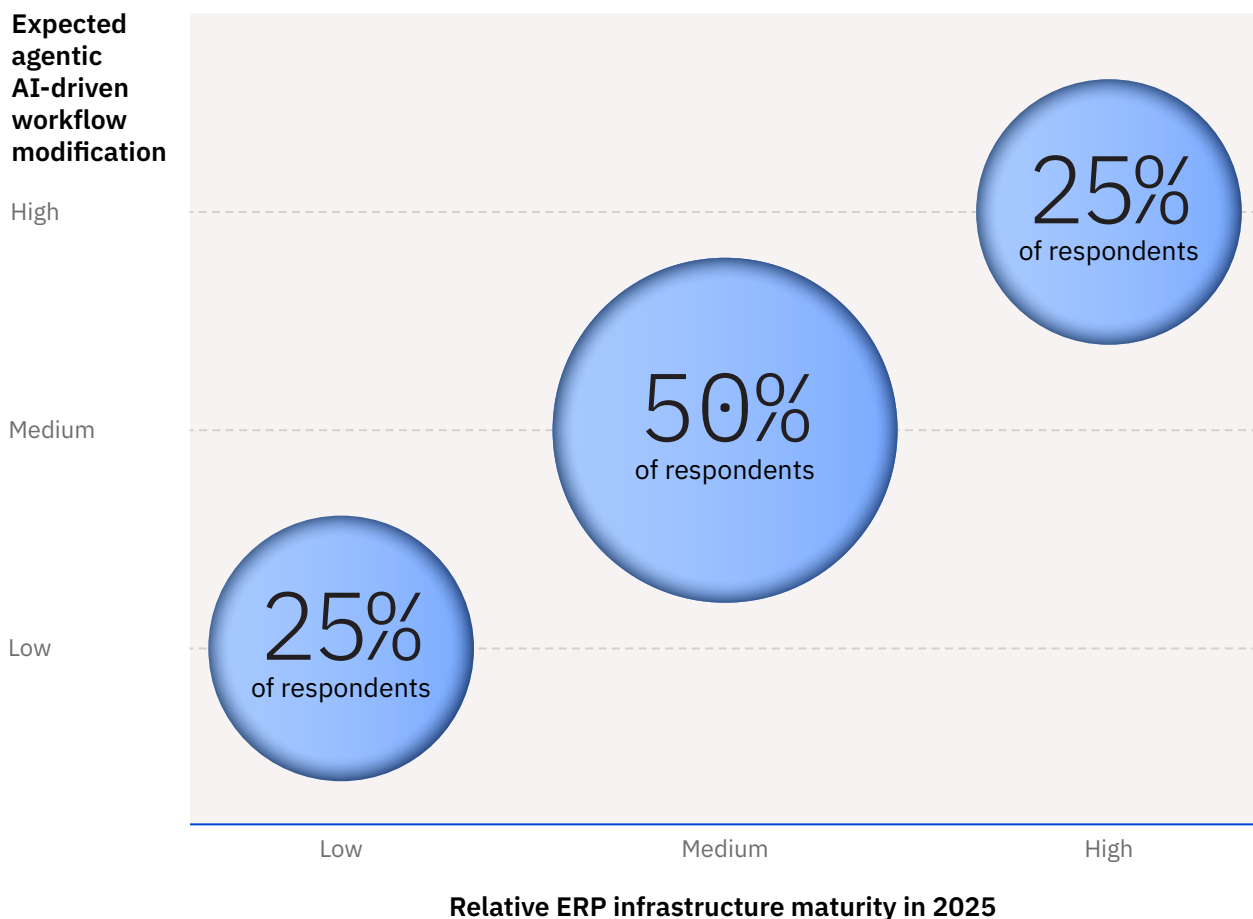
The hesitation among Australian leaders because of potential budget overruns is a rational response to the “Big Bang” failures of the past. But rather than deferring due to historical risk, leaders should consider changing program architecture.

Modern transitions aren’t massive, multi-year gambles; they are fast, 90-day sprints designed to pay for themselves. By breaking the project into smaller parts, you generate real savings every three months. You start by fixing the most expensive problems first, then use those early wins to fund the rest of the project.

For Australian companies, the biggest threat is no longer a project going over budget. The real danger is the paralysis of waiting for a “perfect” moment to act—there is no such thing in the AI era.

Figure 4

Most Australian organizations remain in the midrange of change for ERP maturity and AI-driven workflows



Part 3

The 2028 window

AI native by design

Across Australia, more than half of all agentic AI activity is currently department-led. It's the same in the US and the UK.

These are functional pilots—marketing bots, HR assistants, localized wins—generating value in isolation. But they are hitting a structural ceiling. When an AI agent hits the boundary of its own department, it loses its context—and its value.

The most profound gains from AI do not live in departments or functions; they live in the connective tissue of the enterprise—the sprawling, high-stakes spans of the procure-to-pay cycle, demand planning, and the financial close. These are the cross-functional workflows that define the P&L. They require a level of data integrity and oversight that a departmental pilot simply cannot provide.

The governance myth

In the Australian market, governance is too often viewed as a “bolt-on”—a set of rules added at the end of a project to manage risk. For an AI-native enterprise, this is a fundamental architectural error.

To scale AI, you need a clear operating model.

This is the system that defines how AI agents are allowed to share data among departments, how they flag problems for a human to review, and how much authority they gain as they prove they are reliable. Without these shared rules, AI stays restricted to small, isolated tasks. It cannot handle the end-to-end processes that actually improve company margins.

The machine-readability mandate

The shift from a cloud migration to an AI-native strategy requires a different set of questions at the design stage. When rebuilding major process domains—such as asset maintenance or financial consolidation—the objective is no longer just human efficiency. It is machine-readability.

To get this right, leadership must pivot the design criteria:

- **Autonomy by default:** Which decisions can an agent make without human intervention, and where are the hard human-intervention thresholds?
- **Zero-latency data:** Does the underlying ERP provide the real-time signals an agent needs to act, or is the data already stale by the time it reaches the model?
- **Process standardization:** Have we stripped away enough custom exception paths to allow an AI agent to navigate the workflow reliably?

Answering these questions during modernization produces an ERP that is AI-ready on day one. Deferring them produces a platform that will require a costly, complex retrofit almost immediately after “go-live.”

Migration versus modernization

The trajectory for Australian organizations is ambitious: 97% expect to reach fully modernized ERP maturity—cloud-based, enterprise-integrated, and updated to latest ERP versions—by 2028. This represents a massive window for competitive repositioning and a chance to close the gap with global peers.

However, the variable for success is not the migration itself, but the design discipline applied to it. Global experience suggests that organizations treating 2028 as a simple infrastructure deadline risk needing a second, corrective effort to make those systems AI-compatible.

The choice for the Australian C-suite is clear: execute a well-managed infrastructure migration today and pay for the intelligence architecture tomorrow—or build for an AI-native future now and capture a compounding lead.

The objective is no longer just human efficiency. It is machine-readability.

Case study

The ERP overhaul driving Mitsubishi Motors Philippines into its next era³

Mitsubishi Motors Philippines Corporation (MMPC) faced a growing challenge: manual, siloed processes were limiting the company's ability to make informed decisions and respond quickly to market shifts. The pandemic made those constraints impossible to ignore, exposing gaps in visibility across manufacturing, supply chain, and sales operations.

To modernize its core, MMPC embarked on an ERP transformation built around SAP S/4HANA. The effort wasn't just a technical upgrade—it required redefining how key functions operate, including vehicle management, materials management, sales and distribution, finance, and HR. More than 60 custom components were developed to fit the system to MMPC's specific requirements, while integration with assembly line control systems and the nationwide dealer portal created real-time visibility across the entire vehicle lifecycle.

“If our business-critical systems go down, that could cost us millions of dollars per day. By protecting us against unplanned downtime, the project has decreased the risk of these losses dramatically.”

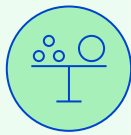
Takeshi Hara, CEO and President, Mitsubishi Motors Philippines Corporation

The operational benefits appeared quickly. Streamlined digital workflows helped minimize the risk of costly unplanned downtime. MMPC is also shifting toward a culture of real-time decision-making. Executive dashboards now replace spreadsheet-driven reporting, giving leaders immediate access to performance data. The company is tightening inventory levels as it works toward an order-to-deliver model and ramping up export capabilities.

Action guide

Four moves that matter

The difference between a technical upgrade and an AI-native transformation is not just the total cost; it is the order of operations. In a traditional linear rollout, the focus is on stabilizing the foundation before addressing specific business outcomes—a sequence that can leave the architecture lagging behind the pace of AI innovation. A leapfrog approach uses parallel sequencing: identifying a high-priority P&L objective and modernize only the specific slice of the core required to achieve it.



Move 1

Close the gap between what you're funding and what your foundation can actually deliver.

Most organizations are funding AI ambition their architecture can't support.

Decide which path you're on—explicitly:

- **Contain AI to what your current ERP can handle** (and stop overspending on scale you can't reach), or
- **Modernize ERP at speed** to support enterprise-wide, agentic workflows

Right now, many organizations are investing in AI scale while operating on fragmented, heavily customized ERP foundations. That is where value disappears.

Use a simple test: If your ERP cannot support consistent definitions (backed by harmonized and reconciled data across systems), cross-domain workflows, and real-time coordination, it cannot support agentic AI at scale.



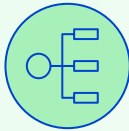
Move 2

Name the P&L leak before you name the ERP modernization vendor.

Modernization fails when it is treated as a software upgrade. It succeeds when it is treated as a P&L intervention. In the Australian market, three specific value pools are chronically strangled by aging cores:

- **Cash-flow drag:** Excessive days sales outstanding (DSO) and delayed financial closes
- **Cost to serve inflation:** A shadow workforce dedicated to manual reconciliation and fragmented handoffs
- **Working capital lock up:** Imprecise inventory signals that trap capital in the supply chain

Identify the two or three pools structurally constrained by your current system. ERP modernization should then be sequenced explicitly around those value pools, with AI use cases designed to amplify them—not layered on later as experiments.



Move 3

Define the rules of autonomy before the first sprint.

The most expensive sequencing error is treating AI as a “Phase Two” add-on. By the time you reach Phase Two, you’ve already built a system that requires human intervention at every step. The discrete action is to bake the requirements for agentic autonomy into the initial design phase.

This means setting three non-negotiable standards before any code is written:

- **Automated decision rights:** Explicitly define which choices—such as supplier selection or credit limit adjustments—an AI agent is authorized to make without human approval.
- **Data velocity requirements:** Mandate that the ERP must provide real-time data streams, not batch processing, so agents can act on live signals rather than yesterday’s news.
- **Human-in-the-loop triggers:** Establish the exact “exception paths” where an agent must hand a process back to a human lead, ensuring governance is a feature, not a patch.

If you don’t build these hooks into the foundation, you aren’t building an AI-native engine; you’re just building a faster version of your current manual processes.



Move 4

Break the pilot wall—build for ERP scale from day one.

Most AI pilots work. They just don't travel well. They're built inside functions, on isolated data, with limited authority—so they stall the moment they hit a real workflow.

Stop treating scale as a second phase. Design for scale upfront by building on ERP data:

- **Start with cross-functional processes** that hit the P&L (e.g., procure-to-pay, financial close).
- **Ensure shared data definitions** and access across domains.
- **Align governance and ERP changes** to support those workflows—not individual use cases.

If a pilot can't move across systems, decisions, and teams, it's not a pilot—it's a demo.

The goal isn't to prove AI works—it's to prove it works at enterprise scale.

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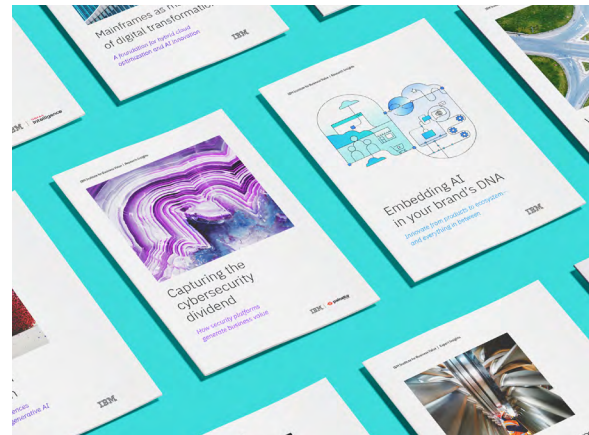
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