ERP: The Buyer's Guide

Introduction

Companies looking to implement an up-to-date, innovative enterprise resource planning (ERP) system must be prepared to sift through a complicated vendor landscape. ERP works by integrating a company's processes and data into a single unified system. Automating and uniting disparate business processes, from managing inventory records to parsing financial data, can drive significant improvements in productivity, customer service and interdepartmental collaboration.

At the same time, today's executives must choose from a staggering number of ERP solutions, ranging from on-premise and feature-rich systems to newer, lesser-known cloud-based alternatives. The trick is making a purchasing decision that meets an organization's budgetary, operational and business processing requirements. After all, ERP implementations are known for carrying a seven-figure price tag and requiring painful multi-year deployments, not to mention scores of high-priced consultants to keep systems up and running. The wrong move can spell financial disaster.

The right move, though, can deliver a number of key benefits. All the more reason organizations must carefully weigh their options when it comes to selecting an ERP system. For starters, the right ERP solution can deliver:

- Better alignment of corporate strategies and business processe
- Improved customer service
- Streamlined supply chain processes
- Better targeted marketing campaigns
- The ability to share data across various departments in an organization
- Enhanced financial tracking and forecasting
- Huge cost savings
- Enhanced productivity with self-service capabilities

These benefits apply to a wide range of industries — including manufacturing, financial management, human capital management, supply chain management, project management and customer relationship management.

So how can a company in the market for an ERP solution make a proper purchasing decision?

This white paper outlines the pros and cons of various delivery models, advises on how to select a solution for the future and discusses some lesser-known roadblocks to a successful ERP implementation.

Weigh the pros and cons of ERP delivery models

Controversy continues to swirl around whether the cost benefits of cloud-based ERP tools trump on-premise solutions' robust feature sets. Here's a breakdown of what you need to know:

The case for on-premise:

On-premise ERP tools are often a perfect fit for large enterprises with heavily manned IT departments. With the right on-staff skills, on-premise ERP grants companies enormous control over their data, eliminating questions of data ownership and control. What's more, companies that own their data and manage it in-house often have fewer concerns about data breaches and security threats. Unlike cloud-based ERP systems from startups, companies need not worry about what might become of their data if a vendor goes under, or becomes part of a merger or acquisition.

Another appealing aspect of on-premise ERP is vendor hand-holding. Step-by-step implementation, employee training, customization – they're all services that are often bundled with the purchase of an ERP system.

From a specifications standpoint, on-premise ERP systems also tend to be less cookie-cutter than their cloud-based counterparts, allowing for rich feature sets and plenty of customization to suit a business's unique requirements.

The case against on-premise:

Costly and time-consuming deployments and aggravating monthly fees are among the chief complaints regarding on-premise ERP systems. A modest-sized IT staff simply won't be able to oversee a hefty ERP deployment, nor will it be able to manage weekly maintenance tasks and repairs. In fact, tackling ERP with limited staff is likely to negatively impact other IT projects and create an enormous backlog of IT activities.

Organizations should also expect a substantial capital outlay when investing in an on-premise ERP system. Upfront costs include servers and additional infrastructure. Because on-premise ERP requires upfront investment, it's not uncommon for capacity to go unused for long stretches of time.

The case for cloud:

There's a strong continuing trend toward more cloud-based ERP solutions. In fact, in 2014 some 87 percent of companies surveyed by Software Advice preferred a cloud-based ERP.

By offering organizations access to business services such as HR, payroll and procurement using an on-demand platform, cloud ERP provides a number of perks. For one, many experts argue that third-party providers such as cloud and SaaS vendors tend to offer solutions that are more secure and reliable than any in-house or proprietary system. In fact, many vendors stake their very reputation on providing fool-proof ERP tools – more than any internal IT group can promise.

Another advantage is cost. A Hurwitz white paper, sponsored by Net Suite, reveals that the primary benefit of switching from on-premise to cloud was reduced costs. The report demonstrates that migrating from on-premise to cloud can replace 35-55 percent.

Cloud ERP's ability to eliminate pain-staking maintenance tasks is another upside for busy IT staff. Backup, hardware fixes, system upgrades – they're all feats performed by the cloud provider, thereby alleviating the burden on in-house IT staff. And thanks to cloud's utility model, organizations need only purchase the licensing and IT infrastructure they need to support current needs with the option of scaling up or down as requirements change over time.

The case against cloud:

Not everyone is singing the praises of cloud ERP. For some, today's newer and untested cloud offerings lack the experience and best practice knowledge built into time-tested on-premise systems. There's the issue of security. Moving anything to the cloud opens companies up to the inherent security risks of cloud computing.

However, if cost is a primary motivating factor, as it often is, then it's easy to understand why some organizations might be reluctant to embrace the cloud. Despite widespread marketing buzz and industry hype, some experts argue that the cloud simply isn't delivering cost savings as advertised. What's more, even cheaper options are arising with open source software. Codeless and model-driven, today's open source ERP solutions promise to integrate accounting, sales, procurement and project management at a fraction of the cost of traditional and cloud-based ERP systems. Again, in-house expertise will be needed to manage and monitor an open source ERP system.

Select a Future-Proof Solution

Trend 1: Mobile

Because ERP solutions tend to be pricey, it's important that organizations purchase solutions that are relatively future-proof. One trend ushering in a new generation of ERP tools is mobile technology. Studies suggest that enterprise mobile workers already make up 73 percent of the workforce. That's all the more reason to select an ERP solution that provides remote access to its database and processes.

By granting this remote access, employees such as field salespeople can enjoy up-to-the-minute information on everything from product pricing to shipping updates – details that can significantly enhance customer service and generate on-the-spot upsell opportunities.

But that's not all. Because ERP systems can be integrated with human capital management modules, employees can update their work schedules, manage benefits packages and submit expense reports with the push of a button, all from a remote location.

The Internet of Things is also driving a greater need for mobile ERP. These days, a growing number of manufacturers rely on sensors to send real-time alerts in the event of a machine breakdown or hardware malfunction. By allowing plant workers to receive alerts via a smartphone or tablet, mobile ERP helps improve troubleshooting, minimizes production delays and lets employees respond to emerging issues before they become full-fledged crises.

Trend 2: Data analytics

Big data is impacting all types of technologies and ERP is certainly no exception. Many companies make the mistake of storing data in disparate silos. Fortunately, an ERP system with data analytics capabilities can help by integrating data across multiple platforms and systems. The result is a single, unified snapshot of an organization's entire data repository.

From there, this data can be mined for business-critical insights. For example, a company may examine the real-time sales data of one product to predict future demand for a similar product in another region of the country. Or a company may be able to connect payroll system glitches with poor employee performance – insights that can lead to improved sales and lower attrition rates.

Trend 3: Wearable technology

Gartner has predicted that there will be 3 billion wearable sensors on the market by 2025. And according to a recent study by the University of London, wearable technology can improve employee productivity by as much as 8.5 percent while enhancing job satisfaction by 3.5 percent.

It's no wonder then that vendors are looking to unite the worlds of ERP and wearable technology. Rather than turn to smartphones and tablets, manufacturing professionals will be able to see and act on live data and shop floor transactions hands-free for faster and more efficient decision-making.

Create a Contingency Plan

No amount of careful selection, planning or research can truly prepare a company for an ERP deployment. A number of factors, including size of business, can affect the cost, which can run from $50,000 to $5 million according to Easy ERP.

Here are just a handful of variables that can drive up costs, and what companies need to do to avoid paying them.

Change management

ERP projects impact every aspect of a business, from sales and marketing to inventory and merchandising. Consequently, companies that neglect to prep their employees for these enterprise-wide transformations are likely to encounter resistance.

To avoid such gridlock, organizations would be wise to adopt a formal change management strategy. This includes investing in employee training, systems integration and customization in order to reap real value from an ERP implementation. What's more, there are countless change management tools and OCM (Organization Change Management) methodologies to choose from. Finally, gamification can help make change management fun by giving employees achievement badges and small financial rewards in exchange for ERP adoption.

Technical headaches

Ensuring an ERP system's various parts are tightly integrated with all other business-critical applications, including office productivity suites, is critical to deriving real business value from a solution. Data must also be integrated across multiple systems, especially if an organization plans to add data analytics capabilities. System maintenance can also either make or break an ERP system.

For some, the answer is taking a modular approach to system building. Rather than attempting to tackle an enterprise-wide, sweeping ERP solution, some experts recommend adding ERP modules over time for a more

ROI realities

Forget the hype surrounding cloud-based ERP solutions. Like it or not, there's no such thing as an immediate return on investment when it comes to ERP. While it's true that cloud-based solutions can be a lot less costly at the start, ongoing, recurring subscription fees can make it harder to break even as the years go by.

Skills required

Deploying and managing an ERP system takes that rare combination of technical savvy and business acumen. As a result, many companies are surprised to discover that they lack the in-house expertise needed to manage an ERP system. A cloud-based tool can certainly ease the burden but companies should still count on having to configure the software and train people on the system. In either instance, an IT consultant can help by making sure an implementation is completed on time and on budget. Just remember that these consultants tend to command higher rates and will always have the vendor's interest top of mind.