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# ERP: A Layman's Guide

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## Introduction

Financially crippling, highly publicized ERP disasters are now legendary. From consumer goods giant Nestle SA's six-year, \$200-million failed ERP implementation to Waste Management's \$100 million lawsuit against ERP provider SAP for a blundered ERP deployment – these stories are enough to scare away even the bravest CIO.

The statistics are equally as frightening. According to Panorama Consulting Solution's 2013 ERP Report, over the past four years, the average cost of an ERP implementation has been \$7.3 million and the average duration has been 16.6 months. Over this time, approximately 59% of projects have exceeded their planned budgets, 53% have exceeded their planned durations and 56% have received less than 50 percent of the measurable benefits they anticipated from their ERP software initiatives.

Yet, if deployed and executed properly, ERP still promises to deliver bottom line-boosting benefits. Some of these include:

- Better alignment of corporate strategies and business processes
- 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

This layman's guide to ERP discusses how various industries, trends, challenges and new tools are reshaping the ERP landscape and what you can do to ensure ERP success in your organization.

## **Deciding by Industry**

There's a common perception that ERP comes in three key flavors: on premise, software-as-a-service and cloud. But while there are various delivery models for ERP, the reality is a solution's features and functionalities are more likely to differ based on industry. Here's a breakdown of how some of today's top industries are leveraging ERP:

### **Manufacturing**

By helping manufacturers align their manufacturing and inventory processes, an ERP manufacturing module delivers a number benefits, including:

- Cost reductions through efficient inventory management
- Detailed reports on business critical-inventory information
- A streamlined production process with established goals
- Accelerated production cycles

Helping to drive these benefits are key functions including engineering, workflow management and quality control. But while these functions deliver plenty of valuable real-time data, experts suggest that manufacturers use this information to drive a better customer experience. In fact, according to a recent IDC Manufacturing Insights report sponsored by Epicor Software Corp., there are barriers between high-tech manufacturing companies not utilizing modern ERP to deliver an enhanced customer experience and those that are. Forty-five percent of survey respondents report that the main barrier to creating customer experience has to do with lack of back-office/front-office integration in the organization. Yet nearly 35% of high tech manufacturers believe their ERP is vital as the platform for customer experience that connects back-office and front-office.

### **Financial management**

An ERP system with a strong financial module can ensure companies meet financial reporting and tax requirements with a single accounting, banking and payment systems. But that's not all. Managers can enhance financial performance with real-time information on their department's expenses and revenue contributions. What's more, a financial management module can help improve cash flow, lower costs, and increase profitability while maintaining more accurate, timely, and transparent financial reporting.

### **Human Capital Management**

Long gone are the days when ERP HR modules revolved around core processes such as employee administration, payroll and legal reporting. More modern solutions feature modules for resource, workforce and talent management. Scheduling, time and attendance, performance support, recruitment, employee performance, competency management – they're

only a handful features companies should look for in an ERP system. Reporting and analysis tools also provide customized insight into common HR processes. And Web-based tools grant HR managers remote access to important employee information and HR procedures while traveling from branch to branch.

### **Supply Chain Management**

The right SCM-centric ERP tool can help companies better monitor demand, supply, manufacturing status, logistics and distribution. For example, finding critical information, such as the location of a product's key components, and promptly sharing this information with supply partners, can have a significant impact on a company's supply chain. An ERP supply chain management module aids in all supply chain processes, from design, planning and procurement to manufacturing and fulfillment.

### **Project Management**

An ERP project management module removes the guesswork from project-related activities so that companies can select the best projects, assign the proper resources, streamline delivery efforts and track profitability. No longer can companies afford to estimate project costs and overall project performance. By facilitating change management, time and expense reporting and billing and collecting payment activities, an ERP project management module creates a snapshot of the entire project lifecycle in order to accurately assess project performance and profitability.

### **Customer Relationship Management**

CRM-related ERP tools can help chief marketing officers perform a number of tasks, from better managing invoicing activities to monitoring the status of contracts. Whatever the job, a customer relationship management module helps bring data together to enable salespeople and marketing planners alike to better address customer needs, preferences and buying patterns.

### **ERP Trends**

When it comes to selecting a delivery model for ERP, the good news is costly on-premise ERP systems and traditional licensing paradigms appear to be a thing of the past. Rather, these days, many companies are opting to go with either a software-as-a-service (SaaS) model, which offers companies access to business services such as HR, payroll, procurement using an on-demand platform, or cloud ERP, which tends to be hosted and managed offsite.

In fact, according to a September 2013 Gartner Research Circle survey, half the organizations surveyed plan to move core ERP systems to the cloud.

But while SaaS and cloud delivery models promise to rid ERP of costly and time-consuming deployments and aggravating monthly fees for once and for all, analysts are cautioning companies of serious risks, including:

- Reduced administrative and operational functionality as a result of confining a solution to a single domain, such as salesforce automation, or a single business process, like payroll.
- A lack of experience and best practice knowledge baked into newer and untested cloud and SaaS offerings.
- Less scalability and flexibility in SaaS solutions versus their larger counterparts.

No wonder a recent Panorama study reveals that a mere 18% of respondents indicated that any part of their ERP system was hosted in the cloud. Reasons for holding off on reaching for the cloud include risk of security breaches (32%), lack of information or knowledge about market offerings (32%), and risk of data loss (17%).

Nevertheless, 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.

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, 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. Just be sure your company has the in-house expertise needed to manage and monitor an open source ERP system.

Another trend permeating the ERP landscape is mobile functionality. 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. In fact, an ERP system with mobile functionality lets workers access a software program that allows a mobile device, from a Tablet PC to an iPhone, connect to the ERP system. By granting remote access, companies can ensure their employees have up-to-the-minute information on everything from product pricing to transportation services.

### **The Risks and Rewards**

ERP systems come packed with challenges. Among them: complex interfaces, layers of configuration and robust capabilities. Unfortunately, the higher-end the system, the greater the obstacles. Here's a checklist of what you have to prepare for:

### **Poor interoperability**

It's not uncommon for an organization to have to extend or bolt on additional systems to satisfy the unique aspects of their business that are not addressed by their ERP system. For example, a retailer may rely on a particular ERP solution for its payroll activities but turn to a third-party application to process supply chain management issues. To prevent interoperability from rearing its ugly head, it's wise for companies to first inquire about a particular ERP system's degree of interoperability.

### **Integration headaches**

Whether you're migrating legacy data into a new ERP system or adding a third-party application to an existing one, there's no denying the integration issues that accompany many ERP deployments. Yet making sure all modules are tightly integrated with all other business-critical applications, including office productivity suites, is critical to deriving real business value from a solution. Answers to this problem range from concealing an ERP system behind front-office applications to driving greater adoption among employees.

### **A lack of expertise**

Deploying and managing an ERP system takes that rare combination of technical savvy and business acumen. Which is precisely why so many companies turn to systems integrators and IT consultants for help. Unlike resource-strapped internal IT departments, outside consultants boast specialized expertise and are committed to making sure an implementation is completed on time and on budget.

There are, however, a few things to know about bringing an ERP consultant on board. For one, an ERP vendor may try to convince you to retain its IT consulting services but remember that these consultants tend to command higher rates and will always have the vendor's interest top of mind.

What's more, external assistance doesn't absolve companies from having to step up to the plate and ensure a smooth ERP implementation and data integration process. In-house project management practices are still critical to avoiding project delays and other roadblocks.

The right consultant, though, can help an organization save an enormous amount of money. For starters, they know how to negotiate a lower product rate for their clients during the software selection process. And, of course, it never hurts to hear an objective opinion about an ERP project before making a purchase.

### **Costly system maintenance**

ERP success isn't defined by simply selecting the right solution and ensuring a hassle-free deployment. System maintenance can have a huge bearing on a project's success. Consider this: a study conducted by research firm YouGov reveals that the single most prevalent reason

companies change their ERP system is the time and money spent on system maintenance, with 36 percent of the poll's 531 respondents reporting this choice. 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 manageable system.

To be sure, every ERP implementation comes with its own set of risks. But a seven-figure price tag and a painful multi-year deployment don't have to be part of the package. By developing an in-depth understanding of the technology, its benefits and its risks, every organization can achieve ERP success.