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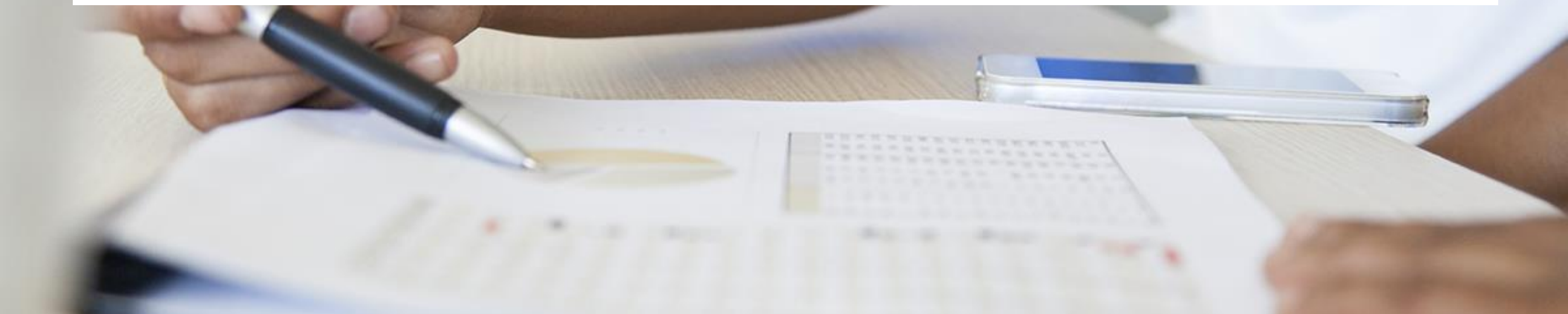
Buying ERP: Requirements, Use Cases,Features

Right-sizing an ERP system to your organization



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In this e-guide:

ERP allows companies to connect business activities across departments, ensuring that all employees are working with the same data and within the same processes. As idyllic as that sounds, the reality is that implementation of ERP software is a daunting task and often goes awry.

ERP systems are complex and often comprised of the following components: finance, human capital management (HCM), purchasing/procurement, business intelligence and customer relationship management (CRM) modules.

This guide is designed to make the process of ERP software selection less daunting. And if you can select the right system and vendor, implementation is more likely to go smoothly. It helps you determine your enterprise's need and core objectives, discusses the key features to look at when selecting an ERP software suite and analyzes the top ERP systems to best match up your needs to the software's functions.

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Before implementing ERP, understand its many components

Mary Shacklett, Transworld Data

ERP systems have numerous components, functions and ways to be deployed. Expert Mary Shacklett explains the ins and outs of implementing ERP.

Enterprise resource planning (ERP) is a suite of integrated applications that a company uses to connect its business activities across departments so that everyone is working with the same data and processes. Companies can use it to streamline and improve the efficiency of their operations, which saves time and money. In the course of implementing ERP, companies can also standardize and automate many business processes, which eliminates manual time and effort.

The ERP tools that a company selects often depend upon the specific business processes it wants to improve, and also upon whether it is selling products or services. Businesses that sell products often have manufacturing, supply chain and distribution functions that the ERP system must address. For organizations that sell services, ERP capabilities such as

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project management for service engagements and support for field services and sales operations are very important.

Common ERP software components

Despite the wide variability in company needs for ERP, there is a core set of ERP components that most companies want:

Finance

Companies want to record, track and consolidate all of their sales and operational information in a central accounting system. ERP financial software delivers this capability with centralized general ledger, accounts receivable, accounts payable and payroll systems.

HR

ERP offers a centralized HR system that enables organizations to track personnel hours and employee performance evaluations across the organization, as well as administer benefits and manage talent and staff development.

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Purchasing/procurement

ERP purchasing software streamlines the procurement process from purchase-order issuance and vendor management to payments and reporting. ERP purchasing software also has the ability to automatically route approvals of purchase orders and payments to the appropriate corporate decision makers.

Business intelligence

Organizations increasingly want data analytics that enable them to assess and act on information about the business. To facilitate this, ERP vendors provide pre-designed reports that companies use to assess business sales and operations, along with the ability to perform data mining and to develop custom reporting.

Customer relationship management

The ERP CRM application is a centralized repository of customer information that customer-facing organizations across the company can use and access. It includes information about company interactions with prospects, customers, clients and partners, and can track all of these interactions across marketing, sales, service and any other customer-facing department. ERP CRM includes sales force reporting, tracking and automation, marketing, service and support.

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ERP software for product-oriented companies

While the below components are still core to ERP, they cater more to companies with specific needs, such as product-oriented companies.

Supply chain

An ERP system that encompasses not only the company's internal operations, but the operations of supply chain business partners and suppliers in the production of goods from raw materials, inventory and supplies gives companies much-needed visibility into their manufacturing processes.

Distribution/warehousing

ERP distribution and warehousing systems employ automation that enables the company's customer-facing sales force to link customer quotes and orders directly into back-office inventory management, fulfillment and accounting systems. This ensures that orders are filled in a timely manner. Many ERP distribution systems also include comprehensive warehouse management functions that ensure that inventory in warehouses is optimized to meet the company's supply chain requirements.

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Inventory

An inventory management system optimizes inventory stocking and consumption and provides for both manual and automatic inventory forecasting. Companies can set order policies for individual parts and assemblies. The software also issues reports on inventory exception and potential oversupply conditions, and has the ability to track inventory across multiple locations.

Implementing ERP for service management and one-off projects

Other types of companies that need ERP are service management and one-off project companies. There are core components that focus on these traits as well.

One-off project management

Comprehensive project management that includes multilevel work breakdown structures for projects, project resource scheduling and bid and contract management are available in ERP project management software. This software also gives visibility into all resources being consumed in the project (e.g., assets, inventory, materials and labor), and it enables accurate and timely billing of project costs throughout the project's lifecycle.

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Companies can track project profitability and control margins as a project is being performed, enabling managers to fine-tune project performance and ensure that key performance indicators are met.

Service management

Service management ERP offers optimization, tracking and management of professional services, and is often used by professional service organizations and companies with billable field service functions. This software can also evaluate customer satisfaction levels and service-level agreement, warranty and contract performance.

How ERP software is sold

Companies can purchase ERP software as a comprehensive suite or as a smaller suite that might encompass only financial systems or only financial and manufacturing systems. Companies can also purchase a total ERP system that is specifically designed to meet the needs of a particular industry vertical, like construction or the food and beverage industry.

ERP is also offered in different implementation styles. A company can buy ERP software that corporate IT runs on-premises in the company data center. Alternatively, a company can subscribe to ERP that's run as a service in the vendor's cloud or it can opt to have an ERP system that the vendor or

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a partner hosts, but that corporate IT has some control over. In other cases, companies adopt a "hybrid" approach to ERP, electing to have some systems in-house and others in the cloud.

What companies want from ERP today

Because the ERP system offers a single repository for company-wide data that is accessible to everyone, the risks associated with working with disparate systems and data -- like the potential for error or duplicating business functions in different departments -- can be reduced.

Large enterprises in particular have many different systems that have been independently installed by departments -- and they want to implement a single ERP system that takes the place of these earlier systems and that can also get rid of the operational inefficiencies and time delays that have developed through the years.

Mid-sized companies want these advantages, too -- but they also want a way to level the playing field with their larger enterprise competitors. These companies may want to select an ERP system that can be scaled out to cover more organization business processes as a company grows.

With cloud-based ERP offerings, even small companies can afford an ERP system that instantly brings more efficient business processes into their

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organizations, which often lack the internal resources or expertise to institute the software.

Finally, many large-, medium- and small-sized companies look for ERP that is specialized to the needs and requirements of their particular industries. There are several ERP vendors that provide this industry vertical specialization.

The challenges of implementing ERP

The challenge for companies implementing ERP software is to choose a system from among the wide variety of options in the marketplace that best matches their business needs and user expectations.

An ERP system must fit well with the company's existing operations and systems -- and it must also be able to deliver on key performance and profitability goals that the company's existing systems can't deliver on. This is a tall order -- and it is also the reason why ERP has a higher failure rate than any other software. It can be a career-ending project for many managers if an ERP installation doesn't go well.

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For an ERP decision maker, whether it is an internal ERP champion/user, a CFO, a COO, a VP of manufacturing or someone else, this means that it is important to find an ERP partner that is as capable of working with you on system installation, integration, consultation, training and support as it is in delivering a new ERP system.

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ERP software selection: Is ERP right for you?

Mary E. Shacklett, Transworld Data

Knowing whether or not you need ERP is the first step in making the right vendor choice. Here are several use cases that showcase how ERP software can work for your organization.

If your company is experiencing issues with disparate data, operational inefficiencies and time lag, then it is a good time to consider purchasing an ERP system. Other telltale signs that a company needs ERP include an excessive need for manual labor and intervention with existing business processes; difficulty reconciling financials; hardships coordinating sales, inventory, manufacturing and order fulfillment; difficulty extracting meaningful business information out of your systems; and high demands on IT for maintenance and system integration.

Beyond the previously mentioned issues, there are other factors to consider when starting the ERP software selection process. This article presents several use cases that can help you determine if ERP is the right fit for your organization.

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Finding the right ERP software

There are few areas of commercial software with more software variability than ERP. This gives businesses enormous flexibility in their ERP options, but it also makes ERP software selection more difficult, since there are so many ERP choices.

The previous article in this series went into further detail about what ERP is, what its many components are (finance, human resources, supply chain, manufacturing, among others), and the different ways ERP can be deployed (i.e., on-premises, cloud or both).

Knowing your company's product, IT and operational infrastructure and goals is paramount in deciding if ERP is right for it. Here are several common business scenarios that showcase how ERP could be the software a company is looking for.

Common use cases for ERP

A small company wants to improve its business processes, eliminate the cost of multiple systems and improve operational efficiencies, so it chooses a cloud-based ERP software that enables it to replace systems and avoid making new capital investments into ERP hardware and software for its data

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center. Instead, the cloud vendor has the ERP hardware and software that the company pays for in a monthly subscription.

A company in a highly specialized industry (e.g., food and beverage) wants ERP that is tailored to its specific business needs and pressures, so it uses an ERP system that is specifically designed for its industry. The specialized ERP saves the company time in adapting the ERP system to its business environment, and also provides operational best practices.

A large enterprise has an on-premises ERP system for its own internal processes but needs a quick way to onboard new global business offices and newly acquired subsidiaries to this system, so it uses a two-tier ERP approach that features a cloud-based ERP version of its system (or compatible software from a different vendor) with localization capability for the remote sites and new businesses in different countries. Over time, the company can elect whether to migrate these remote offices over to its on-premises version of ERP, or to migrate corporate over to the cloud-based version of the ERP.

A manufacturer seeks integration of its manufacturing processes, and starts with material requirements planning-style ERP that can solve its integration issues of tracking orders, beginning with order placement and origination and then processing these orders all the way through the operations of manufacturing, distribution/delivery and order fulfillment and payment. The

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company also wants to get rid of the data discrepancies and software licensing costs from using disparate systems for each function.

A company that does all of its work for customers on a per project basis wants an ERP system that can track all activities, resources and costs for every project, with additional ability to predict project overruns or resource constraints. This type of company would look for a project-oriented ERP that offers end-to-end visibility and tracking of all project activities.

A professional services organization wants to better coordinate its finance, sales and operations, and it also wants to reduce errors and operational miscues by ensuring that everyone is using the same data. The company opts for a service-oriented ERP system that can track service engagements and record activities, resource consumption and costs as they occur.

A medium-sized company wants to expand ERP for better analytics to improve its operational efficiencies, so it decides to add a business intelligence component to its ERP system.

Another midsize company wants to shorten its financial close cycles and improve accounting accuracy, so it chooses an ERP suite with strong financials.

A small company has a customer relationship management (CRM) system in place for its sales and marketing, but then decides that it also needs

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systems for functions like accounting and operations. The company looks for an ERP system that can address new business processes and is also compatible with its existing CRM system.

Another consideration is that a company's initial goal may be to start with only an individual component of ERP, like CRM. Some of these systems are easier to expand into a full ERP suite than others, should the company choose to cover more of its operations with ERP functionality at a later date. Because of this, the flexibility and scalability of an initial ERP software selection should be carefully considered, even if a company initially does not need all of the functions.

Finding the right vendor

ERP systems are complex, and complexity increases the risks for implementations. For this reason, getting the right business partners or integrators to help you with your ERP implementation is as important as selecting the right system.

ERP choices and vendors are varied, so it can be easy to be drawn off course from your goals. Make every effort to ensure that you keep sight of your company's goals and always be aware of how your company is structured and how it functions and you will be well on your way to a successful ERP implementation.

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Know your ERP requirements before buying

Mary E. Shacklett, Transworld Data

When considering an ERP system, make sure the training, scalability and performance of the vendor address your company's needs.

Before buying ERP software, you and your organization should understand the business needs that you want the system to address. Once you have nailed down your ERP requirements, you can look for products and vendors that meet those needs.

You need an ERP system to knit together the business processes of your organization. But you may need an ERP that is tightly focused and addresses your immediate needs, but has the ability to expand later should you need more modules. Or you may need it to manage projects individually. Or you could be looking for an ERP system that can be employed globally. There are many kinds of ERP requirements.

Regardless of which ERP scenario you find yourself in, though, it is important to find an ERP system that is able to meet the performance expectations that you and your internal stakeholders have. The process of

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implementing and integrating a new ERP system should also be as straightforward as possible. The second step in finding the right ERP system is assessing the product. This article covers the main elements that comprise a strong request for proposal (RFP) for ERP software to guide you in identifying ERP requirements and making the best decision for your organization.

1. What kind of ERP software does your company need?

You should understand the business drivers for ERP in your own organization and include these requirements in your RFP. In some cases, companies just want centralized finance and HR systems. In other cases, companies are in unique industry verticals, so they want ERP systems that are tailored to these verticals. Still other companies want project- or service-oriented ERP. There are so many different company needs ERP can address. This is why tightly focusing your RFP on your own organization's business objectives is critical.

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2. Does your company want a scalable ERP solution?

Your company might not think that it needs a full-blown ERP suite today, but if it experiences success with ERP, there is a high likelihood that it will want to expand ERP into other operational areas. This is where scalability becomes important. If the ERP system that you are considering excels at financials, also check if the vendor has other ERP components that can be added for new company functions at a later date. If it doesn't, investigate if its system is compatible with other ERP offerings in the marketplace.

ERP scaling should also be looked at from the standpoint of price. You need to know if the ERP system can scale efficiently to the functionality you add or subtract. Some vendors are priced on a per module basis, others on per user seats. You should only procure an ERP system where you're paying for what you're using.

Users and performance can also be scaled and should also be considered if you're planning to grow your business. The ERP system will need to accommodate new users and locations without a loss of performance.

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3. What support does the vendor provide?

Since ERP systems have historically high risk rates, it is vital to choose a vendor that has a proven record of ERP implementation, training and support success.

Operationally, you want to minimize the pain points of system adoption. How you achieve this can depend upon whether you choose to do a "big bang," which is an all-at-once cutover to a full suite of ERP, or if you plan to do a phased approach to ERP. A phased ERP implementation is the least risky (and the preferred method) of ERP adoption. Ask a vendor about their implementation options and who is going to run the implementation project: you, the vendor or both.

Assess the strengths of the end user and IT training your vendor or its implementation partner has and whether there is a dedicated training staff. A well-orchestrated vendor training program is flexible and comprehensive. It offers both live and online training, and both introductory and continuing education. Some vendors even provide training resources that are targeted for specific roles and jobs in your organization.

Lastly, the role of software usability in ERP adoption should not be overlooked. The easier the software is to use and to understand, the more your users will welcome it.

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The ERP vendors that you interview should be able to furnish long lists of customer references from which to choose. A large list helps to assure that the vendor hasn't handpicked the references. When you're speaking with these references, specifically ask them how the ERP implementation, training and ongoing support were; it will help cut undesirable vendors out of the picture immediately.

4. What system performance metrics do you expect from the vendor?

Purchasing an ERP system is a long-term corporate investment, so your ERP vendor should be a business partner capable of providing not only the aforementioned implementation support but ongoing support and maintenance. You should also understand the level of internal IT support you will be expected to provide, what your vendor will do and how this collaborative support will work.

If your company will be using ERP in different countries, you should investigate the level of the ERP vendor's local support in these countries, which can vary widely.

Finally, the ERP vendor's service level agreements for mean time to repair, mean time to response, and disaster recovery should match or exceed your

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own. Vendors with cloud-based ERP offerings should own and run their own data centers.

5. Will the ERP vendor be a strong business partner?

A strong ERP business partner should have a solid footing in your industry and should be aware of the industry pressures your company operates under. Ask each vendor for a financial statement and also a complete set of the latest audit and security reviews from third-party evaluators to gauge its long-term viability and risk profile. The ERP industry is prone to the same company and product consolidation pressures that other commercial software is. Because of this, you should assess whether the vendor is likely to be acquired or if it is likely to be an acquirer of new companies, since this could affect the long-term viability of your ERP system and whether it will continue to be supported to the degree the vendor promised.

On top of a financial statement, the vendor should be willing to share its ERP product roadmap, as you want to make sure that new product enhancements will support future operational improvements that your company wants to make. Ask the vendor how often it enhances its software, at what frequency enhancements are made, and whether you have to accept the updates or if you can you choose when to implement them.

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Some vendors offer additional support and troubleshooting with new software releases, with many allowing you to test the new software before installing it. Finally, you should assess whether, as a customer, you will have input into the vendor's software development process. See if the vendor has user conferences, a formal enhancement request process, a user council, or any other way to provide feedback and suggestions.

6. What are the ERP software's pricing and ROI?

As always, a main component of your RFP is price. Most vendors offer outright purchase or licensing of an entire suite or individual modules, or cloud-based subscriptions based on use or a flat monthly fee. Some vendors offer discounts to get the sale, but there are usually conditions attached, such as a minimum three- to five-year term for a software license. If internal financing for the system is difficult, ask the vendor if it has a financing or leasing option that can assist you.

A second element of financing is the return on investment (ROI) for the ERP system. Your CFO will want to see this. Vendors are aware of this, so most will give you an ROI formula for their software and even offer to run your organization's numbers against it. However, it is recommended that you and your internal stakeholders can identify your own key performance indicators and develop your own ROI calculations and assessments.

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Making the best decision

Once you've determined what your company's specific ERP requirements are, you are ready to review the leading ERP products that best fit your business situation. Since there are many different styles and vendors of ERP software, a strong RFP that captures your company's business needs can ensure that you stay on course with meeting these needs.

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What's the best ERP software for your organization?

Mary E. Shacklett, Transworld Data

ERP vendors' offerings come in many different flavors. Match them with these typical use cases.

ERP systems come in many different forms, so it is important to find the best ERP software to help you achieve your business goals and optimize your systems and processes. Since ERP is one of the most difficult systems to implement because of its end-to-end impact on corporate systems and operations, the success of your ERP implementation becomes as important as the ERP system itself.

Not every company is the same. Choosing the right system isn't just a matter of looking at the features and offerings of different vendors. It's a matter of looking at those features and seeing how they best fit your company. While every ERP vendor has essentially the same functions, each one caters to certain industries and company types. Here are several common ERP use scenarios one might find themselves in and the products that might help resolve issues and achieve goals.

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Limited internal resources

A company has limited internal resources, and wants an ERP system that already has features and functions that are attuned to its industry.

Infor, Epicor, Microsoft Dynamics AX and Oracle JD Edwards all offer industry verticalizations of their ERP software, so a good place to start is by checking out the specialties of each vendor. Infor has a strong reputation in ERP for process and discrete manufacturing, distribution, food and beverage, and consumer goods. Epicor supports all modes of manufacturing and distribution organizations, and also companies in the retail and service industries. Microsoft Dynamics AX supports manufacturing, distribution, services, and public sector organizations, but has particular strength in the retail/e-commerce industry. Oracle JD Edwards has industry vertical offerings in consumer packaged goods, manufacturing, companies that are asset-intensive and must track their assets through asset lifecycles, and projects and services industries. If your internal resources are constrained, it is equally important to check out the vendor's support network and resources in ERP planning, implementation, training and ongoing technical support. You might also consider a cloud-based ERP system so you can avoid purchasing hardware and software.

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Midsize international operations

A midsize business has international operations and needs an economical way of handling the financial, taxation and compliance requirements in the different countries that it operates.

In this case, a cloud-based ERP that relieves your company of investing in on-premises software and hardware might be a great approach. NetSuite OneWorld is a cloud-based offering with a "sweet spot" in financial and compliance software. OneWorld supports financial, currency, taxation, and compliance functionality and reporting in over 160 countries, and has the ability to roll all of these different finance localizations into a single, consolidated financial statement for a global organization. NetSuite OneWorld has optional modules for customer relationship management and e-commerce, so if you start with the financials, you can always extend into these other systems later.

If you are anticipating rapid and continuing growth for your company, another option is Sage 100. Like NetSuite, Sage has an established reputation for strong financial software in multiple countries. Sage offers both on-premises and cloud-based systems, and the systems are scalable into a more robust accounting version of Sage (Sage 300), or even to

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enterprise strength (Sage 500), which offers a fuller integration of the financials with manufacturing operations.

Internal ERP business and IT experts

A large enterprise has a core of internal ERP business and IT experts, and it wants the ability to configure ERP to its business without having to take on the risk of developing its own customizations.

You might want to consider an ERP suite that offers a broad spectrum of pick-and-choose modules and functionality so you can build your own ERP package. SAP Business Suite ERP is a strong choice in this case. It offers over 80 different modules that can be configured into a suite for a specific business. Clients can also choose how they want new ERP enhancements delivered -- continuously, quarterly or by major software release.

Acquiring other companies

A large enterprise has an ERP system and is actively engaged in acquiring other companies.

The acquired companies must be onboarded to your company's ERP, so one option is to bring them all into the existing on-premises system.

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Unfortunately, continuous integrations of this nature can prove costly, risky and labor-intensive. An alternative is a two-tier ERP strategy where corporate continues to run its on-premises ERP, and the newly acquired companies get a cloud-based version of the system or of another brand that can integrate with headquarters ERP. This cloud-based version can either be cloud-hosted (your own staff or the hosting provider manages the system in the cloud), or software as a service (SaaS), where the vendor runs a shared system for you. Epicor, Microsoft, SAP, Oracle JD Edwards/PeopleSoft, Sage and Infor all offer ERP in both on-premises and cloud-based versions.

Multination organization

Your company is multinational, and needs an ERP that can support business operations in multiple countries.

Most ERP vendors can localize their ERP systems to support different languages and currencies, so a more important question to ask vendors might be what are their resources for supporting ERP in multiple geographies. Both Oracle (JD Edwards and PeopleSoft) and SAP (Business Suite) have extensive global consulting and support networks and technical support. Another option is Epicor, which hosts tech and application support centers around the world, delivering support in 20 languages. You could also

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consider a SaaS version of ERP if your organization is multinational, because SaaS can provide consulting support in addition to software.

Monitor service activities

A service organization wants ERP to monitor its service activities and tie them into central administrative systems like finance and human capital management (HCM).

There are ERP systems that can monitor people and service performance internally, in the field and on service contracts. Oracle PeopleSoft's sweet spot is HCM (or human resources), and comes with functionality that supports activity and project tracking and resource monitoring. The system is particularly adept at assessing how well your company's human resources are being utilized. Epicor has ERP that supports in-field workforces, as well as functionality that supports the end-to-end professional services cycle -- from winning a contract, to staffing and managing projects, managing deliverables and tying back into financials. Another ERP option with field service functions is Infor's SyteLine ERP.

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Project-centric companies

A midsize company wants an ERP system that can support business processes in a one-off project environment.

There are ERP systems designed for project-centric companies. SAP Business Suite has a commercial project management option, as does Epicor, which has functionality for planning and executing single and multi-phase projects with project costing and billing guidelines. Microsoft Dynamics AX can track projects and match them to contracts and purchase orders. Sage has particularly strong ERP offerings for large enterprises engaged in the construction industry.

The key to selecting the best ERP software for your company is to first understand your company's business model, goals and business processes. It is equally important to have a good sense of how flexible IT and business users will be in adapting to change, because the installation of any ERP system brings about change, which people may find uncomfortable. Your ERP partner should be able to meet your company's present and future business and IT needs, but it should also have strong ERP implementation, training and consulting resources. ERP is one system where people factors are as important as process and IT factors. Your ERP vendor should be able to deliver value in all of these areas.

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