Building the Business Case for ERP

5 Keys to ERP

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Abstract

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Executive Summary

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The World Series cannot be won by throwing nine random players onto a field. Putting together a winning team involves research, planning, and investment. For distributors and wholesalers, the same holds true in the case of Enterprise Resource Planning (ERP) software. Before implementing a solution responsible for growing company-wide productivity and profitability, an effective business case must first be developed.

Properly building a business case for ERP software investment can be challenging without first understanding the fundamentals of ERP. At its core, ERP is a process by which wholesalers or distributors manage data and integrate key business functionality to improve productivity, eliminate waste, and promote growth. Common features of ERP include accounting, CRM, purchasing, sales orders, shipping, and warehousing.

While ERP will prove to be a valuable driver of long-term success, companies need to follow a careful process to ensure ERP is a good fit for them. The following **5 Keys to ERP** provide an overview of the steps necessary for smart software investment:
- Describe the Current Challenges
- Document the Operational Flow of every Segment of the Business
- Assess the Benefits, Costs, and Risks of ERP Investment
- Evaluate ERP Options
- Outline Plans for Implementation and Growth

ERP Key 1: Describe the Current Challenges

With critical data scattered across far flung filing cabinets, spreadsheets, and laptops, companies devote too many resources to collecting the data necessary for evaluating signifiers of business health like product success, market expansion, inventory turnover, etc. ERP software is designed to work across departmental boundaries to not only expand data accessibility but also boost operational performance, control expenses, and increase profitability through gains in production, accuracy, and customer relations. While any business would welcome such company-wide operational enhancements, the biggest challenge of ERP can be "selling" the actual need to those inside the company.
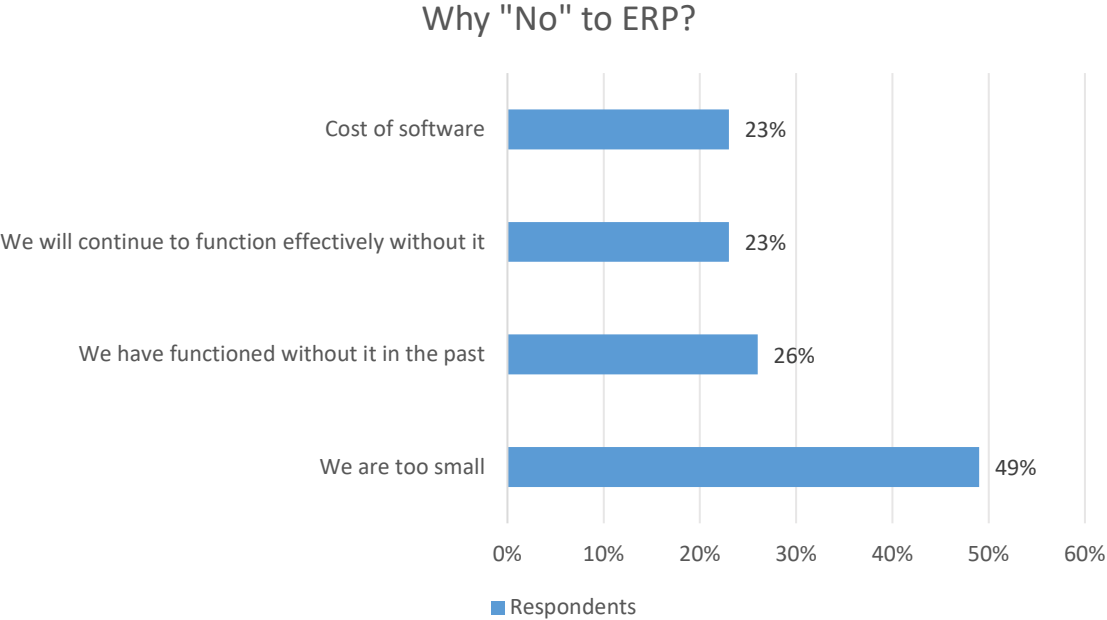
A 2016 Enterprise Solution Study by Mint Jutras revealed that 86%[1] of respondents understand that embracing digital technologies is necessary for survival. However, the same study found

[1] http://www.mintjutras.com/category/erp/

that between 71-82%[1] of companies still partially rely on spreadsheets or manual processes. Why is there such a disconnect?

For the people who deal in data daily, the implementation of ERP is an easy sell as they have the luxury of seeing the macro benefits that expanded data access can bring. Others, however, may take some convincing. The reasons why can vary from fearing technological change to perceiving ERP as a threat to their own job security. Those who find truth in the adage "if it ain't broke, don't fix it" consider it counterintuitive to change the operations of functional procedures despite evidence of current limitations. To them, presenting the need for ERP can be a tough sell.

A 2017 study by Aberdeen Group showed that 49% of organizations without ERP considered themselves "too small" for ERP[2]. Additional excuses are just as surprising:

Why "No" to ERP?

Cost of software	23%
We will continue to function effectively without it	23%
We have functioned without it in the past	26%
We are too small	49%

■ Respondents

After all, correctly leveraging ERP software involves a lot of research and meticulous planning. Be prepared to encounter those who view the initial hurdle too high to allocate the resources necessary for successful ERP implementation. A more effective case will be built by presenting quantifiable real-world examples instead of common descriptors like "efficiency" and "improvements."

(2)   The Cost of Doing Nothing: Why You Can't Afford to Sit on An ERP Software Decision, Aberdeen Group, March 2017

In truth, upgrading and implementing a new ERP system is likely to be one of the most complex and resource-intensive decisions a company can face. So, why do it? Much like building a thriving business, the end result far exceeds the initial investment of time and resources. Correct ERP implementation will deliver measurable benefits across the entire operation from productivity and profitability to customer relations and competitive advantage.

ERP Key 2: Document the Operational Flow

To start building an effective business case for ERP investment, a company must first conduct a thorough evaluation of its entire operational process. One of the goals of this step is to identify areas where critical improvements are needed:

- Inventory reduction
- Accounting
- Vendor and Customer Relations Management
- Material costs and waste
- Reporting and Sales Analysis
- Order turnaround
- Data security, accessibility, and accuracy

A company cannot make improvements unless obstacles to its growth are accurately identified. While completing this company-wide assessment will involve time and planning, this process is crucial to both pacifying nay-sayers and successfully deploying ERP.

While conducting this thorough operational flow review, the company should also begin building a list of goals it wants to achieve through ERP implementation. Initially the list should be broad. For example, the following chart based on research by Aberdeen Group, outlines the shared goals of companies planning to implement ERP. Not surprisingly, the top response for companies in the study is "Profitability."[3]

(3) Create a Foundation for Competitiveness with ERP and CRM, Aberdeen Group, July 2016

Top Goals of Implementing ERP
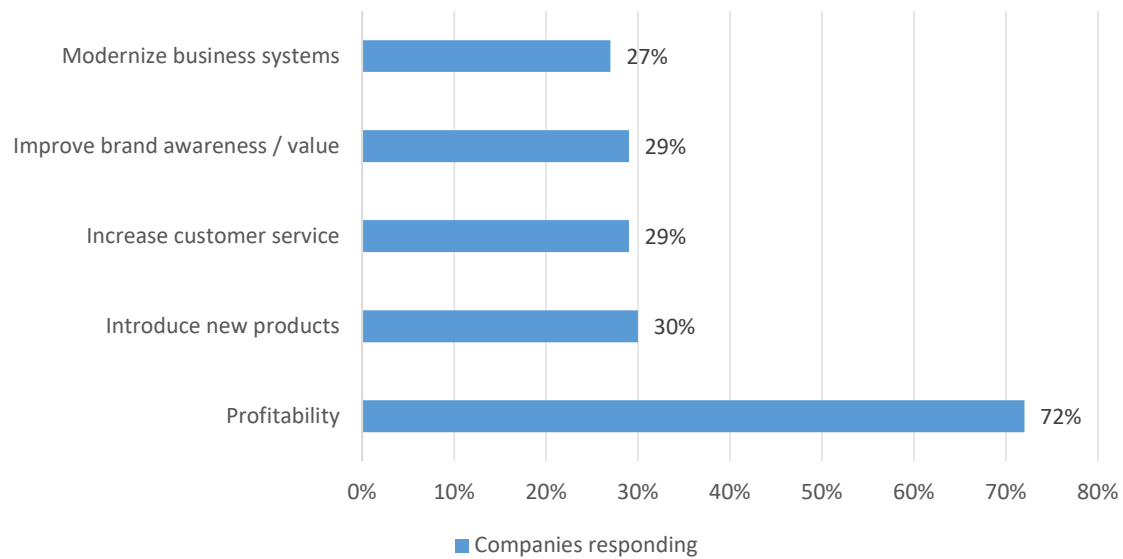
While most companies identify profitability as a top goal, the exact path to achieving profitability will differ depending on wide-ranging considerations like competition, productivity, and supply chain management. Through the course of building the business case for ERP, companies will further refine the goals of their individual success.

ERP Key 3: Assess the Benefits, Costs, and Risks of ERP Investment

By replacing non-integrated systems or obsolete software with comprehensive ERP, companies possess the necessary tools to accomplish the objectives of reducing costs, expanding productivity, and strengthening competitive advantage. Attaining these results, however, relies entirely upon the quality and quantity of features provided within the software.

Standard ERP features:

Sales Order Entry	QC Tracking
Financials	Counter Sales
Customer Relations Management	Label Printing
Reporting	Kitting/Assembly
Purchasing	Secondary Process Tracking
Inventory Control	Document Management
Warehouse Automation	Sales Analysis
RF Scanning	Mobile Apps
Serial/Lot Control	

Supplemental offerings:

VMI (Vendor Managed Inventory)	Document Imaging
EDI (Electronic Data Interchange)	Integrated Shipping Options
API (Application Program Interface)	Credit Card Processing

While the success of ERP software is contingent on the strength of its features, it is important to remember that the only way to yield significant benefits is through the interconnectivity of ERP applications. Company-wide gains in productivity depend on the accessibility of data across all departments including accounting, CRM, purchasing, sales, shipping, and warehousing.

Common benefits of ERP systems include:
- User-friendly Navigation
- Comprehensive Applications with diverse Supplemental Features
- Expanded Access to Current and Historical Data
- Eliminated Manual Processes
- Cost Savings
- Integrated Warehouse Management
- Increased Security
- Customized Reporting
- Customer Service
- Scalability
- Vendor Integrations

The combined benefits of ERP software drive increases in user and operational efficiency. Data accuracy improves business intelligence for making decisions relating to purchasing and scheduling. ERP also provides enhanced paperless communications both internally between departments and externally with vendors and partners.

- Determine the total ERP investment and expected ROI for:
    - Purchase/Upgrade
    - Servers/IT expenses
    - User Licenses and Scalability requirements
    - On-Premise, SaaS, or Cloud deployment
    - Customizations
    - Implementation
    - Training
- Evaluate the advantages and risks of new/upgraded features and ascertain their effects on:
    - Employees
    - Customers
    - Products

While the upside of ERP integration can be significant for a company, equal consideration must be given to the investment amount as well as any potential risks. Cost is a risk by itself. Affordability of ERP is a factor for every business investigating ERP. To remain on budget, companies must carefully account for every piece of the total investment beyond acquisition costs. Customizations, servers/IT, training, and upgrades can all accrue costs. Moreover, some low-cost providers offer limited functionality that can end up costing more in the long run due to à la carte charges. When trying to maximize ERP investment, knowing the total expenditure is necessary for calculating ROI.

Even though cost plays a significant role in the decision-making process, it's not the only risk to consider. Depending on the deployment choice, companies may need to develop strategies for limited or overused IT resources and server reliability. Risks can also originate with users themselves. Companies must be prepared to provide additional training for instances of low user adoption due to confusion with the interface or user resistance to change. As with a jammed gear on a conveyor belt, a single underprepared user could impede the maximum operational output from the ERP system.

ERP Key 4: Evaluate ERP Options

There are numerous ERP solutions from which to choose. Whether gathered from peers, software review publications, or simple internet searches, the options can seem overwhelming. Fortunately, companies can quickly narrow the field by filtering choices based on factors like:

- Budget
- Comprehensive software versus à la carte applications
- Price of supplemental features
- Software customizations
- Deployment options
- Implementation timeframe
- Training
- Customer service
- Scalability

After the information is collected, sorted and narrowed down, companies then can contact the resulting list of ERP vendors to set up guided software demonstrations. The goal of these meetings is to see the software in action, ask questions, and identify the best features and functionality based on the company's individual operational needs. These interactions also provide an excellent opportunity to evaluate the personalities at play in an organization. Personal demeanor (friendly and obliging versus pushy and rude) is an excellent indicator of future treatment.

Other important traits to investigate are:

- **Trust**: Do any current suppliers or "friends" in the industry utilize this vendor's software?
- **Industry Saturation**: Do they have customers in your industry? If so, how many?
- **Longevity**: How long has the vendor been in business?
- **Integrity**: Are they a system of a successful competitor?
- **Stability**: Has the vendor gone through any/multiple acquisitions?
- **Accessibility**: Does the vendor work directly with your company or through a middleman?
- **Responsiveness**: Does the vendor provide live phone-based or email-based customer support?

A bit of advice for this point in the process: don't rush it. Evaluation of ERP software options can take time, and it's supposed to. After all, this is a decision that will radically improve the company's operations for years to come, so it must be done correctly. Fortunately, the finish line is coming into view—all of this time and effort is about to pay off.

ERP Key 5: Outline Plans for Implementation and Growth

Now that the selection of ERP software and vendor has been made and contracts are signed, the planning begins for training and implementation. At this point, the software vendor should assign a dedicated and experienced project manager to ensure every aspect of the transition flows smoothly into the Go-Live.

The final steps of planning include:
- Open discussions to outline responsibilities and manage expectations
- Building a realistic timeframe based on company requirements and software customizations
- Migration and conversion of critical data from the current system
- Scheduling on-site individualized and/or group process-based training
- Continual discussions to assess readiness for Go-Live

While it's important to stick to the agreed-upon timeframe, it should not be the only driver of the process. The customer and vendor together will ultimately decide if the Go-Live should proceed. If new questions arose or users require additional training, these must be addressed and resolved before continuing. After all, normal operations cannot resume without properly trained users.

After Go-Live, users will quickly build proficiency in the software while productivity improvements spread through the company. Faster access to accurate inventory amounts will speed decisions in sales and purchasing. Less time spent actively managing inventory will lower operating costs. Applying these savings to reduce unit costs will help drive competitive advantage resulting in increased sales.

Conclusion

To paraphrase Tommy Lasorda, there are three types of companies: those who make it happen, those who watch it happen, and those who wonder what happened. Following the **5 Keys to ERP** will provide organizations the guidance they need to successfully evaluate and implement transformational business software. Unlike in baseball, with ERP it's easy to hit a homerun.

About Distribution One

Distribution One is an industry-leading developer of innovative customer-focused Enterprise Resource Planning (ERP) software designed specifically for the needs of wholesalers and distributors. Formed in 1996 and headquartered in Mount Laurel, New Jersey, Distribution One operates a network of ERP specialists in eight states across the country. This team of 40+ skilled professionals thrives on providing solutions and live US-based support to customers across the United States, Canada, and into Europe.

Distribution One's comprehensive, interconnected ERP-ONE software delivers intuitive functionality that improves the entire business process from Order Entry, Invoicing, and Purchasing to Inventory & Warehouse Management and General Ledger activities. ERP-ONE also provides frequently requested features like Quality Control Tracking, RF Scanning, VMI (Vendor Managed Inventory), Lot Control, and supplemental components like EDI (Electronic Data Interchange), API (Application Program Interface), and BI (Business Intelligence) dashboards and reports. Moreover, the release of Mobile Apps provides customers with quick access to critical business functions from the convenience of a laptop or handheld devices anywhere business is being conducted.

Distribution One's 8000+ customer users operate in a variety of industries worldwide from fasteners, adhesives, industrial supply, and food service to electrical, retail, hardware, and janitorial supply to name a few.