

WHITE PAPER
Top 5 Questions to Consider
During the ERP Research Process

Executive Summary

Many companies dive right into the ERP selection process without first figuring out exactly what they want to get out of their implementation. These companies often find themselves overwhelmed by the broad range of options in the marketplace. By doing upfront research these companies can eliminate much of the pain and minimize the duration of the ERP selection process.

We have identified and answered five main questions that companies looking to implement an ERP system should answer before starting their research process. Knowing the answers to these questions beforehand will allow companies to carry out a much more focused and thorough search for an ERP vendor.

The five questions you need to ask yourself are:

- Should you use a fully integrated system or implement a best-of-breed strategy?
- Should you work with a specialized or horizontal vendor?
- Should you find an ERP system with complete out-of-the-box functionality or look for a customizable option?
- Should you use a single tier or two-tier approach?
- Should you host the application in the cloud or on-premise?

Fully Integrated or Best of Breed?

One of the first questions an organization should ask is whether it is best to run a fully integrated software solution or combine best of breed software applications. The main advantage to using a best of breed strategy is that each individual application has enriched functionality focused on a specific task. Another reason best of breed integration can be favored is that since every business is unique it allows you to pick and choose which particular solutions are best tailored for how you run your business. For these reasons, using a best of breed strategy gained significant popularity in the late '90s, however, it has seen a drop-off since then for numerous reasons. Fully integrated ERP solutions are now the popular choice.

The main rationale behind the overall trend to moving away from best of breed and towards full suite implementations is due to advantages in integration, reporting, maintenance costs, security, usability, and data integrity. The following chart, with information taken from *Industry Week*¹, explains the differences between best of breed and full suite applications:

¹ Veague, Rick. "IndustryWeek: Best of Breed Vs. ERP." *IndustryWeek*, 26 Mar. 2010. Web. 05 Nov. 2011. <http://www.industryweek.com/articles/best_of_breed_vs_erp_21353.aspx?ShowAll=1>.

Best of Breed vs. Best of Suite

A comparison between a multi-vendor, best of breed software approach, and Apprise® ERP – a fully integrated, best of suite solution.

	Best of Breed	Apprise ERP
Integration:	Need to integrate all the 3rd party solutions with each other. This adds significant time and cost to the project.	Come fully integrated. Every module is interconnected and ready to go from day one.
Reporting:	Information is spread across multiple applications and platforms. It can lead to expensive data warehousing projects to pull together a common view of data.	Automatically pulls and updates numbers from the system since all revenue and cost numbers are hosted on the same application.
Maintenance Costs:	Since each solution is built on different technology and, thus, has different version requirements for databases and middleware, the costs to maintain a best of breed solution can quickly add up.	Often sold with a runtime version of a supporting technology which further reduces costs and complexity.
Security:	The different solutions generally have unique security models which make it more difficult to maintain security and privacy across the entire solution.	Fully integrated suites offer consistent and straightforward authorizations and user permissions across functions. Security and privacy are seamless throughout.
Usability:	Every third party best of breed solution has different usability functionality. This means that users that must work cross-functionally need to learn different interfaces and systems.	Offer a consistent and well thought out user experience. Usability is conformed across the entire application making it easy for users to work cross-functionally without having to relearn an entire new system.
Data Integrity:	In many cases, common data such as product information is shared by multiple best of breed solutions. This means data must be synchronized across applications which can lead to duplicate data and complex data integration issues.	No issues with data integrity since the entire suite is running off of the same information. Data cascades down through the system which means it is never duplicated and no synchronization must take place.

For these reasons we agree with the current trend that companies should choose a fully integrated suite rather than patching together best of breed solutions. Another factor to consider is that, while part of the definition of best of breed applications is that they are better than what integrated systems offer, usually the differences are 'nice to haves' and not 'need to haves'. Integrated ERP applications have improved their overall functionality and now compare more favorably with the best of breed solutions making the argument for full suites even more compelling.

Out-of-Box Functionality or Customizable Solution?

There are generally two options companies have when looking for ERP software, either a customizable or out-of-the-box solution. The first option, a customizable ERP solution, means the company has at least some access to the source code and is able to modify the business logic inside the software so that it better adapts to their business processes. Out-of-the-box software applications do not provide access to the source code, making changing the business logic impossible.

While there are pros and cons to each type of software, according to Rebecca Wettemann of Nucleus Research, "In the last round of ERP deployments that people did, maybe 10 years ago, they did a lot of customizations. But I would say that the majority today are going 90 percent out of the box."²

There are many reasons why out-of-the-box functionality is preferred over a customizable solution. Some benefits, according to Wettemann, are, "a more predictable and cheaper deployment and then obviously, it makes upgrades less disruptive and less costly."³ Using out-of-the-box functionality allows for a much smoother implementation which, in turn, helps provide a faster return on a company's investment. It also is cheaper to use out-of-the-box functionality to get up and running rather than having the source code customized by the software vendor or an internal IT member. Upgrades are another area where using a customizable solution causes problems. When each client is using essentially the same out-of-the-box functionality it makes upgrades and patches much easier to install versus when each customer has different code, which makes an upgrade or patch a nightmarish situation.

According to Wettemann, another key benefit of using out of the box functionality is the ability to, "get business unit owners and actual end users involved in the process much earlier. Getting users involved early gives you very good feedback so you can solve problems before they really become big problems on everyone's desktops. That way you don't roll out an application that no one has seen before."⁴ Only when using out of the box functionality are you able to bring users to the table early to get their feedback on how the system operates. Otherwise, they would have to wait until the source code was customized and, at that point, it is too late for feedback.

^{2,3,4} Weiss, Todd R. "Customize Your ERP or Adapt To It? What's Your Strategy? CIO.com." CIO.com. 14 July 2011. Web. 5 Nov. 2011.
<http://www.cio.com/article/686202/Customize_Your_ERP_or_Adapt_To_It_What_s_Your_Strategy_>.

While customizable solutions were once favored due to the increased flexibility that they offered, in the current environment companies are turning more and more to out-of-the-box ERP software vendors to save on implementation costs, ease of use, and to bring in their user base earlier in the process.

Horizontal or Vertically Focused ERP Solution?

Many of the large ERP providers offer horizontally focused ERP solutions that are applicable to multiple industries and offer a breadth of general functionality. Many of these horizontal solutions are chosen by businesses because they offer a strong brand name, large amounts of resources and services behind their products, and top technology. However, for industries that operate using very specific and unique processes, such as the consumer goods wholesale industry, the choice to go with a vertically focused ERP solution generally makes more sense. Unlike horizontal software that requires extensive customizations to meet the needs of the specific industry, a vertically focused ERP solution for consumer goods should already include the industry specific requirements of the consumer goods distribution business.

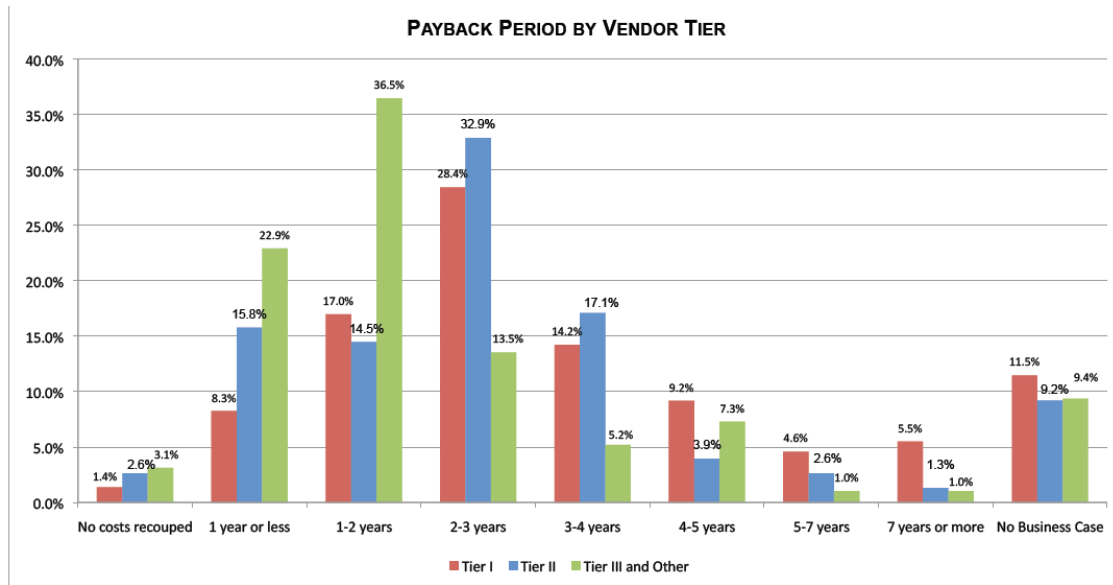
While the ERP software is obviously important in the buying decision, so are the people who are going to be implementing the software. According to a study done by Panorama Consulting over 57 percent of ERP implementations take longer than expected.⁵ One of the major reasons projects get delayed is due to the learning curve that most horizontal ERP vendors need to understand your business. Teaming with a vendor who already knows and has expertise in your business diminishes the chances that the project will be stalled and allows companies to start earning their return on investment sooner. In the same study, Panorama Consulting found that the length of time for the implementation process was dependent on what size vendor was used.⁶

Average Duration	Overall	Tier I	Tier II	Tier II / Other
Months Planned	11.2	12.9	9.25	9.3
Accrual Duration	14.6	15.7	15	12

Vendors who were more specialized and, thus, knew their customers' business better, turned out to have the shortest implementation time. For this study, Tier I vendors were considered the largest ERP providers (SAP, Oracle), Tier II vendors were considered a notch smaller (Epicor, Infor), and Tier III were niche, industry focused companies. Tier I vendors, on average, took 15.7 months to implement their ERP system. Tier II vendors took, on average, 15 months to implement their ERP. Tier III vendors took, on average, just 12 months to complete their ERP implementation. The Panorama Consulting study points out that Tier III applications typically offer the shortest implementation times due to their highly specialized focus which generally requires fewer changes.

^{5,6} Panorama Consulting. "2011 Guide to ERP Systems And Vendors." Panorama Consulting. 2011. Web. 5 Nov. 2011. <<http://panorama-consulting.com/Documents/2011-Guide-to-ERP-Systems-and-Vendors.pdf>>

The last piece of information from the Panorama Consulting report reported on how long the average payback period is for each vendor tier.



According to the study Tier I payback periods average less than three years only 55 percent of the time. Tier II vendors fared a little bit better with payback periods under three years 66 percent of the time.⁷ However, Tier III, specialized vendors obtained a payback period of less than three years 76 percent of the time. Once again, the quicker payback is attributed to software that is vertically focused and a solution provider that is expert in the industry. These factors allow for a faster implementation and for the users to understand and master the system faster.

Single Tier or Two-Tier Approach?

While small and mid-size companies generally only need a single ERP solution, many larger companies are beginning to opt for a two tier approach. A two-tier strategy is when companies keep their corporate ERP system in place and then use a separate, specialized ERP application for their subsidiaries or smaller business units. Oftentimes, larger organizations have numerous operations in many different industries and having one solution for all of these disparate companies does not serve all of their needs as best as it could. Instead, when using a two-tiered approach, a diverse business unit can have an efficient ERP application tailored to their specific industry rather than trying to work around the original ERP system implementation.

Many companies choose a two tier strategy because a large, complex ERP system is overkill for a small subsidiary. It adds unnecessary costs and resources which is an excessive burden on a subsidiary with limited resources. Another reason many companies turn towards a two- tier strategy is when their subsidiaries have different compliance requirements than the head corporation. They may then need an

⁷ 2011 Guide to ERP Systems And Vendors." Panorama Consulting. 2011. Web. 5 Nov. 2011. <<http://panorama-consulting.com/Documents/2011-Guide-to-ERP-Systems-and-Vendors.pdf>>.

ERP system that can handle the specific compliance nature of their unique industry. Gartner did a study on two-tier ERP strategy that offered additional reasons why companies may choose to follow this strategy: ⁸

- In large companies the smaller subsidiaries, which are often in emerging markets in high growth sectors, have to wait for the ERP installation to reach them. A smaller ERP solution tailored to their needs might be a better approach.
- When the company is culturally or organizationally unable to consolidate to a single system, but must consolidate to reduce costs or increase information visibility.
- When unacceptable support costs have arisen through successive mergers and acquisitions.
- Through successive mergers and acquisitions multiple ERP solutions have accumulated, resulting in unacceptable support costs.

Many people do not realize that usually there is also significant cost savings associated with a two-tier system. Gartner found that companies using a two-tier approach over a one tier are seeing a 33 percent reduction in implementation costs and a 50 percent decrease in total time to full implementation. Large companies that operate in more than one industry should seriously consider using a two-tier approach for their ERP implementation strategy.

Cloud or On-Premise?

This is a very big topic currently in the ERP space, and for good reason. According to Forrester cloud-based ERP only makes up 2 percent of the market currently, but is poised to grow by 21 percent annually through 2015.

Small- and medium-size businesses benefit the most from working with a cloud-based provider; however, there are benefits to any sized company. The first reason that many companies start to look into cloud hosting is the reduction of upfront capital costs because the company does not have to purchase new external hardware and it saves on the cost of supplying power to run servers. This initial cost savings is a boon for small or mid-size companies because they do not have the capital sitting around to spend upfront unlike larger organizations.

Another key advantage to using the cloud is that it frees up internal IT resources to work on more strategic projects. For smaller companies that lack resources this is a huge advantage because their IT department does not have to worry about monitoring or updating the servers needed to host the ERP system.

Companies primed for growth also should be more apt to use a cloud-based system because it is much easier to scale up when your vendor hosts the system. Adding users is not only simpler, but adding

⁸ Gartner. "Two-Tier ERP Suite Strategy: Considering Your Options." Microsoft.com. Gartner, 28 July 2010. Web. 5 Nov. 2011. <<http://www.microsoft.com/presspass/itanalyst/docs/07-28-10ERP.PDF>>.

applications is faster and smoother when not hosting the application on-premise. Also, depending on how your ERP vendor licenses programs, using a cloud-based system allows you to test or trial applications without a large capital investment.

Many executives are concerned that hosting their ERP solution outside the company servers is a security risk. However, many companies do not take into consideration that vendors providing the hosted solutions have expertise in securing data because they do it for a living. On the flip side the customer's IT department is generally not as well trained or suited to secure data.

Any size company can benefit from having their ERP hosted in the cloud. Cloud solutions free up company resources, eliminate upfront capital costs, make growing easier, and are more secure. These are the reasons why cloud-based ERP implementations are a growing trend in the marketplace.

Conclusion

While every company is different in regards to what they are looking for in an ERP system, the answers to these five questions should provide the baseline for any company to have a more focused search process. Companies should look for an integrated full suite ERP rather than using a best of breed strategy, look for a specialized vendor that knows their business, find a solution with complete out-of-the-box functionality, and heartily investigate hosting the ERP solution in the cloud. Larger companies should also investigate a two-tier ERP strategy. Following these steps will put your company on the right path towards having a better ERP application installed.

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