Making the Business Case for Enterprise Resource Planning (ERP)

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A Ziff Davis White Paper
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Executive Summary

Enterprise resource planning (ERP) is the domain of information systems technology and works across departmental and business unit boundaries. In simple terms it hooks up information with interested parties and creates new information by logically combining data to create new resources. Studies have shown that organizations in the growth stage of their lifecycle typically need to formalize their information technology systems. In this Guide, we’ve recruited some Customer Relationship Management (CRM) thought leaders to explain in detail what you must consider when enabling and accelerating your growth through CRM strategies and technology.

ERP is about the creation of new applications and new database resources that can be shared with partners, depending on who you consider your partners to be. Its partners can be internal partners, or partners in companies that you are working closely. We’ll provide a set of guidelines that will assist in helping you make the sustainable transition from a small business into a midsize business – and hopefully lay the framework for sustained growth and maturity after that.

To create a business case for ERP, it will take some convincing of senior management on the benefits of going through a risky and expensive transition process which hooks up a considerable amount of sensitive data. It seems almost unconscionable that anyone could be convinced of the benefits. In fact it’s all about anticipating and enabling others to foresee the benefits that are hidden in this new venture.

ERP has been a so-called weasel word – or something meant to sound meaningful -- for many a top executive, particularly the ones who have a hard time understanding what the benefits might be. On the face of it, ERP is a massive resource-draining exercise. What’s more, much of the restructuring which comes as a direct result of it involves changes to the business processes that may have worked just fine for many years without failure. This can be seen as a radical change and cannot be undertaken without some positive proof that the undertaking will be truly beneficial.

The truly astonishing thing about ERP is that it lays you open to the outside. It takes a breakthrough of insight to accept that sharing your company data with outsiders will actually make improvements in your data transport that will definitely affect the bottom line in a positive manner.

In this discussion on how to make an effective business case for ERP, we shall examine the strategies that will help us reach a point where a case can be made that is convincing enough. We will want to leverage the best and most efficient processes to maximize profitability. Read on to learn about creating a foolproof business case for ERP.
What benefits should be expected from a full ERP conversion?

One of the big problems about the justification of ERP is that it is not always seen as being beneficial from all levels. The people who are in the front line of the business and who make daily decisions about data will always appreciate the benefits because they will be able to see them first hand. Some senior executives will be able to see the benefits and some may not. So the best way to approach this is to make sure that all the people who would normally understand the benefits of an ERP conversion will be aware of what they are.

The intentional integration of every function in the company means that everything from human resources, sales, distribution, accounting, supply chain management, and manufacturing are tightly amalgamated.

- **Connectivity improvements**
  Once the information system portals have been opened to the outside world, the data transport infrastructure will be greatly improved and become capable of investigating trading relationships with prospective partners, thereby reducing the cost normally incurred by doing so.

- **Greater transactional recoverability**
  When the modifications have been made for integrating the applications and enhancing the interfaces that will occur in the database, there will be far greater ability to recover the data at the transaction level. This will have the effect of improving data integrity and data security in the long run.

- **Better functionality**
  By integrating data and increasing database portability you will get better information which is accessible by a far larger user base. Consequently, the information will be retrieved much more rapidly and with a far higher degree of accuracy.

- **Greater facility with the user interface**
  In actuality, the user interface is somewhat of a two-way street. Users will have wish lists which will help you determine the best line of approach to create the best processes. Enhancement of interfaces will occur only because the quality of input is far improved, once they have been overhauled.

- **People working better and in harmony**
  Ultimately, at the end of a tour de force, making radical changes, and going through quite a lot of stress, your people will end up being better people. Moreover, because of the nature of ERP, you will end up with a far better team than was in place before the conversion.
Some Pre-Requisites

It is very important to be completely familiar with all of the current business processes before implementing a new ERP system. This means getting to grips with each process and having a strong familiarity as to how the ERP system is going to improve each one. This is normally the domain of the business analyst consultant and for business reasons this is probably the most cost-effective approach, since any mistakes early on could be very costly later, certainly when everybody's scratching their heads and trying to figure out why it all went so badly wrong.

Certainly, it would be advisable to cost in some business analysts in order to be 100% sure of how the new system will integrate. The most important part of this is to evaluate the new system in actual financial terms, creating a snapshot both before and after the new system has been implemented. As we begin to look to the future, let's quickly look back at the typical journey organizations like yours have taken.

Also, although this may seem like common sense to most, any new system has its quirks. And for many reasons which are beyond the scope of this document, the new system will probably have one or more major software updates. In order to avoid an update becoming a major downgrade, it is important to engage technical support from the vendor company at an early stage, to avoid system clashes and other untoward occurrences as a result of installing software.

In a nutshell, the best kinds of prerequisites are the kind where everything is set out clearly and everybody is on board. This way there are no unknowns, or if they are, they can quickly become “known’s.” And another thing that is absolutely crucial to implementing ERP without it costing the company dearly is to make sure that the entire business is involved, and that there are no areas which are not covered by the new system. If there are areas which are outside of the scope of the new ERP system, they could easily interfere with the whole business process, because of their exclusivity which will hinder the flow of data and hence information.

The Creation of a Successful Business Case

When a successful business case is created, essentially what is happening is that the people who have the authority to write the checks and pay for the consultants are being shown why they should invest in a new system and the reasons for the new system producing the realization of greater profits and ultimately a return on investment (ROI) at a point that is predetermined by the people who are suggesting the new system.
The math is simple: after a specific time period, the company will definitely make more money than what has been invested into the new system that is now being proposed. This is ROI. If nothing else, it is a watertight way of looking at why a business system is worthwhile to invest in. And, if things do not turn out the way they were promised, then fingers will begin to be pointed at the consultants who promised them.

There are very few exceptions. The exceptions do not really apply to an elective business decision where a company is choosing to have a new ERP system installed. The sort of exception that is being referred to here is the type where some new legislation has been introduced by the Fed and this has forced a software upgrade for all kinds of new business processes which have to be in place. For example, when the Fed introduced multifactor authentication, this meant an enormous sea change in business processes being carried out in financial institutions and all of their associated vendors. Looking retrospectively at this change of business process in this industry sector, it has made an enormous improvement to the security of individuals’ financial transactions using the public Internet, saving money in many different areas because of the heightened security and reduction of risk. So, this set of exceptional circumstances ended up being ultimately beneficial to one and all.

Although, the introduction of a new ERP system is purposely to improve and recommended by consultants who are convinced that this will happen, it is the company personnel who are pushing for an upgrade who need to make the business case to the CFO or other people who write the checks that pay for these things. So, again it is down to a communication exercise between the converted and those who have a natural skepticism because they realize how much can go wrong and how much it will inevitably cost if it doesn’t produce the goods.

The most important thing is to make sure that the people who are doing the investigation of the new ERP system have as much information at their fingertips as can possibly be. They should have as many alternative systems as are economically possible to choose between. They should hire on some well-respected and talented people who know this field well and can make recommendations based upon personal experience. Between everybody involved, they should all sit down at least weekly and discuss the pros and cons of all the systems that have been passed in front of them, making judicial decisions as to how to move forward.

None of this should be arduous. The part that will be arduous will be the implementation phase. Upfront, the process should be even-paced and forward moving, making progress on a daily basis to evaluate the best possible system to put in place.

The creation of a successful business case for a new ERP system will involve working up a set of case justifications. These are tangible and intangible justifications, and each has their
merits. The tangible results are self-evident and produce results that can be measured in quantified arithmetic. For example, if a process will reduce the amount of the salary or wage bill for a month, by a specific number then this saving of outlay can be factored into the results calculation.

The intangible results are more difficult to quantify, but probably more important in some respects than the tangible ones, because you may not be able to place a direct value on each one, but it may make a remarkable difference to your bottom line via the improvement of service or efficiency in your organization. How these intangibles get put into a business case is one of the ways in which it will be explained to the check writers that the new system is either going to save money or increase the profit margin.

**Tangibles**

Now let's look at some of the direct results of adding tangible benefits to an organization. They are several areas where tangible results can be gained by applying ERP. They are: manufacturing, sales, purchasing, finance, technical, head counting, management of inventory, cost of carrying inventory, counting inventory and re-fulfillment costs.

**Manufacturing**

A company that moves to an ERP system that integrates planning will reap the rewards from the best utilization of machines and coordination with people who run them. The manufacturing department will have a great knowledge of how the production process works, but will often be badgered by the sales department whose only understanding of manufacturing is that it should get out the most products in the least possible time to the most amount of customers. When these two departments talk to each other via ERP, the conflict will be all but gone, because ERP is in place to make the most efficient use of processes.

**Sales**

In the sales department, internal sales will be boosted by the sharing of accurate inventory information. Ultimately, inquiries that involve stock in pricing can be automated and higher focus given to the placing of orders. This will likely reduce the amount of personnel required for this department. At the same time it could increase sales revenue radically because sales-making information is at everybody's fingertips at the click of the mouse.
Purchasing

Supply and demand can both be facilitated with ERP. So in the same way that sales will be improved by an ERP system so can EDI (electronic data interchange) facilitate purchase orders and other wholesale transactions. An ERP workflow system will create the authority for approving or declining purchases on direct purchase requisitions therefore removing the need for intervention.

Finance

Supply and demand can both be facilitated with ERP. So in the same way that sales will be improved by an ERP system so can EDI (electronic data interchange) facilitate purchase orders and other wholesale transactions. An ERP workflow system will create the authority for approving or declining purchases on direct purchase requisitions therefore removing the need for intervention.

Technology

Supply and demand can both be facilitated with ERP. So in the same way that sales will be improved by an ERP system so can EDI (electronic data interchange) facilitate purchase orders and other wholesale transactions. An ERP workflow system will create the authority for approving or declining purchases on direct purchase requisitions therefore removing the need for intervention.

Head Counting

Supply and demand can both be facilitated with ERP. So in the same way that sales will be improved by an ERP system so can EDI (electronic data interchange) facilitate purchase orders and other wholesale transactions. An ERP workflow system will create the authority for approving or declining purchases on direct purchase requisitions therefore removing the need for intervention.

Management of Inventory

Supply and demand can both be facilitated with ERP. So in the same way that sales will be improved by an ERP system so can EDI (electronic data interchange) facilitate purchase orders and other wholesale transactions. An ERP workflow system will create the authority for approving or declining purchases on direct purchase requisitions therefore removing the need
for intervention.

**Cost of Carrying Inventory**

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**Counting Inventory**

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**Re-fulfillment Costs**

Supply and demand can both be facilitated with ERP. So in the same way that sales will be improved by an ERP system so can EDI (electronic data interchange) facilitate purchase orders and other wholesale transactions. An ERP workflow system will create the authority for approving or declining purchases on direct purchase requisitions therefore removing the need for intervention.

**Attributes of an Ideal ERP System**

Supply and demand can both be facilitated with ERP. So in the same way that sales will be improved by an ERP system so can EDI (electronic data interchange) facilitate purchase orders and other wholesale transactions. An ERP workflow system will create the authority for approving or declining purchases on direct purchase requisitions therefore removing the need for intervention.

The evaluation criteria for an ideal ERP system are support, flexibility, functional fit, maturity, and continuity. Some challenges to acquiring the optimum system are the ability to supply according to specific requirements, the transfer of knowledge from customer to vendor, certain customized maintenance, continuous quality, and future proof of investment.
When the first contact is made with the ERP vendor, it is imperative that service-level agreements are drawn up (SLA), and that an understanding is arrived at in terms of the support level that is needed for your particular organization. Both sides, the vendor and your company, must work with flexibility to arrive at an amicable arrangement.

It is worth doing some background checks on any company that intends to sell you an ERP system. You need to ensure that the company has considerable maturity in this arena and can maintain continuity along with functional fit. Quite a bit of time must be spent on learning what the vendor’s abilities are to supply to your company according to your own very specific requirements.

All of this comes down to the transfer of knowledge from you, the customer, to the ERP vendor, and this will need to be arranged over a series of meetings. Sometimes there are certain customized maintenance arrangements which need to be put in place right up front before anything is installed. What you need to see in the new vendor is a continuous quality and the future proof of your investment in them.

Some Definitions of an ideal ERP system, set out in realistic terminology:

1. **It must provide a system that supports the business process to achieve higher efficiency and effectiveness both in the application of single activities and the business process as a whole.** This means that whatever new system has been installed, it must be better than what was there before. Also, it must increase the business process efficiency and make methods more effective across the whole business territory.

2. **It must provide a system that supports the business process to achieve higher efficiency and effectiveness both in the application of single activities and the business process as a whole.** This means that in an operation of any size, the speed and effectiveness of the implementation of new technologies will support the achievement of competitive advantage thereby benefiting the bottom line.

3. **It must be acceptable by all users.** This means that it is no use installing a new system that incites objection and opposition because this will be counterproductive enough to bring the whole system down and, in the worst-case scenario, consequently stop the business from operating.
Recent Changes in the Integration of ERP into Organizations

“Theoretical and empirical arguments lean towards attributing direct effects to ERP, believing it to possess intrinsic organizational virtues. Because of the difficulty of making an ad hoc inventory of organizations employing ERP software, earlier statistical studies have largely ignored the integration of ERP into the organization.”


The question is frequently asked as to whether the incoming ERP system will restructure the organization, or whether the organization will determine the possibility of integrating it. Realistically the matter is mutual, and depends entirely on how advanced the processes are that have been developed by the organization prior to integrating ERP.

Comparing ERP Systems

Many ERP systems exist, some very expensive, others that have various specialized attributes for certain key systems, such as Microsoft Dynamics which are split into different sub-groups. The SAP system exists everywhere and a good deal of thought should be put into whether a small company would really benefit from taking on SAP, even though it is feature-rich, and compared with many other ERP systems, there is little that it does not have. For example where other systems might require a third-party plug-in to integrate warehouse management and point-of-sale, SAP covers both of these eventualities. Then there is DEACOM Integrated Accounting and ERP Software that is highly comprehensive but typically does not cover payroll, HR or the automation of professional services. It must be born in mind that some of these ERP systems are merely integrated accounting systems that do nothing much else than improve the accounting. For an ERP system to be truly beneficial, it needs to go across the whole organization, integrating business processes, accounting and even human resources.

Each ERP system can be purchased and will usually cost from a couple of hundred dollars to several thousand dollars per user. Then there is likely to be a setup or fixed fee and an annual maintenance fee which is budgeted per user. So, taking the decision to purchase an ERP system is no light matter. Half the battle is proving that the several thousands of dollars which it is likely to cost, will be recouped within a certain timeframe under the auspices of ROI. ROI will need to be proved before anybody signs their name to the purchase of a new system.

In fact, in order to guarantee ROI, it would be advisable to hire a specialist in ERP consultancy to make a professional comparison of all systems applicable to the company that is seeking the installation.
Here are some comparisons of different ERP providers and the featured applications that they provide, along with approximate costs to take them on:

<table>
<thead>
<tr>
<th>Vendor Name</th>
<th>Feature Discussion</th>
<th>Approximate Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAP</td>
<td>A German company with affiliates all over the world. Completely comprehensive, with nothing left out. A total all-inclusive package that will fit any organization provided they can afford it.</td>
<td>Total license basis: (upon application,)</td>
</tr>
<tr>
<td>Microsoft Dynamics</td>
<td>Everything is covered except for construction and point-of-sale.</td>
<td>Total license cost: c$700,000</td>
</tr>
<tr>
<td>IFS Applications</td>
<td>Everything is covered except for warehouse management, point-of-sale and payroll</td>
<td>Total license basis: c$1,125,000</td>
</tr>
<tr>
<td>Apprise Distribution</td>
<td>Everything is covered except for fixed assets, manufacturing process, manufacturing make to stock, manufacturing make to order, service management, professional services automation, project costing, time billing, North American payroll, HR, contact management, CRM, business performance management, construction and point-of-sale.</td>
<td>Total license cost: c$187,500</td>
</tr>
<tr>
<td>----------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>DEACOM Integrated Accounting and ERP Software</td>
<td>Everything is covered except for service management, professional services automation, North American payroll, HR and nonprofit organizations.</td>
<td>Total license basis: (upon application,)</td>
</tr>
</tbody>
</table>
Conclusion

ERP requires serious consideration in order to provide a business case for a system that will improve on the current business processes and transform a company. This paper has described many aspects of ERP, its benefits and its installation process, and pointed towards further information resources to consult.

We have touched on the methodology of how to make an effective business case for ERP, and have examined the strategies that can help us reach a point where a case will be made that is convincing enough. We have described how to leverage the best and most efficient processes to maximize profitability. Here are the components for creating a foolproof business case for ERP.
About the Expert

Steve Tuffill, is a freelance technical and creative writer based in Valencia, CA. Steve has worked in business computing for some 25 years, and has been writing since 1998 covering many technical and business-related topics. Re has written for Toolbox since 2006. You can reach Steve at stevetuf@gmail.com