

A N A L Y S T C O N N E C T I O N



Robert Parker
Group Vice President

Is It Time for a New ERP System?

November 2013

Better-than-expected growth has propelled the enterprise resource management (ERM) application market, driven by pent-up demand for more modern solutions that take advantage of embedded analytics, mobile applications, cloud, big data, and social solutions to improve work processes, drive down costs in the back office, and generally provide businesses with more agility to pursue new markets.

The following questions were posed by Sage to Bob Parker, group vice president at IDC Manufacturing Insights, on behalf of Sage's midmarket manufacturing and distribution customers.

Q. How satisfied are midsize manufacturers and distributors with their current business management systems?

A. We do quite bit of satisfaction research at IDC Manufacturing Insights, and we usually break it into two dimensions. One dimension pertains to the capabilities of the product, and the other focuses on the ownership experience. When you think about capabilities, it's how deep in a vertical industry can the vendor go? How broad is the process coverage available to manufacturers and distributors? Then, on the ownership experience side, we look at whether companies are satisfied with the system cost, as well as with how the system is being used.

What's interesting is that, on the capability side, the satisfaction score is pretty good for industry coverage. Scores are less good for process coverage — the weaker scores relate to the ability to extend an application, such as to customer relationship management (CRM) or mobility capability. The really interesting aspect, however, is the relatively low satisfaction score when we ask companies whether they use the information in their systems as much as they thought they would.

Midmarket manufacturers and distributors score this generally lower than other companies. And it really relates to what we hear in user interviews — companies have all this great information in their systems, but they just can't get to it. The inability to access that information really frustrates people and causes the dissatisfaction, especially with older business systems.

Q. Are there other problems with older ERP technology causing this dissatisfaction?

A. There are several issues, beginning with the age of the architecture. Many of these systems were implemented a while ago and bought from vendors that were still selling their product on older architectures. The role of architecture is to make it easier to integrate with other systems in your portfolio, to deploy to new users, and to maintain the system. So it really begins, at least at a high level, with the age of the architecture.

Another issue is the often limited set of reporting formats. What you get out of the box are usually less-than-optimal, less-than-intuitive mechanisms — or an inability to get at the data, as we mentioned previously. So it's not an easy proposition to adapt the information to a changing business. The reports you started with might have been fine when you rolled out the system, but now they're insufficient for the current business. We find that over time, midmarket manufacturers and distributors tend to make a lot of custom extensions and modifications, which help make the information more relevant to the business. But, at the same time, these changes create barriers to effectively upgrading the system. Custom extensions eventually cause quite a bit of dissatisfaction.

Another area is what I would call "application atrophy." By that, I mean when you originally roll out a business system, there's a lot of effort around training the trainers and the superusers so that everyone understands the system. Over time, however, as people come into new jobs and the original superusers are replaced, the company doesn't put the new people through the same training. These folks tend to get what I call five-minute training — a lot of shortcuts and workarounds, but no real understanding of the system. Usage tends to atrophy because the training isn't maintained throughout employee turnover. Older architectures can also make it even tougher because the systems aren't particularly intuitive themselves, which inhibits self-training.

Finally, there's a whole set of modern capabilities that you don't find in older business systems. CRM, for example, tends to be very poorly integrated, if integrated at all. Another area is business intelligence, where dashboards can give executives a better understanding of the status of the business, but the capability isn't particularly well integrated or user-friendly. It's just something else that's been thrown on top of the system and works in a suboptimal way. Mobile access is also a newer area that's becoming increasingly important in terms of extracting value from business information. But gaining access to mobile data is not an easy proposition with these older business systems.

Q. What are the options for midsize manufacturers and distributors to address these problems?

- A. Before you can address the problems, you have to understand the need. You have to understand how your current system has created a barrier to implementing more modern business processes. Midmarket companies have to address this process gap and create a really solid articulation of that problem for executive leadership.

Once you've done that, and understand the gaps and the opportunity to modernize, you then have to look at what your alternatives are to keep supporting the existing business system. You can add on pieces and point solutions, or you can replace the whole system. You can keep supporting the existing ERP system, but you'll continue to have the same process and information access problems. And you'll continue to have the same extension problems in terms of new processes.

You can try to "quarantine" the existing business system and bolt on a lot of applications to it. That's certainly an option, and hopefully what you're bolting on comes with more modern architectures. But, at the same time, just like the custom extensions and custom modifications have created upgrade and maintenance nightmares, the bolt-on approach will magnify issues with the integrations you have to make with that quarantined system.

Q. What are the benefits of replacing an aging business management system?

A. One of the benefits of replacing the system is that you can overcome information access issues. You also can get a set of modern business processes, and you can get something much better integrated in terms of where you need to extend it, whether it's to CRM, procurement, mobility, or whatever else.

There's also the benefit of a lower cost of ownership. We estimate that moving from some of the last-generation architectures to modern, scalable, service-oriented-type architectures can take out as much as a third to half of the cost of ownership. These savings come from minimizing the amount of custom code that needs to be maintained. Whether integration issues or the support of your customers who may be asking you to supply them with information (e.g., EDI or other data), a service-oriented architecture drives reuse and minimizes the cost of maintaining the system.

A modern architecture also makes the information much more accessible. Yes, you can take out a third or half of the cost of running your business system through this modernization, but what's probably more important — especially from a business-leadership perspective — is that dissatisfaction with not being able to get to relevant information goes away. You can now put the information to use in making better decisions — not just corrective action but also the ability to see new business opportunities and capitalize on them.

You know the old saying that you use only 10% of your brain. I think midmarket manufacturers and distributors use only 10% of the information that's available to them. With current systems, business intelligence capability isn't a bolt-on; it's integrated. Analytic data models sit on top of the relational data model, which not only makes getting to information easier but also lets users self-serve.

Similarly, mobile access in conjunction with business intelligence provides opportunities for better information consumption. If someone walking the plant floor, walking through the warehouse, or even walking around the HQ offices can get access to business status on a mobile device, then it makes you much more productive as an organization.

On the customer side, the ability to better integrate CRM not only gives you a complete view of the customer but also gives customers a 360-degree view of you, which helps drive more revenue. You need a modern architecture to do that. Closely related is your ability to collaborate. Certainly you want collaboration at a data interchange level, and you want to be able to collaborate with your suppliers, your channel partners downstream, and your customers to resolve issues through informational conversations. That requires a modern architecture.

Q. What should midsize manufacturers and distributors look for in a provider of a new ERP solution?

A. First is the service-oriented architecture we discussed previously. Some providers of business systems have a nice interface now, but behind the scenes, they haven't updated the architecture. So make sure the provider's system is truly on a modern service-oriented architecture.

Second, integrated business intelligence should be part of the package. It should be integral to any of the modules that you're selecting to deploy. Likewise, there should be native CRM and procurement applications that seamlessly fit into the rest of the system. In addition, there should be native support for mobile delivery of the applications, with the option to post transactions from mobile devices. You should also be able to deliver that information to mobile devices to make consumption an "anywhere, anytime" proposition.

Third, consider the vendor itself. For example, what kind of training does it provide? Are the interfaces more intuitive? Is the vendor able to demonstrate an ability to train and certify users? Or, if the vendor uses training partners, can the partners do it as well as the software vendor? Also, what is the proposition for ongoing learning?

Last, and perhaps most important, what's the vendor's understanding of the industry? Does the vendor have experience in manufacturing or distribution? This understanding should extend to more than just accounting. Many software vendors understand debits and credits, but not as many know materials planning, for example. Can the vendor do a factory schedule? Does it understand the intricacies of outbound finished goods in a manufacturing or distribution environment?

As part of understanding the industry context, the vendor really needs to give you a sense that it also has a technology road map to support you in the future. Five or 10 years from now, you don't want to go back to being dissatisfied with an aging system that won't let you harvest all the possible value from it.

ABOUT THIS ANALYST

As group vice president, Bob Parker is responsible for the research direction for IDC Energy Insights, IDC Manufacturing Insights, and IDC Retail Insights, three of IDC's industry business units that provide global, fact-based research and analysis on best practices and the use of information technology that assists clients in improving their capabilities in key process areas. Mr. Parker blogs regularly in the IDC Insights Community (<http://idc-insights-community.com>). His Twitter handle is [roberteparker](#).

ABOUT THIS PUBLICATION

This publication was produced by IDC Manufacturing Insights Go-to-Market Services. The opinion, analysis, and research results presented herein are drawn from more detailed research and analysis independently conducted and published by IDC Manufacturing Insights, unless specific vendor sponsorship is noted. IDC Manufacturing Insights Go-to-Market Services makes IDC Manufacturing Insights content available in a wide range of formats for distribution by various companies. A license to distribute IDC Manufacturing Insights content does not imply endorsement of or opinion about the licensee.

COPYRIGHT AND RESTRICTIONS

Any IDC Manufacturing Insights information or reference to IDC Manufacturing Insights that is to be used in advertising, press releases, or promotional materials requires prior written approval from IDC Manufacturing Insights. For permission requests, contact the GMS information line at 508-988-7610 or gms@idc.com.

Translation and/or localization of this document requires an additional license from IDC Manufacturing Insights. For more information on IDC, visit www.idc.com. For more information on GMS, visit www.idc.com/gms.

Global Headquarters: 5 Speen Street Framingham, MA 01701 USA P.508.872.8200 F.508.935.4015 www.idc-mi.com