

Five Considerations When Justifying an Investment in ERP



The decision to upgrade or implement a new ERP system is likely one of the most complex and resource-intensive initiatives a company will face.

For many organizations, the first step is to make the business case for ERP. The effort involves determining an expected return on investment, anticipating total costs and fully documenting the business case for investing in a new or upgraded system. It's critical to document the business reasons for an investment in ERP, as well as the expected value to offset the cost. Identifying risk is part of the process, as is putting in plans to mitigate risk.

Few organizations can effectively manage this effort alone.

This guide leverages Ultra Consultants' significant experience helping midmarket manufacturers and distributors drive an effective justification process.

The five critical areas outlined here involve:

- Performing an assessment of the company's internal business environment
- Documenting the current state business challenges
- Clarifying the desired state and "value" of improved processes from ERP
- Considering total cost factors of an ERP upgrade/new selection
- Taking a close look at ROI of the ERP investment

1

Assess the Internal Environment

The first place to start is assessing the resources and knowledge available in your organization. Does your organization possess:

- Expertise to build the business justification
- Time to spend justifying the business justification
- Credibility with company executives
- Ability to coordinate with the LOB (line of business) executives to gain consensus
- Experience with and knowledge of the industry best practices

ERP Knowledge - Many companies do not have a working knowledge of today's modern ERP systems. Some team members might have gone through an ERP selection at some point in their careers, but lack familiarity and knowledge of what is possible with today's ERP. In these cases, an organization benefits from a consultant that offers recent ERP experience, preferably in the organization's specific manufacturing sector (food/beverage, automotive, process, etc.)

2

Fully Document the Current State

A critical component of business justification takes place during Ultra's Business Process Improvement engagements. The goal is to identify how a company operates its business processes today. By documenting business challenges and opportunities, a case can be made for an ERP investment.

- Helps teams achieve a full understanding of Business Process Improvement (BPI) initiatives, and how BPI is a key component of ERP selection.
- Identifies any gaps and risks between the current state and desired future state of operations, and identifies the specific systems that help close those gaps.

Typical bottlenecks and costs are associated with:

- Inventory management
- Quality management
- Ordering
- Warehouse management
- Production scheduling
- Invoicing

3

Clearly Map the Future State

This is the phase where the team gets a clear handle of the desired "future state" with improved processes and the savings/efficiencies and revenue increases that result that are specific to the company's situation to build business justification.

- The team reviews existing processes and the facilitator leads the team through a redesign of the business process.
- These sessions can parallel process redesign activities in Kaizen events or Six Sigma projects.
- The output of the session is a detailed process map and a definition of the process steps. Multiple levels of process maps are created similar to the maps used in the documentation of the current processes:
 - Level 1 – Enterprise
 - Level 2 – Department
 - Level 3 – Process
 - Level 4 – Sub Process

As the team members develop the new process map, they determine if the process can be implemented with current technology or if it requires new technology. If the process requires new technology, the future state documentation becomes the input to the new technology requirements and to the design phase of the new technology implementation.

Typical areas of future state improvement are seen in:

- Inventory reduction
- Cycle time reduction
- Reduction in material costs and waste
- Reduction in cost of labor
- Improved sales, new revenue with enhanced CRM

4

Get a Handle on Total Costs of Upgrade/New ERP

An important part of justifying an investment in ERP is understanding the true required costs and investment. Consider total cost of ownership for the various ERP options under consideration. Typical costs for an ERP implementation include:

- Acquisition
- Cost of expanding the solution
- Training
- Implementation
- Customization

Administration/Maintenance/Infrastructure - Legacy ERP systems can drain resources when it comes to an ongoing effort to maintain the software. Over time, maintenance costs rise and many organizations we team with grapple with high annual fees, complex upgrades, customizations and other issues. Deploying a SaaS, cloud or on-premise delivery model is part of the investment consideration. Costs needed for an internal IT department, or a third-party maintenance provider, also impact the organization.

5

Accurately Calculate ROI

Here's where the justification for ERP translates to quantifiable metrics. Once the desired state is properly mapped, the improved process map helps drive a return on process improvements in the future state.

Look at the process improvements ERP supports: as an example, a more streamlined ordering process, reduction of physical inventory counts, improved production quality, better scheduling and more.

Focus on savings resulting from access to real-time information. Look beyond hard savings like reduced inventories, cycle times, etc., and recognize those benefits achieved from more accurate materials planning, integrated databases, streamlined information reporting, dashboard reporting and other uses of real-time data.

Indirect or "soft" savings: The highest performing manufacturers assess the economic impact of other "soft" savings intangibles such as the dollars achieved from customer satisfaction, enhanced supply chain communication, improved decision-making quality, delivery performance, etc.

Additional Considerations

Our team often leads manufacturers and distributors through additional questions for a thorough justification audit, which includes exploring the following areas:

- **Reporting:** Is there a need for reporting that is not met with the current ERP? Consider reporting requirements from a variety of regulatory agencies, government departments and customers. What are the impacts and costs of non-compliance?
- **Business Intelligence:** Can the current system accurately capture, store, and trend a range of information such as quality, production, shipping, financial, supply chain activity and much more. Manufacturing systems must easily generate timely and accurate data so users can take the needed action to improve business processes. There are cost considerations for those companies that find it difficult to access such information.
- **Growth:** Changes over time can bring new needs that require a new ERP. Has the company acquired new businesses or gone through a merger? Has the marketplace changed? Has the competition gotten more complex?
- **Functionality:** Is there a need for new functionality such as Customer Requirements Management (CRM), Manufacturing Execution Systems (MES) or Product Lifecycle Management (PLM)?
- **Multi-Plant:** Is there a move to operate in a multi-company structure in the years ahead? Many companies are challenged to use their existing ERP system to make this process easier and eliminate the need for duplicate data entry. Companies that once only had to track operations from one facility might soon be dealing with complex supply chains and markets from multiple plants.
- **User Adoption:** What about ease of use, training and user adoption? Today's ERP is much more intuitive and user-friendly which takes the cost out of training and speeds user adoption.

ERP Justification Next Steps

Making the business case for ERP is an important effort that sets the framework for success. By determining an expected return on investment, anticipating total costs and fully documenting the business case for investing in a new or upgraded system, companies build a solid foundation for the ERP project.

Wrestling alone through this complex process can be a challenge. Leading manufacturers and distributors work smarter by teaming with an experienced guide during ERP justification rather than “go it alone.”

When led by the team at Ultra, the process uncovers the overwhelming reasons to deploy ERP systems for the highest levels of data quality, accuracy, delivery and storage. Having Ultra perform this analysis and business justification will provide a significant return, whether the company proceeds to a new ERP selection immediately or opts to “enhance”/“stabilize” the current ERP system.

See how these guidelines can positively impact your organization. We look forward to speaking with you about your active ERP project.

About Ultra Consultants, Inc.

Ultra Consultants is an independent consulting firm serving the manufacturing and distribution industries. Organizations turn to the Ultra team for ROI-driven ERP technology expertise and business process management that improves revenue and customer satisfaction, enhances financial management and real-time decision making, improves productivity and reduces time to market. The world's middle market companies make up the Ultra Consulting client roster including aerospace and defense; automotive; chemical; consumer goods; electronics; food and beverage; industrial equipment; medical device; metal fabrication and plastics manufacturers. Ultra Consultants offer deep experience in manufacturing process optimization. The team averages over 20 years manufacturing and process experience with professional certifications in APICS, Lean manufacturing, Six Sigma Green and Black Belt, and Project Management.