

FOCUS BRIEF

What is ERP in 2010?

By Michael E. Dortch | December 29, 2009

Introduction

When Gartner introduced the term “ERP” in 1990, it applied primarily to manufacturing, specifically the planning and management of the resources needed to produce particular goods. Today, however, every business decision maker realizes that his or her enterprise relies upon resources, and that planning is essential to optimize how those resources are acquired, allocated and used. This means that the definition of “ERP” is evolving and expanding to include multiple critical business functions. This dynamic has significant implications for every type and size of organization. Below, some observations and recommendations intended to aid navigation of this roiling evolution.

Analysis

“Another manager in my business asked me to define ERP today and I didn’t really have a good answer for him,” Focus contributor Patrick Mills posted recently to the Focus Finance Group. “How would you guys define ERP and what does it encompass?”

“The key word is ‘enterprise’ – software systems that can potentially address most, if not all, of the critical processes and functional areas in a company,” replied Focus contributor Paul Sita. This varies, based on whether you are in manufacturing, distribution, services or other kinds of industry. But anything that can be considered [a true] ERP solution has to address the breadth of the organization. Most customers do not implement all that functionality, certainly not in the beginning. However, they grow into it, and the integrated nature of ERP systems, by definition, brings value to whatever sub-set of applications you do implement,” Mr. Sita added.

However, Focus contributor Richard D. Cushing pointed out that reality often differs from the ideal. “Unfortunately, what I call ‘traditional ERP’ is often nothing more than an ‘everything replacement project.’ Enterprises of all sizes decide it’s time to tear out their core systems and replace them with something that they believe – or have been told by their reseller or vendor – will make them faster, better or more efficient. Unfortunately, the results are often disappointing.” Mr. Cushing added that “the new ERP” should focus on “enhanced readiness for profit,” which is what companies doing traditional ERP are really looking for but all too frequently cannot find.”

From a slightly more technically focused perspective, “ERP (formerly called MRP [for “manufacturing resource planning”] is about bringing standalone databases together,” said Focus contributor Rick Rude. “From a financial perspective it would be bringing Accounting & Finance and pulling in Payroll,” Mr. Rude offered as an example. “Historically, MRP was built for Manufacturing to track projects,” Mr. Rude added.

Today, however, ERP embraces so much more than the tracking of manufacturing projects that many users have trouble deciding where ERP ends and related but different business functions begin. Among the most frequently mentioned of these other functions is CRM, according to Focus community members. Charlie Ellis, a member of the Focus Sales Group, recently asked, “If I buy an ERP system, do I have to purchase a separate CRM system? Is that [CRM] a module that can be included in an ERP system?”

“These terms are becoming blurred so the answer depends upon which ERP or CRM system you buy,” said Focus Expert [Simon Gantley](#). “There are a lot of CRM systems that include a lot of ERP functionality, for example [NetSuite](#), [EnterpriseWizard](#) and Siebel [which is now owned by [Oracle](#)]. There are also ERP systems with CRM modules such as [SAP](#),” Mr. Gantley added.

“Normally CRM is not included as part of ERP. An ERP system allows you to integrate engineering, customer service, planning, materials, manufacturing, finance, and human resources across a single facility or across multiple locations. However CRM systems help you track and manage your customer relations, said Focus contributor Betty Feng.

“CRM systems often provide ‘pre-sales-to-order’-type capabilities to help land the sale/contract that then is processed and fulfilled in the ERP system modules,” added Focus contributor Len Green. “CRM also can help with after sales service management and improved company-wide views of customer activity.”

Beyond CRM, many decision-makers considering or pursuing ERP deployments seek guidance regarding specific ERP modules and features. For example, Focus Operations Group member and operations manager for a 250-person manufacturing company Todd Lang recently asked, “What are some top ERP modules to consider when buying?”

“The modules need to map directly to your needs and the solution that you purchase needs to allow you to unbundle unnecessary modules,” affirmed Focus contributor Scott Priestley. “Understanding your quote-to-cash-flow [processes] is the first step” in making the right ERP feature, function and module choices, Mr. Priestley added. He then offered examples of specific questions Mr. Lang and any other decision-maker pursuing or considering ERP should ask before choosing a solution:

- 1 Do you need sophisticated financial integration between different businesses, locations, continents, etc?
- 2 How tightly is product design/engineering integrated into the quote-to-cash-flow [process]?
- 3 Is robust, integrated Quality/ISO functionality a requirement?
- 4 How do you do HR/Payroll?
- 5 Do you have a mature IT team that can support a modern system going forward?

Focus contributor Robert Israch offered some additional questions worth considering.

- Is sales, marketing, and support included or must [your ERP solution] be integrated with other applications?
- How do you manage customer renewals and up-sells?
- Do you have multiple locations and/or vendors/partners who need to access certain parts of the system and that you need to collaborate with across locations?
- Do you need access to the system 24/7 and from multiple locations and on the road?
- Would you like KPIs [key performance indicators] and dashboards built in to the applications? Should they be real-time?
- Do you want visibility across leads, sales, customer transactions, services issues, inventory, fulfillment, cash flow, payables and receivables, etc?
- Do you require having your systems managed on site or would you prefer to reduce software and hardware management and total cost of ownership by using a SaaS [software as a service] ERP vendor instead?”

Conclusion

Clearly, effective ERP solution selection and deployment relies heavily upon comprehensive assessment of specific business needs. This point was emphasized in the response to Mr. Lang's question offered by Focus Contributor Steve Christensen. "The first question would be why do you need an ERP [solution]? What systems do you currently use to track your business? What is missing in your business systems that lead you to consider a new ERP [system]? There are much more cost-effective, less disruptive and better systems [you can use] to run your business than going the route of a full ERP solution," Mr. Christensen said. He added that even SaaS-based ERP solutions can be "intolerably inflexible" in meeting business needs, if not chosen based on effective assessment and prioritization of those needs.

Clearly, ERP selection and deployment decisions can be daunting, and can have significant effects on how a business does business. Decision makers considering or pursuing ERP must begin by assessing specific business needs carefully, and ensuring that all candidate solutions and vendors are aligned with those needs. Such an approach can ease and speed the path to ERP success, while any other approach risks disappointment, inconsistent use and little or no business benefit.

Recommended Reading

- [What Is a CRM system and Do I Need One?](#)
- [Business Intelligence: 5 Things to Watch for in 2010](#)
- [Enterprise CRM: 5 Considerations](#)