Sage ERP | White Paper

7 Steps to Building a Business Case for ERP

sage

Table of Contents

Executive Summary

Businesses are looking to make technology investments to prepare for growth. But with the economic recovery uneven and uncertain, they remain cautious about these investments. One thing is clear: Any technology investments must deliver value to the business. To define this value and corresponding costs, businesses need to define a business case for their technology investments and build a framework for measuring ROI. This whitepaper describes a 7-step process that will help organizations build their own business case for an ERP investment.

The Need to Align ERP Technology with the Business

While the economy continues to improve, high unemployment and consumer thriftiness mean that the recovery remains anemic and uncertain. Thus, while businesses are now preparing for growth by increasing technology investments from the low rates of the Great Recession, they remain careful with their investment dollars. They are no longer willing to invest in technology for its own sake; instead, they are focused on exploiting technology to create value for the business.
To this end, businesses are looking to integrate technology into the fabric of the business and use it to support business goals and objectives. For example, *CIO* Magazine's "Annual State of the CIO Survey"[1] found that some 30 percent of the 594 IT leaders surveyed identified "meeting or beating business goals" as a critical core competency.

As organizations evaluate new ERP projects, they are focusing on business need. In the latter half of 2010, Panorama Consulting[2] found that there was a marked shift to organizations focusing on clearly developing a business case and conducting an ROI analysis when assessing the viability of ERP initiatives. A business case defines the business need for a particular investment and then quantifies the costs and benefits to clarify whether the investment is worth doing and to understand when the costs and benefits will accrue. Given the risk aversion of many companies, Panorama believes this trend is likely to continue in 2011.[3]

Building the Business Case for ERP

To create a business case for an ERP investment and select the right ERP option, organizations should follow a 7-step process:

1. Describe the business challenge
2. Assess the potential benefits of the ERP investment
3. Assess the potential costs of each ERP option
4. Assess risks and issues that might arise during the implementation
5. Recommend the preferred solution
6. Describe the implementation approach
7. Measure potential and actual ROI

[1] http://www.cio.com/article/511242/Alignment_2010
[2] http://whatiserp.net/erp-basic-knowledge/top-ten-erp-software-predictions-for-2011/
[3] Ibid.

1. Describe the Business Challenge

The first step in building a business case is to precisely determine the business challenge to be addressed with the ERP investment. Describe the aspects of the business environment driving the need for the ERP project, including why the problem exists, human, process, or technology issues that are creating the problem, the impact of the problem on the business and the timeframe within which the problem must be resolved.

Common challenges that cause companies to consider ERP solutions include:

A desire to grow the business

Many businesses want to grow either through acquisition or organically. However, existing processes or business applications may be unable to adequately manage a larger enterprise. For example, existing accounting software may be unable to support new subsidiaries or offices in multiple countries. Acquired companies might have their own business applications; the company may need a common software application to standardize business processes across the organization. The company might need a new business system to handle growing numbers of users and transactions. Or it might need more advanced functionality, such as sophisticated reporting and business analytics, CRM, or payroll capabilities.

Inefficient Business Processes

Many organizations perform business processes in a time-consuming, inefficient, error-prone manual fashion. For example, employees may manually extract information from spreadsheets to create reports, re-enter customer information into multiple siloed applications, as well as consolidate data from multiple companies by hand or enter data from paper timecards.

A Need to Reduce Costs

During difficult or uncertain economic conditions, many organizations look to reduce their operating costs to shore up profit margins. They might wish to implement an ERP to automate manual business processes and allow staff to focus on exceptions. Many organizations also seek to reduce distribution and transportation costs by bringing their operations closer to the customer. These organizations need standardized processes for managing geographically distributed operations while allowing the company to consolidate financial information.

Obsolete Systems

Many organizations considering a new ERP have obsolete systems that are no longer supported. They need to move to a new system to obtain modern functionality, ongoing upgrades and support.

2. Assess Benefits of ERP Options

Replacing an obsolete system with a modern ERP can give companies the tools they need to address their business challenges while reducing costs and achieving a wide range of benefits. The following are the types of benefits organizations can expect to achieve by implementing an ERP. When evaluating different ERP options, organizations should consider how well each solution delivers these benefits.

Grow the Business

Moving to a comprehensive, integrated ERP can give businesses the functionality they need to manage larger, more sophisticated operations. The right system will enable companies to increase their use of the system as their needs evolve by deploying all or part of the ERP functions, one step at a time, without having to start a new project from scratch. Or they can implement the ERP in a single location and for a limited number of users first and then progressively connect new users, either locally or remotely. With such a solution, organizations can manage their growth while minimizing additional costs.

Improve Efficiency

The right ERP can improve efficiency by enabling integration, automation, improved decision making and better collaboration:

Integration Provides Coherent Business Information

The right ERP can integrate all management processes into a single, coherent information system and distribute information in real-time throughout the company wherever it is needed. By sharing data throughout the system, the ERP eliminates the need for manual data re-entry, which improves productivity, eliminates lost time, reduces errors, and provides reliable, coherent data.

Automation Eliminates Manual Processes

ERP solutions can automate business processes while providing alerts for exceptions to allow staff to focus on unusual events. Greater automation means companies can either reduce staffing levels (costs) or redeploy staff to other activities (e.g., do more with less).

Business Intelligence Improves Decisions and Efficiency

An ERP system that includes Business Intelligence (BI) tools and integrated information eliminates manual processes needed to produce reports. Better reporting capabilities allow employees to make better, faster, data-driven decisions. Companies can also use BI tools to analyze business processes to further improve process efficiency.

Better Collaboration

The ability to collaborate electronically with partners, suppliers and/or customers enables organizations to manage end-to-end processes with customers and partners in a more efficient and cost-effective manner. Organizations can provide better and faster response to partners and customers. Partners and customers have the opportunity to participate in the businesses' processes and do part of the job, which reduces a company's labor requirements and costs. For example, an organization can authorize a supplier under contract or blank order to connect to its business process management system remotely and be automatically informed of a reorder requirement triggered by a low stock alert.

3. Assess Costs of ERP Options

Next, determine the total cost of ownership for the various ERP options under consideration. Typical costs for an ERP implementation include:

Acquisition

Many ERP solutions come at a high acquisition cost. Small to mid-sized businesses are often looking for Tier 1 performance and functionality but are unable to afford Tier 1 costs and implementation. An ERP designed specifically for the SMB market is likely to cost less while offering the appropriate functionality.

Cost of Expanding the Solution

Is the solution comprehensive, or does it require an organization to upgrade to obtain more than entry-level functionality? Look for a solution that includes best-of-class features and a complete range of modules that can be used throughout the organization: accounting and financial management, sales, purchasing, inventory management and manufacturing. The solutions should also be easily scalable to accommodate increasing numbers of users as necessary.

Training

Intuitive navigation will help reduce training costs and get users onto the system faster. Look for a graphical process-oriented user interface; a common look-and-feel throughout the system, and sound ergonomics that streamline and simplify work processes by providing a clear view of the tasks to accomplish and steps required.

Implementation

ERP implementations are notorious for high costs. To minimize implementation costs and time and deliver Return on Investment (ROI) faster, look for configurable software that adapts to the enterprise without requiring custom development and months of professional services.

Customization

The ERP system should be fully customizable to address any unique business requirements an organization may have.

Administration/Maintenance

To reduce administrative/maintenance costs, the system should include simple and comprehensive administration tools to make it easier to update and maintain without a huge IT staff or with minimal third-party support.
The ERP system should also easily evolve with the growth and new requirements of the enterprise. Integrated design can make it easy to activate new functions when needed, connect new users to the system or quickly provide a new branch with a fully operational management system without the need for custom interfaces.

Future Requirements

The system should support the latest technologies to allow it to be easily modified as hardware and technology requirements change. These technologies include:

- An SOA (service-oriented architecture) or WOA (web-oriented architecture) to enable web services interoperability and support languages and standards such as .NET, Java, XML, UDDI, WDSL, SOAP and .NET

- Support for multiple operating systems such as Windows, AIX, and Linux Red Hat

- Support for multiple databases, such as Oracle and Microsoft SQL

- 4GL integrated development environment

4. Assess the Risks and Issues that Might Arise with the Implementation

Next, assess the risks or issues that might arise during the implementation. Potential risks and issues to consider include:

Operational Risks

Some operational risks to consider include low user adoption due to software that is complicated to use and low reliability/continuity of operations. These risks can be mitigated with a reliable solution that is intuitive and easy to navigate.

IT Risks

Common IT risks include short shelf life because the system is not adaptable to new business requirements (e.g., doesn't offer comprehensive operational functionality or multi-site/international functionality) or technology requirements. Organizations can mitigate this risk with a system that offers comprehensive functionality and is easy to configure or adapt to new requirements.

A second risk is that the system will be IT resource intensive and require too many cycles from limited IT resources to manage. Strong management tools mitigate this risk. To avoid the long implementation times that often plague ERP solutions, look for a comprehensive, flexible and configurable system.

Financial Risks

ERP systems can be costly to implement and require expensive additional modules or customizations. Address this risk with a comprehensive solution with a price point geared toward the size of the organization.

5. Recommend the Preferred Solution

Once an organization determines the benefits and costs for each alternative, it can recommend a preferred solution.

6. Describe the implementation approach

Now describe the implementation approach to give sponsors confidence that the implementation has been well thought through. When looking to a vendor's professional services arm or systems integration partner to help with the implementation, consider factors that include:

- Skills and knowledge delivering solutions for your line of business and industry

- The longevity of the business providing the service

- Use of an implementation methodology that standardizes software implementations by providing a critical path for all the steps that must occur

- How well they document the implementation process, milestones, and deliverables

7. Measure ROI

As an organization explores how the ERP benefits and costs described here apply to its own operations, it can also begin to estimate expected ROI. After identifying elements of potential ROI, organizations can then continue to look at elements over time after the implementation to measure actual ROI. Calculate ROI using this simple equation:

ROI = [(Payback - Investment)/Investment)]*100

When determining payback, be sure to consider all business processes that are impacted by the new ERP system. Look at all time savings, cost savings, and increased revenues that can be attributed to the new system. Similarly, when calculating investment, consider all costs detailed in this paper, including acquisition, training, implementation, maintenance and so on.

Conclusion

By following this 7-step process, organizations have the tools they need to precisely measure the value of any ERP investment to their operation and to compare ERP solution alternatives. They can also use this analysis as the basis for estimating potential ROI prior to the investment — and actual ROI results after implementation.

7 Steps to Building a Business Case for ERP

About Sage North America

Sage North America is part of The Sage Group plc, a leading global supplier of business management software and services. At Sage, we live and breathe business every day. We are passionate about helping our customers achieve their ambitions. Our range of business software and services is continually evolving as we innovate to answer our customers' needs. Our solutions support accounting, operations, customer relationship management, human resources, time tracking, merchant services, and the specialized needs of the construction, distribution, healthcare, manufacturing, nonprofit, and real estate industries. Sage North America employs 4,000 people and supports nearly 3.1 million small and medium-size business customers. The Sage Group plc, formed in 1981, was floated on the London Stock Exchange in 1989 and now employs 13,100 people and supports 6.2 million customers worldwide. For more information, please visit the website at www.SageNorthAmerica.com or call 866-308-2378.

The information contained in this material represents the views of Sage on the issues discussed herein current as of the date of publication. As market conditions are always subject to change, the information contained herein shall not be interpreted as any commitment from Sage. This material is for informational purposes only and Sage make no warranties, expressed or implied.

Sage
6561 Irvine Center Drive
Irvine, CA 92618
Telephone: 866-530-7243
www.SageERPSolutions.com