



White Paper

# A 5 point plan to ERP selection success:

The changing face of ERP software

## Introduction to the second edition

When it was published in 2011, Infor's "5 point plan to ERP selection success" quickly became one of our most popular downloads for manufacturing enterprises. By treating the selection process for enterprise resource planning (ERP) software as a response to the tough challenges that businesses face every day, we delivered the valuable support and guidance that any company should expect from a trusted advisor.

But the world doesn't stand still. Business is transforming ever more quickly in key verticals, with manufacturing leading the way. ERP systems, and the operating philosophies behind them, have gone through their own rapid evolution to accommodate a complex, ever-changing marketplace.

This second edition of the white paper focuses on the same five issues that continue to be important to our customers, with the benefit of some of the latest and best analysis available on today's business drivers and trends.

## 1. Figuring out your business drivers

In 2011, according to a survey by the Aberdeen Group, businesses were looking to their ERP systems to help them improve the customer experience, manage growth, reduce costs, improve customer response times, and meet the pressure for product and service innovations that would deliver greater value.<sup>1</sup> In its conversations with customers, Infor® repeatedly heard that the right ERP system must:

- Keep up with the pace of change in key business verticals.
- Deliver the information executives need, when they need it, to make timely decisions.
- Give them convenient access to all their data, however and wherever it was stored.
- Allow greater flexibility for software additions and upgrades.
- Boost front-line productivity with an intuitive, easy-to-use interface.
- Manage complex products, supply chains, and sales channels in an atmosphere of volatile customer demand.



## Table of Contents

1	Introduction to the second edition
1	Figuring out your business drivers
3	Establishing your ERP strategy
5	Deciding what you need from your software
7	Determining your total cost of ownership
9	Choosing the right vendor
9	It's time to take action

<sup>1</sup> Aberdeen Group, Kevin Prouty and Nick Castellina, *ERP in Manufacturing 2011: Defining the Strategy*, July 2011

Three years later, the business landscape for manufacturers and suppliers has many of the same features. But they've increased in urgency, and extended to include new concerns, as some of the major trends continue to ripple through the marketplace. The key business drivers for ERP systems include the ever-accelerating pace of change, the need for closer collaboration across the enterprise, a relentlessly customer-centric focus, mass customization to serve distinct micro-verticals and customer demands, and a "globally local" business philosophy that offers agile, flexible delivery across an extended geographic territory.

In 2011, many companies were still taking their first, tentative steps into cloud computing, or still assessing whether they should move in that direction. Today, many of the innovations that began a few years ago have become basic business imperatives, leading to deep changes in the design philosophy behind the modern ERP.

According to Gartner:

- "By 2016, over 70% of companies will utilize ERP applications embedded with social networking technology"
- "By 2016, at least 50% of organizations will deploy their ERP applications to users via a post-PC environment"
- "By 2016, the devolution of monolithic ERP will result in at least 30% of ERP implementations being deployed in a federated manner"
- "By 2016, in-memory technology will support predictive analytics from inside ERP applications."<sup>2</sup>

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**In the new generation of ERP systems, customer conversations will become the currency of business activity, connecting applications, people, equipment, and data to produce breakthrough results at a speed that would once have been unimaginable.**

Similarly, in the few short years since online networks became a widespread social phenomenon, social media in business has evolved from an exotic extra, to a challenging (but necessary) new addition, to a basic enterprise tool. Over the last several years, Infor has helped its customers integrate customer conversations into established business processes.

In the new generation of ERP systems, customer conversations will become the currency of business activity, connecting applications, people, equipment, and data to produce breakthrough results at a speed that would once have been unimaginable.

And in a post-PC world where technology travels more freely with people, more and more of that activity will take place on tablets and mobile devices. Users now need and demand convenient, secure, real-time access to the critical business data within their ERP systems. Already, "anytime, anywhere access to information with the ability to act" is more than a future prospect or an aspirational goal. It's the price of entry for any company that wants to compete, survive, and thrive in a tough business environment.

<sup>2</sup> Gartner Predicts 2013: Reinventing the Roles of ERP and Application Suites, Denise Ganly, Nigel Rayner, Christian Hestermann, Nigel Montgomery, and Alexander Drobik, April 17, 2013

Look no farther than manufacturing for an example of the rapid shift in expectations for ERP technology. According to a recent white paper by IDC Manufacturing Insights, the sector is seeing an increase in sales, profits, and productivity, reflecting factors like emerging technologies, product specialization, reshoring, and increasing consumer demand.

However:

To harness the opportunity given by the new manufacturing renaissance, manufacturers will need to transform today's challenges into opportunities. It won't be an easy task. It will require manufacturers to completely rethink their business model, organizational structures, and IT landscape.<sup>3</sup>

IDC identified self-forming teams, skilled resources, speed of business, globally local manufacturers, customer experience, and end-to-end supply chain visibility as the ingredients of a successful business strategy. And it cited a shift from client/server applications to a "3rd IT platform" that incorporates cloud, mobility, social business, and big data analytics as one of the key components of a transition from transactional to real-time business strategy.

IDC urged manufacturers to:

- Recognize they have no choice but to change, since "business as usual will not work anymore"
- Treat the journey toward the future of manufacturing as revolution, not evolution
- Prioritize in-house capabilities
- Recognize people as "your most precious resource, today and in the future"
- Move into the cloud, even if the process requires leadership from a "brave CIO"
- Rethink their existing ERP systems in the context of a transformed business and technology environment.

## 2. Establishing your ERP strategy

Infor's original "5 point plan" touched on a basic truth that always bears repeating: Before selecting an ERP system, it's essential for any organization to get senior executive buy-in on a clear set of prioritized goals, before devising appropriate software strategies to achieve them.

In 2011, participants in an IDC Manufacturing Insights survey identified a cluster of top priorities, including demand planning and forecasting, better customer fulfillment, introduction of Six Sigma or other continuous improvement processes, and better alignment of IT functions with the wider enterprise.<sup>4</sup>

"Where the prime driver or strategy was growth, initiatives were centered on an investment in product innovation and delivering value added services," the IDC paper noted. "Where it was centered on cost, the focus was on shortening the supply chain and reducing the number of suppliers."

<sup>3</sup> IDC Manufacturing Insights, *The Future of Manufacturing*, January 2014

<sup>4</sup> IDC Manufacturing Insights, *In Pursuit of Operational Excellence*, January 2012

In the 2010 Aberdeen Group study, the actual cost of the software placed last in a prioritized list of expectations for manufacturing sector ERPs:

- Functionality
- Ease of use
- Total cost of ownership
- Ease and speed of implementation
- Integration of technologies and capabilities
- Time to value
- Software cost.<sup>5</sup>

By early 2014, IDC Manufacturing Insights had shifted its focus to the characteristics of highly effective manufacturers, arguing that companies will have to “completely rethink their business model: the way they source raw material, the way they design products, the way they produce, the way they fulfill customers, the way they engage with employees.”<sup>6</sup>

IDC said the winners in the manufacturing sector will be the enterprises that can:

- Create collaborative organizations and self-forming teams that give employees the flexibility and autonomy to deal with increased globalization, heightened complexity, and fierce competition.
- Build functional communities of employees and trading partners and create the right setting for them to innovate, streamline business processes, and drive new product development and revenue generation.
- Attract and retain a younger work force that can transform business processes with innovation, speed, and a collaborative spirit.
- Accelerate decision-making and process execution, recognizing that speed will be even more important than knowledge as a source of competitive advantage.
- Serve the divergent expectations of multiple local markets, by quickly customizing new products to match emerging market trends.
- Boost account retention, differentiation from competitors, and sales force effectiveness by creating a more powerful customer experience.
- Nurture a customer-centric culture that supports long-term business relationships, revenue growth, and profitability.
- Use real-time, end-to-end supply chain visibility to maximize collaboration among trading partners and responsiveness to changing circumstances.

The majority of manufacturers may need to upgrade their ERP systems to meet these new business imperatives, since only 40% of them “have effective systems and/or applications in place to support enterprise management,” according to a 2013 market assessment by The MPI group.<sup>7</sup> A large proportion of MPI survey participants identified customer-focused innovation, human resource management, process improvement, supply chain management and collaboration, sustainability, and global engagement as areas where they had inadequate systems in place, or no systems at all.

<sup>5</sup> Aberdeen Group, op. cit.

<sup>6</sup> IDC Manufacturing Insights, January 2014

<sup>7</sup> The MPI Group, *Current and Competitive ERP*, 2013

A 2012 article in Business Computing World contained this dire warning:

Outdated ERP can leave you dangerously out of touch. The more change your organization is subject to—growth and expansion, acquisitions, new product lines, etc.—the less you really know. A lack of available business information can become a significant problem, no matter how many spreadsheets and workarounds have been developed.<sup>8</sup>

### 3. Deciding what you need from your software

It was true in 2011 when Infor published the original “5 point plan”, and it’s still true today: It doesn’t matter how carefully you’ve strategized and mapped out your processes if the software you select can’t deliver what you need. Matching your software acquisition to your business goals is one of the first, most important steps you can take toward achieving those goals.

- You can and should demand a flexible architecture in a new ERP solution. The loosely coupled architecture of Infor 10x technology is built on the language of the Internet, making it easy for you to expand your system capabilities, integrate legacy or third-party solutions, and accommodate new advances—whatever the future may hold. As disruptive technologies continue to change the face of manufacturing, Infor’s software solutions have the flexibility to adapt to new opportunities and imperatives such as telemetry, the Internet of Things, and 3D printing.
- Your ERP system must present information and functionality in a clear, concise format that makes sense to your organization. As baby boomers retire, manufacturers face significant and growing skill gaps. In the struggle to recruit and retain the best of the best minds, the ability to offer tools that are a pleasure to use could be crucial to your company’s survival. Today’s younger workers expect consumer-grade ease of use and highly intuitive screen and user interfaces, with the same attractive work space as their consumer devices. They have no patience for outdated green screen technology or cumbersome interfaces.
- Your ERP system must support your specific manufacturing processes and modes of operation, however unique or targeted they may be. The days of mass production are gone, with manufacturers adopting mass specialization to cope with changing consumer demands and intense market pressure. That high level of flexibility must be reflected in any ERP system you acquire.
- More than ever before, your ERP system must easily and rigorously accommodate the regulatory mandates, reporting requirements, and recall practices that are specific to your industry. By designing the right system for your micro-vertical, Infor offers you the attention to detail you need and expect, without the high cost of customization.
- Your ERP system must communicate seamlessly with a variety of data sources, within your enterprise and across your extended supply chain. A single, monolithic ERP system is seldom appropriate for a growing, thriving manufacturing enterprise, and our customers must often integrate mission-critical data across several legacy systems. Infor ION® technology makes it happen.
- Cloud-based solutions are becoming more commonplace, with companies relying ever more heavily on the significant benefits they offer. The prospect of reducing total cost of ownership through cloud technologies is increasingly attractive as organizations recover from the economic downturn.

<sup>8</sup> Anwen Robinson, *Time to Migrate? The Importance of Modern ERP for Successful Business*, in *Business Computing World*, June 6, 2012.

With this mix of business imperatives as context, the most recent “Manufacturing ERP Report” published by Panorama Consulting Solutions captured the front-line requirements that lead companies to consider replacing their existing systems.<sup>9</sup>

Panorama cited a series of motivations for manufacturers to introduce new ERP software, including:

- Better systems integration across multiple locations
- Standardization of global business operations
- Replacing an old or legacy ERP system
- Improving employees’ job experience
- Meeting regulatory or compliance reporting requirements
- Positioning their companies for growth
- Reducing working capital

To some degree, the shape of future ERP systems is reflected well in IDC’s description of the 3rd IT platform that is already taking shape in modern manufacturing enterprises:

- In Q1 2013, smartphones outshipped feature phones for the first time. Global mobility spending is expected to reach US\$800 billion in 2016, and the average connected household will have 12.5 devices in use by 2050.
- The global social business software market will reach US\$10.3 billion by 2016, providing a platform for inter-enterprise integration and collaboration. New social media platforms will redefine marketing and customer services in 40% of Global 2000 companies by 2020.
- Global spending on big data services will reach US\$23.8 billion by 2016. The amount of data collected and replicated around the world will double every two years, reaching a total of 40 zettabytes (ZB, or 10<sup>21</sup> bytes) by 2020.
- Cloud computing, a phenomenon that customers were only embracing tentatively in 2011, will reach US\$179 billion in global sales by 2016, supplying more than 60% of enterprise-grade storage capacity. “These technologies will prove essential for manufacturers to speed up and reduce costs of IT implementations, as well as achieving process standardization and integration along the supply chain.”<sup>10</sup>

IDC predicted that:

The transition from the 2nd IT platform (client/server applications) to the 3rd IT platform (based on cloud, mobility, social business, big data analytics technologies) will bring the promise of creating a real-time, collaborative decision-making environment, and will be pivotal in supporting manufacturers [to] leap the barriers separating a transactional business from a real-time business....

This new IT environment will also be the key to collaborative, team-driven work flows that will maximize employees’ effectiveness and work satisfaction, thereby contributing to employee retention.

<sup>9</sup> Panorama Consulting Solutions, *The 2014 Manufacturing ERP Report*, 2013

<sup>10</sup> IDC Manufacturing Insights, op. cit.

## 4. Determining your total cost of ownership

Equipment acquisition isn't the only cost a company incurs in an ERP hardware upgrade. The total cost of ownership (TCO) includes implementation, software acquisition, integration costs, maintenance, support, and the human resources that must be deployed at every step along the way.

Reducing the total cost of owning an ERP system is about more than negotiating a low purchase price. It's about looking at ways to speed implementation and control costs once the solution is deployed.

Although change is necessary and the rewards will be sweet, the process of transforming IT systems can be much more easily said than done. While ERP implementations in manufacturing take 3% less time than the average across all industries (18.5 vs. 19.1 months), Panorama Consulting Solutions reported that the gap between expected and actual implementation schedules is larger (3.8 months slower in manufacturing, compared to 0.2 months faster across all industries).<sup>11</sup>

Extended implementation times are caused most frequently by organizational issues, including inadequate change management and training, followed by scope creep, unrealistic project timelines, data issues, training issues, technical issues, slow delivery by the vendor, resource constraints, and conflicting organizational priorities.

Panorama noted that ERP implementations average 5.5% of manufacturing companies' annual revenues, and the average implementation costs 14% more in manufacturing than across an index of other industries. "Since manufacturing organizations often are more complex than organizations in other industries, ERP systems in the manufacturing industry can require more customization."

And for that very reason, projects often run over budget: "Issues such as customization level, implementation scope, and business process complexity all affect total implementation cost," with nearly two-thirds of manufacturing ERPs exceeding their original budgets by an average above US\$3 million.

On the other hand, a higher proportion of manufacturing implementations also come in under budget. Across the entire survey group, 31.3% told Panorama their ERP projects had achieved a two- to four-year payback, while 50% said they had not yet recouped their costs.

In the end, by far the biggest cost of ownership is the opportunity cost of buying the wrong system, or building a strategic partnership with a hardware vendor that isn't finely tuned to your evolving business needs. The average lifespan of a manufacturing ERP system is 10 to 15 years, according to IDC.<sup>12</sup> That means your business relationship with your vendor will last longer than many marriages, and the choices you make at the beginning will be almost as important.

The MPI Group stressed the importance of pursuing the right ERP upgrade path.<sup>13</sup>

<sup>11</sup> Panorama Consulting Solutions, op. cit.

<sup>12</sup> IDC Manufacturing Insights, Beating Complexity, Achieving Operational Excellence, July 2010

<sup>13</sup> The MPI Group, op. cit.

MPI identified three options for any company considering a new or enhanced system, but demonstrated that not all options are created equal:

- Companies often keep a traditional ERP at the core of their business, at the risk of missing major opportunities to innovate.
- Increasingly, manufacturers are adopting point or “two-tier” solutions that can deliver state-of-the-art functionality in specific areas, like warehousing or human resources, within an established ERP system.
- Total system replacement may be the best option if a company has grown mainly through acquisition, or if a legacy ERP system can’t keep up with rapid shifts in corporate strategy or customer needs.

Infor has taken several steps to accommodate this mix of upgrade strategies, beginning with the recognition that every ERP system acquisition is about value, even more than it’s about cost. Infor customers are working hard to build great companies on great strategy, and the day-to-day process of collecting data and running reports is a means to that end, not an end in itself. A customer invests in an ERP system to boost productivity and efficiency, streamline operations, gain visibility into the entire supply chain, and integrate business intelligence that makes it possible to seize competitive opportunities and spot potential risks.

Infor product and strategy teams work hard to support that effort as trusted, strategic partners. That means a continuous commitment to keep up with the industry trends that determine business strategy and align with the unique needs that drive an ERP system upgrade or replacement. From this crucial starting point, customers can look to Infor for:

- Sound advice on whether to upgrade an existing current system, adopt a point solution, or move to a full ERP replacement.
- Up-to-date intelligence on the technology trends that continue to shape manufacturing and specific micro-verticals.
- Timely upgrades that continually boost efficiency and minimize the need for modifications. According to a June, 2013 Deloitte study cited by The MPI Group: “Engineered systems, in-memory computing, and a broader shift to cloud infrastructure and platform enablement of parts of the core ERP landscape have the potential to improve cost and performance characteristics of the preserved core.”<sup>14</sup>
- Advice on business conditions that dictate a two-tiered solution. “Advantages are highly focused and deep vertical specialization, tight integration, and maintenance of organizational visibility during transition,” MPI reported. A two-tier solution can also cut TCO by eliminating some modifications, compressing implementation schedules, allowing more frequent but less costly upgrades, and reducing the need for maintenance.
- In a replacement, objective guidance on the system that best meets a company’s current needs and positions it for future growth. “Sometimes the best option is to start from scratch,” MPI stated. In that case, “savvy executives will review not only the TCO of their existing systems, but the opportunity costs of not making an ERP change.”

A system that fails to deliver on your specific needs and expectations will cost you far more than the purchase price of the hardware, leaving you with a competitive disadvantage from which it might take your business years or decades to recover. By gaining a keen understanding of your sector and your individual business needs, Infor helps you design the customized ERP package that will set your organization on a path to success.

<sup>14</sup> *Tech Trends 2013: Elements of Post-Digital: Reinventing the ERP Engine*, Deloitte, June 2013.

## 5. Choosing the right vendor

According to The MPI Group, any manufacturer in search of an ERP solution should look for a product that is flexible, global, easy to use, and supportive of collaborative work styles.<sup>15</sup> It should come from a vendor that has deep expertise in specific verticals and is sensitive to the range of factors that affect total cost of ownership.

“Making the right ERP choices can be daunting for CIOs and CTOs,” MPI acknowledged. “At the same time, the weight of those choices is at its heaviest because a wrong decision can stop production lines and profits.”

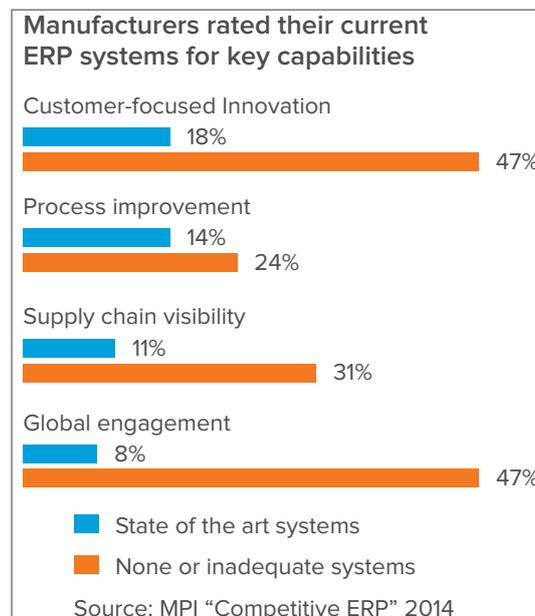
In two research notes that included assessments of Infor ERP systems and business processes, Nucleus Research pointed to the flexibility, responsiveness, and competitive pricing that have become hallmarks of the company’s offerings to customers.

Nucleus’ assessment of major ERPs found that Infor LN had significantly advanced the user experience, with Infor 10x delivering an HTML 5-based interface that includes contextual business intelligence and role-based dashboards and workbenches. Nucleus added that Infor’s Hook and Loop™ design philosophy “has started to pay dividends with the latest release of Infor 10x.” The paper cited social collaboration and mobile apps, micro-vertical suites, and embedded analytics as major advantages of the 10x system.<sup>16</sup>

## It’s time to take action

All the evidence points to an urgent need for manufacturers to take action.

In the MPI survey, manufacturers were invited to rate their current ERP systems. Less than half said their business systems were adequate to manage their current process needs, and when the manufacturers evaluated their ERP systems’ future-readiness, the results were even worse. Only a small percentage said their systems were “state of the art” and ready to support future growth.<sup>17</sup>



<sup>15</sup> The MPI Group, op. cit.

<sup>16</sup> Nucleus Research, *Document N96: Technology Value Matrix—First Half 2013, ERP*, June 2013

<sup>17</sup> The MPI Group, op. cit.

The results paint a picture of manufacturers at a precarious turning point, hovering between risk and opportunity. Not because they lacked foresight, interest, or resources, but due to the sheer, rapid pace at which the business world is changing.

The recent onslaught of disruptive technologies, dramatic changes in customer expectations, globalization of supply chains, and demands from emerging markets have all hit manufacturers at once. Practically overnight, these forces have brought positive impacts and opportunities for growth.

But the new world of manufacturing has also moved far beyond the capabilities of yesterday's ERP solutions. As a result, manufacturers risk losing market share to aggressive competitors who are leveraging technology to lure customers with promises of speed, customized design, aftermarket service, extended warranties, attentive customer service, and value pricing. It's hard to compete if your business systems are cumbersome, difficult to modify, or lacking in specialized functionality to match your vertical's needs.

All of which reinforces the need for your company to take expedient, purposeful action, using this five-step plan as the blueprint for bold improvements to your ERP system. Delays could be dangerous and costly, depriving you of the flexibility to take full advantage of emerging opportunities. Timely action now will position you at the forefront, with the tools and systems to seize new opportunities.



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