



When ERP Is Not the Right Choice

ERP can do more for your company – but it doesn't do everything

by Robert D. Kugel CFA | 10/23/06 | Article ID: V06-60 | Article Type: View | © 2006 Ventana Research

Summary

Our research study “ERP Innovation” showed that companies believe their enterprise resource planning (ERP) systems can help them innovate in many ways. Yet when we asked survey participants if they had used their ERP system to implement new business approaches or processes over the past 18 months, we found their propensity to use this software differed considerably depending on the business task. That is, companies are more likely to use ERP to change business practices that are closely related to core accounting functions or activities involving transaction processing – familiar ground for ERP. They were less likely to have innovated in their approaches to operations or analytical requirements. For these purposes, Ventana Research asserts that there is no set answer to the question of whether to use capabilities built into an ERP system, buy some other system or develop a custom solution in-house. Particularly in midsize or large companies, choosing one or the other requires an informed weighing of alternatives. This process may not always be straightforward, but it is rarely difficult.

View

Whenever a company considers buying new software to help implement or support a new business strategy or process change, it is common for the CFO or some other senior executive to demand, “Why can't we do that in our ERP system?” From their roots in accounting and inventory management, many vendors' ERP systems have expanded to cover a range of transactions processing, financial and analytical functions. Consequently, it is always reasonable to ask this question, but we find that in most midsize or large companies, the answer is not always obvious. It should come from a pragmatic assessment of available options. The results of our research suggest that many companies take this approach.

To what extent do business and finance executives use their ERP system to drive and support innovation? We asked finance and line-of-business participants in our study whether they agreed, disagreed or were neutral as to whether their ERP system could drive and support innovation in 12 key functional, departmental or process areas. Five of these are specific finance processes: accounting and the financial close, financial reporting, management reporting, planning and budgeting and treasury management. Another five are lines of business and administrative areas for which ERP vendors have created functionality: distribution, human resources, manufacturing, purchasing and research and development. The other two are in areas where responsibility cuts across the organization: performance management and compliance. We found that except for R&D, a majority (and sometimes an overwhelming majority) of participants think ERP has the potential to drive and support innovation. Business and finance people are inclined to believe ERP software can help innovate across this broad spectrum of business needs.

Of course, believing and doing are two different things. We asked participants if their company has implemented innovations in the 12 areas and found a wide variance in the propensity to innovate with ERP, with responses falling into three categories. It was greatest in purchasing, accounting and the financial close and financial reporting – areas where ERP usually plays a core role in information gathering and process execution. We believe this centrality is responsible for people choosing ERP to effect these sorts of process improvements. Participants reported their companies are inclined to use ERP to implement innovation in five other categories to a lesser degree than the first three. These include, in order of preference, manufacturing, HR, distribution, management reporting and compliance. In other words, while ERP can play an important role in these areas, companies often find other options that work better in their company.

Finally, in four areas – treasury management, performance management, planning and budgeting and research and development – more companies innovate using software other than ERP. Treasury management is a mature, highly specialized category. We think it likely that users have developed strong preferences for solutions dedicated to this task (frequently a spreadsheet-based system). For their part, performance management and planning are more general, less mature software categories. But many companies find these functions are not part of the core competence of their ERP systems and so look for other packaged solutions.

Assessment

Our research shows that companies can do far more to improve process execution by using ERP to its fullest advantage. At the same time, Ventana Research cautions against insisting on using ERP systems where there are better alternatives. Although minimizing systems complexity both lowers costs and makes it easier to achieve more effective use of IT systems, having dogmatic policies forcing users to support a process using the ERP system when more capable or easier-to-use alternatives exist is not the right way to go. There are no hard and fast rules, but we find most companies standardize their transaction processing (accounting, inventory management and so on) within core enterprise systems such as ERP or CRM because this software handles these sorts of repetitive and often interconnected tasks well; fragmenting these sorts of data recording systems can make it more difficult to access information. On the other hand, corporations have shown no preference for ERP when it comes to functions involving decision support and analytics; frequently they find that alternative approaches are better for their purposes. We advise taking a pragmatic approach that evaluates the available options in terms both of the value of the benefits and the costs.

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