E-Guide

Does consolidating multiple ERP systems make sense?
Many manufacturers run multiple ERP systems – or multiple instances of one system – as a result of past mergers and acquisitions; others choose to deliberately adopt different systems to meet compliance requirements or geographic-specific needs. However, there can be significant downsides to maintaining multiple ERP systems. This E-Guide examines the symptoms of an ERP overload, and provides insight into the user needs, technologies, costs, and business processes that factor into an ERP consolidation plan.

Five signs your multiple ERP systems are out of control

By Lauren Gibbons Paul, Contributor

The times being what they are, no company stays in its current state for long. Employees come and go, new products are launched and sooner or later, most companies will acquire another firm. In fact, growth by acquisition has been many a midsize manufacturer’s strategy for riding out the recession.

As a result, many manufacturers find that they are running multiple ERP systems or instances of the same system. Mergers and acquisitions aren’t the only root of the problem. Often, manufacturers sought to balance regulatory requirements by implementing an ERP system tailored to the local population’s needs at satellite locations.

Given the global nature of business today, companies of all sizes operate in a number of locations, which adds to the problem of multiple ERP systems. According to research conducted by Windham, N.H., ERP analyst Cindy Jutras, large enterprises (defined as having revenues over $1 billion) have an average of 10.7 operating locations supported by ERP. Firms with $25 million to $250 million in revenues have 5.5 locations, according to the 2011 Mint Jutras ERP Solution Study.

Even small companies (under $25 million in revenues) are not immune to the phenomenon, according to Jutras. On average, they have 2.5 operating
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Sometimes using multiple ERPs or multiple instances (versions) of a single ERP platform is the best choice. More often, though, there are downsides to doing business this way. Here are experts’ top five signs that multiple ERP systems are standing in the way of ERP optimization:

1. Multiple databases and servers. ERP systems need databases and hardware to run on. If a company is running more than one ERP system, chances are it has loads of different databases and hardware to support each environment. That can be a problem, said John Hoebler, managing director for MorganFranklin, a consulting firm in Washington, D.C. “That means you’re going to have high infrastructure and people costs,” Hoebler said. Any ERP system requires an expensive mix of hardware, software and skilled personnel to run on-premises. Add multiple systems on top and you can multiply the cost and complexity. “That’s not good news,” he said. Re-examining your environment and even looking for ways to incorporate SaaS ERP can point the way to a simpler ERP environment that is less costly to run.

2. Volume-buying discounts are being left on the table. A common side effect of multiple ERP systems, said Jutras, is that a company can’t leverage its collective buying power across its divisions. Because of disparate systems, no one group knows what the others are buying (and who from), so no group can maximize the discounts that come with volume. “Someone knows you’re dealing with the same suppliers, but no one can prove it because the systems are not connected to share that kind of information,” said Jutras. This can cost the company a bundle.

3. It takes too long to make changes to the system. Let’s say the company wants to make a major change in one ERP system. In addition to the normal amount of time it takes for development -- always a bugaboo for traditional software -- companies may first have to stop and consider how the change will affect all the other

locations supported by ERP. The truth is, a majority of companies use different ERP systems in different locations.
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ERP systems they're running, depending on how deeply the systems are linked. "It can take a long time to manage the change across all the different systems," Hoebler said. If the systems do talk to each other, companies can get hung up testing them all.

4. **Internal audit controls are a mess.** Companies that operate in regulated industries or are covered by the Sarbanes-Oxley Act, can quickly get into nightmare scenarios trying to attribute revenue and validate other processes, Hoebler said. "Internal audit is tough when there is one system, but it's exponentially worse when you have multiple systems. You almost have to have a different set of internal audit controls for each ERP system," he said.

5. **The company has multiple versions of the truth.** Another especially serious hangover of the proliferation of disparate ERP systems is the lack of sound data on which to base decisions. The problem often arises from a lack of master data management, Hoebler said. For example, the company’s divisions use different definitions of "customer" or "order." Or one group has employee ID numbers that are eight digits long, while another has IDs that are 12 digits long. These distinctions can lead to much pain for anyone hoping to get a clear vision of business performance to determine what to do next. “You have two different users of two different systems working on the same thing but calling it by different names. This can lead to bad decisions. If employees can’t trust they are working off the same data, that’s a real problem,” Hoebler said.

There are cases where it makes sense to run multiple ERP systems. One type quickly comes to mind: multinational holding companies with disparate, disconnected groups that operate wholly autonomously in different industries. But if a company has one or more of the warning signs, chances are it has much to gain from ERP consolidation.
Consolidate multiple ERP systems to address four key dimensions
By Lauren Gibbons Paul, Contributor

It is not uncommon for manufacturers to end up with multiple ERP systems, often from different vendors. Mergers and acquisitions often lead to disparate systems and many branches undertake Software as a Service (SaaS) ERP projects on their own, which only adds to the problem.

But there are serious downsides to having multiple ERP systems: complexity, cost, inflexibility and lack of accurate data on which to base decisions. For companies that have decided it is time to consolidate multiple ERP systems, experts say there are a number of factors they need to consider when formulating a plan.

ERP consolidation involves much more than choosing to go from many systems down to one or two, or to run one ERP for corporate financials and a second one for the other functions. Chiefly, it requires understanding how the ERP consolidation will map to business goals, because if it doesn’t map to the business goals, the company shouldn’t do it.

Murali Raghavan, senior vice president and head of horizontal IT services for iGATE, a consulting firm with operations in the U.S. and India, said his clients are driven by objectives such as improving decision making for greater agility as well as improving the customer experience. Running multiple ERP systems often means customers can’t get accurate information on things such as exactly what has been shipped and when they can expect to receive their orders.

“Manufacturers are asking how they can increase their companies’ responsiveness to make a better experience for their customers,” said Raghavan. In this case, ERP consolidation fills the gaps left by fragmented, disconnected systems.
Factors for an ERP consolidation plan

When Rajeev Ranjan helps manufacturers create ERP consolidation plans, he examines and assesses their status in four dimensions: business process, user perspective, technology and cost. A company’s status on each of those will inform the ERP consolidation plan, said Ranjan, associate vice president and delivery head of manufacturing for Infosys, a global consulting and IT services company headquartered in Bangalore, India. Here’s how his analysis of the four factors plays out:

1. **Business processes.** “We look at the health and productivity of the business process.” For example, if the process in question is order fulfillment, Ranjan looks at fulfillment rates. If something is amiss, he next examines whether there is a system-based reason for the dysfunction and how much an ERP consolidation might help the situation. “Let’s say there are three different divisions under the same group, and they each do credit checks differently,” he said. “We look to see what kind of improvement they would get in this function by implementing a single ERP system for all three divisions. The quantification of benefits from optimizing business processes goes into the consolidation business case, along with the other expected benefits.”

2. **User perspective.** Dealing with multiple ERP systems can be quite difficult for employees – they have to learn (and remember) more than one interface and feature set. What they can do easily on one system they might not be able to do at all on another. To cope and get their jobs done, employees often create a series of workarounds, which eats into productivity and morale. Improving the user experience for employees is often a significant benefit of ERP consolidation once the learning curve for the new system is passed.

3. **Technology.** The technology questions that come into play are the same ones associated with an ERP upgrade, plus a few more. For instance, is the organization running one or more systems that will soon be obsolete? Has it outstripped the system’s capacity? Do the ERP systems interoperate or does it take a lot of custom integration to pass information between them? How long does it take to make changes to the system? Are the multiple systems
preventing flexibility? All of these factors will affect the type of ERP consolidation the company eventually decides to do.

4. **Costs.** It’s only common sense that it’s more expensive from a total cost of ownership standpoint to keep multiple ERPs running compared to consolidating on one system. Along with licenses and maintenance is the cost of enhancements. Often, said Ranjan, this is so burdensome it’s prohibitive. Companies learn how to live without enhancements they need to keep competitive and that is not a good thing.

An analysis of all four dimensions underpins all good ERP consolidation plans. “You overcome what you are lacking, and you add what you want to achieve,” Ranjan said. Other factors like geographic-specific needs, applicable regulations and the need to minimize capital expenditures will also come into play.
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