

Size *matters*

Is ERP size-specific? Brian Tingham talks to manufacturers about finding the right fit – their choices and the key issues in selecting, implementing and integrating a new system

Your ERP system represents one of the biggest investments you'll make as a company – not just in terms of initial capital outlay, although that could be considerable, but also management and staff time and effort throughout the implementation. After that, maintenance and support will inevitably consume further cost – the amount being dependent on several factors, particularly the degree to which you need expensive IT consultants when it comes to the equally inevitable system changes and additions. So, given that today's systems typically run operations for up to a decade before being replaced, it pays to get the initial choice right.

All of which raises the question, is ERP really size-specific? Should manufacturing SMEs – as many intuitively suspect – be making quite different choices to organisations that are multi-site and

differ markedly from those at their much larger manufacturing operations and head offices?

First, some key facts. Number one, smaller ERP systems – probably, but not necessarily, from smaller ERP companies – do cost less, both initially and in terms of ongoing costs, but may be somewhat limited in scope and scale. Second, bang for buck in ERP technology is non-linear. That means smaller providers often now offer what appears to be world-class functionality (including CRM, advanced planning and scheduling, and business intelligence), as well as ease of implementation, use and upgrade. They're achieving that by harnessing, for example, widely-adopted Microsoft technologies and/or IT developers in India. Look at K3's Syspro, or Rent IT's 123mrp.Net.

Third, in recent years we've witnessed massive consolidation, so there are now fewer

technical detail and more about comfort. Are you comfortable that support (language, localisation and people) in your chosen countries is good enough? Do you feel you're shaking hands with a company that will be a value-adding business partner for years to come? And does the story about ease, speed and cheapness of adaptability to match changing business requirements feel right?

Sounds simple enough, but the truth is that's not how many manufacturers think – especially SMEs. Among key findings of research by analyst Aberdeen Group, for example, is the statistic that manufacturing SMEs are 27% less likely than their larger rivals to have implemented an ERP system with a company they believe capable of accommodating change. Cindy Jutras, the report's author, warns: "Manufacturers should be developing both near and long-term growth strategies, and factor these into any ERP decision."

Let's look at some successful manufacturers' choices and observations, starting with NGF Europe, a subsidiary of Nippon Sheet Glass, which, since buying Pilkington in 2006, has become one of the largest glass manufacturers in the world. This is a great example of an organisation initially set on going the SAP route, starting with its HQ in Japan and rolling it out across the group, but which, in the end, went for "a more manageable system" (IFS) in the UK.

Finance director David Farmer says the catalyst was a clash of priorities. "Head office said it was focusing on implementing SAP in Japan and the Asian subsidiaries, so would get around to us later. But we needed to upgrade our systems quickly. So we looked at SAP ourselves and, while we were impressed

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David Farmer, NGF Europe

potentially also multi-country? Most important, how should companies with (probably growing) numbers of subsidiaries, nationally and internationally, tackle the problem – especially where functional requirements and IT resources at small regional production and distribution sites

ERP vendors and systems from which to choose. And fourth (as a result), the remaining suppliers are all hungry for your business, and the bigger boys' purchase prices have fallen dramatically.

So, given the above, the considerations that matter most today are less about

by the system, it was clear that it was going to take more IT resource than we had – despite them saying they were targeting companies of our size. We also felt we would be buying a big-company, expensive system that wouldn't be easy for us to change and adapt and could ultimately lead to inflexibility."

So NGF Europe got permission to look at other systems, eventually plumping for IFS. "At the end of day, we liked the fit of the system and their people," says Farmer. "IFS was willing to work with us and adapt to our needs, and we felt we wouldn't need a massive IT resource – which has proved to be the case. My advice is: be very careful before you just accept a demand from HQ, especially if your business is somewhat different from the mainstream corporate model. You need to

stand firm and look objectively into the benefits of not going down that route. The size and scope of system you need depends on where you see your business going – bearing in mind that things can change quickly so you need a supplier you can trust and whose R&D plans you can believe in."

Cost savings

Interestingly, on price, Farmer says that going for IFS Applications probably reduced the initial investment by 25% against the SAP alternative, with similar savings against ongoing costs. Although those figures aren't anything like as impressive, NGF's experience is in line with findings a couple of years ago by analyst Dennis Keeling. He found that average ERP prices were €5,000-87,000 per seat (full implementation cost) for tier-one

ERP systems, compared with just €2,000-10,000 per seat for tier two. His data came from a study for ERP vendor Scala, now part of Epicor, which examined 40 large international businesses, typically with manufacturing in multiple plants in several countries, an HQ in another and distribution, sales and support in several more.

Keeling cited key reasons for the massive gap: sheer cost of implementing a complex tier-one solution, compared with that of localised tier-two solutions for distributed SMEs; cost of deployment and ongoing support; and availability of infrastructure in third world countries. He also suggested that tier-one ERP software licence fees might be as little as 10% of the final cost, the rest being consulting, whereas at tier two, it's in the 50-70% region. "Tier ones have had to be all things to all people, so



Phil Holmes

they're sophisticated and complex, requiring lots of configuration," he explained. "Also, they use third parties for that and they have a rather different vested interest. Tier twos mostly do the implementation themselves so they're all about getting in and out as fast as possible."

His advice: standardising on two ERP vendors helps application integration. "Organisations that adopted this kind of two-tiered strategy successfully implemented their tier-two ERP systems quickly, even in the most remote countries. At the same time, they still achieved the control and standardisation they originally aimed for with a single-tier solution."

Real proof

Variants of Keeling's model exist, but successful manufacturers broadly prove his recommendation. Johnson Controls (JCI), for example, uses three systems – Oracle, SAP and Epicor iScala ERP – but also in what amounts to a two-tier arrangement. JCI solution architect Sven Larsson explains that its building efficiency business uses SAP in the factories, with Oracle or iScala as its business systems, both linked into Oracle's business intelligence product Hyperion for corporate reporting.

"Initially, we installed iScala in several Eastern European countries – Poland, the Czech Republic, Romania, but also Italy – because it was well supported locally and it existed in the local languages," says Larsson. Subsequently, his team built a business template based on iScala, and used that to roll out the system to nine countries across Europe. "That was a useful experience and we're now implementing it in 45 more countries around the world," he says.

Larsson says that communication between JCI's different systems is limited, but that SAP and iScala are integrated through IBM WebSphere middleware so that, for example, products ordered through the service centres in iScala result in works orders at the factories running under SAP. "It's not difficult to set up this kind of integration, but you need to be aware of exceptions, such as changing currencies and item codes. Communication will just stop somewhere, so you need to build in monitoring that confirms a request has



worked. We've done that by having a monitor in iScala that shows when, for example, order progress has stopped, so that we can intervene."

Beyond that and the obvious functionality issues, Larsson also returns to the importance of language and international support at all levels. "It's easy to forget language problems, especially in smaller countries," he says. "You need to consider the language and localisation of the system itself, but also the people putting it in. You need to know that there will be native qualified consultants in each country." There are versions of that, time and again – whether or not the manufacturer concerned has gone for a two-tier approach. Materials handling products manufacturer Linpac Allibert's IT programme manager, Andre Ertel, for example: "We chose IFS because its [software] component architecture worked really well for us, in terms of enabling easy flexibility. But we also chose it because of its spread of countries – with localisation, language [including the help files], currency and support."

However, Ertel adds another couple of pointers: "Sometimes people forget the nitty-gritty things, such as ensuring that systems are fully integrated without third party interfaces. Those will kill you when you're going multi-country. And, apart from satisfying yourself that the vendor can match your functional requirements, you also have to ensure that their style of working is right for you, and that they are the right size. We were looking for a strategic partner more than a pure software provider. If we'd gone for, say, SAP, we might have been just another customer: with IFS, we have an opportunity to influence their R&D direction."

It's worth noting two more points. First, not every small manufacturer resists the lure

of SAP. For some, the 'size matters' equation has actively encouraged them to move up. The Authentic Food Company, for example, which has two manufacturing sites and one warehouse in the UK, as well as production sites in Thailand and Belgium, went for SAP Business One. Says business controller Parminder Basran: "It's the power of the brand and the scope for growing our company. And it's the comfort of knowing that SAP has created its processes over implementing hundreds of other businesses. Initially we wanted mySAP, but the reality is Business One is enough for us."

Service offer

Second, if you've previously rejected the thought of 'software as a service' (SaaS), or even simply renting ERP, it might well be time to think again. That's what Andover-based plastic labels and nameplates manufacturer RH Technical Industries did. Systems director Chris Hills says he'd been looking for PC-based ERP to replace an ageing IBM iSeries (AS/400) system, when he came across Rent IT on the web. "I thought, this looks interesting, so I went on their half-day workshop. It doesn't cost anything and it helps you to see what can be done. Then we checked it out a bit further with their three-day training course and decided to explore it properly with a single rented licence.

"A few weeks later, we went live with 15 licences. It was all really easy – even the data migration. I can't really see any limit to it. We've got 20,000 part numbers and MRP now runs in just a few minutes – which means we can do it several times a day.

"My view is, it depends how much you value the 'traditional' approach to ERP. Last time I went that way it was horrendous. There were consultant visits, user site visits, which for us were in the US, training and the rest – and that costs tens of thousands of pounds. This time around, all that happened in the half-day workshop! Also, we're now spending less than half what we would have expected for maintenance costs alone going the conventional route, and we need about half the IT resource." ■

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