



ERP In A Recovering Economy

Now is the perfect time to invest!

1.866.FOR.ERP2

www.iqms.com

Twitter: IQMSERP

Economic uncertainty is everywhere. Unemployment is up, consumer confidence down, and nearly all key indicators point to more turbulent times ahead. In fact, according to a recent American Express OPEN Small Business Monitor study, one third of the small business owners surveyed view economic uncertainty as the biggest challenge they face in terms of business growth. Many of the industries served by small and midsize manufacturers (SMMs) – from automotive to consumer goods – are tightening budgets and demanding more from their suppliers. In turn, SMMs are being squeezed from all angles. Declining sales, increased operating costs, and lower profit margins are just a few of the pressures they face day to day.

During times of economic stress it seems logical to cut costs, and technology budgets are often first to shrink. But technology is what fuels innovation and drives efficiency. With the right technology, SMMs can better respond to market pressures and take advantage of the opportunities uncertain economic times have to offer—opportunities to capture market share, improve performance, adjust processes and procedures, and reposition their enterprise for the market turnaround that is sure to come.

Savvy SMMs see these opportunities and are going after them with confidence. Despite the economy, they are using technology to stay nimble and responsive so they can transform their business and target growth. Companies like these consider themselves “innovators” according to an upcoming AMR Research report. Simon Jacobson, senior research analyst for AMR and coauthor of the “2009 U.S. Small and Midsize Business IT Spending Report”, says 60 percent of innovator companies surveyed plan to increase IT budgets in 2009.

With this increase, innovators will look to do more than simply support current operations. Over half plan to use their IT budgets to streamline, change, and expand their business. The challenge for these companies, Jacobson says, will be to avoid using IT investments to solve single point issues. Rather, small and midsize firms should use IT budgets strategically to implement solutions that have the potential to impact the entire enterprise and its supply chain. One such strategic investment noted by Jacobson is enterprise resource planning (ERP) software.



“For small and midsize companies ERP is vital and can be a cornerstone to how you manage your business,” says Jacobson.

ERP delivers benefits such as the streamlining and automation of manual processes; heightened visibility over business production and data; compliance and control of financial reporting and product traceability; improved inventory control and scheduling; better decision making; improved customer service; and so much more. The truth is that while sales may slow and material costs rise, ERP functionality can help SMMs weather the economic storm by helping them work smarter and faster with less waste.

Why ERP Makes Sense Now

Small and midsize businesses operate in environments equally as complex as those of larger enterprises, which means their technology needs are no less complex. According to a recent report, “Measuring the ROI of ERP in SMB”, by the Aberdeen Group, ERP is a necessary infrastructure for these companies. Aberdeen Vice President and Research Fellow Cindy Jutras indicates: “A well-managed ERP implementation can be a continuing source of cost savings and operational improvements which help companies survive and thrive in these troubled economic times.”

While ERP implementations require concentrated resources and often a cultural shift within an organization, the current economy opens the door for SMMs to leverage more internal and external resources to get the job done. For SMMs that are still operating with manual or multiple databases, or dated software that hampers their ability to compete, the right ERP system can spur rapid improvement and pave the way for future growth.

“The present economy, with its slow down on demand and capacity, gives manufacturers an opportunity to take a step back and look at operations excellence programs and where IT can improve efficiency,” says AMR’s Jacobson “Now is the perfect time to put effort into getting ERP up and running.”

And it seems others agree. In a recent study published by Panorama Consulting Group, 53 percent of the companies surveyed have plans to replace or bolster their ERP systems this year. And that's smart, because investing in ERP in a down economy can deliver returns that might not be realized in better economic times.

In fact, in its "Benchmarking ERP in Manufacturing" study the Aberdeen Group noted that integrated ERP systems give manufacturers a competitive advantage in today's business landscape. By tapping ERP's basic functionalities Aberdeen-ranked "best-in-class" manufacturers saw dramatic results, including: 24 percent reduction in inventory; 15 percent reduction in both manufacturing and administrative costs; 18 percent improvement in schedule compliance; and 20 percent improvement in complete and on-time shipments.

Because ERP has the potential to impact every aspect of a manufacturer's business, the right ERP solution can drive profitable growth, even in a down economy. But Jacobson notes that potential errors in the journey to acquire an ERP solution can actually be detrimental to growth. With limited IT resources to get things done and IT budgets smaller than their larger counterparts, SMMs must be strategic in their approach to purchasing an ERP solution.

Benefits of Investing in ERP In a Down Economy

- ***Increase Revenues***
- ***Increase Productivity***
- ***More Efficient Business Processes***
- ***Reduce Inventory and Carrying Costs***
- ***Position Now for Future Growth***
- ***Make Use of Available Resources while Business is Slow***

Strategic Purchasing 101 – Finding the Right ERP

There are hundreds of ERP solutions from which to choose, so SMMs must weigh their options carefully. According to Jacobson, the key for small and midsize firms is to avoid an isolated mindset, and instead think in terms of a packaged solution that can deliver depth and breadth in a modular format. This allows companies to mix and match modules to satisfy specific needs, and scale for growth as needed. An ERP

solution should also bring the many information pockets within the organization together in a centralized database that delivers a consistent, “single version of truth”, and enables the company to operate in a more agile, predictive fashion, as well as to develop collaborative relationships all along its supply chain. Additionally, SMMs should look for ERP solutions that automate non-value added activities, deliver a predictably low total cost of ownership, and offer long-term technology strategies that will carry forward for years to come.

While many ERP solutions deliver on these criteria, some are better suited for the unique and varied requirements of industry specific manufacturers. According to Aberdeen, manufacturers need special features that can extend core ERP functionality to support industry standards and rigorous compliance requirements.

Tight control over the manufacturing process is also mandatory for any manufacturer wanting to run lean, save costs and be more responsive to customer demands, so SMMs need an ERP solution with a real-time grasp of operations such as a direct shop floor to ERP design. SMMs can benefit most from a system that links real-time data to every aspect of the supply chain, from the initial quote to the final payment, even across multiple sites, languages and currencies. Configurable dashboards that push real-time data to end users provide even greater visibility in a manufacturing environment where mistakes on the shop floor can prove costly.

Plastic Components, Inc. (PCI), a Wisconsin-based manufacturer and 2009 winner of the “Processor of the Year” award, knows first-hand how industry-specific ERP can bolster lean operations. With 42 dedicated manufacturing cells, including presses, robots, parts conveyors and automated material handling systems, operating on a fully automated basis, 24 hours a day, five days a week, PCI required an ERP system designed and managed for the complexities of their industry. For PCI, finding a system that was designed specifically for their environment, but had growth potential to cross into other possible manufacturing processes was key to their success.



“We made the commitment early on to invest only in an ERP solution that was built for manufacturers,” explains Tom Duffey, president and owner at PCI. “Unique features such as functionality to manage different cavitations within molds told us that the solution we chose has a higher level of competence in providing the best ERP system for our type of business.”

This type of modular, industry specific solution fits the concept of what SMMs should seek in an ERP solution. The system combines real-time manufacturing, accounting, and supply chain management into one database to streamline processes. With one system, PCI has all the business and plant management software it needs to run more effectively and more profitably – and they have the return on investment (ROI) to prove it.

According to Duffey, another important factor of their ERP is real-time integration to shop floor equipment. This function of his ERP helps identify issues before they become costly problems. This allows their company to manage over 50,000 transactions per year with only two employees. Plant scheduling for 650 active part numbers and 125 different materials is managed by only one person. Year-end inventory is completed with less than a \$40 discrepancy on an inventory of raw material and finished goods valued at \$500,000, and the company’s on-time delivery rate is close to 100 percent – all with an ERP system that has provided ROI many times over.

What Sets A Great ERP system Apart

- ***Single Database System***
- ***Scalable & Modular***
- ***Multiple Site/Language/Currency***
- ***Focus on Automation of Non-Value Added Activities***
- ***Direct Shop Floor to ERP Design***
- ***Industry Specific Solutions***
- ***Multiple Manufacturing Types***

Five Steps to A Successful ERP Journey

Finding success with the right ERP system can be attributed to process, a process of preparation, implementation and continuous reassessment. For SMMs looking to invest in a new ERP package this

process can be outlined in five steps.

Define Your Strategy

According to AMR's Jacobson, SMMs should first define their strategy by looking at current business operations and requirements, and determining future needs based on how they want their business to run. SMMs should assess the competitive landscape and decide where ERP can deliver an advantage. They should also establish and communicate goals with respect to industry-specific needs and budget constraints.

Develop a Thorough Vendor Selection Process

Next, SMMs should develop a thorough vendor selection process that considers vendors in light of the business requirements, goals and strategies outlined in step one. Just as PCI established their need for manufacturing-specific ERP, every SMM should narrow vendor options based on how well a vendor can meet the stated criteria. Also to consider in this stage is whether a vendor has the resources to support current releases and future technology development. A vendor's success in the marketplace as well as the depth and involvement of its user group are also important factors that provide assurance of long-term viability. Other points to consider include: whether the vendor supports global operations; the pace at which the vendor evolves new technologies; the vendor's level of industry-specific expertise; the level of implementation support offered; and whether the system is easy-to-manage, cost-effective, and accessible across the enterprise.

Finally, nothing is more critical in the selection process than talking with other manufacturers who are utilizing an ERP system. But what is asked during these conversations is almost as important as the answers given. References are used for a reason—they are going to say good things when asked general questions. Many SMMs fail to ask what version of the software is being utilized, and often the version being referenced is not the same as the one that is planned for purchase. SMMs should ask specific questions when speaking with a vendor's references. Before any conversation, outline how your company will utilize the ERP. A key aspect of any reference conversation is to ask which specific version is being utilized to be sure that valid comparison and discovery is being done. Ask questions that will help you assess how this compares to ways the reference company is using the system. The reference

should feel that the ERP provides tools to isolate and identify problem areas, and that it delivers measurable results.

Define an Implementation Plan

Once a vendor is selected, it's time to define an implementation plan. Begin by establishing the system design and implementation process. This is where SMMs should establish roles, assign tasks, and set time schedules. This phase also outlines available resources, and how the application will be documented and delivered to users within the organization. Factors that surface here as keys to success include estimated ROI and employee buy-in.

Stick to It!

Many SMMs adopt an implementation plan only to switch gears midway through the process. Doing so can increase the cost and strain of any implementation project. It can also divert focus from the project goals originally set forth. An implementation plan must allow for flexibility, but it is best to stay focused on the intended goal, and question whether any proposed changes are support that effort.

In "Measuring the ROI of ERP in SMB", the Aberdeen Group found 100 percent of the "best-in-class" companies studied use estimated ROI to cost justify ERP projects, and that by setting aggressive ROI goals these companies are 150 percent more likely to achieve their expected returns. But none of this is possible without employee buy-in and commitment.

Panorama Consulting Group says lack of employee buy-in is the biggest issue facing ERP project teams. To combat this problem, AMR's Jacobson recommends keeping the end goals in mind, and positioning the project as a business transformation opportunity, a competitive necessity and a tool for profitable growth. Training during the building and testing phase is key to assure user adoption. And once the system is live, it must be assessed regularly.

Continuous Improvement

“ERP is not a set it and forget it application,” says Jacobson. “Continuous reassessment is necessary to determine whether you are hitting your goals.”

This step is even more important in today’s economy where ERP should be a critical factor in reducing costs and improving customer response time. According to Aberdeen 42 percent of “best-in-class” companies monitor ROI after it has been achieved. Like PCI, these companies can see the value of their ERP investment on a daily basis. PCI followed a meticulous implementation plan, gained full organizational commitment, and stayed the course. Now PCI consistently hits its own best-in-class mark year after year, even during times of economic stress within its industry.

“Our investment in our ERP paid off immediately, and continues to drive our competitive advantage,” says PCI president Duffey. “It is at the core of our success because it tells us our profitability down to the part, so we can focus on what we do best—deliver real value to our customers.”

Conclusion

During past economic slowdowns, many companies cut too much from their IT budgets. In an attempt to save money and maintain their status in the market, they did not plan ahead to safeguard their ability to grow profitably. While the current economic downturn highlights a need for SMMs to reduce costs, many are also pursuing growth. These companies are responding to market pressures such as customer demand, regulatory compliance, global competition, and rising costs by targeting IT solutions like industry-specific ERP, which can deliver significant benefits and set the stage for future growth.

Given that ERP implementation involves a significant investment in time and resources, it may be tempting to place ERP projects on hold until the economy improves. However, as demand slows, freeing capacity and resources, it creates the perfect opportunity for SMMs to invest in ERP. The ROI in terms of cost savings and improved operations can be significant, and actually help SMMs prosper while their competition falters in economic uncertainty. In fact, according to Aberdeen, for manufacturers, the inventory reductions alone that ERP delivers can pay for the implementation, so other benefits such as improved operations, lower administration costs, on-time delivery, and improved customer satisfaction are all icing on the cake.

Although the potential return on ERP is compelling, SMMs must choose wisely. Knowing how the ERP system will benefit the enterprise is critical to success, as is defining a plan and sticking to it. Manufacturers in particular need industry-specific capabilities that bolster core ERP functionality. Factors such as real-time visibility from the shop floor to the top floor, and configurable dashboards that push real-time data across the enterprise deliver a greater advantage. A centralized solution that is scalable and modular also gives SMMs the flexibility to grow with the system. During the implementation process dedicated resources and full employee buy-in are imperative, but the commitment doesn't stop there.

Aberdeen asserts that companies will always find more ways to drive additional value from their ERP system even after the initial implementation success. This means continuous assessment of ROI is necessary not only to assure baseline goals are met, but that new advantages are found.

PCI's Duffey agrees: "We've found added benefit in using benchmarks to drive monthly performance goals higher. Having real-time performance data has benefited overall productivity and quality by encouraging employees to work together toward common goals and rewards. Now the management team and individual employees are equally empowered to push for higher quality standards."

Like PCI, SMMs can accelerate their business, reduce costs, and better understand the viability of their company by implementing the right ERP solution for their business needs. Now more than ever, ERP really does make perfect sense.