

Enterprise Resource Planning Systems

In a business world full of mergers and acquisitions businesses need a way to manage all the different functions of the company and a common way to share information. A new type of computer software has been developed to help business combine all their information; the software is called Enterprise Resource Planning Software or ERP.

ERP systems simply integrate all aspects of a business into one unified database application and interface across the entire business. ERP helps the communication between all aspects of a business including human resource, accounting, manufacturing, supply-chain, distribution, and sales. ERP also allows suppliers to base their inventory on current demand rather than basing inventory on previous demand or forecasting techniques. The use of ERP can also lower lead times because the companies can be integrated with their vendors.

When implementing an ERP system, a company must go through careful strategic planning and have a strong commitment from top management. Implementation can take upwards of 2 years or longer, cost a few 100 million dollars to implement and is very hard to turn back once the company begins (Bingi 7). There are many concerns when implementing an ERP system. Some of these concerns include management commitment, reengineering, integration, and choosing the right consultant for the job.

To be successful in the implementation of ERP the most important aspect is the commitment of top management. Management needs to be involved in all aspects of the implementation because the company will be repositioning and transforming business practices throughout the implementation (Bingi 9). The entire implementation consists of

reengineering the processes of the business, if the management abandons the project in the middle then the company can suffer a loss of millions of dollars. Top management needs to monitor the project throughout the changes because the success of the ERP system stems directly from the commitment of top management. ERP implementation is about the people running the system not the processes and technology (Bingi 9).

The next important step is the reengineering aspect of the ERP implementation. ERP provides a generic business model for the company to follow. The problem with most businesses is the fact that they do not fit directly into the model. Since the ERP software can only be customized so much, many businesses need to try to fit the model of the ERP. The customization of the ERP software is an expensive process and companies can incur large costs with high software customization. Research has shown that only 70 percent of the organizational needs can be met through software customization. Some business techniques are so unique that the customization of the software is appropriate. However, customization of software should be avoided when possible because of the extreme costs (Bingi 10).

Integration packages for ERP can cover many different aspect of the company. ERP was traditionally designed for the back office functions but is now moving out into the main functions of a company. Choosing the right amount of modules can be hard because not one single interface can completely run the entire company. A solution plan should focus on how the software can improve the areas of the business that need the most improvement (Brakeley 104). One must use the ERP system as a backbone for operations and then connect all their existing software and operations to the ERP model (Bingi 10). The use of the common interface can be very helpful when training staff

members but the trade off between training and a common interface can be expensive if many other interfaces are already implemented (Hecht 56).

When choosing the right consultant, one may want look outside the main ERP vendors. Hiring the consultant can be very costly because of the length of time the consultant will spend at the company. The consultants will consume most of the cost of the ERP system and can spend upwards of 14 months at the company. The cost of the consultants can be \$1,600 a day and the number of consultants needed to implement the system in the company can be as many as 20 consultants a day (Hecht 58). Training inter-company employees to lead in the implementation of the ERP system can lead to many problems as well. First, the employees will lack the knowledge and experience of implementing the system, which could lead to higher cost. Second, once trained there is a good chance that the employees will be able to make better money elsewhere. One year's experience in implementation of ERP systems can bring upwards of \$70,000 to \$80,000 a year and three to five years experience can bring \$200,000 annually (Bingi 11).

Many companies have successfully implemented ERP software systems into their company. Some of the companies include AT&T, GTE, US West, and Owens Corning (Levine 56). Owens Corning began implementation of an ERP system in 1995. Since the first implementation Owens Corning has implemented more modules of the ERP system every year. Owens Corning has experienced annual savings of \$50 million through the ERP system's implementation and has used the ERP system to help bring together the different businesses the company has acquired through mergers and acquisitions.

The three main contenders in the ERP software are Oracle, SAP/ R3 and PeopleSoft. All three software packages offer modules that can be implemented in sections to help make running a company easier. These software packages offer global packages that include exchange rates, multiple languages and many other features for global positioning. One can find out more about these projects at the company web sites or in business magazines.

ERP is one of the fastest growing segments of the software market (Stevens 37). The market in Enterprise Resource Planning software is expected to reach revenue of \$66.6 billion by the year 2003(Levine 54). ERP systems are considered the wave of the future for operating both small and large companies. The integration and communication an ERP system offers, allows many businesses to benefit from the implementation of these systems. Although the systems can be very beneficial to the business the commitment of the management, the reengineering process, the integration and the ERP consultant are all important matters a business needs to consider when implementing an ERP system.