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Justifying Your ERP Investment:

Helping Stakeholders Understand the Benefits





When beginning the search for an ERP solution, organizations should start the journey and selection process by ensuring that all company stakeholders have buy-in for the project. It is important to address fundamental factors and key elements when justifying the investment to team members, as well as include steps to ensure a positive ROI and the benefits a successful implementation can bring. The main goal of ERP justification involves examining day-to-day business processes and recognizing ways in which software will improve them.

Why Justification of ERP is Necessary

The search for an ERP solution can be overwhelming and a thorough selection process provides greater implementation success, as well as ensures that everyone in the organization is on the same page. [Nearly 50% ERP of implementations fail](#), many times due to poor planning or aversion to change – making it clear why justification for the project is so important. By having clear goals in sight and an understanding of the scope of the selection steps and the entire project, stakeholders will be strategically aligned and onboard with the complexities associated with ERP deployment. The justification process comes into play whether companies are looking to switch ERP software providers, upgrade their current solution or looking to invest in ERP for the first time. Detailed in this piece are five steps that help stakeholders understand the benefits of an ERP solution, including assessing, documenting, identifying, estimating and predicting.

#1 Assess the Present Business Environment

The first step in the justification process is conducting an assessment regarding the company's current business environment, including the resources and knowledge available to the company. In order to complete this assessment, an ERP selection team coordinates the process. This designated team is made up of members from a cross-section of departments who provide subject matter expertise in addition to advocating for their specific needs. Identification of a project champion or project manager who can spearhead the software adoption company-wide and lead the team is also recommended.

The ERP selection team members should have the following characteristics:

- *Expertise* – They must have the knowledge of the company and its processes in order to build the business justification.
- *Time* – There has to be the ability to devote the necessary time to commit to the project from vendor selection to implementation to training and beyond.
- *Credibility* – The individuals within the team must be able to give impartial advice, have credibility with company executives and should be people who can gain buy-in from company stakeholders.
- *Experience* – They must have knowledge and experience with procedures the company is currently practicing. It is also beneficial to be aware of industry SOP's and best practices that could be implemented with the new ERP solution.
- *Communicative* – Members should be excellent communicators with the skill set to facilitate and share feedback from all departments, as well as the ability to serve as advocates for the positive changes a new ERP solution will bring to the company.



The team begins the assessment process by starting with the following question:

Where is the company today?

By gaining knowledge of current company workflows and processes, the selection team is able to assess the internal environment and present a fact-based case for ERP implementation. Talking with the department stakeholders helps to the discovery of the pain points regarding their workflows – providing the groundwork to understand the core needs. Accumulated knowledge gained from this research provides evidence for ERP implementation as an effective option.

Common pain points and growth experienced by batch process manufacturers that often lead to seeking out ERP solutions include:

- Fast, uncontrolled new business growth
- Lack of information on company performance
- Inaccurate inventory
- Department silos with lack of communication
- Redundancy or duplication of efforts and data entry
- Inability to access accurate or timely information
- Obsolete or disparate systems, manual procedures
- Strategic expansions or acquisitions (including globally)
- Strict or changing regulations in the industry
- Lack of supply chain transparency
- Product inconsistencies and quality concerns
- Improper material handling causing overstock and backlogs
- Environmental consciousness

#2 Document Current Challenges

Rather than simply talking about the challenges of current workflows, this step requires the selection team to record data regarding the impact of bottlenecks on company revenue and productivity. This important process provides company stakeholders with a better understanding of the effect of not having an ERP solution in place.

An effective method of documenting current challenges is to have department heads send out anonymous surveys allowing staff members to provide input into issues faced in their particular areas. This ensures that concerns are identified from employees at every level in the organization.

Physically documenting the current state of the organization and developing a plan helps the team and company stakeholders get an understanding of where improvements can be made, and where areas of waste and non-value exist.



#3 Identify Company's Future Goals

During this step, the team engages in mapping the future state of the company and system end-goals with the objective of identifying what the organization wants to achieve by implementing an ERP solution. The team develops a projection on improved processes, the savings or efficiencies that come from those improvements, and the potential gains in revenue. Detailed mapping of your company's processes including a map of the overall business, evolves as you go through the ERP selection process and gain more insight into ERP software functionality and applications.

As the maps develop, the team determines if processes can be implemented with current technology, or if new technology is needed. If new technology is necessary, a map is created that becomes the required input for the new system and also helps with the design phase during implementation. Future state mapping has been shown to result in savings such as reductions in inventory and material waste, lower labor costs and cycle times and improvements in sales and revenue when ERP solutions have been adopted.

Without a clear end-goal, an ERP justification presentation will be unsuccessful. After all, why invest time and money in a project without knowing the intended outcome?

System end-goals should take current workflow challenges and the business environment into consideration and use these insights to develop an ideal implementation outcome. For example, if your company wants to implement a warehouse management solution (WMS) to streamline operations, this should be presented as an end-goal.

#4 Estimate ERP Investment Costs

Cost is a huge factor to consider when selecting new software, and it is one of the most common questions asked about implementing an ERP solution, rightfully so. Companies need to account for common ERP project costs, including:

- Acquisition and deployment options (on-premises vs hosted and cloud deployments)
- Implementation and training (scope, complexity, third-party integrations, data mapping and conversion)
- Potential client-specific customization
- Infrastructure (hardware and servers)
- Annual support and maintenance

The true cost also varies by factors such as the number of licensed users, additional functionality, required software modifications, company size and selected ERP vendor. Make sure to discuss price elements in detail so that stakeholders can make informed decisions, comparing actual costs of potential ERP solutions being considered. It's important to weigh your critical, nice-to-have and future needs of an ERP to determine the best options and whether there are any elements they would prefer to leave out of the system or move to a phased implementation approach.



#5 Predict Potential ROI

Calculating meaningful ROI measurements is a challenge for most manufacturers and distributors, mainly because the hard costs of a new or upgraded ERP system are easy to identify, while the tangible savings are more difficult to quantify. This is not surprising as most organizations are running full steam in managing operations, production, supply chain, ordering and inventory. Taking the time to calculate metrics that factor into the “return” part of ROI often involves effort in analyzing indirect savings. These typically do not appear on the bottom line, but instead are quantified through the examination of automated business processes, reduced labor, streamlined document retrieval and increased visibility across the company.

It's best to take the time and effort to track both direct and indirect benefits as part of ROI calculations. While there are considerable costs associated with ERP software, the upfront investment can have a great margin of return post-implementation. Calculating potential ROI involves more than simple mathematical formulas but involves a combination of “hard” and “soft” saving benefits.

What are the potential benefits-based ROI components of ERP?

Examples of “hard” savings include:

- Inventory reduction
- Improved forecasting
- Better invoice management
- Successful planning tools
- Decreased overhead and labor
- Increased sales, less time from order to shipment
- Fewer errors and rework
- Reduction outstanding invoices

Examples of “soft” savings include:

- Improved customer service
- Enhanced supply chain communication
- Data-driven decision making
- Quicker on-board training for new staff
- More accurate data
- Increased visibility
- Access to historical data
- Reduction in dual-data entry
- Streamlined interdepartmental transactions

Providing company stakeholders with information regarding the potential ROI of an ERP investment further bolsters project justification with tangible demonstrations of benefits for the company.

Justification for investing in an ERP solution involves much more than the cost of the system and should start prior to your search for a provider. Presenting stakeholders with a well researched and documented case for an ERP that is specific to your company will help secure initial buy-in and lead to a successful implementation. Through identifying current needs, challenges, end-goals, costs and potential ROI, a company's ERP selection team will help stakeholders understand the true benefits of an ERP investment.

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