



*AberdeenGroup*

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**The ABCs of ERP:  
An Executive Primer**

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# The ABCs of ERP: An Executive Primer

## What Is ERP Today?

What exactly is ERP? When “ERP” (enterprise resource planning) is discussed today, it is rarely in the context of planning how resources are to be expended. Rather, it refers to an enterprise view of the business — in other words, a view of a company and all its parts as a connected whole, rather than small silos of activity.

ERP relates to the software infrastructure that holds the entire company together *internally*, on the one hand, and supports the *external* business processes the company engages in, on the other.

And there are some key traits in ERP solutions:

- ERP applications address a business process.
- ERP applications are modular.
- ERP applications are integrated.
- ERP applications include a company’s reach beyond its walls — to its suppliers, customers, and partners.
- The entire ERP suite will address all areas (or the great majority) of a company’s business functions.

Some common questions about ERP include the following:

1. *Is a “business process” a department or a particular function?*

A business process crosses multiple functions in an enterprise. For example, you may have a department called “accounting,” or you may have a function called “payroll.” Although each function involves business processes, these functions themselves are not process based.

A business process is broader — for example, “order to cash” means everything in the path from the customer order until you have the money in the bank. It is a more efficient way to think about linkages and how they work in your organization.

2. *Is a modular ERP application any different than my current stand-alone applications today?*

The beauty of an ERP application is that it is a suite that all works together — without this capability, you can’t have seamless business processes.

Modularity comes to play mainly in how you purchase and implement your ERP system. You may not need all applications at once, or you may want to deploy one application at a time. They are different from separate applications in that when more than one is implemented, they fit together like Legos and work automatically.

3. *Why do I care if my applications are integrated?*

Stand-alone applications — sometimes referred to as “silos” — can’t easily talk to one another. A series of silos does not make a barn.

Aberdeen research shows that small and middle-market companies spend a great deal of time doing the same task over and over — entering the same data in different programs. There are some identifiable problems with this:

- It is a waste of time to reenter data over again.
- It is very likely to be entered incorrectly.
- It may look different in different programs (Why do I have two companies in my vendor list — one is International Business Machines and one is IBM? Why do I have two versions of the same customer — Robert Smith and Bob Smith — with the same address?)
- Data that results from very different disconnected applications is inconsistent, so attempts to analyze it yields the proverbial “apples and oranges” — a decision-support fruit salad.

With an integrated ERP suite, there is a “single version of the truth” that only needs to be entered once to be propagated to all parts of the business that need it. All business processes, all employees who touch the application, and all the executives who make decisions for the company see the same version of reality, in real time, all the time.

4. *Why should my ERP application suite reach beyond my internal operations?*

Your business is *more* than internal operations: to be successful, you need to efficiently manage your own purchases of goods, services, and raw materials; foster and control your relationships with your suppliers and your business partners; and create, manage, and retain your customer base. All these relationships are more efficiently and economically managed with businesswide applications. Look at that “order-to-cash” example; there are many steps that involve the customer, external delivery services, and the bank — all external to your organization.

5. *Is there an advantage in having one ERP suite that addresses all areas of my business?*

In addition to the issues of disparate, unintegrated solutions (the third point cited above), there are some clear benefits to the “suite” approach to business management:

- Scalability — ERP solutions are designed to grow with your company. Unlike some stand-alone applications, they do not “top out” without transition paths to other solutions, leaving you to start over from scratch with a new and different application.
- Vendor management — Face it, managing a plethora of vendors with multiple 800 numbers for customer service is not easy. An integrated suite gives you one solution supplier to work with.
- Functionality — Access to the functionality required to run the business over time — at an affordable price point. It may not be the cheapest choice at first — but it will usually be the most economical in the long run as your business needs grow and change.
- Reliable service and support — The ability to access affordable service and support is critical. It is easier to support an integrated ERP environment than a hodgepodge of different applications.

### **Challenges for Small and Midsize businesses (SMBs) Today**

Smaller enterprises ducked the ERP wave of the mid 1990s and did not succumb to the cost structures or the risks that their larger brethren undertook. Now, these firms often have outdated or overloaded applications and need to invest in new technology to achieve or retain competitiveness in their markets, require a rapid time-to-implement any software applications, and demand a rapid return on their application investments. Today, many SMBs are in need of upgrades, more or different software applications, more current or robust technology, and often more sophisticated business solutions.

### ***It Is Time to Reevaluate ERP***

Today, Aberdeen research shows that small and midsize businesses are primarily driven by operating cost pressures, perceived as the biggest challenge — and state that the greatest impediment to their strategies is insufficient funding<sup>1</sup>. But they

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<sup>1</sup> *ERP in Small and Midsize Business: The 2004 Benchmark Report* (Boston: Aberdeen Group, July 2004). Available at [www.aberdeen.com](http://www.aberdeen.com).

are also concerned about customer growth and retention — getting and keeping a loyal customer base. In addition, these smaller companies state worry about the potential for commoditization of their products or services.

SMBs reported their key challenges; let's look at what links to ERP solutions today:

- Insufficient funding for corporate strategies and initiatives
- Lack of clearly defined corporate vision and goals
- Ineffective communication of corporate strategies and initiatives
- Metrics that do not sufficiently incent employees to support/achieve corporate goals
- Inadequate talent to achieve business and product goals
- Inability to accurately determine and plan for customer demand

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#### SMB strategies today:

- Improve existing methods for customer acquisition and retention
- Enhance research and development (R&D) capabilities
- Improve ability to hire and retain key talent.

Funding aside, issues of goal definition and its communication throughout the organization speak to improvements in employee relationship management (ERM), which can be assisted through technology such as portals and employee self-service solutions. Further, issues of goal-based incentive propagation can be mitigated through employee incentive management (EIM); improved talent acquisition solutions through e-recruiting; and demand management through electronic demand and forecasting solutions. The middle market has been slower than the large enterprise at adopting such solutions; yet, now they are articulating their need — all areas touched on by ERP.

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#### Aberdeen Conclusions

The SMBs see technology as the enablers of their strategies. Specifically cited are the increased availability of advanced analytics, decision support, and reporting tools, as well as the availability of process-specific business applications. In addition, the SMBs issued a mandate to the ERP suppliers: improve business functionality within the ERP applications. Customer relationship management (CRM) is the largest area of intended new expenditure.

The immense variability in how SMB companies conduct business still predominates. Reducing operational costs reigns supreme, and while overall investment is conservative, the SMBs will be looking to technology to address both business growth and cost containment.

### Recommendations

Aberdeen Group offers the following recommendations:

- Evaluate your business goals and requirements today
- Evaluate potential solutions, suppliers, and VAR partners diligently
- Plan for the future — not just the present<sup>2</sup>

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<sup>2</sup> For more details in solution selection see [\*Buyer's Guide for Middle Market Enterprises: Criteria for Vendor Selection\*](#).

To provide us with your feedback on this research, please go to [www.aberdeen.com/feedback](http://www.aberdeen.com/feedback).

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