COMPARISON OF OPTIONS – ERP TO Best of Breed

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For organizations making the decision between best-of-breed (BoB), defined as using a specific software application to solve a single functional requirement, versus Enterprise Resource Planning (ERP) the good news is that there's lots of research on what and how to buy. The bad news is that it often relies on generalities at the expense of surfacing decisive factors that are critical to procurement. Although it isn't feasible to provide exhaustive analysis in the allotted space, we'll try to provide guidance to organizations focusing on the differences between solution alternatives. Note that this guidance is not intended to argue for the virtues or vices of an "ERP" or "Best of Breed". Rather, it is intended to give organizations the tools they need to make a more informed decision.

Extending Generic Software Selection Criteria

There is plenty of advice on selecting software. It usually specifies criteria based on a combination of functionality, cost, technical architecture, vendor viability, and service and support. And although these guidelines are helpful, making informed decisions requires a closer examination of some unique features of procurement solutions.

- Cost and Cash

Procurement is somewhat unique in that the rate of *realized* savings can dwarf the incremental investment needed to fund software applications with higher TCO. ROI and TCO models should never be considered in isolation and should always reflect return projections certified by the Finance organization. (The same principles apply to procurement solutions that reduce risk, drive revenue, or make working capital improvements.)

Licensing and payment models are critical to the rate at which positive returns will accrue and the tax treatment of software investments. Organizations should request formal proposals and always undertake an exhaustive evaluation of the cash flow and tax benefits of perpetual, term, and financed license agreements. The alternative is to proceed with the default offered by vendors and wind up with the structure that best suits your salesperson's commission plan.

Financial models used to secure approvals for procurement software typically look at a time frame of two to three years. However procurement applications typically have a much longer useful lifespan. So organizations making evaluations should analyze TCO over several time horizons, including three, five, and beyond five years. This analysis will help organizations optimize licensing and deployment decisions (in addition to important change management topics like training) over the likely lifespan of the software application.

- Service Sourcing Strategy

Services have assumed a tremendously important role in technology adoption - especially where success hinges on promoting sound knowledge and risk management practices. One alternative is to consolidate to a single provider who can offer software in addition to all services (e.g. system deployment, hosting, technical support, expert services for sourcing, etc.) as a way of reducing deal

complexity. The alternative is to seek specialization and contract separately for each service type as a means of driving lower cost or higher expertise. In the end, it is as simple (and as complex) as developing a sourcing strategy for software and for services that accompany software. Where specialization and depth are core, organizations may wish to consider multiple providers. If reducing acquisition complexity is the focus, then a single provider may offer the most compelling alternative.

- Market Moves Matter

Organizations selecting procurement solutions may wish to place special emphasis on vendor viability for two reasons. (*Note: viability and stability are different issues. A company can be viable without being stable. In as much as equity prices are representative, energy and metal stocks might be unstable but generally quite viable. In contrast, the local 'Mom & Pop' retailer may be stable, but decreasingly viable in the era of big box dominance*.) First, there is intense market consolidation making smaller and weaker vendors subject to acquisition. And second, procurement technologies span a wide range of computing disciplines, requiring heavy R&D expenditures to field competitive products. Weak balance sheets, thin or negative margins, flat revenues, and/or anemic customer lists should be red flags for small vendors. Large vendors that lack critical marketshare, viable applications in reasonably mature subsectors, or a place for procurement on strategic roadmaps may represent unacceptable risk.

Move Beyond Generalities

Although "ERP vs. Best of Breed" makes for good on-stage dramas at conferences, it isn't an especially meaningful way to look at software selection. That's because the premise is inherently flawed by terminology that lacks the precision required to identify wide variability associated with "ERP" or "Best of Breed".

- Functionality

Best of Breed, as an *industry* term, falsely implies functional superiority. It only implies the absence of a corresponding financial management suite. Indeed, there are several examples of solutions that have a corresponding financial management engine (i.e. "ERP") that exhibit functional clear superiority in areas like Procurement Master Data, Supplier Management, or support for global shared service environments.

Likewise "ERP" should not imply some standard functional baseline or equivalence. In fact, "ERP vendors" vary dramatically in their procurement capabilities. Laggards are stuck at rudimentary capabilities while leading providers successfully position procurement suites as best-of-breed.

- Integration

ERP should not imply integrated procurement capabilities. Although some ERP vendors *can* provide it, others provide disparate architectures, redundant applications, and sub-par integrations. This is true of intra-suite integration within procurement and inter-application integration across the suite.

Conversely, best-of-breed applications do not always offer tight integration and uniformity in data models within their application portfolios. Even smaller providers are susceptible to market

consolidation and are often an amalgamation of disparate components that require integration projects to work together in the real world.

Giving Each Approach Its Due

Although the literal meanings of "ERP" and "Best-of-Breed" may not be useful characterizations of applications, integration, or even vendors, the terms can be useful hints as to implementation styles.

ERP-Based Deployment

ERP-based procurement can be reasonably used to describe procurement applications that run in the same logical instance as an organization's systems of record (e.g. Finance, HR, Inventory, etc.). Depending on the provider and solution in question, this approach can offer procurement organizations considerable advantages.

- Integration should be among the foremost concerns for organizations that wish to pursue multi-disciplinary procurement transformation programs. This approach can offer low complexity, low latency integration to systems that are critical to promoting high performance and visibility - e.g. budgeting and planning, payables, inventory, HR, production, enterprise analytics, etc. This approach provides inherent cost and functional advantages as well obviating the need for reintegration. Reintegration is a common challenge in best-of-breed deployments that require ongoing reintegration as following upgrades to procurement as well as any connected application like HR, Finance, etc. The cost and complexity of reintegration is one of the most common reasons that organizations abandon the best-of-breed approach.

- The IT backoffice is cluttered with the remnants of departmental pet projects that are long forgotten and have fallen into misuse. These create a hazard for enterprise as a whole because the cost and overhead of maintaining customized, departmental tools choke IT responsiveness and the ability of the enterprise to use technology as a competitive weapon. In organizations where IT simplification or enterprise transformation are important initiatives, an ERP based approach can gain procurement organizations valuable political capital and promote alignment. Conversely, non-standard applications and non-alignment with strong CxO directives can become an impediment to procurement's efforts to promote transformation projects of its own.

- Developing global shared services is a key component of many procurement transformation efforts. But it is also a key component of transformation programs for HR, Finance, IT, etc. that seek scale advantage from rationalizing processes across large, complex organizations. ERP based procurement applications can offer unique advantages for taming the complexities of multi-currency, multi-language environments with extensive tax and regulatory requirements.

Best-of-Breed Deployment

Based on the discussion above, it is reasonable to describe best-of-breed deployments as implementations of procurement applications that are separate from the enterprise's financial, production, and HR systems of record. Note that this does not imply that the procurement application can't be sourced from the same vendor or product line as the existing Financials or HR backoffice. It is only a characterization of the implementation style.

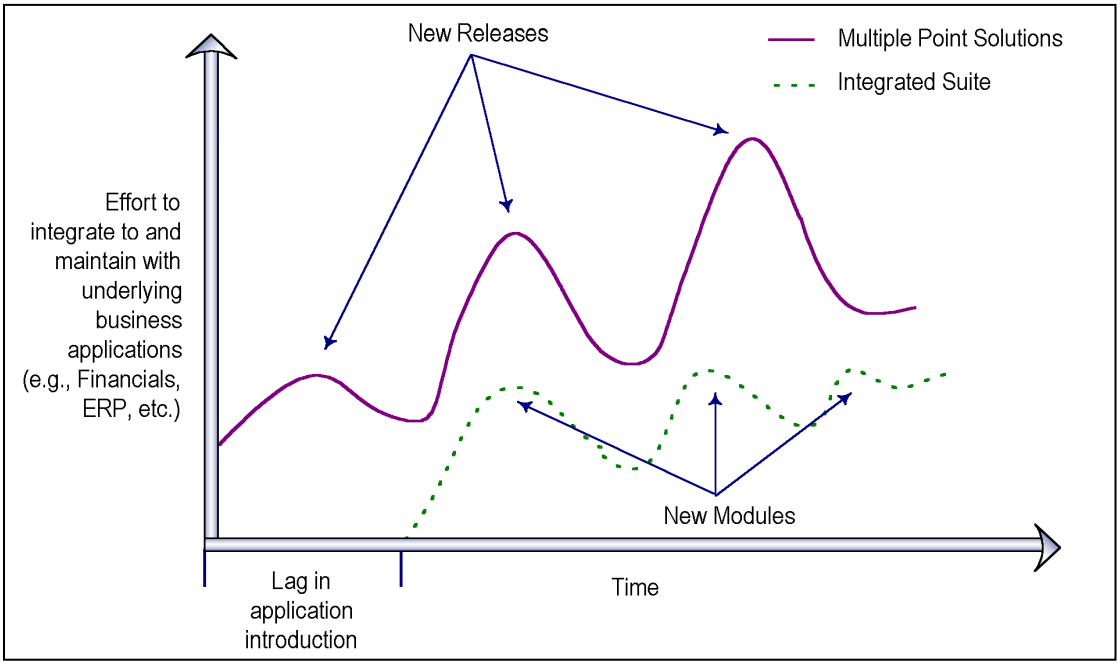
- Best of breed deployments can offer major advantages in project cadence. This approach can get new applications up and running (and saving) without having to wait on upgrades to major backoffice systems. It can also offer higher upgrade frequencies to deliver functional or performance enhancements on a more frequent basis. For procurement executives working with annual savings targets in an enterprise with multi-year ERP time horizons, this can be a compelling advantage.

- As previously discussed, services can be critical to delivering returns on procurement technology investments. This is especially true in the area of supplier enablement where adoption by an organization's key suppliers can mean the difference between success and failure. Many smaller providers offer the services required to recruit suppliers, develop and test integrations, and deliver help desk services. These services are typically the domain of specialists - allied with or competing against an ERP vendor.

- Best of breed providers can enjoy an advantage derived from development of functionality for specific niches. Niches might be related to a specific category (e.g. travel), process (e.g. engineering change order), or industry (e.g. print). These kinds of solutions can be compelling, especially where an organization has a large spend or dependency on mission critical processes and the ERP vendor of record has no credible plan to develop functional equivalence. In these situations the issues of "ERP vs. Best-of-Breed" are quickly displaced by a discussion of how ERP and best-of-breed can coexist.

- There is no shortage of partisan arguments supporting or opposing Software-as-a-Service (or on premise deployment). But in practice, organizations' requirements are far too diverse to fit neatly into absolutes. That said, application software coupled with hosting, value added services, and alternative licensing structures can offer a compelling combination. SaaS can be especially attractive where large savings opportunities are held hostage by an organization's limited IT bandwidth and budgets as well as situations where plans explicitly call for "no standardization."

Effort Required to Integrate Additional Point Solutions vs. Additional Suite Modules Over Time



Source: Dr. Katherine Jones, Research Director, Aberdeen Group

Conclusion

"ERP vs. Best of Breed" lacks the precision to provide decision makers with a valid frame of reference. Organizations evaluating applications can start with generic models but should be careful to extend them to accommodate the financial impact of procurement as well as its unique market dynamics. Organizations should move beyond market conventions to develop a more nuanced understanding of competing providers. By evaluating advantages offered by competing approaches, organizations can move beyond laundry-lists of pro's and con's and focus on mission critical areas that will have the largest long term impact.