The 'Old ERP' Dilemma: Replace or Add-on

Olin Thompson - January 29, 2002

Everyone starts his or her individual journey to the future from somewhere - the place they are today. If the place you are today is with an "old ERP" system, many questions exist about how to get to the future.

First, what is an old ERP system? If your system has green screens, you have an old ERP system. If your system has a GUI (Graphical User Interface) but not something that looks like most Windows applications, you have an old ERP system. If the system was introduced in the 80's, you have an old ERP system. If your vendor is no longer enhancing the system in "new areas", you have an old ERP system. If your vendor is becoming a "have not" of the ERP industry, maybe old age is approaching.

If you have an old ERP system and you need some of the business functionality offered by Supply Chain Planning (SCP), Business Intelligence (BI), Customer Resource Management (CRM), New Product Development (NPD) or e-commerce you have a dilemma. Do you replace what you have first and then add these new functions or do you keep what you have and add these functions around your existing ERP system? Every vendor of ERP or any of the functions listed above will have advice for you. But you can rest assured the advice is what is best for the vendor in almost every case. (To be sure, there are some conscientious sales reps out there that will give you honest advice.)

The Realities of Replacement

Why are you thinking about getting rid of your existing ERP system? Whatever your answers, they must be compared to some of the realities of replacing the old system. Those realities include cost and time, but these two issues go much deeper. You have to pay the cost of buying and installing a replacement ERP system. You have to suffer the cost of disruption, typically a dip in operational efficiency and effectiveness, before, during and after the implementation. You will have to suffer the pain of ripping out the existing system and putting in its replacement. Will the replacement of the existing system be more or less painful that what you experienced the first time? This is a good question, which has no standard answer.

Once the replacement system is installed, will it give you adequate ROI on the replacement investment? The time involved in implementing the replacement ERP system means that the ROI on the added function you are seeking is delayed. Yes, you could try to implement both the replacement ERP system and your shiny new SCP or e-commerce system at the same time, but are you willing to accept the risk and even greater disruption in doing so. The "big bang" horror stories of the late 90's should make you very adverse to this approach.

An ERP system is the backbone of your operations. You need to make absolutely certain that any replacement system functions as well as or better than what you have. The word old means mature. Will the replacement system offer all the function that your old, mature system has

today? Your people may not like the existing ERP, but they know it. Can you guarantee that the new system will really be an improvement for these people? Maybe the most important thing that can be said about the old system, which may not be true of the replacement system is, "It works!"

If you are looking for a replacement ERP system as a way to get to some of the newer functions like BI, SCP or NPD, you need to pick a system that is both better than your existing ERP system and provides the best functionality in the new areas you are seeking. You will have to pick a single vendor who is up to both tasks. Although the offerings from the integrated ERP vendors have improved to the level of functionality of the best of breed vendors specializing in a single area for many situations, the exact function you want and the specifics of your industry may mean that the integrated vendor is not up to the challenge.

Why Are You Replacing Your Existing ERP System?

So, why are you thinking about getting rid of your existing ERP system? If the answer is simply your need for some of these newer and more advanced applications, you have not thought through your options - you can reach these objectives with or without replacing your existing system.

If the answers have to do with technology, you need to look deeper. A CIO recently told me that he was going to replace his old ERP system because, "My users think it is old and ugly." Unhappy users are always an issue. How much you weigh this issue versus the cost, time and disruption issues is part of the trade-offs involved in making this decision.

Maybe the existing technology itself is old and ugly. If the underlying hardware and systems software is creating frequent disruptions or have become very expensive to maintain, you have another issue to trade-off. But if the existing hardware or systems software puts you at risk of a lengthy or permanent disruption of service, you have no choice but to go to a replacement system.

The Realities of Additions

Why would you add the new function around your existing ERP system? If you add the function you require on to the existing system, you should get the benefits you seek faster. You can proceed directly to implementing the functions that will deliver the ROI. That project will have to include some consideration of integration of the new function to the existing ERP system, but the overall schedule is typically shorter.

In many cases, the functionality provided by a specialist or best of breed vendor will be better than that offered by many integrated vendors. As the above-mentioned article discusses, the future of ERP means sharper vertical focus. For many industries or verticals, significant operational advantage can be gained by going with a vendor who focuses in their industry. The best of these focused vendors typically limit their target market to a few, closely related industries. Note, industry focus means application function, not industry specific brochures.

Additions Involve Integration

But what is the true cost of going the best of breed route? Integration is one of the answers. It is not free. It is another issue that must be traded off. The reality is that the integrated vendor should have better integration and they will bear the cost of maintaining that integration. This is almost always true if the vendor wrote all the pieces themselves. If they acquired some or all of the pieces, this should be true, but you should test the vendor's commitments in this area. If the components come from a "strategic partnership", it means that as long as the relationship makes money for both parties and they do not evolve into a competitive situation, the integration will continue to exist.

Part of the integration trade-off has to do with the quality of the integration. A single vendor, integrated solution should have better integration. The question for the best of breed option is, "Can these products be integrated in a practical way." Practical does not mean best, it means acceptable given all the other trade-offs that will always have to be made. You will have to live with extra code, the integration code that needs maintenance. You will have to live with duplicate files that may get out of synch. You will be the one who deals with the finger pointing between the two vendors when one or both of the two systems are not working correctly. You will have to deal with the new release cycles that will prove to be always perfectly out of synch.

The selection of an add-on product must include the ability of the product to integrate with the existing systems. Was it built to be integrated? What integration technology does it support? What will be the cost and risk of maintaining the integration?

Conclusion

Whether you choose replacement or adding-on, integration must be your key consideration. This article has pointed out the trade-offs you face as you decide what to do with your "Old ERP" system.