EXHIBIT 11

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Should You Rehabilitate Your Current ERP System Rather Than Buy a New One?

by Jim Shepherd

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ERP

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The Bottom Line: When considering a new ERP system, companies should also seriously consider rehabilitating and extending the one they already have.

Buying and deploying a new ERP system typically costs millions of dollars. The justification, selection, and implementation process can take as long as two to three years. In today's economy, it is nearly impossible to get approval on projects with such a large scope and cost. However, many companies are struggling with older business systems that no longer meet their needs. Simply waiting until funding and resources are available for a new ERP system may damage morale and leave the company with inefficient business processes and inadequate information access.

Many of the companies that are looking for a new ERP system currently have older MRP II or ERP systems that were developed in the 1980s or early 1990s. Often these products are considered functionally and technologically obsolete, and no one is enthusiastic about extending their lives. Adding to the problem is the high likelihood that the vendor that developed the product is no longer in existence, and the company may not have much of a relationship with the current owner.

Given this daunting set of issues, most companies never seriously consider the possibility of rehabilitating their existing business systems. For many organizations, however, there is a viable option to upgrade the software, add some new functionality, and retrain the users for a fraction of the cost of a new ERP deployment. The time to benefit for a rehab project is months instead of years, with far less danger of an interruption or risk to the business. Realistically a rehabilitation project doesn't represent an adequate long-term solution, and it doesn't provide the transformational benefits of a new ERP project, but it can deliver rapid tactical improvements at a relatively low cost.

Easier and cheaper doesn't necessarily make it a good idea

Clients often tell us that one of the reasons that the ERP selection team doesn't investigate the possibility of updating the current system is their fear that the business will simply opt for expediency. As one project leader explained, "If my CFO thought that we could get five more years with just an upgrade, we would never be allowed to even consider a new ERP system."

Companies need to consider what kind of information systems will be required to support their three- to five-year business plan. Senior management has an obligation to provide a strategic context that outlines expected growth, business model, product lines, channels, and geographic locations so that the project team can consider all of the possible ERP solutions.

In some cases, the existing business systems are simply beyond saving. They may be a fragmented collection

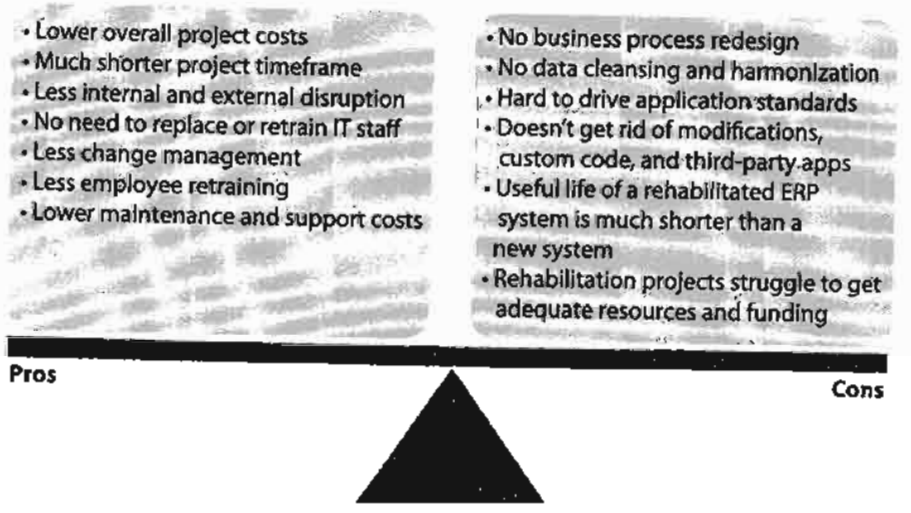
of old applications that have accumulated as a result of mergers, acquisitions, and decades of IT autonomy. Or they may be old enough that no vendor is still maintaining and enhancing the products. Often the company or its management strategy has outgrown the vendor. Fifteen years ago, the company may have been a $400M business with three divisions that each ran independent mid-market MRP systems. Now it is a $2B organization that wants or needs to operate as a single, integrated global business. Even if the original ERP vendor is still in business, it may not have any upgrade or migration path that would meet the needs of this much larger entity. Putting in a newer version of the wrong software is never a good investment.

When companies come to AMR Research for help on evaluating and selecting an ERP system, we always ask if they have considered upgrading their current system. Companies generally say that they have evaluated that option and concluded that the old system is technologically out of date and its functionality no longer meets their needs. The reality is that in many cases they have only looked at the system as it is currently implemented in their company. They haven't carefully evaluated their upgrade, extension, and migration options to see if this kind of radical makeover might be a reasonable choice for the company.

Part of the problem is the members of the project team are often predisposed toward the new ERP option. They believe that the company needs to go through the kind of organizational reassessment and process redesign that an ERP implementation entails, and they don't think that an upgrade of the existing system will drive that kind of change. They are also often concerned that an upgrade will not get the necessary financial and human resources.

In many cases, the incumbent ERP vendors do a poor job of selling the idea of ERP rehabilitation. The typical sales rep is focused on account maintenance and doesn't have the experience or resources to mount a major sales campaign against the new account reps from SAP and Oracle. These reps tend to go on defense immediately and, as a result, fail to propose a comprehensive solution that involves a major upgrade with process redesign and an expansion of the functional footprint. Often, the latest version of the installed system would be perfectly adequate, but the seller doesn't know how to propose it, and the buyer never considers it.

Figure 1: Pros and cons of ERP rehabilitation



Source: AMR Research, 2009

When should you consider ERP rehabilitation?

So how do you know if and ERP rehabilitation is right for your company? There are a few key considerations that companies need to keep in mind if they are evaluating the possibility of ERP rehabilitation:

The current owner of the software needs to be a viable company

There is no point in investing time or money in an application that is not backed by a stable and financially healthy company. Press the vendor for detailed financial information and get an unbiased assessment from outside sources. Do not gamble on the possibility that the company may be acquired by a stronger player who will not be committed to the software.

The product is being actively supported and has at least a three-year enhancement roadmap

Take the time to investigate the vendor's support policies and the resources committed to the product that you are considering. The vendor probably won't make an open-ended contractual support pledge, but it should be willing to guarantee several years of maintenance coverage. The vendor should also have a formal product roadmap, with plans for both functional and technological updates.

There is an upgrade or reasonable migration path to a product that fits your business needs

Just keeping the current product alive is not good enough. The vendor needs to offer an attractive way for the company to move to a product or version that satisfies most of your key requirements. This may entail an upgrade, a re-implementation, or even a software conversion, and it may also involve implementing additional products or modules.

Approval or funding for a new ERP system is highly unlikely

If the company has critical requirements and there is no chance of gaining approval for a new system, then a rehabilitation project becomes very attractive. The key is to have a scope and project plan that are appropriate for the upgraded system's likely lifecycle. Don't over-invest in a product that is only likely to last five more years.

An upgrade or re-deployment of the existing system would deliver most of the benefits of a new system at a much lower cost

The ideal rehabilitation project would deliver 80% of the benefits at 20% of the cost. While this is unlikely, it is very important to monitor the project to ensure that it does not become a money pit. Develop a realistic estimate of the cost and benefits of a new ERP system, and then use that as the benchmark for the rehab effort. Make sure that there is a reasonable ratio between the project expenditure and the benefit delivered to the business.

Staying on the existing software version or product set represents no significant risk or loss of opportunity

In some cases, the best available option is to do nothing. If a new ERP system is not an option and there are no significant issues with the existing system, it may make sense to simply wait. Your internal situation might change, or the vendor status or product future might become much clearer.

ERP market consolidation is making ERP rehabilitation more attractive

The ERP market has followed a typical growth trajectory over the last 20 years. In the first 10 years, when the barrier to entry was quite low and venture capital was readily available, the market expanded to more than 200 companies, most of which had only one product line. Since the late 1990s, that trend has reversed, and the market has rapidly consolidated to a much smaller number of vendors that often have a portfolio of products. While most of the vendors have disappeared, the individual ERP products have survived because they had large and loyal customer bases that were willing to pay maintenance and were not very interested in switching to new products.

When the larger ERP vendors began buying up the smaller companies, they expected to be able to migrate these acquired customers to their flagship products. They quickly discovered that there was no carrot sweet enough or stick big enough to make people reimplement an ERP system until they were ready. The smart vendors simply changed their strategy and became portfolio companies with multiple product lines that generated an attractive stream of maintenance revenue. As a result of this policy shift, we now have lots of older ERP products that simply never died.

The vendors are motivated to continue maintaining and enhancing the products in order to sustain the maintenance revenue. Products like JD Edwards World, MAPICS, Dataflow, and Macola have been around since the 1980s. While these products have had multiple owners, they are still regularly updated and have significant customer bases. Many of these products are not just alive and actively supported, they are also owned by much larger, global software companies with extensive development and support resources and lots of other interesting complementary applications.

Take the example of **Stokes Seeds**, one of the largest home and commercial garden seed producers in North America. In 1987 Stokes purchased the BPCS system from an **SSA** reseller in Toronto. It deployed parts of the system along with other third-party applications and then went through a painful upgrade to the 6.0 release in order to support Y2K requirements. That experience was so unpleasant that it dropped maintenance and happily ran the product unsupported for 20 years while SSA went bankrupt, re-emerged, and then eventually got purchased by **Infor**.

Twenty-two years later, Stokes Seeds has grown substantially. It needs to upgrade its infrastructure and improve its management reporting. The company was considering a new ERP system when it discovered that Infor, the new owner of BPCS, had a program called Flex that was specifically designed to help customers upgrade or migrate to newer versions of their applications. Infor reviewed the Stokes Seeds environment and provided a hard estimate of the time and cost to move up to the ERP LX product, which is the latest version of BPCS. Stokes signed up for three years of maintenance and received a credit for one year's value in services to help fund the upgrade project.

Wayne Gale, the CEO of Stokes Seeds, told AMR Research that the company had always liked the BPCS product. He felt that upgrading would be much less expensive and less risky than implementing a brand-new system. In addition to the upgrade, the company also expects to eliminate a number of customizations and is considering replacing its mail order system with standard ERP LX order management functionality.

This is a perfect example of a situation where rehabilitating a 22-year-old system was much more attractive than buying a new one. Stokes Seeds had grown but not changed its fundamental business model, the new ERP owner is much larger and healthier than the original vendor, and the product itself has evolved to be a better fit than the one Stokes bought in 1987. The customer will get an updated ERP system and be back on vendor maintenance for a fraction of what it would have cost to buy and implement a new system.

For many organizations, there is a viable option to upgrade the software, add some new functionality, and retrain the users for a fraction of the cost of a new ERP deployment.

Sometimes your current ERP system is actually a better fit

While in many situations the decision to rehabilitate an existing ERP system is the result of limited financial resources or internal resistance, sometimes companies discover that their existing application actually fits the business better than a new ERP system would. AMR Research spoke recently with a large European consumer products manufacturer that had set out to buy a new global ERP system that changed its mind over the course of the selection and evaluation project.

The company is a multi-billion-dollar business with around 8,000 employees worldwide. It has a diverse set of products and a large number of manufacturing, distribution, and retail operations. After the company had acquired a number of different applications over the years, senior management saw a need to move to a single standard system in order to improve efficiency and provide better visibility and control.

Within the existing IT landscape were several plants that had implementations of MOVEX, which the company had purchased from **Intentia** long before it merged with **Lawson** in 2006. It was not unhappy with MOVEX, and it liked the fact that MOVEX supported its fashion-related products, but the company was really looking for an ERP system that could run a large, global enterprise. It hired a major consulting firm to do an extensive requirement analysis and ultimately decided that only SAP and Lawson had the necessary functionality to support their apparel and footwear businesses.

The director of IT told us that both he and the management team really expected that they would select SAP because of its market dominance among large European consumer packaged goods (CPG) firms and the ready availability of experienced SAP consultants. However, when the company did a detailed comparison of the two solutions, it discovered that while SAP had far more functionality than Lawson's M3 (the successor to MOVEX), it wasn't necessarily a better fit. The company operates a number of relatively autonomous businesses with very different supply chains and manufacturing processes. Culturally these are more like midsize, independent manufacturers, and both the managers and employees seemed frightened by the size and complexity of SAP.

The team came to realize that while SAP had more functionality, M3's functionality was good enough for their needs, and the product could be more easily deployed as a distributed common system, which suited their operating model. An SAP implementation would require far more change management and would expose the business to a high level of risk and disruption. The team also concluded that this reduced change management, the value of the MOVEX licenses it already owned, and the existing internal expertise would make an M3 project 25% less expensive than SAP.

The company is now in the process of upgrading its existing MOVEX sites to Lawson's latest M3 version. Over the next three years, it will implement M3 across most of its manufacturing operations. The company is committed to driving a high degree of process and data standardization and redesigning all of the internal rules and processes.

This is an example of an ERP rehab decision that was not driven by cost or resource issues. While the upgrade to Lawson is definitely less expensive than a new SAP implementation, the company made the choice based on familiarity and suitability. Clearly part of the reason that Lawson was viewed as a reasonable choice was the fact that the merger of Lawson and Intentia had produced a much larger and healthier global software company that was actively investing in modernizing the technology and improving the functionality of the M3 product line.

Conclusion

New ERP implementations are among the most reviled of projects. They are huge and expensive. They gobble up talent and financial resources, and often take years to deliver tangible results. Worst of all, these implementations force the organization to endure months of questioning and changing reporting structures, rules, metrics, and business processes, which inevitably stirs up political issues and disrupts operations.

This is what they are supposed to do! At their best, ERP implementations are transformational events. They are a 12- to 18-month structured exercise where business processes are redesigned, data is cleansed and harmonized, and a significant percentage of the employees are retrained. In these projects, the benefits come from this transformation, and the new software is simply a vehicle that facilitates the redesign and reinforces and supports the new processes afterward.

This transformation is what is missing from most ERP rehabilitations. The good news is that companies that are upgrading and extending existing applications don't have to go through this corporate angst and that saves them many months and many dollars. The bad news is that they rarely get the transformative benefits that come from a brand-new ERP implementation. Even with the best of intentions, companies tend to come out of a rehab project with largely the same organization structures and business processes that they started with. Ideally they will have gained some process efficiency, better visibility and reporting, improved integration, and some degree of standardization, but they won't be transformed.

Companies that are facing the decision of what to do about their ERP system should carefully consider what they need and what they can afford in terms of financial and human resources. If they only need incremental improvement or IT risk reduction, an ERP rehab may be exactly the right choice. If the organization doesn't have the will or leadership to undertake a transformation, then an ERP upgrade may be an excellent tactical decision. However, if what the business requires in order to remain competitive is a transformation into a tightly integrated global corporation, rehab simply won't accomplish the goal.

ERP rehabilitation is an option that is available to many companies who are running older systems. These products often have strong vendors, attractive upgrade paths, and a broad assortment of complementary applications. AMR Research is pleased to see the ERP vendors becoming more aggressive about packaging and selling this option within their customer bases. There are too many companies that have allowed their vital business systems to atrophy because they weren't prepared to buy a new ERP system. Many of these companies could derive great benefits from a relatively inexpensive ERP upgrade and buy themselves another 5 to 10 years before they have to step up to a replacement project.

Notes

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