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Open Source ERP transforms ROI

This short document highlights some of the commercial considerations associated with an ERP implementation.

Enterprise Resource Planning systems share three main characteristics:

• They are multi-functional, spanning a range of business activities
• They are integrated, so that functions communicate with one another and share underlying data
• They are modular, allowing selected elements to be implemented and the progressive adoption of additional modules
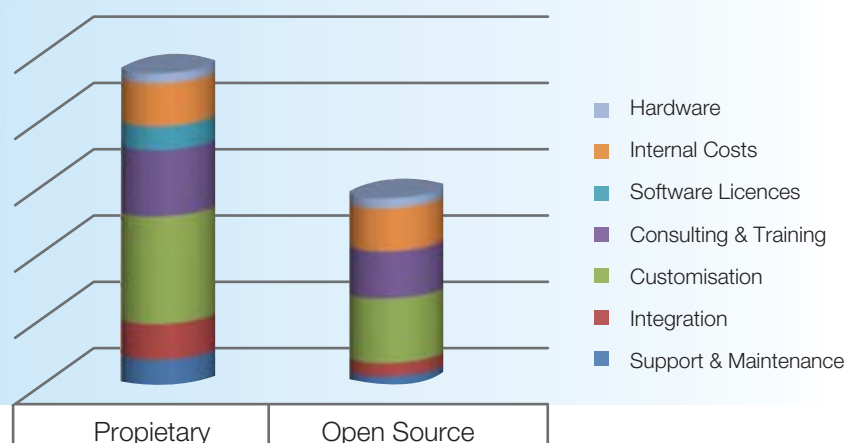
The Business Case

The majority of large and medium-to-large organisations have already adopted or have plans to adopt an ERP system. This is not surprising, as most organisations can expect a Return on Investment (ROI) of between 100% and 400% from ERP projects, making them strong candidates compared with most other initiatives. However, ERP systems have frequently proved difficult to implement and invariably require significant investment, even though potential returns are high. It is important to recognise and manage the risks involved by controlling costs and maximising the probability of success.

Proprietary v Open Source

Vendors such as SAP, Oracle, PeopleSoft and Microsoft have tended to dominate the market for ERP systems. However, the costs associated with the implementation of these systems have frequently far exceeded expectations and in many cases have outstripped the return. In a survey conducted by Nucleus Research, only 46% of SAP adopters achieved a positive ROI with an average payback period of 46 months.

Open Source solutions can dramatically reduce the Total Cost of Ownership (TCO) of an ERP system, typically by as much as one third, whilst achieving at least the same benefits.

- Hardware
- Internal Costs
- Software Licences
- Consulting & Training
- Customisation
- Integration
- Support & Maintenance

Propietary   Open Source

With zero licence fees and no obligation for expensive, annual support contracts, an Open Source approach significantly reconfigures the cost profile of ERP implementation.

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Customisation

ERP systems always require customisation to match the needs of each user organisation and to achieve expected benefits. Users adopting proprietary systems typically spend 3 to 5 times the cost of the initial software licences on modifying the systems so that they match requirements, frequently increasing the complexity of implementing future upgrades in the process.

Because proprietary systems are 'closed', the user organisation is dependent on the software vendor for providing the skills, tools and supplementary applications which are needed to achieve success. These are invariably expensive and will always be directed towards meeting the vendor's market aspirations rather than the needs of the user organisation. Research by West Trax found that almost 40% of SAP customisations were never used whilst only 25% were heavily used. Customised code exhibited significantly reduced performance when compared with standard code.

Tier 1 Open Source applications are inherently designed for customisation and integration with other systems and their scope and ongoing development is driven by the needs of the user community rather than by a third party with a different agenda.

Propietary   ROI = 180% *

Cumulative Benefits

Payback

Year 1   Year 1   Year 3
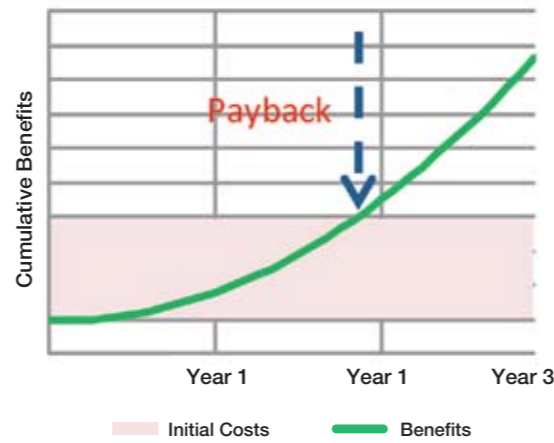
Initial Costs   Benefits

Payback

Lower realisation costs and a more flexible approach towards evolutionary implementation dramatically reduces the payback period for Open Source alternatives.

The figures to the right illustrate a much improved Return on Investment and faster Payback typical of an Open Source solution, given the same benefit realisation.

In reality, risks can be reduced and results improved still further as there is no need to incur the high, early costs associated with licence fees and prepaid annual support agreements which characterise proprietary solutions. Full-scope ERP systems are never achieved overnight and an Open Source implementation can be scheduled to reflect the needs and constraints of the adopting organisation.

In short, benefits can be achieved faster, risks reduced and confidence improved by implementing what you want, when you want it and at a pace which suits your business environment.

Open Source   ROI = 328% *
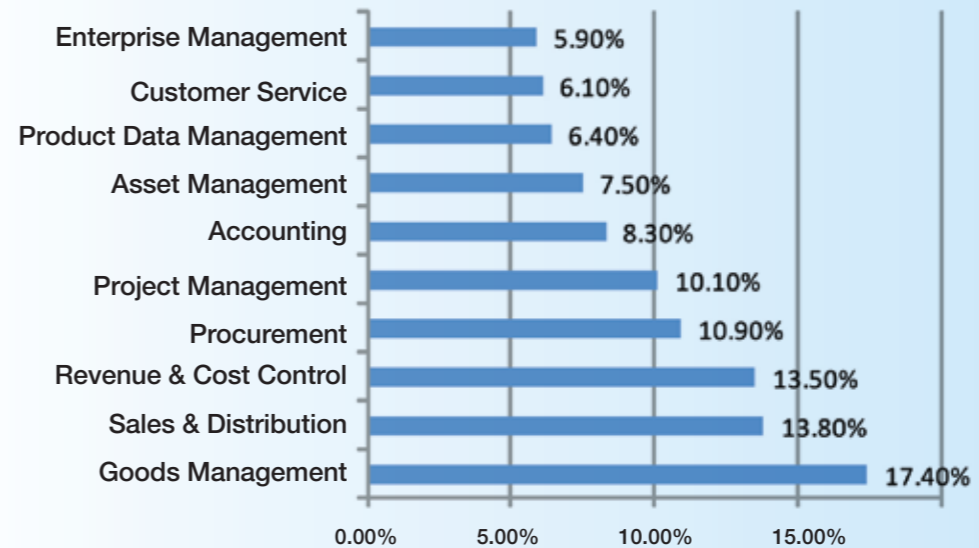

Cumulative Benefits

Payback

Year 1   Year 1   Year 3

Initial Costs   Benefits

* Average Annual Net benefit / Implementation Costs

ERP Scope and Benefits

The following chart illustrates the average usage of transaction types in ERP systems across a range of industry sectors:

Transaction Type	Usage
Enterprise Management	5.90%
Customer Service	6.10%
Product Data Management	6.40%
Asset Management	7.50%
Accounting	8.30%
Project Management	10.10%
Procurement	10.90%
Revenue & Cost Control	13.50%
Sales & Distribution	13.80%
Goods Management	17.40%

Because ERP systems cover such a broad cross-section of business activities, benefits can be found in many different areas. These vary significantly according to both industry sector and the characteristics of the current organisation. The following is an outline of some of the key candidates as observed by Accenture ('The Return of Enterprise Solutions'):

- Improved management decision making
- Improved financial management
- Improved customer service and retention
- Ease of expansion/growth and increased flexibility
- Faster, more accurate transactions
- Headcount reduction
- Cycle time reduction
- Improved inventory/asset management
- Fewer physical resources/better logistics
- Increased revenue

1Tech can help you identify and quantify potential benefits and then make sure that you achieve them. If you already have a plan in place, we can highlight sensitive or high-risk elements and propose alternative or contingent approaches.

We can even exploit existing ERP or other applications and help you release potential which is impeded by reliance on a particular technology.

We have no allegiance to any third-party vendor and focus entirely on your business requirements.

Beyond ERP

Whilst an organisation can be defined in terms of essential business operations, such a definition is incomplete in that it does not take into account the necessary interactions between the people actually involved, whether they are internal or external. Each organisation is unique in terms of how these interactions are realised and a successful system should be capable of dynamically supporting the organic nature of the organisation and its external interfaces, particularly the supply chain.

ERP/CRM goes some way towards supporting interactions where they can be clearly specified in terms of business transactions but does not directly support the less-definable interactions which form an essential part of any business, whether these are between work colleagues or with external parties such as suppliers and customers.

1Tech specialises in full-scale Enterprise Integration, addressing both people and process, based on cost-effective, enterprise-class Open Source technologies, integrating existing or new capabilities within a common environment which truly reflects the needs of your organisation and marketplace.

By building solutions that match the needs of your organisation, rather than making your business fit the solution, and by giving you the flexibility to quickly react to changing demands, we can help you achieve the improvements that you seek with lower cost, lower risk and increased predictability.

Contact Information (HQ):

1Tech Ltd
29 Harley Street
London
W1G 9QR
United Kingdom

Tel: +44 (0) 845 644 0945
Fax: +44 (0) 845 644 0946

Visit: www.1tech.eu