



# The Myths and Truths about ERP Systems

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## 2 Introduction

The devil is in the detail: can you afford to use your ERP for Accounts Receivable (AR) collections and Customer Service when you want to be the best in your class?

If you listen to Richard Pikowski, vice president of payroll and benefits at Crédit Lyonnais, New York, he will say that none is more significant than the choice between an Enterprise Resource Planning (ERP) application and best-of-breed software. "It's a decision that every company must make," he says. Mr. Pikowski chose best-of-breed like many leading-edge companies today. Indeed best-of-breed applications are proving to be more popular, flexible and offer a better degree of fit than traditional ERP systems. Why is this?

Collections and customer service is one key area where the business impact of getting things wrong by relying on generic ERP functionality can be catastrophic. This has been seen with a number of high profile European and US companies.

These companies have seen very damaging effects on cashflow and customer retention.

ERP systems, such as SAP, Oracle, Baan and JD Edwards claim to be able to improve:

- The time, cost and resources for implementation
- Depth of functionality and degree of fit within an organisation
- Cross functional joined-up reporting
- Integration between collections and dispute management modules

There is no doubt that ERP plays a crucial role in today's enterprise by enabling a centralised information warehouse to be leveraged enterprise-wide. With ERP's wide-reaching functionality, it is easy to believe that it can provide a single solution to all of your corporation's challenges but, as with any technology, there are limitations. A recent survey of companies conducted by S. McVey from Technology Evaluation revealed a number of key areas where the system failed to deliver.

Companies participating in the survey belonged to a broad range of industries including aerospace, consumer goods, electronics/high technology, and chemicals. Contacts in these companies were chosen from people who were either involved directly in the ERP implementation or who tracked DSO (Days Sales Outstanding) as part of their jobs. Their titles included CIOs, Finance Managers, Controllers and ERP Project Managers. 90% of respondents indicated that DSO reduction was a goal of the organisation and, of all the respondents, 30% saw an increase in DSO after the implementation of ERP.

Survey results indicated an average increase in DSO of one day following an ERP go-live. What are the contributing factors to this phenomenon and why would this occur when ERP is hailed as the answer to all fortune 500 companies' woes? In this white paper, we explore these issues as it is crucial to understand what the limitations of ERP are and where reality and myth collide.

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## 3 Myths and Truths

### 3.1 Integration

- **FICTION:** IT Departments believe best-of-breed systems are cumbersome and difficult to integrate
- **FACT:** Whilst it is advantageous to minimise the number of systems within a company, best-of-breed systems are now much easier to integrate to batch load processes

In the past, companies required sophisticated middleware technology to have all their standalone systems communicate with each other. Nowadays, best-of-breed solutions make use of technology which enables them to effectively 'sit' on top of the current systems within the company and, through a batch load process, extract the data required. This approach is less invasive and does not require middleware to connect or interface with the different ERP or legacy systems. This naturally makes integration and implementation far simpler than IT departments may expect.

### 3.2 Multiple Suppliers

- **FICTION:** ERP projects are controlled by one supplier, so less overall project time
- **FACT:** Best-of-breed solutions have reduced project times due to their customisable nature

"Only 35% of ERP implementations are on schedule, while according to the Rockford Consulting Group, more than 60% of ERP implementations fail" CIO Magazine

Many ERP vendors claim that their projects take less time to manage than all the best-of-breed projects as you are only dealing with one vendor. A major cause of ERP implementation failure is the miscalculation of effort and time it will take to accomplish the project. Best-of-breed costs are usually clear upfront and have a higher degree of project success. Most best-of-breed implementations take 7 - 8 months to implement. In the case of the Customer Value Group, most implementations take 3 - 4 months and companies can typically expect 5 - 10 times ROI on their initial investment within one year of implementation.

### 3.3 Investment

- **FICTION:** ERP is cheaper to implement, run and support
- **FACT:** ERP systems require constant IT support , whereas best-of-breed applications do not

It is generally agreed, both by consultants and companies who have implemented ERP systems, that to successfully implement an ERP package, a company must review all its current processes to align them to the best way to work using the package. Therefore the implementation of an ERP package requires considerable company resource over a period of, typically, 12 - 18 months. Implementation costs aside, the resource costs of supporting and servicing an ERP far outweighs the cost of supporting and servicing a best-of-breed solution. Once implemented, the regular releases of best-of-breed solutions incorporate most of the changes required by the changing organisation. Most best-of-breed systems will even manage the upgrades for their clients and are far more willing to make the changes their users are requesting. With an ERP system, any changes in configuration, reporting, processes, security or usage requirements must involve IT. Changes requested by the users are almost never implemented by ERPs and all post-implementation customisation must involve IT.

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Furthermore, due to the limited standard reports available within ERP systems, companies are typically forced to employ full time ERP programmers to custom-build reports, or they need to purchase a third-party reporting package.

In contrast, best-of-breed technology is commonly designed to be supported by users of the systems.

### 3.4 Functionality

- **FICTION:** ERP provides all the same functionality as best-of-breed
- **FACT:** ERP'S broad focus does not offer the depth of functionality required in key areas like accounts receivable

It is a common belief that ERP systems provide the same functionality as best-of-breed solutions. Organisations who have implemented ERP in its "vanilla" state find themselves in a Catch 22 situation: the vanilla version may not be able to address all their business requirements but customisation for one business application could preclude configuration options for another.

As an example, one of the most influential drivers for user adoption is ease of use, but ERP systems are notorious for difficult user interfaces. For instance, ERPs often present information in a manner that requires users to access multiple screens to perform a common task, while a best-of-breed solution - designed with the specific business process in mind - presents the information on one screen or dashboard. This significantly increases effectiveness of collections activity and enables expanded call volume capacity.

What ERP customers are saying:

"Collections management within our ERP is inefficient. Before this ERP system was implemented, it took six steps to identify a call, take notes, get the next account, etc. Now, it takes 43 steps."  
(Participant in S. McVey survey)

The broad focus of ERPs is the integration of disparate functional silos within a business. In contrast, best-of-breed applications have been developed to provide the depth of functionality required by key functional areas, such as Accounts Receivable.

Can companies who want to be at the top of their game afford to have gaps in functionality for a key functional area such as the management of Accounts Receivable?

What ERP customers are saying:

"An important part of the collections process is the ability of a collector to identify and categorise a customer service issue and dispute. Our ERP does not enable this easily. In addition, surely the Service reps and Collectors should be on the same dispute and query management system? This will enable a coordinated approach to customer collections and service."

"Our ERP does not provide a standard, easy functionality for a Collector or Service representative to view the account in a holistic way. When talking about Accounts Receivable you have one set of screens and when talking about the detail behind the disputes and queries you have another set of screens."

"In a complex business there may be 100's of separate service issues to deal with, some of them relate to invoices, some don't and they may all have different resolution paths. Our ERP lacks the sophistication to develop workflow around resolution paths for differing types of disputes and queries."

(Participants in S. McVey survey)

### 3.4.1 Functionality Gaps

Functionality	Traditional Standard ERP	CVG Value+
Access to all information on one screen.	Users need to navigate through multiple layers of screens to gather all of the information they would need for a collections call.	Fully supported. Information collated on one screen.
Segmentation of customer base to differentiate between size and payment profiles to segments accordingly.	No	Advanced segmentation is fully supported.
Workflow and integration of collections activities.	No, not without purchasing additional modules and advanced customisation.	Advanced workflows are fully supported.
Sophisticated AR, customer service and workflow management reporting.	No.	Fully supported - complete integration.
Flexibility to adapt and change collections and dispute management strategies.	No.	Fully supported.
Cash targeting of individual collections agents and dynamic real time reporting against objectives.	Yes to cash targeting. No to real time reporting against objectives.	Fully supported.
Integration into corporate website for customer self-help functionality.	No.	Fully supported.
Integration of collections and dispute and query management/customer service.	No.	Fully supported.
Advanced collections available in the standard package.	No-not as standard.	Fully supported.
Ability to set service level agreements and define escalation paths.	Not simply.	Fully supported.

### 3.5 Flexibility

- **FICTION:** ERP can easily be customised as my business grows
- **FACT:** Most companies who attempt to customise their ERP to enable best practice collections and customer service management lose their customisation upon the next upgrade. ERP vendors do not support bespoke customisation

As an organisation grows and changes, companies must be able to rapidly configure the solution to interface with multiple transactional systems. ERP systems are very difficult to customise and there is difficulty in supporting multiple business models. Companies who have chosen to customise their ERP to achieve the same depth of functionality as a best-of-breed have learnt the hard way that when they upgraded, they faced losing their customisation. This is because the ERP vendors do not support bespoke customisation. Consequently, there are often multiple versions of an ERP system within one organisation which defeats the point of integrating systems in the first place. The opportunity costs of waiting for customisation changes, and of dealing with issues arising from customisation, could pay for a best-of-breed system several times over.

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### 3.6 Reporting

- **FICTION:** ERP has extensive integrated reporting
- **FACT:** Best-of breed systems have flexible reporting capabilities unlike their ERP counterparts

ERP systems have the advantage of containing the data required to populate any required reports. However, they focus on financial reporting versus activity-based reporting (such as cycle times, call outcomes and in-depth risk analysis).

As a result, standard ERP systems have a very limited number of reports. For example, Oracle Advanced Collections only has eight reports, with four of them dependent upon a specific ancillary module. Organisations are often forced to custom-build the reports using IT resources or employ a third-party reporting tool to expand the standard set of reporting.

What ERP customers are saying:

"There is limited functionality within our ERP reporting module and we cannot 'slice and dice' Accounts Receivable (AR) data to the extent we would like... the aging report is 200 pages long" (Participant in S. McVey survey)

In contrast, best-of-breed systems have flexible reporting capabilities that are designed specifically with credit and collections in mind. Best-of-breed systems employ built-in report writers, ad-hoc searches and other robust capabilities. They also provide interfaces for business users to easily create their own customised reports, apply their own filters, group and sort fields as they choose.

### 3.7 Ongoing Changes

- **FICTION:** I've already got the collections module with my ERP, so I don't need your best-of-breed collections solution
- **FACT:** Organisations who have ERPs are forced to implement dependent modules in order to access the collections module

There is a common misconception amongst those who have the collections modules typically sold as a part of their ERP-suite, that there is nothing to stop them from using the modules.

However, the collections module depends on other modules to be implemented to work correctly. This reliance creates difficulties with implementation and increases licence, service and support costs when organisations are pressured into purchasing additional modules to gain access to the module they actually require.

### 3.8 Straight through Processing

- **FICTION:** Within an ERP, my collections and customer service modules integrate with each other
- **FACT:** Certain best-of-breed vendors offer more integration in specialist areas than ERP

It is commonly believed that ERP have perfected integration between their modules. Unfortunately, this is not the case. An important part of the collections process is the ability of a collector to identify and categorise a customer service issue and dispute. ERP does not enable this easily. The Collections module is not integrated with the Customer Relationship Management (CRM) or Customer Service module.

According to Gartner, the Customer Value Group is the only software vendor that enables an integrated and sophisticated approach to Accounts Receivable and Dispute Management, offering complete integration between Collections and CRM.

### 3.9 Conclusions

Supply Chain Digest reported that most CIOs admit best-of-breed solutions are not more expensive to implement when compared to ERP modules. In fact, they are considerably cheaper when taking all factors into account. In this article, the CIO of a major consumer goods company was quoted as saying,

"You're right; it really isn't integration ... that's just an excuse we know it's hard for anyone to argue with. The cost differences really aren't great. It's more a matter of staying with a vendor and technologies we're the most comfortable with." (Participant in S. McVey survey)

There is no debate that ERP plays a significant role within corporations today. However, for specialised business functions such as Accounts Receivable and Dispute Management, corporations need to closely examine system functionalities and determine if they truly address their business requirements.