



White Paper

ERP vs. WMS?

Balancing Systems & Assets by Asking the Million Dollar Question – ERP vs. WMS?

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Who's Leading the Charge?

As a leader in the supply chain industry, we are frequently asked to comment on "hot" industry topics - what are people talking about? Over the past year, we have been asked many times to render an opinion on whether a company should use their existing ERP warehousing module to run their operations or should they look for a "best of breed" solution.

As with most business decisions, it comes down to balancing your systems needs with your assets – money.

Few supply chain decisions will dramatically impact your day to day business, overall company financial health and customer relations more than selecting and implementing a warehouse management or supply chain execution system. Today, the lines between traditional "ERP" and "WMS" vendors are blurring. ERP providers, traditionally entrenched in financial and order management systems, are expanding the capabilities of their "within the four walls" functionality. And further, best of breed WMS providers are expanding into previously thin application areas of supply chain visibility, order management, supply chain planning and more.

Who's Leading the Charge?

When asked "what should I do?" our first response is to inquire about the decision maker. If the CFO is debating whether or not to invest millions in a new WMS or stick with the ERP functionality he's already been sold on, odds are on the ERP. However, if the COO is the decision maker, we have a different set of criteria. Operations is looking for depth of functionality, adaptability and risk aversion – that focus generally swings the decision to the best of breed WMS side of the house. And finally, if the CIO is in the driver's seat, he is most concerned with his current IT staff, their skill sets, existing hardware investments and how willing his group is to accept a new addition to their already filled plates. Frankly, IT can swing the decision either way.

Unfortunately, the ERP vs. WMS decision is not as simple as who is running the show. There is so much at stake that a thorough evaluation of the options must take place and some concessions will undoubtedly be made. The Total Cost of Ownership (TCO) must be at the forefront of your evaluation.

What's the TCO?

The Total Cost of Ownership is determined by all costs associated with initial system implementation as well as ongoing support and maintenance. Initial implementation costs include not only license fees and hardware and technology costs, but also fees for modification and integration. Ongoing costs include standard maintenance and service fees, upgrades and the ability to scale and adapt the system as your business evolves. You also need to add some fuzzy numbers into the TCO such as impact on customer satisfaction and competitive implications as well as the huge time impact on your existing resources.

So Where Do We Start?

First, all team members need to understand that a supply chain execution system evaluation is a collaborative effort to balance the goals of finance, operations and IT. The selection process must focus on delivering key performance goals and enhancing business value. Long term business objectives and functional requirements for the system need to be clearly and completely defined. What operations do you want to improve with this investment? What specific performance measurements need to improve from this investment? Key considerations include the ability to respond to changing customer requirements, compliance issues, the internal technical environment, and new industry or company standards, to name a few examples.

The TCO of ERP

With either an ERP or WMS decision there are expected costs of implementation – using either your internal staff, the software vendor or a third party. You can also expect a substantial amount of integration costs as well. However, you can't just assume that the cost of implementing an existing warehousing module in your ERP will be low. You also can't assume that the module will be securely integrated with the rest of the ERP, let alone other touch points such as materials handling equipment. The biggest cost factor to examine is the cost of workarounds to compensate for less robust or missing functionality and the potential impact on customer satisfaction. You may discover that the "free" warehousing module you received with your ERP isn't really all that free.

The TCO of WMS

You may have a tough time selling your CFO on the idea that the initial license and modification fees for a WMS will result in the achievement of your business goals. These fees can be substantial as well as a moving target if you lose control of customizations. Like ERP, do not assume that WMS integration is seamless to other systems – there may be hidden costs there. You may also need to consider adding a warehouse control system to better support the integration of the WMS to existing materials handling investments. Another consideration is the upfront cost of upgrading hardware and technology as well as the ongoing maintenance and support fees.

So What Do We Evaluate?

1. **Functional Fit:** Do some homework on your in-house ERP provider or the WMS vendors that have traction in your industry to create your short list. Create a “must have” vs. a “nice to have” checklist. Insist that all vendors demonstrate the ability to meet your “must haves.” Do not accept smoke and mirrors demonstrations or PowerPoint’s of functionality.

Although ERP firms are expanding their capabilities, their warehousing modules traditionally force significant operational compromises in large, complex operations. Some ERPs are also light on the in-depth product tracking capability needed in some industries. You need to balance that by asking yourself - do we really need all that functionality provided by a best of breed WMS, or is it overkill for our operation? Will you need that depth of functionality in the future to achieve your business goals? If the answer to those questions is yes, you need to evaluate your best of breed options.

2. **Flexibility:** Most systems will provide you with parameter-driven functional options to allow you to create a “customized” look and feel. Further, most systems provide report writers and are scaleable to a variety of company sizes and different volumes. Concerning flexibility, however, ERPs’ foundations are in transaction-based logic, such as those in financial and order management systems. Although their companies’ depth of resources has allowed them to add substantial functionality in the past year or so, ERP systems tend to operate best in a linear environment with sequential activities and not many exceptions. If your business is prone to daily changes in priorities, you may lean towards a WMS with its real-time operational reality focus.
3. **Technical Fit:** What can your IT group support and what additional training will be needed? What hardware investment is required? How can this system integrate to existing investments in materials handling equipment? Can you use existing RF hardware or do you need to upgrade? Here’s where you can gain valuable insight from vendor references. Try to get an honest answer from other clients who have been through an upgrade: How painful? How frequent? What surprises did they encounter?
4. **Financial Fit:** Finally, the demands of the budget may swing the final decision. By sticking with your ERP module, you may protect current hardware investments as well as keep your existing IT staff. However, in your ROI analysis, you must balance that apparent savings with a difficult question: What is gained by investing in this best of breed software as a competitive differentiator?

To Sum It Up

As you can see, there is no easy answer to the million dollar question. It will take an honest evaluation of needs and a detailed list of functional and systems requirements to put a framework around the best answer. The most solid piece of advice we can give anyone traveling on this path is to decide how far are you willing to compromise in terms of functionality? And how much are you willing to spend to have that functionality? Good luck!

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