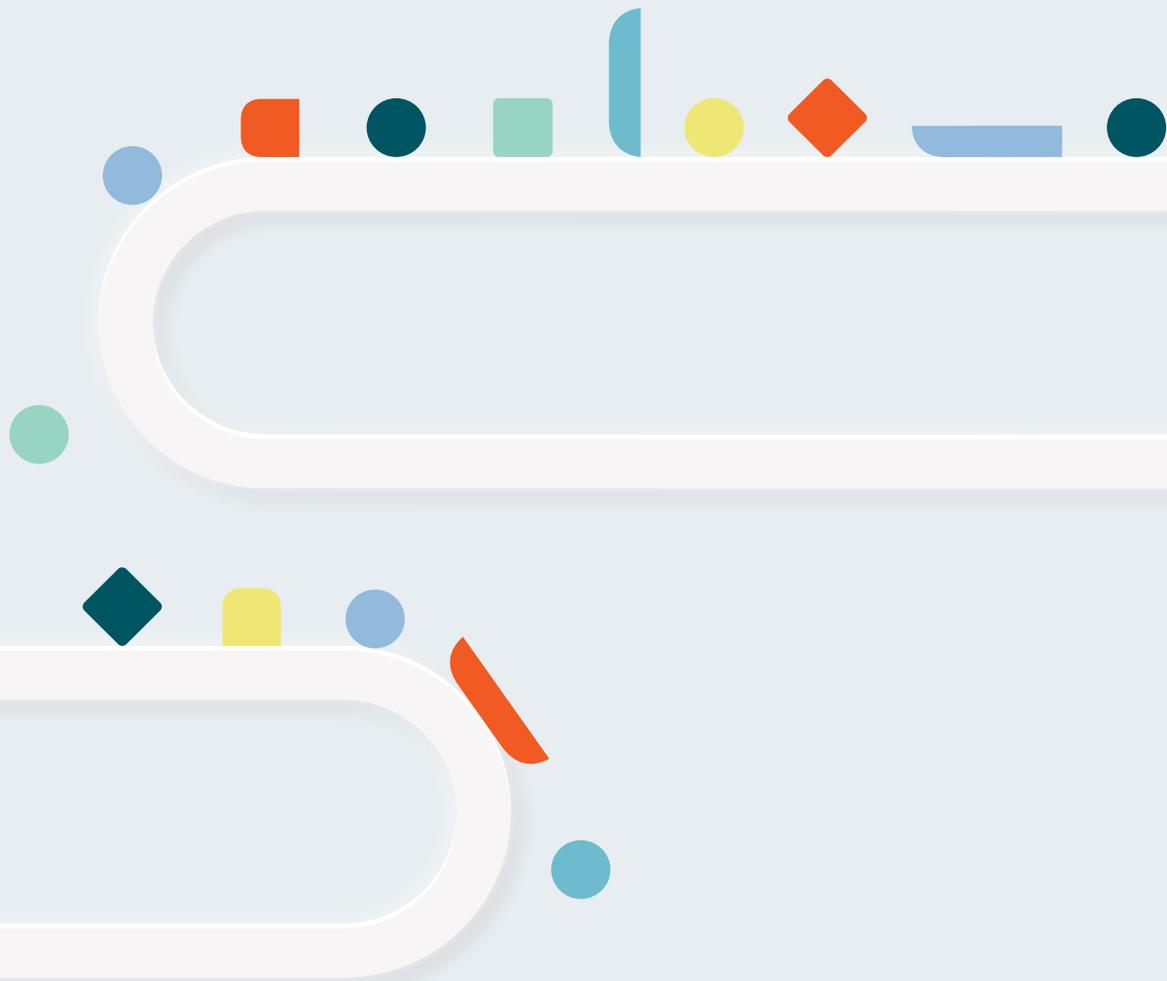


The Risk of Outdated ERP Systems in Manufacturing



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Introduction

If your manufacturing company has been using your current enterprise resource planning (ERP) software system for more than five years, chances are the system is outdated and inefficient—and the company is at risk of falling behind in technology and processes.

The decision to replace or upgrade from an outdated ERP system can often be a difficult one, because after using it for so long, employees grow comfortable with it—warts and all. However, despite how accustomed you are to using your outdated solution, it's probably weighing you down.

With the speed at which technology is advancing, manufacturers can no longer afford to continue using outdated ERP systems. Read on to learn why a modern ERP system built for manufacturing business growth may be the most important step you take for the success of your company¹.

¹ White paper content is based in part on a presentation by Epicor Software and UltraConsultants, August 2018.



How You Got to This Point

You may have bought the core of your outdated system several years or decades ago, so today it's out of date. If you think back to how you got to this point, you probably made several investments in your system along the way. You likely made enhancements to reporting, added departmental extensions, and brought in new functionality as technologies evolved. Let's take a closer look at that history and how it shaped your current state.

Core ERP software for midmarket manufacturing emerged decades ago. These software products have evolved from basic transaction systems to complex, multisite ERP systems. The solution providers have changed, merged, and grown over the decades.

The core ERP systems also started as core transaction systems—sales orders, purchase orders, and manufacturing work orders focused on managing inventory, customer orders, suppliers, and production.

These transaction systems had very limited reporting capabilities, and eventually, the need arose for better ways to use the data. Various business intelligence tools emerged that evolved into dashboards, scorecards, and portals.

Over time, ERP evolved into a system for the entire enterprise—not just for customers, suppliers, or inventory. Today, all of the functions of manufacturing, financials, marketing, engineering, supply chain, quality, warehouse, transportation, and human resources are included in modern information systems.

Outdated systems may work, but they don't work well

Over the years, manufacturing companies with only a basic core ERP system have had to play keep-up. They realized they needed reporting capabilities and departmental functionality for engineering, quality, warehousing, and more. Little by little, as part of continuous improvement efforts, IT found a way to add software and functionality to the core ERP. As a result, you may have an outdated system today that indeed works—but it most likely doesn't work well.

It has probably become a productivity drain on the company with inefficient processes, redundant data, and lack of integration. It is likely difficult to maintain and probably hard to use. Most importantly, it is preventing your company from advancing and preventing you from taking advantage of the latest trends that are driving growth in the industry. Core ERP systems implemented several years ago and not kept current eventually become a liability—not an asset—as they are modified and remodified.

Industry Trends

Manufacturers are facing a lot of changes and trends that may be very challenging—challenges in workforce, and the greater need for remote work to keeping up with changing technology, and navigating the next era of manufacturing innovation called Industry 4.0.

Surplus manufacturing job vacancies

You may have heard that an average of 10,000 baby boomers retire each day, a trend that is expected to continue into the 2030s. In the next decade, retirements in the manufacturing sector will create an estimated 2.7 million job vacancies—compounded with nearly 2 million new jobs expected by 2028. Nearly 2.4 million of these jobs may go unfilled.

Many manufacturers are experiencing the challenges of this trend firsthand as valuable knowledge leaves the company with each retiree. The impact of this “silver tsunami” on the manufacturing industry’s enterprise technology landscape is an impending knowledge gap.

Attracting new talent to replace these retirees is a challenge, too. One in three U.S. workers today is a member of the millennial generation. About two-thirds of those workers prefer to work for a tech-savvy firm and are less likely to consider changing jobs when employers keep them engaged.

Manufacturers realize they need to invest in modern, innovative technologies to capture knowledge and processes as workers retire, as well as attract and retain the talent they need to keep their businesses going in a very competitive job market.

People still a top priority

The human element in manufacturing will continue to be critical—even amidst the ongoing, monumental shift to technology and machines in so many aspects of manufacturing. Even in this digital age, people are still the top priority.

Because human skills are so important to the sustainability and growth of a healthy business, CEOs are really scrutinizing and rethinking all of their business processes—from HR, to sales, supply chain, and finance. This is a powerful opportunity for manufacturing leaders to navigate this change and lead the way forward.

Digital transformation

The term digital transformation is everywhere we turn today. With so many articles and industry publications covering the topic from many different angles, it has become a buzzword. For the purposes of this white paper, we’re talking about your manufacturing organization’s journey to business process transformations with a focus on enterprise information systems. For digital transformation initiatives to be successful and effective in this ever-changing economy, there must be alignment in investments in technology, business models, and processes to drive value for customers and employees.

Manufacturing leaders can find new levels of competitiveness by leveraging advanced technologies like robotics, additive manufacturing, 3D printing, cloud technologies, big data, analytics, and mobile technologies. Being competitive in the future will be all about driving new efficiencies through new levels of digital connectedness. Industry 4.0 and Industrial Internet of Things (IIoT) are based on these new levels of connectedness through digital, cloud-based integrations between systems and the equipment doing the work. These systems exist today, and many manufacturers already have strategies to take advantage of these technologies.

Industry 4.0

Industry 4.0—or the fourth industrial revolution—is more than a passing trend, but as with most transformations, it won’t happen overnight. Industry 4.0 represents the culmination of automation, big data, cloud computing, and connected machines. Most manufacturers will move into this new era in smaller steps.

Industrial Internet of Things

The Industrial Internet of Things (IIoT) refers to the ability to connect machines to the Internet, to each other, and to larger systems. IIoT is a network of physical devices such as vehicles, home appliances, and other items embedded with electronics, software, sensors, and actuators. With all these things connected, they can exchange data—creating opportunities for more direct integration of the physical world into computer-based systems for greater efficiency, more economic benefits, and a reduction in human exertion.

IIoT involves extending Internet connectivity beyond standard devices such as desktops, laptops, smartphones, and tablets to any range of non-Internet-enabled physical devices in everyday objects. Embedded with this technology, these devices can communicate and interact over the Internet and be monitored and controlled remotely.

Sensors

IIoT is really all about sensors driving change. Today, sensors can be added to monitor almost any aspect of production. The sensors are becoming cheaper and more reliable, and they can capture and report cycle times, units, temperature, pressure, and many other data points in real time. With so many data points to monitor, IIoT-enabled shops have a new wealth of information.

Rapid pace of change

With the predicted rapid pace of these trends taking hold in the industry, manufacturing leaders have to examine whether the systems they currently have in place are agile and flexible enough to keep up with the speed of change in technology.

IIoT and Industry 4.0 is expected to usher in changes in business models, too. Complex manufacturers will likely shift away from being just producers towards becoming service providers and trusted partners for their customers.

The Current State of ERP

With a shifting workforce, digital transformation, Industry 4.0, advanced robotics, 3D printing, cloud, big data, IIoT, and mobile, today's leading manufacturers must leverage enterprise technologies to help stay ahead of all these trends. Incorporating new methods for doing business is always challenging, but it's downright grueling without a modern ERP platform—especially if your competitors are already taking advantage of these modern technologies. You should think of an ERP system as the backbone of your organization that allows you to embrace technology trends both now and in the future.

ERP and best-in-class companies

Organizations that keep their solutions up to date can take advantage of new functionality and ease-of-use improvements, as well as have their finger on the pulse of emerging technologies. Those on the latest version of ERP are more likely to have access to mobile devices,

embedded business analytics, eCommerce support, and social business capabilities. Without the latest improvements, your organization can become stuck in the past and have a harder time competing.

Modern ERP systems allow companies to track key performance indicators (KPIs) previously not available in outdated systems. Most best-in-class companies using the most recent version of their ERP software performed better across several key areas, including:

- Days sales outstanding (DSO)
- Complete and on-time delivery
- Internal schedule compliance
- Percentage of accurate financial reports
- Percentage of time information is received during the “decision window”
- Inventory accuracy
- Customer satisfaction





The Dangers of Outdated ERP

For manufacturers who want to stay the course with disconnected and outdated systems, you could be putting your company at risk. There are many dangers that can impact many functional areas of the business and can result in lags in productivity and cost savings that fall short of expectations. These dangers include:

- Duplicate or inaccurate data
- No single source of truth
- Lack of clear process
- Slow reporting
- Clunky system performance
- Security concerns
- Costly manual workarounds
- Lack of visibility
- Slow response time

Resistance to change

Oftentimes, one business event finally triggers an initiative to change to a new ERP system. It can be a management change, an acquisition, or the realization that the age and limitations of the current system impede growth. Maybe the competition has leap-frogged them with a digitally enabled customer experience that is far better. Whatever the trigger, there is often resistance to changing ERP systems for many reasons, including:

- It's too disruptive
- The company has higher priorities
- They don't see the value
- The current system still works
- A new system is too costly
- They've heard negative stories about new systems not meeting objectives

Expect resistance to the idea of an ERP system change, and be prepared to offset the resistance by focusing on the value of modern ERP.

Outdated infrastructure holds back technology investments

Even for manufacturers who have begun dabbling in digital transformation with incremental technology investments, most are held back with outdated business models and technology and are unable to maximize the outcome. Ultimately, the danger of outdated enterprise systems is the high chance your organization will be left behind. As all the new technologies become increasingly more accessible and affordable, you won't be able to take advantage of them unless you have a modern infrastructure with which they can integrate.

On average, companies buy new systems every 10–20 years and upgrade that system every 3–5 years. Your goal should be to choose a software partner that you will be with for more than 20 years. With the emergence of the cloud-based software-as-a-service model, you can make easier and more frequent upgrades to foster growth. Cloud is enabling many manufacturers toward choosing a good ERP partner they can be with for the long term.

Your Best Path Forward

A common question manufacturing leaders ask when considering a modern ERP system is, "Are modern systems a necessity or simply nice to have?" Small to midsize manufacturers don't have a large budget to experiment with new technologies, so they naturally wonder if it makes good business sense to replace systems that seem to work just fine. The reasons manufacturers choose to get current on technology include:

- **Security**—Security is top of mind for most businesses. Vulnerabilities can create unforeseen business disruptions, but staying current can minimize these events.
- **Improve customer support**—The brightest and the best in support gravitate to the most modern technology. Staying current boosts customer support options.
- **Minimize disruption**—Modern ERP makes upgrading easier to manage and allows technology to be adopted in smaller steps rather than leaps—minimizing change for the business and its employees.
- **Increase productivity**—Adopting an ERP system with regular releases that improve processes and fix bugs reduces time and effort that goes into creating workarounds to make the old system work. By reducing the number of workarounds, businesses can instantly see a benefit in increased productivity.
- **Gain competitive advantage**—Competitors may be closing in by adopting technologies you have access to but haven't implemented yet. It's a competitive advantage—if not an imperative—to stay current on technology

Keeping up to date on the most current version of ERP software helps manufacturers:

- Keep up with the pace of technology
- Ensure their organization is mobile ready
- Gain access to insightful and actionable analytics
- Offer powerful eCommerce capabilities to their customers
- Leverage social functionality both inside and outside the organization
- Capture and flow all necessary information through their ERP system

Preparing for change and moving forward

Deciding to move to a new ERP system is a journey that takes you closer to the best in class. The journey involves going through your company's business processes and evaluating them, going through a technology selection and implementation, and eventually the business transformation.

- The following steps can help you get started on the journey:
- Establish a team of business process owners
- Document and inventory the current business processes in use
- Get educated on best practices
- Work together as a team to define the desired future state of your business processes
- Identify the value of those future-state processes to help create the project charter and fund the initiative

Conclusion

Your outdated ERP system evolved over time. It may work adequately for now, but it probably doesn't work well. Industry trends affecting your company may include the aging workforce, digital transformation, and the Industrial Internet of Things. There are risks in keeping an outdated ERP system. Outdated solutions are not only a drag on your company, but they also prevent you from keeping up with the competition—and prohibiting you from being a best-in-class company.

Epicor Kinetic

As a business leader in a manufacturing firm still using outdated systems, you are faced with many business challenges that can be alleviated with a modern ERP platform that sets you on a path towards growth. Epicor understands this, and countless manufacturers around the world use Kinetic to:

- Maximize value with cloud computing
- Adopt digital transformation technology
- Mitigate the impact of a retiring workforce and skills gap
- Increase visibility of real-time data
- Integrate data across multiple systems

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