

The State of Retail ERP 2014: Drivers, Priorities and Implementation Considerations



As the economy shows signs of recovery in 2014, retailers are updating their technology roadmaps and looking forward to modest increases in IT budgets.

Technology priorities are focused on getting the most out of retail IT budgets through a combination of supporting growth and innovation-oriented trends while keeping a keen eye on operational cost management.

Retailers are looking to replace legacy systems with more cost effective infrastructures that can act as platforms for future growth initiatives and are capable of accommodating shifting business priorities. Parker Avery's experience has shown that time after time, legacy systems cannot keep pace with business change; have become increasingly complex through the addition of enhancements; and grow more and more expensive to manage. Retailers are faced with continually changing business processes, increasing data complexity and evolving requirements. It is nearly impossible for existing legacy solutions to be flexible enough to meet these changing needs. In addition, resources with the skill sets needed to maintain older systems and their poorly documented enhancements are increasingly hard to find. A system that is inflexible and expensive to maintain is a burden: it holds the business back and limits key capabilities needed to remain competitive.

At the same time, retailers increasingly think about their business as an omnichannel enterprise, rather than as a single or multiple individual channels. The choreography of a product from initial concept through final clearance across multiple channels requires the ability to manage a varied and complex series of transactions and interdependencies. Inventory must be visible in real time across all channels to both merchants and customers. The impact of social media on today's shopping environment dictates the ability to handle entirely new kinds of customer and product information, in addition to the necessity of developing highly responsive social interaction capabilities with shoppers. The omnichannel business environment requires a solid technology base that is supple, able to handle large volumes of complex, relational data and capable of supporting seamless real time mobile and social interactions.

What is Retail ERP?

A retail ERP (Enterprise Resource Planning) system is the foundational software designed to support retailers in managing the key processes of their business. For the purposes of this discussion, the following modules are considered inclusive within a retail ERP system:

- Master Data Management
- Multi-Channel Centralized Inventory
- Cost Management
- Retail Stock Ledger
- Purchase Order Management
- Price Management

Additionally, most modern ERP systems are natively able to manage multiple currencies, multiple languages and multiple distribution channels.

Retail ERP Project Drivers

Historically, legacy retail systems grew into highly customized, complicated system schemes due to IT leaders' attempts to meet business needs. This occurred in an environment in which packaged software could not offer a comprehensive solution to the varied requirements of different user communities. IT was forced to cobble together a suite from a combination of spot solutions and custom code. Most retailers look to their ERP system to untangle the "spaghetti" of their existing architecture, to provide a stable platform for their broader system landscape and to enhance overall operational performance by streamlining business processes.

Four reasons retailers offer for implementing an ERP solution include (1) the lack of features and functions in legacy systems; (2) obsolete technology; (3) lack of integration; and (4) high maintenance and support costs.

- The **features and functions** needed to improve business performance; streamline and automate business processes; and position the organization for growth and expansion are missing or inadequate in most legacy systems. Replacement ERP solutions provide the necessary flexibility and features to establish a strong foundation on which to build.
- Similar to limited features and functions described above, **obsolete technology**, such as out-of-date legacy ERP solutions, 'homegrown' or in house developed systems and non-ERP solutions that are obsolete and can no longer support the business are being replaced because their antiquated architectures prohibit

business innovation. Obsolete technology limits future systems roadmaps and inhibits the ability to support growth initiatives.

- **Seamless integration is critical** in today's omnichannel environment. Legacy implementations are not capable of managing the complexity of multiple applications with diverse architectures without overburdening the system. They are frequently error prone due to the complexity of interactions between customized systems.
- **Reducing maintenance and support costs** is a key driver for legacy replacement as well. Years of continuous customization results in systems that are incredibly expensive to operate, support and change, as well as being extremely cumbersome for end users and often painfully slow. Continued use of older technology platforms drives incremental increases in maintenance and support costs. We have witnessed one retailer, who has not transitioned to an ERP strategy, and is spending upwards of 70% of its IT budget on simply *maintaining* its patchwork of current systems, leaving few resources for pursuing innovation and growth.

Retail ERP Project Priorities

Agility, Flexibility and Stability

As consumer social, mobile and big data expectations continue to drive retailers' business requirements, the priority behind the majority of ERP replacements/ upgrades is foundational. The need for a single instance ERP application suite that runs business processes on a single application release with a single database, using a consolidated technical infrastructure and a common data model is critical. With a flexible, agile, stable and less costly transactional processing foundation, retailers will be able to make investments in technology that support emerging business goals and objectives.

Omnichannel

Many retailers are currently undertaking omnichannel business initiatives. Omnichannel shopping requires providing an immersive and exceptional customer experience regardless of channel. Research has shown that omnichannel shoppers spend up to 3.5 times more than single channel shoppers¹ and exhibit strong brand loyalty, often influencing others to patronize a brand. Our experience reflects that 75% of retailers will begin using the store as a fulfillment 'hub' for their online business by 2015. Established retailers that have not undertaken ERP replacements are not likely to have the system infrastructure necessary to fully support an omnichannel environment. Product offerings must be coordinated and strategized across channels. Inventory must be available to cost-effectively fulfill customer demand generated at any customer touch point. Supply chain visibility² is necessary to ensure speedy product delivery and customer service. Replacing legacy systems with advanced ERP solutions can provide the platform to meet these goals.

Mobility

The role of mobile computing is changing the in-store experience for both customers and associates. Most shoppers have had the experience of pulling out their smart phones to research a product they see on a store shelf. More than 70% of retailers also plan to provide mobile or tablet functionality to their store associates to ensure they can provide a personalized experience for their customers.³ The emphasis on mobility is

¹ IDC, Retail Insights, "Redefining the Shopper Experience With Omnichannel Retailing"

² For more on supply chain visibility, please read Parker Avery's, "Ethical Fashion: Designing the Future with Supply Chain Transparency"

³ Gartner, Hype Cycle for ERP 2013.

also a weapon to combat ‘showrooming,’ with the objective of keeping consumers’ attention within the store by not only reducing the potential for them to proactively seek a better price, but also diminishing the chances of stumbling on a lower price when simply looking for in-depth product information.

All major ERP vendors offer mobile computing capabilities, but the degree of support can vary wildly. Workflow-based tasks such as purchase request approvals are well supported. Inventory management transactions such as inventory posting are mainly supported through partnerships. Some solutions, such as SAP, offer mobile dashboards to display data and analytics for mobile devices.

Improved User Experience / Ease of Use

Even the most function-filled ERP solutions are a waste of money if employees are unable to use them. A user-friendly solution will lead to higher adoption rate and therefore, quicker realization of the solution’s benefits. The combination of a clean, intuitive user interface (UI), workflow management capabilities and understandable navigation decrease user confusion and increase overall productivity.

There can also be financial benefits realized when vendors differentiate types of user licenses. Power user licenses can be less expensive than casual user licenses, further building the business case for an ERP transition.

Cloud Technology

Another key driver of ERP implementation is the move to cloud technology. Although the press continues to extoll the benefits of cloud ERP, a recent survey revealed that fewer than 5% of retailers indicated that their ERP was hosted in the cloud⁴. Concerns regarding security and data loss as well as a general lack of knowledge of cloud computing are driving on premise decisions. However, this trend is expected to change as cloud vendors prove themselves to be more secure and reliable than internal IT. Cloud ERP vendors must prove that their offerings have long term total-cost-of-ownership (TCO) benefits. At this point, not enough data is available to clearly determine if cloud-based systems’ TCO is lower, compared with on-premise deployments.

When considering cloud solutions, retailers should spend ample time evaluating the technology required to integrate to all related upstream and downstream solutions.

⁴ Panorama Consulting, 2013 ERP Report.

Implementation Consultants vs. Software Vendors

The trend toward utilization of ERP implementation consultants as strategic partners for ERP projects continues. Retailers have learned that in today's complex and fast moving environment, procuring advice, experience and assistance from ERP implementation professionals can make the difference between an ERP project's success and failure.

- High caliber implementation consultants offer **deep domain expertise** in retail business processes when compared to resources from software vendors. Vendor resources often bring extensive technical software knowledge, but may not possess domain expertise.
- Software vendors also traditionally do not provide **retail industry strategy or change management** services, while implementation consultants typically provide extensive expertise in these areas.
- Implementation consultants bring **proven methodology, templates and industry models** for project management and process benchmarking.

Retail ERP Software Vendors

Vendor Landscape

The following table depicts a group of the most commonly selected retail ERP Suites. When evaluating these and other providers, it is wise to dedicate significant time to understanding and defining business requirements. A comprehensive set of requirements will enable retailers to match the needs of the business with the functionality offered in a vendor's solution. Thoughtful requirements can also be used to structure demonstrations and prevent vendors from avoiding showing areas of relative weakness in their software.

Most Commonly Selected Retail ERP Software Vendors

Vendor Name	Epicor	JDA	Jesta Vision	Microsoft Dynamics
Website	www.epicor.com	www.jda.com	www.jestais.com	www.microsoft.com/dynamics
Sample Clients	<ul style="list-style-type: none"> • Ace Hardware • Tommy Bahama 	<ul style="list-style-type: none"> • Barnes & Noble • Hibbett's Sports 	<ul style="list-style-type: none"> • Journeys • Perry Ellis International 	<ul style="list-style-type: none"> • Ashley Furniture • Patagonia
Technology	On Premise Cloud	On Premise Cloud	On Premise Cloud	On premise Partner Hosted Cloud

Vendor Name	MI9	NetSuite	Oracle	SAP
Website	www.mi9retail.com	www.netsuite.com	www.oracle.com	www.sap.com
Sample Clients	<ul style="list-style-type: none"> • Barney's New York • Crabtree & Evelyn 	<ul style="list-style-type: none"> • Garrett Popcorn Shops • Wine.com 	<ul style="list-style-type: none"> • Office Depot • Stein Mart 	<ul style="list-style-type: none"> • Edmund Optics • Golden Road Brewing
Technology	On Premise Cloud	Cloud	On Premise Cloud	On Premise Cloud

Many of these vendors offer additional functional modules such as invoice matching, planning, Customer Relationship Management (CRM), Warehouse Management Systems (WMS), Supply Chain Management (SCM), E-Commerce, Store Inventory, Mobile and Business Intelligence to enable retailers to round out their systems, allow for system consolidation and ease integration.

Market Forecast

Gartner's market forecast for ERP Vendors in 2013 was \$132 billion (based upon vendor reporting) with growth of 7.8 % over 2012. According to Gartner, full service ERP providers were able to achieve double-digit growth in 2012 even though the trend by large 'megavendors' such as SAP and Oracle reflects efforts to offer more enterprise functionality *within* their solutions instead of supplementing their offerings with third party vendor offerings.

Top 3 Retail ERP Software Vendors – Worldwide⁵ (U.S. Dollars – Millions)

Vendor	2011 Revenue	2012 Revenue	2011 Market Share %	2012 Market Share %	2012 Revenue Growth %
SAP	\$6,067.00	\$6,016.50	25.30%	24.63%	-0.08%
Oracle	\$2,978.60	\$3,124.50	12.40%	12.80%	4.90%
Microsoft	\$1,089.40	\$1,135.40	4.50%	4.60%	4.20%

These vendors benefited from acquisitions completed in the latter half of 2011 and the first half of 2012. Revenue growth in the above table came both from acquisition and from organic internal activity. The vendors who continued to benefit from mergers and acquisitions in 2012 market were SAP and Oracle.

Analysts are cautious about the outlook for ERP vendors in 2014 and beyond. Expectations for ERP growth are flat due to the combination of worldwide economic conditions and the relatively high cost of changing ERP solutions. Retailers looking to purchase an ERP solution in 2014 will be in a good position to negotiate advantageous pricing.

⁵ Gartner Market Snapshot: ERP Software, Worldwide, 2013

Final Word

More and more retailers are looking to replace or upgrade existing legacy systems in 2014 and beyond. These projects are mainly being driven by the need to leverage IT investments to support growth initiatives and manage operational costs. When undertaking an ERP replacement, retailers should consider the agility, flexibility and stability of the solution; the system's ability to support omnichannel and mobile capabilities; the ease of use of the application; and whether cloud hosting is a desirable architecture approach. Finally, a myriad of design and implementation headaches can be avoided by selecting an implementation consultant to augment resources from the ERP software provider.

The Parker Avery Group

The Parker Avery Group is a boutique strategy and management consulting firm that is a trusted advisor to leading retail brands. We combine practical industry experience with proven consulting methodology to deliver measurable results. We specialize in merchandising, supply chain and the omnichannel business model, integrating customer insights and the digital retail experience with strategy and operational improvements. Parker Avery helps clients develop enhanced business strategies, design improved processes and execute global business models.

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