A man wearing a yellow hard hat and a light blue work coat is standing in a warehouse. He is holding a tablet computer and looking upwards and to the left. The background consists of tall blue metal shelving units filled with cardboard boxes on wooden pallets.

MORE THAN A DEPLOYMENT OPTION:

Cloud ERP Gives Manufacturers
Strategic Advantage



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Read Time: 4 minutes

MORE THAN A DEPLOYMENT OPTION:

Cloud ERP Gives Manufacturers Strategic Advantage

Manufacturing executives are quickly overcoming any objections they may have had in the past about cloud ERP. Based on their positive experiences with cloud CRM or cloud HR systems, many of them are asking why they can't also have their manufacturing systems in the cloud. This article outlines the growing acceptance of cloud ERP among manufacturers and the strategic advantages that they are beginning to realize.

Manufacturing Systems in the Cloud Are Gaining Market Acceptance

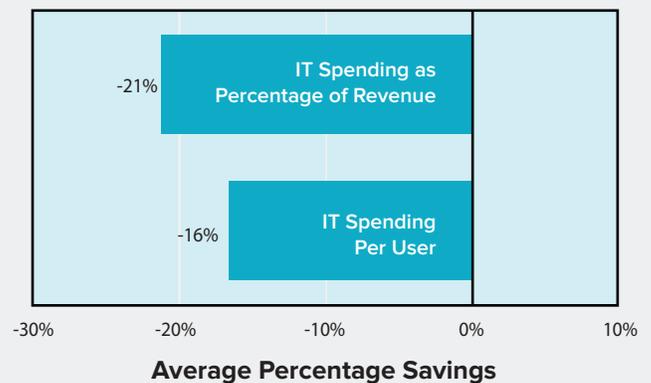
The benefits of cloud ERP are becoming more and more apparent:

1 It is cost-effective long term.

Most manufacturers today cannot afford to have a high-cost structure. To compete at a global level, manufacturing executives must question every point of G&A expenses. Our research at Computer Economics shows

that companies that have largely migrated to cloud systems save, on average, 16% to 21% on their IT budgets, as shown in Figure 1. But it is very difficult to migrate to the cloud if a manufacturer's ERP system is still running on-premises. Cloud ERP, therefore, is a major step in achieving the cost advantages of cloud computing.

Figure 1: Average Savings in IT Spending: Cloud Respondents vs. Benchmarks



Source: Computer Economics, 2016

2

It is easier to stay current.

With traditional ERP, one of the primary cost drivers is the need to go through periodic version upgrades. Because of the time and expense of these upgrades, many companies forgo new versions, eventually falling so far behind that they are forced to consider a new system. With a cloud-based ERP solution, the service provider takes responsibility for version upgrades so that a manufacturer running cloud ERP is never out of date. This allows the manufacturer to take advantage of new functionality, regulatory changes, and new capabilities without resorting to expensive third-party solutions or customizations that further lock in the manufacturer to the legacy system.

3

It is highly available.

The leading cloud providers now publicly report their system uptime, and they often report levels of availability that exceed what most in-house IT organizations can provide. Many manufacturers, especially small and midsize firms, cannot afford the investment in redundant infrastructure or support staff that is required to provide disaster recovery or to deliver high availability. Cloud providers, due to their scale, are now seen as the safer choice for mission-critical systems.

4

It integrates quickly.

Cloud ERP providers have made great advances in integrating their systems with on-premises factory automation, data collection, and logistics systems. Through web services and application programming interfaces (APIs), the leading cloud systems are easier to integrate than traditional on-premises ERP. Where system availability requirements demand it, some manufacturing firms have established multiple network connections, such as a T1 line plus DSL or ISDN back up—through independent ISPs. In other cases, cloud vendors provide on-premises store-and-forward appliances that allow real-time systems to continue to operate in the event of a network disruption.

5

It better serves mobile and remote workers.

Traditional users in manufacturing companies used desktop systems as their only connection to ERP. In today's manufacturing companies, users today are not only roaming throughout the manufacturing plant, but also are often on the road visiting customers, suppliers, and partners. Workers today expect to be connected wherever they roam, and with its ubiquitous access, cloud ERP is a natural fit for today's mobile workforce.

In a nutshell, cloud ERP is no longer a risky choice for manufacturers, but one that is gaining ground rapidly around the world.

Manufacturing Executives are Seeing More Strategic Advantages

As cloud ERP gains ground in the manufacturing sector, early adopters are beginning to see that cloud is more than a superior deployment option for ERP. Cloud ERP carries strategic benefits to allow manufacturers to compete more effectively.

1 Cloud ERP gives the IT organization more of a strategic role.

According to our research, companies that have migrated largely to the cloud spend more of their IT budgets on new initiatives instead of ongoing support. Across all companies, only 20% of the IT budget goes to new initiatives. For companies that have migrated to the cloud, this metric is over 30%. In the case of manufacturing companies, this means that IT personnel can spend more time working on strategic programs instead of just keeping the lights on.

2 It supports the extended enterprise.

Today's manufacturers increasingly rely upon networks of suppliers and partners to deliver value to their customers. Even many small manufacturers today are global

in their operations, often through contract manufacturing partners and distributors located around the world. Cloud ERP providers, especially those with a global infrastructure, are simply a better choice for connecting with trading partners—whether for supply chain planning, procurement, or logistics.

3 Cloud ERP facilitates strategic growth.

Manufacturers today, even small companies, are building new facilities around the world or growing through acquisition. Because of the time and expense, it takes a long time for manufacturers to integrate acquired operations to their corporate ERP system. In some cases, they may choose to simply keep the acquired company on its legacy system, losing some of the synergies that could otherwise be attained. With cloud ERP, however, it is a much simpler matter to add new facilities or to onboard an acquired company. There is no IT infrastructure to deploy on-premises and usually very little support staff needed onsite. It is often just a matter of adding the new facility or new company to the existing cloud system or provisioning it as a new tenant.

Manufacturing organizations in the market for new ERP systems or thinking about making a change are frequently including cloud ERP on their short lists, often because of the easily recognizable benefits discussed in this article, such as its cost advantages, elimination or reduction in version upgrades, and the ability to better support mobile and remote users.

But the benefits of cloud ERP go beyond tactical issues. Cloud ERP can give manufacturing companies a competitive

advantage by turning the IT organization into a strategic partner with the business, better supporting customers, suppliers, and partners, and facilitating strategic growth. With these strategic benefits in mind, manufacturing executives will be well-served by considering how cloud ERP can fit into their business's future plans.



About the Author:

Frank Scavo is the President of Computer Economics, Inc., an IT research and advisory firm, where he authors industry research on technology trends and IT management best practices. With over 30 years of experience, he has led or participated in business strategy, IT strategy, and business improvement projects for organizations in a broad range of industries, including medical devices, pharmaceuticals, foods, consumer products, wholesale and retail distribution, high tech electronics, and information services. He is a graduate of the University of Pennsylvania. He is a Certified Fellow in Production and Inventory Management (CFPIM) and by APICS, the Society for Operations Management.

