

Mid-market Manufacturers and the New Landscape for Enterprise Resource Planning

USING TECHNOLOGY TO COMPETE



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INTRODUCTION

The globalization of discrete manufacturing effectively is obliterating the concept of a small manufacturer, at least in its operational design. Even companies that are considered relatively small in revenue, employment or client base now must act like the largest corporations in structuring and conducting their businesses. They find themselves operating no longer within a geographically delineated niche in the supply chain but rather in a worldwide market place.

Even those manufacturers with just one or two principal customers must be prepared to communicate, deliver and expand in multiple countries, using a variety of currencies, and to relate to a number of different cultures in any of several languages. Separate nationalities often require different translations of everything from the user interface, online help and forms to print-outs, training materials, documentation and prototype tools. Furthermore, manufacturing operations must be localized for compliance with the area's business practices and government requirements. Even within a single international region, such as Asia/Pacific or Eastern Europe, multiple business cultures have emerged to complicate production methods and marketing for mid-market enterprises.

Fortunately, these mid-market manufacturers rapidly are learning to use technology as a competitive weapon that enables them to manage costs by making order processing, production, shipping and communication throughout the company and the supply chain significantly more efficient. Enterprise resource planning (ERP) systems are streamlining and automating processes that small manufacturers would have found cumbersome to carry out on a global basis. This process improvement, in turn, allows these manufacturers to extend their geographic reach at lower costs.

Having embraced technological solutions for their inescapable global expansion, mid-market manufacturers next must decide between individual “best-of-breed” methodologies or a complete turnkey system in managing the interrelated functions of their complete production process. Each of these alternatives has found favor over recent years with various manufacturers.

It has become clear, however, that best-of-breed solutions—despite providing specific features for a particular business—do not offer the ability to link these solutions together economically, nor to integrate them into a smoothly functioning system that carries production through from EDI orders to automated manufacturing to shipping and replenishment. The integrated approach has proved to be the most effective and transparent system for discrete manufacturing, providing the lowest total cost of ownership. Even the largest manufacturers, many of which have spawned best-of-breed solutions, have discovered the advantage of a comprehensive system that manages all aspects of operations.

These ERP systems, until recently a vital element primarily in the operations of large manufacturers, now are being adopted by mid-sized producers who find this integrated solution to be the surest way to compete successfully in the new global market place. In addition, many companies that intend eventually to be purchased by a larger manufacturer are adopting ERP to increase the value of their business and make it easier for their facility to integrate with a larger group of sister companies after an

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acquisition. Mid-market discrete manufacturers are transforming themselves into business-process-driven enterprises by employing business-process software, such as ERP, to manage their manufacturing operations. This new focus on ERP systems in this sector is providing new stimulus to the market for these technologies and encouraging further evolutions of ERP to position these producers effectively in their global operations.

Business Trends are Driving New Interest in ERP

Large discrete manufacturers long have relied on integrated Enterprise Resource Planning (ERP) systems to coordinate their manufacturing operations, allowing them to serve the burgeoning global market place by establishing a presence closer to the shifting international operations of their customers while retaining efficient production and communication across the globe. Mid-market manufacturers traditionally have worked in a much more confined arena, turning out a limited variety of products for a small customer base. Globalization, however, has compelled these producers to act globally if they intend to remain competitive. They must meet the needs of customers who themselves are moving their facilities and their marketing efforts to new geographies in Asia, Europe and Latin America.

As a result, mid-market manufacturers rapidly are transforming themselves into companies focused on business processes and are choosing to employ ERP systems for their own operations, learning from the successes of their larger counterparts. A number of trends have moved them toward ERP and are impacting their selection and implementation of these systems.

Mid-market companies adopt ERP to compete: In many parts of the world, manufacturers are purchasing ERP systems for the first time as the most effective way to remain competitive in the global market. This midmarket will experience the largest growth of any U.S. market sector through 2007.

In much of Europe, mid-sized companies have been using ERP for some time, but the evolving demands of the global market place are outpacing the ability of these older systems to keep companies competitive. Moreover, systems currently in place often cannot sufficiently support lean and competitive business processes, so these European manufacturers are seeking more advanced ERP solutions.

Worldwide, companies in the mid-market category are extending their operations to new geographies to remain close to their customers and, as a result, are building new facilities. These new manufacturing complexes require ERP systems to run efficiently. Thus, ERP has become essential for discrete manufacturers to operate on the cost scale and global scope that their customers demand. These producers have created an extended market for ERP systems that once were focused exclusively on major corporations. The challenge for ERP providers is to develop systems that meet the special needs of these midmarket companies.

Consolidation creates preferences for high functionality: The push for globalization has generated a consolidation of companies in the supply chain, with those who are unable to adapt to the requirements of a

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multi-national, multi-lingual, multi-currency, multi-cultural business environment being usurped by other manufacturers in the chain.

As more manufacturers merge, they discover that instead of managing the operations of one plant to serve a single customer, the two facilities now each must supply products to two or three customers from the combined client base of the unified companies. ERP becomes more critical to coordinating this new supply chain and the manufacturing operations of the plants themselves.

Likewise, a consolidation has occurred among vendors of software solutions as the market chooses the most efficient, flexible and cost-saving technology. Those systems with the deepest functionality—the greatest amount of adaptability in their configuration and the most complete integration of operations—will survive this consolidation and become the systems of choice for discrete manufacturers. Successful solutions providers realize that mid-sized manufacturers maintain large expectations. They want a full ERP system with comprehensive features that are simple to use, not a scaled-down version of a complete offering. They expect more for less, which is the challenge that the best solutions providers meet consistently.

Lean manufacturing becomes essential to the mid-market: Waste in production and in business processes impacts mid-market manufacturers, with their more limited resources, even more heavily than larger ones. Lean manufacturing techniques are crucial to the mid-market's survival in a global economy where distance, varying work ethics and less-certain production quantities can generate waste and devour profitability. Ideally, all manufacturing environments should be lean, but many are not. Especially with manufacturers who are less experienced in operating within a global environment, over-production, excess inventory, longer distances for transit, wasted motion, re-working of parts, unnecessary processes and idle time still hinder profitability, speed, quality and ultimately survival. Mid-market manufacturers are turning to ERP systems that are oriented toward lean manufacturing, however, as a way to overcome these impediments and to position their companies for increased business from their customer base. Lean manufacturing streamlines processes, creates new efficiencies and can reduce production costs sharply.

Mid-market uses ERP as a strategic tool for lean operations: ERP rapidly is becoming a tool not just for survival in the mid-market but also for creating strategic advantages through lean production methods. Beyond eliminating waste and cutting costs, ERP systems are helping mid-market companies grow their revenue and their market share. By instilling lean processes, ERP enables a manufacturer to deliver products more quickly to customers because it reduces lead time. Since their production costs are lower, mid-market companies employing ERP can be more flexible in their negotiations with clients and earn a customer-oriented reputation that leads to enhanced market share. In short, companies using ERP to reduce waste can do much more with far less and earn the market's appreciation through increased business activity. ERP itself serves as a transaction backbone, and the challenge to mid-market companies is to incorporate the appropriate best practices into their lean ERP framework to enable the company to survive, compete and consequently thrive.

Mid-market manufacturers call on ERP data to reduce cost pressures:
When mid-market companies seek to compete on a global level, they find

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themselves even more intensely subjected to cost-cutting demands from customers. A global supply chain presents more options to customers and encourages them to exert downward cost pressures on their suppliers. Mid-market companies are discovering that high-quality data in their ERP systems can enable them to respond successfully to these pressures by making processes run more efficiently and creating a much leaner operation. Accountability requirements are being handled by ERP systems: With just-in-time operations proliferating and the overall interdependence of suppliers and customers increasing, managing accountability is critical to a successful supply chain. If a process problem remains concealed in one portion of a discrete manufacturer's production system, it can obstruct the efficiency and quality of every step in the chain. ERP systems now are being used by mid-market manufacturers to track their operations, find problems much more rapidly and trace back any bottlenecks discovered down the line to determine the precise location and root cause.

Challenges and Opportunities for Mid-Market Companies using ERP

For the first time, most manufacturers in the mid-market are automating their business practices, with ERP as the spine on which these practices are integrated. As mid-market companies open facilities in new locations to serve their customers globally, purveyors of ERP systems have tracked this new source of customers in the mid-market. Having saturated their traditional base of large manufacturers, these system suppliers can be expected to do everything possible to design competitive ERP systems for mid-market companies. This refocusing on mid-market enterprises offers advantages to these discrete manufacturers in their selection of ERP systems.

Providers of ERP systems have an extraordinary opportunity to develop applications specifically for the needs of this business sector, and the growth of ERP solutions likely will be generated by the requirements of mid-market manufacturers for the foreseeable future. Therefore, manufacturers have stronger negotiating power with solutions providers. With the growth of the ERP marketplace linked strongly to the emergence of these companies on the global scene, mid-market producers have the ability to demand comprehensive applications that will help enlarge the efficiency of their own operations. They are seeking an end-to-end solution that eliminates the need to consider a multiplicity of applications and solutions providers that also simplifies all their processes for dealing with customers and suppliers and for manufacturing their products.

To meet these needs, mid-market manufacturers have the responsibility to establish a list of criteria, standards and features on which ERP providers can sharpen the design and configuration of ERP systems. These criteria will enable systems providers to satisfy the distinctive requirements of this mid-market segment and allow the manufacturers themselves to evaluate vendors before making a purchase.

Intertwined with the rapid global expansion of mid-market

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companies

and the development of ERP software to meet their needs in international markets is the issue of security. Systems providers and manufacturers must take into account a range of sometimes contradictory laws in multiple countries that impact both the security of the software systems themselves and protection of software rights. Care should be taken to ensure software is not acquired, installed or distributed in violation of the developer's copyright nor of the provisions of the nation in which the applications are used.

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CONCLUSION

Therefore, manufacturers have stronger negotiating power with solutions providers. With the growth of the ERP marketplace linked strongly to the emergence of these companies on the global scene, mid-market producers have the ability to demand comprehensive applications that will help enlarge the efficiency of their own operations. They are seeking an end-to-end solution that eliminates the need to consider a multiplicity of applications and solutions providers that also simplifies all their processes for dealing with customers and suppliers and for manufacturing their products.

Infor already has developed a comprehensive suite of ERP applications specifically for mid-market companies, including versions configured for automotive and for other discrete manufacturers. Simplifying dozens of business processes, these applications offer smaller companies the same deep functionality and heightened efficiencies that large corporations have gained through ERP, but with a scale, cost and direction developed for smaller manufacturers emerging on the global landscape.

Ranging from business intelligence software and transaction entry to applications for managing customer relationships, quality and distribution centers, solutions from Infor have been designed to fit the full scope of operations within smaller manufacturing companies. Mid-market businesses that are deploying to international locations and preparing for growth should know they have access to highly sophisticated ERP systems that can speed the success of their startup and support their operations with an end-to-end, integrated technique born of their own requirements that grows with them as they expand in the global market place.



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