

Open Source ERP vs. Commercial ERP

By: Damnish Kumar

Co-author: Shweta Srivastava

Enterprise Resource Planning is powerful business software, as it integrates all departments in single software. This software caters need of all different departments who have their own particular needs. ERP are available as commercial ERP and open source ERP. The big names in commercial ERP are SAP, Oracle, JD Edwards (bought by PeopleSoft Inc.), BAAN and first generation software like MAPICS whereas in open source ERP, Compiere from ComPiere Inc. is quite popular. The objective of this article is to compare open source ERP to commercial ERP by analyzing the pros and cons of both open source ERP and commercial ERP.

Cost of implementation:

Commercial ERP have very high implementation cost. In a study done by Meta Group, where it surveyed 63 companies – including small, medium and large enterprises in a range of industries – it was found that the average cost of implementation of ERP was \$15 million, with the highest as \$300 million and lowest as \$400,000. Though average value does not give us much information as it is always biased towards highest and lowest value, yet one conclusion drawn from this study was that commercial ERP is expensive, no matter what kind of company is implementing it.

In the 90s, only commercial ERP solutions were available, and the costs of implementing these ERP solutions were in million dollars. This limited the use of ERP to big companies. However, after the emergence of Open source ERP, the ERP has now come into the reach of medium and small companies too. Open source ERP gives lots of freedom like free redistribution, freedom to access and modify the source code and freedom for the end user to use it for any purpose they wish to. GPL licensing of Open Source Software enables developer community to rapidly contribute to the software development and enhance features.

Commercial ERP also has pre-sales cost associated with them. Companies usually use the license revenue to pay for the presales effort. On the other hand, open source ERP

(Compiere) has no pre-sales cost and hence is free.

Implementing commercial ERP also has hidden costs like technicalities of transferring data to the new integrated system, changing the business process to fit the ERP (as commercial ERP should be used in purest form. Modifying it requires lot of money and time), training the workers to use the ERP etc. Industry research has shown that at least half of commercial ERP initiatives are delivered 200 percent over budget. Whereas the cost of implementing open source ERP, which is free as well as can be easily modified is much lower than that of its counterpart, commercial ERP.

Customization:

For successful integration of ERP into customer's business, ERP should match the customer's business model. Therefore, actual customization of the core ERP to the business model is essential. Changing commercial ERP to fit the business process would require plenty of consulting money, sophisticated IT staff as well as time to develop customization. Industry leaders like SAP promote their best practices and processes. Therefore, what usually happens is that business has to change to fit the ERP best practices, and not the other way round. Adapting to the best practices could be a difficult as well as time taking task for many organizations.

The source code of the open source ERP is available, and this can be customized accordingly by hiring external consultants. The hiring consultant will help the customer make changes in ERP according to the requirements.

Businesses change, and at times people change their mind about business model ... But commercial ERP does not provide an easy and inexpensive customization of the ERP software to fit the business model. In fact, in the 90s, when only commercial ERP solutions were available, many companies shied away from ERP because it did not fit into one of their processes in business. Whereas, with open source ERP, the customers can do any sort of experimentations even while in production without losing the base or 100% availability.

Time of implementation

Implementing commercial ERP takes a long time, in fact even six months are considered to

be short period for implementing commercial ERP. Also, in case of commercial ERP, the way business is done and the way people do their job needs to be drastically changed, and this may take lots of time before ERP shows its payback potential. In case of Open source ERP, customization of ERP may take time, but it take comparatively less time in implementation and training.

Maintenance:

One of the major disadvantages of using commercial ERP is being tied to a particular vendor. Even if the vendor decides to change its terms, the customers have no option but to comply with it. Also, if the vendor stops supporting their particular ERP software version or goes bankrupt, the businesses are left with very difficult options for such critical business software.

Only the vendors or certified partners can provide support to the commercial ERP which usually are expensive. The usual support charges of open source ERP are low in comparison to that of commercial ERP support charges. And many of the enhancements and bug fixes are available at no software licensing cost.

Open source ERP provides the customer with flexibility in choosing vendor. Therefore, the customer can be assured that the software is supported at a lower cost and can be developed and improved in future, even if the customer's present vendor providing support goes bankrupt.

Quality:

Open source ERP, like any other open source software is of high quality and high security as the bugs and flaws are detected all over the world by skilled technical people. In fact the availability of public records for open bugs makes users aware which functionality has bugs in them.

All open software has strong user community which is also very responsive and very knowledgeable. Hence open source ERP software with high quality, high security and rich functionality certainly offers a better option than commercial ERP.

Drawbacks of Open Source ERP

- Limited warranties of the software

- Less incentive for a commercial outfit to provide on going support.
- No defined product roadmap and time line as most of the enhancements and bug fixes are done by freelancers and independent consulting companies and developers based on their requirements.

Conclusion:

No doubt, in every aspect open source ERP scores higher than commercial ERP. Yet, commercial ERP still have major share in ERP markets. This is because open source products are quite new and people are a bit conservative about choosing ERP software, because if implemented ERP software does not work, then there is serious business trouble. The first adopters of open source ERP were in Latin America, Europe, and Asian countries because of economic reasons. Now, open source ERP is gaining popularity even in US markets and one day, it will be able to challenge the domination of commercial ERP in ERP markets of USA ...

Damnish Kumar

Technical Head, HyTech Professionals LLC

Email: info@hytechpro.com

Damnish Kumar has worked on developing industrial strength e-commerce, mobile, ERP, SCM and retail applications for several clients in the US, UK, Sweden for the past 6 years. His strength lies in leveraging technology for industrial applications. He has worked for known clients like Albertsons (US), Carrefour (Europe), Ishida (Japan).

Damnish's technological strength includes expertise in Java/J2EE, C++, C and database applications. He has been involved in all the stages of software product life cycle through out his career.

Damnish has expertise in implementing RUP and Extreme Programming development methodology in Project development. Damnish has worked as Process Consultant for one US Firm.

Damnish holds a M.S degree in Mathematics and Scientific Computing from Indian Institute of Technology (IIT), Kanpur. Damnish is PMP certified project manager from PMI.

Shweta Srivastava

Intern, HyTech Professionals LLC

E-mail: info@hytechpro.com

Shweta Srivastava is an intern at HyTech Professionals, researching on Open Source ERP. She is a fourth year undergraduate student from Indian Institute of Technology, Kanpur.