

ERP and the Small Business

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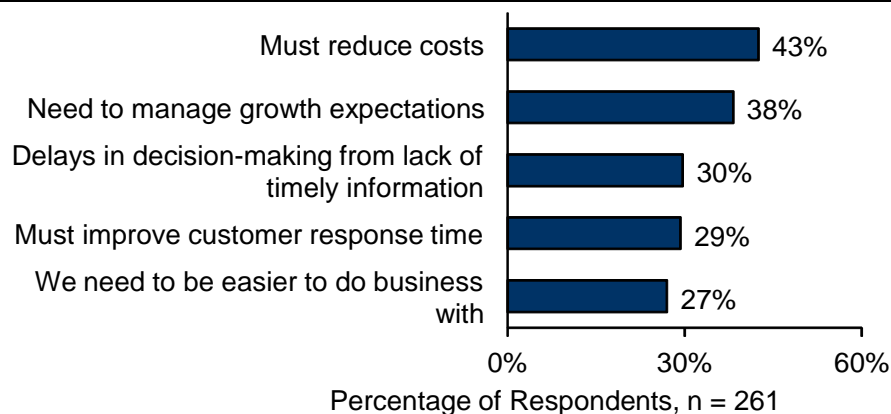
ERP and the Small Business

Enterprise Resource Planning (ERP) is the transactional and operational backbone of a business. As such, the data and capabilities contained within ERP can be used to promote visibility, collaboration, and efficiency; making it essential in the large enterprise. But ERP is not only for the large organization. Smaller organizations can also utilize ERP to scale their business, differentiate themselves from the pack, and compete on a bigger stage. Eighty-two percent (82%) of organizations with under \$50 million in annual revenue responding to Aberdeen's [2012 ERP Benchmark survey](#) indicated that their organization uses ERP. This report will illustrate the reasons that these organizations have implemented an ERP solution, the capabilities that the Best-in-Class use to differentiate themselves, and the direct benefits that small businesses could garner as a result of leveraging ERP solutions.

The Environment Facing the Small Business

Data from Aberdeen's [2012 ERP Benchmark survey](#) of 261 small organizations illustrated the pressures facing small businesses (Figure 1). These pressures lead organizations to scrutinize the way in which they run their business. Many who do so find that the systems they use do not adequately perform the functions they are supposed to.

Figure 1: Top Business Drivers Impacting ERP Strategies



Source: Aberdeen Group, December 2012

The leading pressure in small organizations is a need to reduce costs. As an organization grows, it may take on new employees, business units, products, and processes. With these changes comes an increase in costs. These organizations must find a way to keep costs from spiraling out of control

Sector Insight

Aberdeen's Sector Insights provide strategic perspective and analysis of primary research results by industry, market segment, or geography

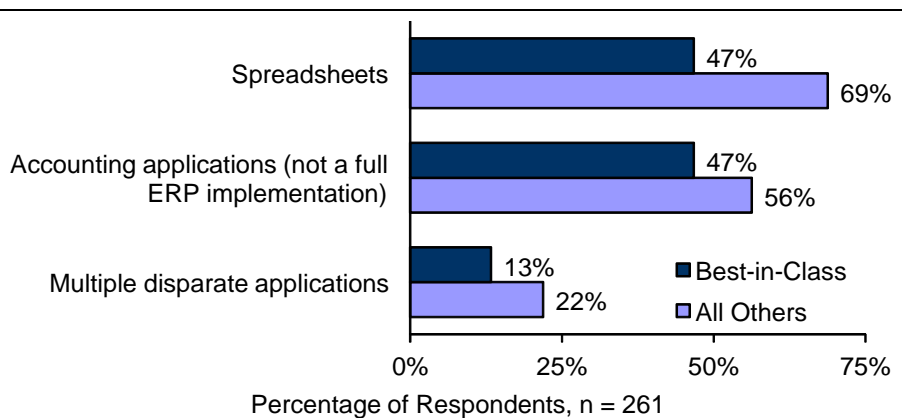
What is ERP?

Aberdeen defines ERP as an integrated suite of modules that forms the operational and transactional system of record upon which any business is based. With its roots in Material Requirements Planning (MRP), it is most ubiquitous in the manufacturing industries, but has truly expanded beyond these boundaries to become a mature business application that provides value to a far more extensive set of industries. ERP systems provide much-needed capabilities, such as management of financial, product / inventory, human capital, purchasing, and other transactional data within one environment.

while still delivering the same value to customers that made the organization successful in the first place. At the same time, 38% of small businesses cited a need to manage growth expectations. But growth often requires investment. How can these organizations reconcile the pressures for growth and cost cutting at the same time? Growing organizations also have the potential to lose organizational identity, as well as the potential for decision-makers to lose touch with what is going on day-to-day in the business. In order to continue operating effectively in this environment, these organizations must take a look within and identify the tools they need to scale themselves.

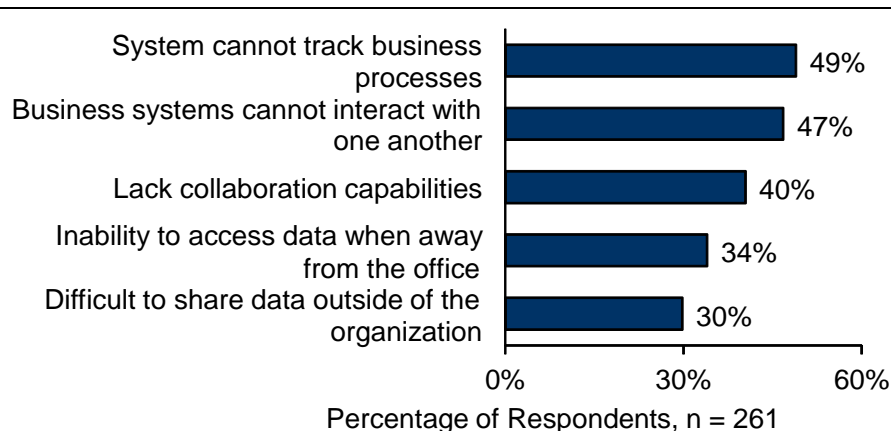
This inability to access data has a significant impact on interactions with the extended enterprise, which consists of customers, suppliers, distributors, or any other organization that interacts with the small business. Small organizations find that they must improve their customer-response time to both streamline operations and improve customer satisfaction. These organizations need to become easier to do business with, whether it is with their customers or suppliers. An inability to interact with and share data can impede these processes.

Aberdeen's research has found that these challenges are primary drivers that influence organizations to embark on ERP strategies. Still, 18% of organizations with under \$50 million in annual revenue responding to this survey have not implemented ERP. There are a wide range of applications that these organizations are using instead to run their business. Of the organizations that have not implemented ERP, the bottom 80% of organizations in aggregate performance are more likely than the Best-in-Class to use tools such as spreadsheets, accounting applications, or a series of multiple disparate applications (Figure 2). While there is functionality contained within these tools that can help a small business, growing organizations may find that they quickly grow out of these tools. For example, ERP is designed as a complete and auditable system of record that contains all the information needed to run a business. Organizations that use a set of multiple disparate applications, however, lack this unique advantage of ERP.

Figure 2: Tools that ERP Can Replace

Source: Aberdeen Group, December 2012

While there certainly are small businesses that have succeeded without implementing ERP, utilizing other systems can create some challenges. These challenges have been identified by Aberdeen survey respondents that have not implemented ERP (Figure 3). Unsurprisingly, the challenges are aligned with the top drivers impacting ERP strategies.

Figure 3: Negative Effects of Outdated Business Systems

Source: Aberdeen Group, December 2012

For example, it is difficult to grow or cut costs when business systems cannot track business processes. Additionally, as employees are deployed in more disparate locations they will need enhanced collaboration capabilities, but these systems cannot support that type of collaboration. When it comes to decision-making, 40% of organizations without ERP are unable to access data when away from the office. In today's business world, that is unacceptable. Managers need to be able to make decisions as soon as events happen, no matter wherever or whenever they are. Finally, 30% of these organizations find it difficult to share data outside of the organization. This is

2012 ERP Research

The data cited in this report was collected from 261 small businesses in the [2012 ERP Benchmark survey](#) as of December 2012.

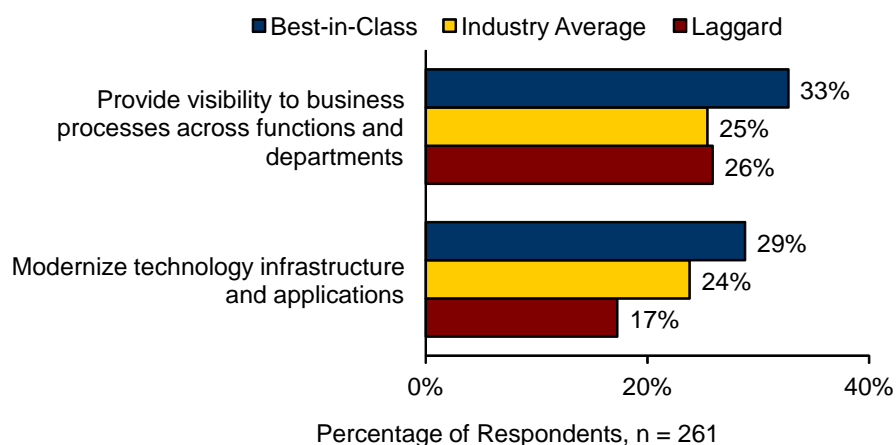
Aberdeen's 7th annual ERP benchmark study is being held throughout the year and is aimed at quantifying ERP usage, identifying preferences for fully integrated suites versus point solutions, and measuring Total Cost of Ownership (TCO) as well as the business benefits derived from Best-in-Class implementations. The survey also compares the performance of organizations using ERP to those without ERP. To take part in the survey, please click [here](#).

in direct conflict with the 27% of small businesses that cited the need to become easier to do business with as a top pressure.

How to Improve

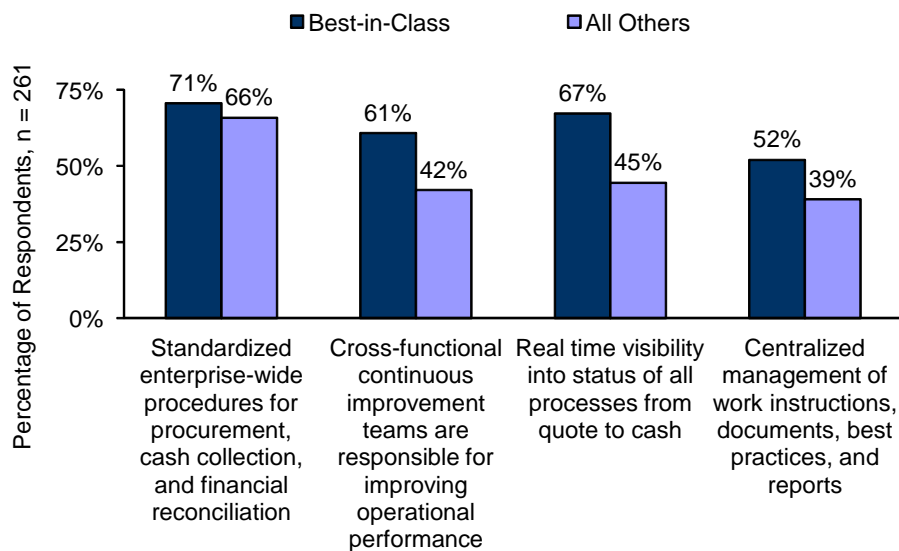
So what are top-performing organizations doing in response to these challenges? First, these organizations are more likely to provide visibility to decision-makers (Figure 4). While this does not necessarily mean that these organizations are implementing ERP, it does indicate that these organizations understand they need a system of record that provides data to employees. However, the Best-in-Class are also more likely to modernize their technology infrastructure and applications. Rather than relying on the solutions that got them to where they are today, these organizations understand that if they are to grow, they need a solution that can scale with them.

Figure 4: Modernizing to Provide Visibility



Source: Aberdeen Group, December 2012

Modernizing applications to include ERP helps to provide capabilities essential for growing businesses. The four core areas that ERP impacts within an organization are standardization, efficiency, collaboration, and visibility. Best-in-Class small businesses are more likely to benefit from these capabilities (Figure 5).

Figure 5: Key ERP Capabilities

Source: Aberdeen Group, December 2012

Fast Facts

- ✓ Best-in-Class organizations are 55% more likely than All Others to have the ability to do demand planning and forecasting
- ✓ Thirty-nine percent (39%) of the Best-in-Class coordinate manufacturing operations with product design compared to 32% of All Others
- ✓ Best-in-Class organizations are 1% more likely than All Others to provide a fully integrated view of all customer information to any sales or marketing person

Standardization ensures that best practices are followed throughout the organization so that employees always perform with the goals of the organization in mind. Seventy-one percent (71%) of the Best-in-Class have standardized procedures for procurement, cash collection, and financial reconciliation, which makes the organization easier to do business with. Beyond these procedures, 68% of the Best-in-Class have standardized procedures for order management and delivery; they are 20% more likely than All Others to have standardized procedures for production planning and execution. For example, one procedure that ERP significantly impacts is demand planning and forecasting. Fifty-one percent (51%) of the Best-in-Class have the ability to perform this process in comparison to 33% of All Others. Inaccurate forecasts can greatly hinder a growing organization.

Next, ERP impacts **collaboration**. This is essential for the growing business as employees become more and more focused on specific functions. Best-in-Class organizations are 45% more likely than All Others to have the ability to support cross-functional continuous improvement teams. Beyond that, these organizations are also more likely to connect functions such as customer service and manufacturing operations. Each individual business unit has an effect on the next, utilizing ERP to connect them will create a more cohesive organization.

Visibility is impacted by ERP's ability to collect and provide all the data needed to run an organization. It is really all about providing a one stop shop for data to employees. Best-in-Class small businesses are 51% more likely than All Others to provide real time visibility to the status of all processes from quote to cash. Visibility can aid all employees in doing their job. For example, 48% of the Best-in-Class provide a fully integrated view of all customer information to any sales or marketing employee. Not only does

this help improve customer service, but it also helps cost savings because these employees have the information they need right away and can quickly address any issues.

This is just one example of the types of **efficiency** that ERP helps to provide. Another example would be that 52% of the Best-in-Class have centralized access to work instructions and best practices. For example, this would impact field technicians by providing them with the knowledge they need immediately so that they do not have to return to a site more than once. This saves time and money. Also, ERP can be used to provide essential customer data to employees to facilitate customer interactions. Ultimately, ERP can be a vehicle to promote best practices and efficiency throughout the organization.

Because of the capabilities that ERP enables, ERP has the potential to deliver direct improvements to organizations that implement it (Table I). Even Laggard organizations may see noticeable improvements as a direct result of ERP. These improvements save money and improve customer interactions, among other benefits. Small organizations that modernize themselves with ERP can utilize the potential improvements to differentiate themselves from the competition.

Table I: Measurable Benefits Derived from ERP

Benefit Achieved through ERP	Best-in-Class	All Others
Improvement in inventory turns	52%	33%
Reduction in operational costs	18%	13%
Reduction in administrative costs	16%	12%
Improvement in complete and on time shipments	19%	12%
Improvement in internal schedule compliance	21%	12%
Improvement in cycle time from order to shipment	20%	11%

Source: Aberdeen Group, June 2012

Key Findings and Recommended Actions

Organizations with under \$50 million in annual revenue are looking towards ERP because they need to be more agile when making decisions and interacting with customers and business partners. At the same time, they must keep costs low. They need to continue expanding without losing track of what made the organization successful in the first place. Of course, the answer is never as easy as simply stating “implement ERP.” There are certain actions and capabilities that facilitate a small business’ ability to collaborate, promote standards, and provide visibility for decision-making. Small organizations should consider the following points:

- Twenty-nine percent (29%) of the Best-in-Class indicate that modernizing technology infrastructure and applications is a top strategy.

- Outdated business systems may not be able to track business processes, integrate effectively, and promote data sharing.
- Best-in-Class organizations are more likely than All Others to standardize procedures to ensure that best practices are enforced across the organization.
- Best-in-Class organizations are 44% more likely than All Others to have the ability to support cross-functional continuous improvement teams. This is evidence of the collaboration capabilities that ERP can help to provide.
- Through the real-time visibility that ERP can enable, top performers can drive agility in decision-making and efficiency in operation.
- Tangible business benefits can be driven through a well formed ERP strategy.

While the majority of larger organizations are already utilizing ERP to create a cohesive business, just because an organization is smaller, it does not mean that it cannot benefit from the capabilities that ERP enables. With ERP, the difficulties that come with less robust business solutions are mitigated and help the organization take a serious step towards further growth.

For more information on this or other research topics, please visit www.aberdeen.com.

To take part in Aberdeen's 2012 ERP research, click [here](#).

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