

P A N O R A M A

CONSULTING GROUP

2008 ERP REPORT

Part One in a Series



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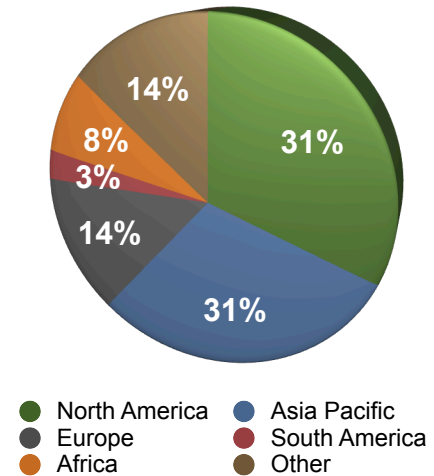
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Introduction

Panorama Consulting Group developed its 2008 Enterprise Resource Planning (ERP) Report with the goal of identifying the actual benefits, drawbacks, risks, and overall results experienced by organizations implementing ERP software across the globe. Using various surveying tools and data points, the study includes respondents from 1,322 organizations that have implemented ERP within the last three years. The companies range in size from small start-ups to large multi-national and multi-billion-dollar organizations and are located in all major regions of the world, with a majority based in either North America or Asia Pacific (Figure A). In addition, the ERP software implemented by participants ranges from Tier I solutions to Tier II and niche-focused offerings. The following information summarizes the findings of the study, with future installments of more detailed data to follow in separate papers.

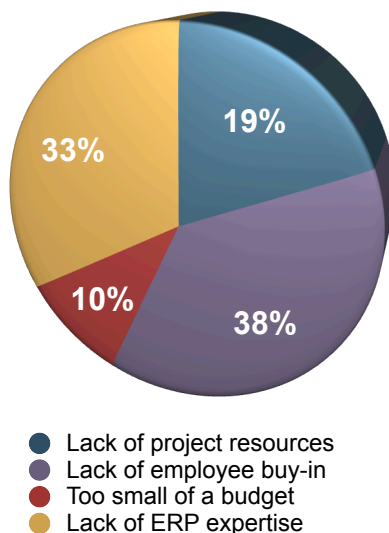
Figure A: Geographic Location



Top ERP Challenges and Risks

The results of our 2008 ERP Report show the biggest challenges companies face during the implementation of a new ERP system (Figure B). Respondents indicated that lack of employee buy-in is the biggest problem facing ERP project teams (38% found this to be the most challenging issue). A large group also found lack of ERP expertise to be the biggest problem (33%), while 19% identified a lack of project resources. Only 10% indicated that lack of project budget is their biggest problem.

Figure B: Top Challenges



Surprisingly, not a single respondent identified lack of executive support as their biggest challenge. Because Panorama has worked with several clients where this was an issue, we suspect that lack of executive support may be the root cause for the other challenges identified by the respondents.

These results show how integral project management, effective organizational change management, and effective staff training are to a successful ERP implementation process. In our experience, clients who underestimate the importance of planning and organizational change often face lack of employee buy-in and insufficient ERP expertise.

ERP Implementation Duration and Cost

A core problem with ERP implementations is unrealistic expectations about both project duration and the funding required to go-live with the least amount of business risk and the maximum level of business benefits.

Implementation Duration

According to the study, only 7% of projects finish on time or when expected (Figure C). A full 93% of respondents indicated that their implementations took longer than expected, with 68% stating that it took “much longer” than expected. In addition, none of the respondents indicated that their implementations took *less* time than planned.

Respondents indicated that their organization’s ERP implementation lasted anywhere from four to 60 months. A majority of implementations (71%) took between six and 18 months (Figure D). However, a significant portion of participants implemented ERP in multiple phases that had not been entirely completed, so this range may under-estimate the actual duration required to fully implement a comprehensive ERP system.

Figure C: Actual vs. Planned Time

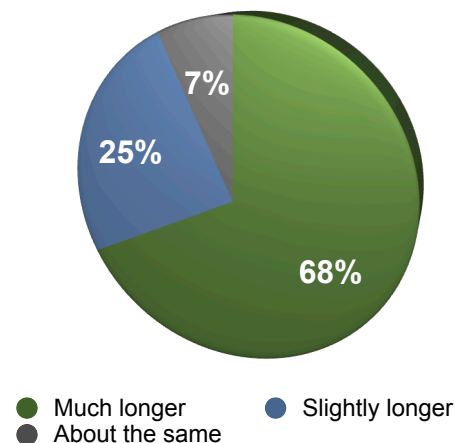
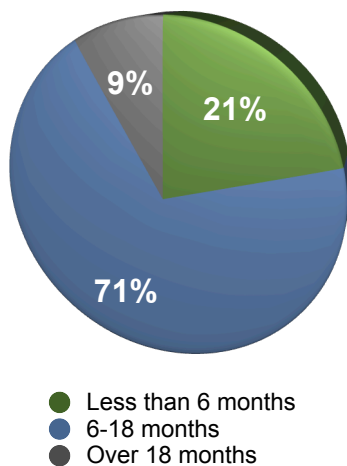


Figure D: Duration



We attribute these findings to the fact that many ERP software vendors fail to adequately manage client expectations about implementation duration. Our research and experience reveals that the most successful ERP implementations occur in companies that have realistic expectations about how much time and effort is required. While it is possible to implement ERP in a very short timeframe, it is not advisable - especially when there are not sufficient internal and external resources to support the project.

Implementation Costs

In addition to taking longer than expected, most ERP implementations cost more than expected. As illustrated in Figure E, 65% of ERP implementations go over budget. Perhaps even more alarming is the fact that more than one out of four (27%) go at least 15% over budget and nearly one out of five (16%) go 50% or more over budget.

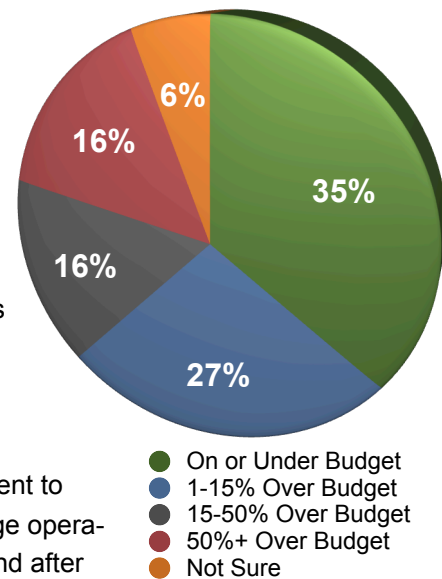
We often warn our clients of the hidden costs associated with complex ERP implementations. These costs are a primary reason why companies spend more than they plan and can include hardware, training, organizational change management, project management, the employment of temporary contractors to replace project team members, and software customization. Often problems stem from CIOs who focus on implementing ERP regardless of how much it costs or how little of a Return on Investment (ROI) it

delivers. In addition, some companies fall prey to the "ERP sales trap" set by software vendors who purposefully understate costs.

During our deep-dive analysis of successful vs. unsuccessful ERP implementations, we found that best-in-class ERP project teams follow several steps to help contain their project scope, duration, cost, and overall business risk:

1. **Ensure executives outside of IT are involved in the vendor evaluation and planning process.** Having more executives involved will help the management team identify all of the real benefits - and hidden costs - of the ERP implementation.
2. **Don't rush the ERP evaluation process.** Too many companies rush into ERP implementation without taking the time to clearly define their specific business requirements, thoroughly evaluate the various vendors, and plan for a successful project. Companies should spend at least three to four months on the selection and planning process. Organizations with over 1,000 employees or \$500 million in annual revenues should plan to spend even more time on this step.
3. **Develop an actionable, realistic business case.** A business case should be used for more than just convincing top management to approve the project. It should also be used to identify and manage operational business benefits and key performance indicators during and after the implementation.
4. **Develop a realistic project plan and implementation timeframe.** It may seem obvious that companies don't know their true costs until the development an implementation plan, but too many companies try to develop an estimate before a plan has been identified. This is a primary cause of significant cost overruns.
5. **Be sure it's the right time for ERP.** Many may find this concept counterintuitive, but even companies with the most manual processes and outdated technologies may not be suited for immediate ERP implementations. Perhaps a better and more cost-effective solution, such as business process improvements and/or improvements to the current system, will provide more immediate bang for the buck. It is important that organizations understand the risks associated with ERP and fully consider the options and alternatives to an entirely new ERP system.

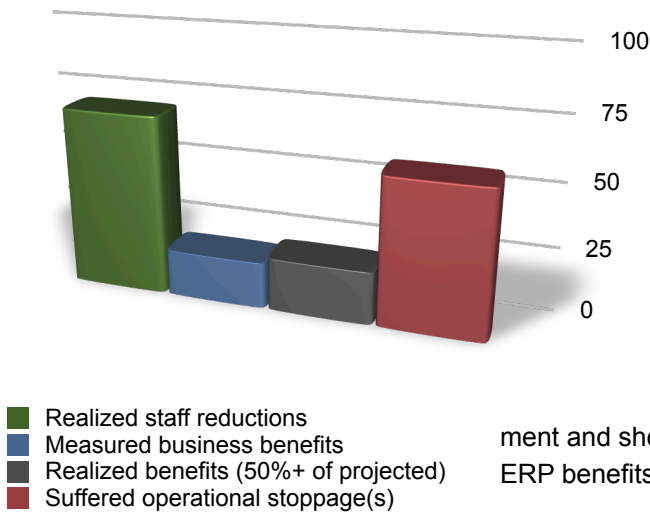
Figure E: Cost vs. Budget



Post-Implementation Results

Many industry leaders, including Panorama Consulting Group, have published thoughts regarding the evasive nature of ERP benefits. Our 2008 ERP Report underscores this hypothesis. As Figure F outlines, only one out of five companies (21%) realize at least half of the business benefits they expected from their ERP systems. In addition, over half (57%) realized major operational disruptions after go-live,

Figure F: Post Go-Live Results



including the inability to ship products to customers in some cases. On a positive note, two out of three (70%) of the participants in the study were able to realize some type of staff optimization as a result of their investment in ERP.

Clearly, despite the large investment most companies make in ERP software, benefits are by no means guaranteed. In addition, the risk of ERP implementation causing a disruption to the organization's core operations is a significant risk. These factors are clearly areas that will affect the ROI of the ERP invest-

ment and should be carefully managed as part of an overall ERP benefits realization plan.

Eight Traits of Best-In-Class ERP Implementations

As shown in Figure G, just 57% of respondents are either very satisfied or fairly satisfied with their ERP systems. The others (43%) are either fairly dissatisfied, very dissatisfied, or not sure. Many organizations assume that this success or failure is attributed to the software itself, but our findings indicate that project success is largely attributed to the strategy and actions of the project team implementing the software.

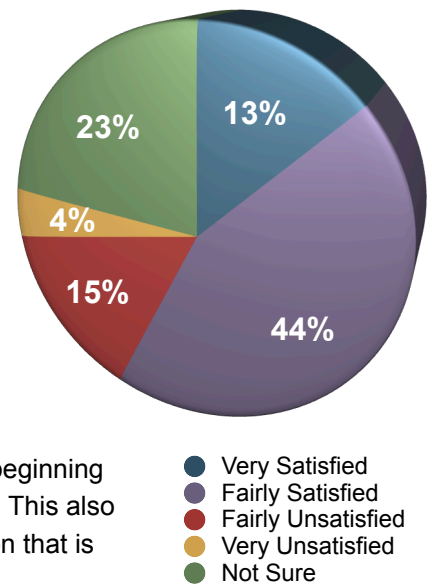
Here are the key critical success factors we have observed in best-in-class ERP implementations:

1. **Focus on business processes and requirements first.** Too often, companies get tied up in the technical capabilities or platforms that a particular software system can support. More important are the identification of key business requirements and the proper alignment of software with business operations. Once these needs are defined, organizations can more effectively choose the software that fits its unique business needs and implement it in a way that does not require extensive customization.
2. **Focus on achieving a healthy ERP ROI, including post-implementation performance measurement.** This requires more than just developing a high-level business case to solicit approval from upper management or a board of directors. It also entails establishing key performance measures, setting baselines and targets for those measures, and tracking performance after go-live. This is the only way to truly realize the benefit potential and success of ERP software.
3. **Commit strong project management and resources to the project.** At the end of the day, a company implementing ERP owns the success or failure of the implementation, which should be managed accordingly. Whether positive or negative, these results must be man-

aged accordingly by a team that includes a strong project manager and other “A-players” from several departments at the company.

4. **Gain commitment from company executives.** Any project without support from its top management will fail. Support from a CIO or IT director alone is not enough. No matter how well executed a project may be, obstacles will arise during the implementation. The entire executive staff needs to be involved to resolve issues as they occur.
5. **Take time to plan up front.** Companies must not jump right into a project without validating business requirements or the implementation project plan. The more time is spent ensuring these things are done right at the beginning of the project, the less time is spent fixing problems later. This also ensures that an organization has selected an ERP solution that is well aligned with its business needs.
6. **Focus on data.** Data and re-engineered business processes deliver the benefits realization companies should need and expect. Many companies implement ERP systems because their ability to manage data has been greatly diminished by the confusion of redundant, invisible, and meaningless data spread across multiple systems. Businesses who understand this invest heavily in data cleansing, mapping, migration and verification.
7. **Ensure adequate training and change management.** ERP systems bring enormous changes to employees. The system - no matter how advanced - will prove to be ineffective if the staff does not understand how to use it. A focus on training, organizational change management, job design, and other employee support measures is crucial to any ERP project.
8. **Understand the purpose of ERP.** Even if competitors are using cutting edge ERP solutions, it is more important for organizations to clearly define their purpose and requirements before moving forward with a new system. Otherwise, the technology is unlikely to be aligned with the company’s business needs.

Figure G: Satisfaction



Conclusion

As the above 2008 ERP Report indicates, ERP software is a double-edged sword. On the one hand, it has the ability to transform organizations by making them more competitive, decreasing costs, and providing a foundation for growth. On the other hand, the selection and implementation process can be very difficult if not managed appropriately. Companies that adhere to the best practices outlined above, have a clear vision of their ERP objectives, and leverage internal and external ERP expertise to reduce business risk are more successful than those that do not.

Panorama Consulting offers independent ERP software selection and implementation expertise and tools that will help reduce the total cost of ERP implementation and optimize measurable business benefits.

About Panorama Consulting Group

Founded in 2005, Panorama Consulting Group is a niche consulting firm specializing in the enterprise resource planning (ERP) market for mid-sized companies in North America and Europe. Independent of affiliation, Panorama helps firms evaluate and select ERP software, manages the implementation of the software, and facilitates all related organizational changes to assure that each of its clients realizes the full business benefits of its ERP implementation. More information can be found on its web site, www.panorama-consulting.com. Contact Panorama Consulting at 303-256-6253 or info@panorama-consulting.com.