PANORAMA

CONSULTING GROUP

2009 ERP REPORT:
HOSPITALITY AND ENTERTAINMENT

Introduction

ERP software was originally designed for manufacturing plants, but many solutions now extend beyond these shop-floor-focused beginnings to provide functionality in financial management, supply chain management, business intelligence, and more. Now, ERP is not only a back office system, but it is also intended to manage all the information and functions that are involved in an enterprise's diverse operations. Accordingly, these systems can be found in non-manufacturing businesses, such as aerospace, financial services, hospitality and entertainment, non-profit organization and government.

This part of Panorama's ERP Report outlines the use of ERP software at companies in the hospitality and entertainment industry, including a comparison of ERP results to other industries. This study includes ERP implementation results surrounding average budget, duration, and actual costs, and implementation variables such as the level of customization and ERP modules deployed.

Hospitality and Entertainment Industry

The business demands of hospitality and entertainment organizations have evolved in recent years, including diversified lines of business, international expansion, and more focus on cost containment due to a challenging economic environment. The hospitality industry consists of companies within the food services, accommodations, recreation, and entertainment sectors.

The hospitality industry includes hundreds of suppliers and other interrelated parts that need to be carefully managed to ensure efficient and integrated day-to-day operations. Hospitality and entertainment enterprises are under pressure to reduce waste, control costs, optimize business processes, and consolidate operations. The goal is clear: maximize revenue with minimum expenses.

Below are the sub-industries included in the data outlined in this portion of our study:

Accommodations:
- Hotels
- Resorts
- Casino

Food Serivces:
- Restaurants
- Bars & Clubs

Travel and Tourism:
- Travel agencies

ERP Market Share

According to our study, ERP vendor market share is comparable in the hospitality and entertainment industry is comparable to that of other industries. SAP has the leading market share among enterprises in

this industry, followed by Oracle (Figure A). The primary difference is that Microsoft Dynamics has a higher market share than in other industry verticals.

The market share of Tier II vendors is fairly comparable to that of Oracle, at close to 24%. Tier II vendors in this overall market has more market share than that of Microsoft, 19%. As outlined in other parts of our ERP report, Tier II software vendors are making significant inroads in penetrating this market and achieving higher levels of customer install bases.

Figure A: ERP Market Share
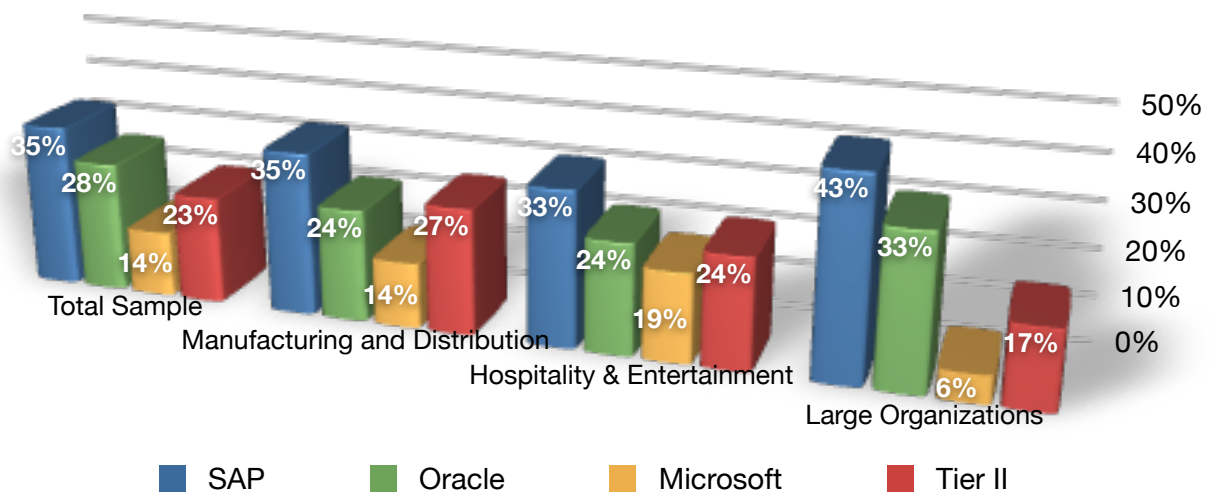
ERP Implementation Results

Variables such as company size, scope of the implementing organization and business process complexity affect ERP implementation costs and durations. According to Panorama's study, hospitality and entertainment enterprises take an average of 22 months to complete their ERP deployments (Figure B). As outlined in our ERP Report, organizations in other industries average nearly 20 months to fully implemented their ERP solutions, and the average manufacturing and distribution companies take closer to 19 months. These implementation durations include an average of 4 to 5 months to complete the ERP evaluation, selection, and implementation planning process.

In addition to the average implementing duration, our study shows that over 55% of hospitality and entertainment ERP projects exceed planned duration by at

Figure B: Implementation Duration

	DURATION
Total Sample	19.8
Manufacturing and Distribution	19.2
Hospitality and Entertainment	21.7
Large Corp. Group	25.2

least 5%, while 57% of ERP projects go over budget by at least 5% compared to planned budgets.

The average cost of implementing ERP at companies across all industries is $8.5 million, with an average cost to revenue ratio of 9.0%. This compares to $22 million and 8.9% of revenue for hospitality and entertainment industry (Figure C). Factors that affect total implementation duration and cost are company size, functional scope, and complexity of business processes.
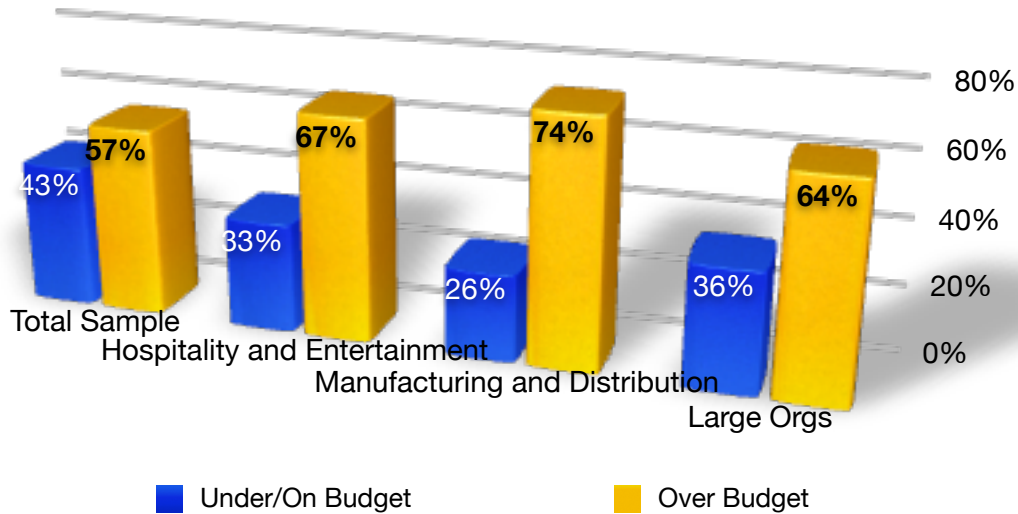
Figure C: ERP Implementation Costs

	Technical Implementation	Business Implementation	Additional Costs	Total Cost	Cost/Revenue
Total Sample	$5,882,285	$2,034,176	$554,246	$8,470,707	10.5%
% of Total Cost	69.4%	24.0%	6.5%		
Hospitality and Entertainment	$16,079,033	$4,278,947	$2,159,699	$22,517,679	8.9%
% of Total Cost	71.4%	19.0%	9.6%		
Manufacturing and Distribution	$5,593,065	$1,874,174	$739,226	$8,206,648	8.6%
% of Total Cost	68.15%	22.84%	9.0%		
Large Orgs	$18,253,604	$4,449,200	$1,366,777	$24,069,582	4.9%
% of Total Cost	75.8%	18.5%	5.7%		

Hospitality and entertainment industry organizations spend over 70% of their budgets on the technical aspects of implementation and nearly 20% on business implementation costs, including third party business consulting fees. However, the hospitality industry spend almost 10% on other miscellaneous implementation costs, which is higher than those in some other industries.

As outlined in previous parts of our ERP Report, ERP initiatives cost more than expected in most industries. However, hospitality and entertainment ERP initiatives are more likely to go over budget, with nearly 67% of enterprises spending more than expected on their implementations, compared to a 57% likelihood in other industries (Figure D).

Figure D: Budgeted Versus Actual Implementation Cost

Under/On Budget ■   Over Budget ■

ERP Implementation Variables

ERP Modules Implemented

Software functionality and scope is another driver of ERP implementation cost, duration, and business benefits. Our study find that financials, CRM, HR & payroll, sales & distribution, order processing, and material management are the most common ERP modules implemented by this industry.

ERP Customization Level

During implementation, companies take one of three approaches to customization: 1) change business processes to accommodate ERP functionality, 2) customize ERP functionality to accommodate current business processes, or 3) change business processes independent of ERP, then select or configure software to align with new processes.

ERP vendors now try to provide built-in configuration to address most customers' needs to reduce the need for customization and change how the out-of-the box core system works. In some ways, customizing ERP systems is expensive and complicated and tends to take longer to deliver the benefits.

Compared to other industries and large organizations, hospitality and entertainment enterprises are more likely to heavily customize their software (Figure E). Thirty-four percent of companies in all industries heavily customize their software, compared to 38% in hospitality and entertainment. This is likely due to the complex and diverse operations of companies in this industry vertical.

Figure E: Software Customization Level
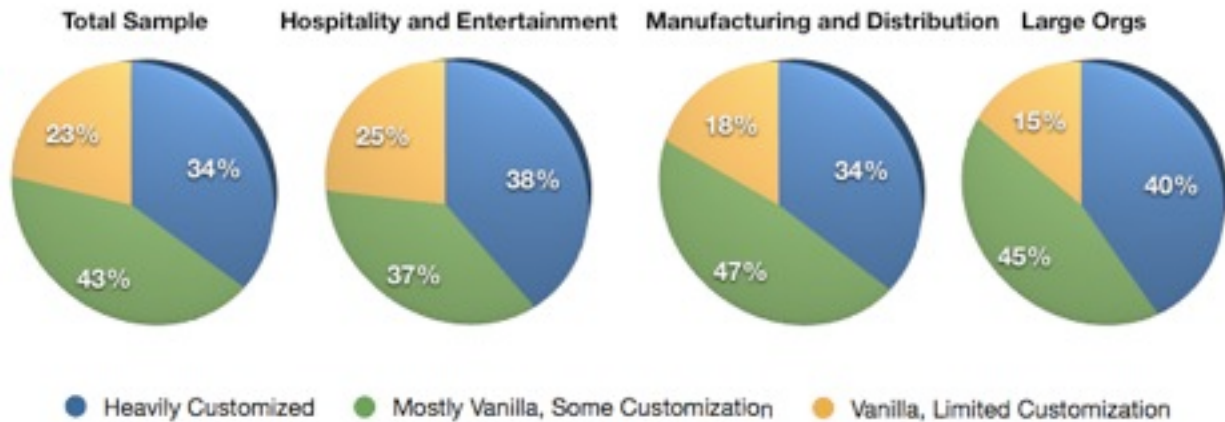
Satisfaction and Benefits Realization

The study reveals high level of ERP benefits realization, including increased productivity and continuous improvement of business processes after go-live. Although satisfaction with implemented ERP solutions is comparable to other industries, companies in hospitality and entertainment enjoy a nearly 81% benefits factor, compared to just 65% in other industries (Figure F). However, hospitality companies also experience higher business risk during their implementation, or 64% compared to 56% in other industries. The high potential of business benefits, coupled with the risk inherent in this industry, underscores the need for an effective ERP selection and implementation process.

Figure F: ERP Solution Satisfaction

	Benefits Factor	Executive Satisfaction	Employee Satisfaction	Business Risk
Hospitality and Entertainment	80.9%	71.4%	64.3%	64.3%
All Industries	65.3%	70.7%	67.4%	56.0%

Conclusion

ERP technology solutions can help hospitality and entertainment enterprises reduce costs, increase operational efficiency, increase customer loyalty, and coordinate supply chains. However, as outlined above, there are unique challenges in this industry.

An ERP initiative can involve significant investments of time and money. However, the returns can be rewarding if the ERP selection and implementation is managed effectively. It is important to understand what your company needs and to find which software is the best fit for your company. Companies such as Panorama Consulting Group offer independent ERP software selection and implementation expertise and tools to help reduce total cost of ownership 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.