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CONSULTING GROUP

2010 ERP REPORT

Introduction and Summary

Panorama Consulting Group, an independent and technology-agnostic ERP consulting firm, developed its **2010 Enterprise Resource Planning (ERP) Report** with the goal of identifying the benefits, drawbacks, risks, and results experienced by organizations implementing ERP software across the globe. Using a variety of tools and data points, the study surveyed respondents from nearly 1,600 organizations that have implemented ERP within the last four years. Companies represented 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). The ERP software implemented by participants includes Tier I, Tier II, Tier III and niche-focused solutions.

Figure A: Geographic Location

- North America 31%
- Asia Pacific 31%
- Europe 14%
- Other 14%
- Africa 8%
- South America 3%

In addition to broadening the number of organizations in the study, the **2010 ERP Report** provides more focused findings on trends over time and more detailed customer satisfaction and benefits realization metrics than in past years. The study also includes an exploration of the various delivery models deployed by participants' ERP initiatives.

The Report includes data on a wide variety of ERP solutions (Figure B). Included in the research sample are Tier I solutions (such as SAP, Oracle eBusiness Suite, and Microsoft Dynamics), Tier II, Tier III, and industry-focused niche solutions.

This year's study outlines five key findings regarding ERP implementations:

1. ERP implementations take longer than expected
2. ERP implementations cost more than expected
3. Most ERP implementations under-deliver business value
4. Software as a Service (SaaS) implementations take less time than on-premise ERP implementations but deliver less business value
5. Companies do not effectively manage the organizational changes of ERP

The following information details each of these findings. Panorama will release separate papers with more detailed analysis periodically.

FIGURE B: SAMPLE ERP SOLUTIONS INCLUDED IN STUDY
ABAS
Activant
Apprise
BOOMI
CDC Ross Enterprise
Compiere
Deacom
Epicor
IFS
Infor
IQMS
JD Edwards
Lawson
Microsoft Dynamics (AX, NAV, GP)
NetSuite
Openbravo
Open ERP
Oracle eBusiness Suite
Peoplesoft
QAD
SAP
Sage
Salesforce
TGI Enterprise 21

One: ERP Implementations Take Longer Than Expected

Many companies have unrealistic expectations about both the duration of an ERP implementation and the investment required to go-live with the least amount of business risk and the maximum level of business benefits.

Please note that implementation durations include all activities required to fully implement software such as process design, requirements gathering, configuration, business and technical testing, and end-user training. 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.

According to Panorama's study, 35.5% of ERP implementations take longer than expected (see table below). This challenge is partly attributed to the fact that many companies in our study either had unrealistic expectations regarding timeframes and/or did not account for key project activities in their implementation planning processes.

Respondents indicated that their organization's ERP implementation lasted an average of 18.4 months, down slightly from 19.8 months in the 2008 study. These decreasing implementation timelines can be partially attributed to a weak economy which

METRIC	AVERAGE
Take Longer Than Expected	35.5%
Implementation Duration	18.4 months
Total Implementation Cost ($)	$6.2M
Total Implementation Cost (% of Revenue)	6.9%
Total Implementation Cost Exceeds Budget	51.4%

has forced companies to more tightly manage implementations. Further, a number of companies decreased the scope of their enterprise software initiatives. The decrease is likely also due to the proliferation of ERP implementations at smaller organizations, which typically take less time.
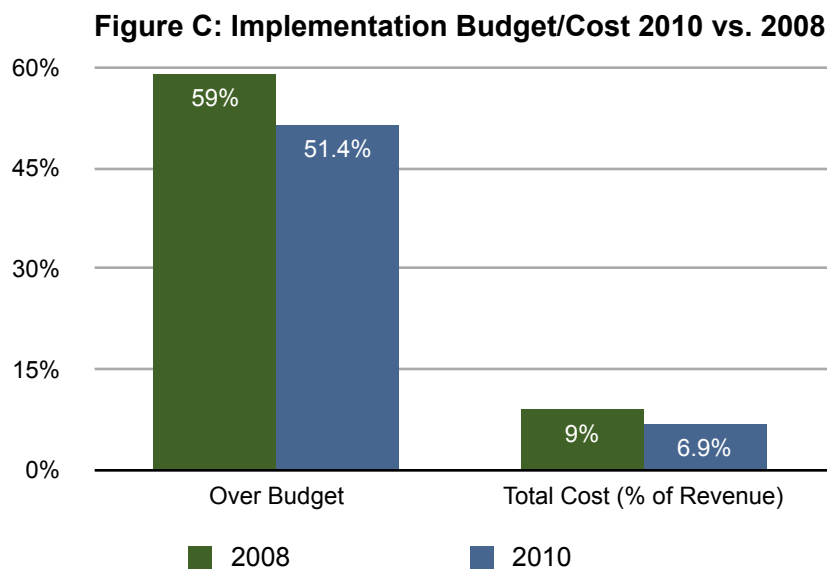
We maintain that the reason the majority of ERP implementations take longer than expected is because many ERP software vendors fail to adequately manage client expectations about implementation duration. Our research and experience reveals that the most successful ERP implementations occur in companies 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.

Two: ERP Implementations Cost More Than Expected

In addition to taking longer than expected, most ERP implementations cost more than expected. As illustrated in the table above, 51.4% of ERP implementations go over budget (Figure C). This is a slight decrease from the 2008 study, which showed that 59% of implementations cost more than planned. The finding is attributed to the fact that many organizations in our study failed to identify and budget implementation costs not attributable to software vendors, such as project management, organizational change management, hardware upgrades, and the like.

When considering the total cost of ownership of enterprise software solutions, the average investment costs $6.2 million, compared to $8.5 million in the 2008 study. Normalized to account for different company sizes, the average initial implementation costs are 6.9% of annual revenue, compared to 9.0% in 2008. This decrease of over 20% can be attributed to efforts to limit IT budgets and reduce implementation scopes in response to weak economic conditions. The tradeoff to these reduced implementation costs is that companies are less satisfied with their ERP investments than in years past, as outlined in the next section.

Figure C: Implementation Budget/Cost 2010 vs. 2008

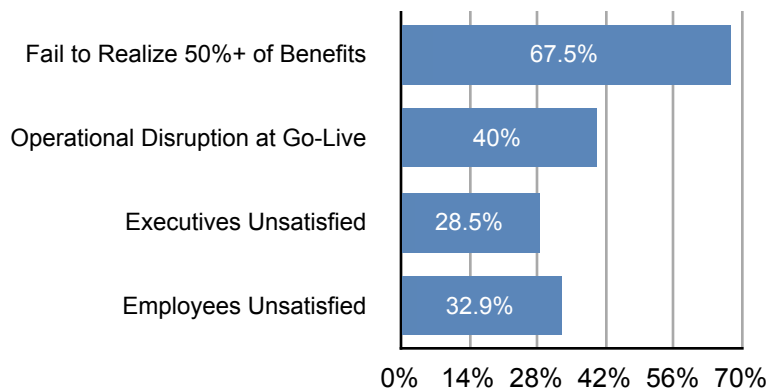We often warn our clients of the hidden costs associated with complex ERP implementations. Budgets that don't take into account hardware, training, organizational change management, project management, temporary staffing, and software customization are often misguided and may force a company to spend more than anticipated. Problems of this nature tend to stem from CIOs who are doggedly determined to implement an ERP solution 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 understate costs during their sales efforts.

Three: ERP Implementations Fail to Deliver Measurable Business Benefits

Many industry leaders, including Panorama Consulting Group, have published papers regarding the evasive nature of ERP benefits. Our **2010 ERP Report** underscores this hypothesis. As Figure D (below) outlines, 67.5% of companies surveyed fail to realize at least half of the business benefits they expected from their ERP systems. In addition, over one in three companies surveyed (40%) realized major operational disruptions after implementation go-live, such as the inability to ship products or to close the books. Finally, 71.5% of executives and 67.1% of employees are at least somewhat satisfied with their ERP solutions.

Despite the large investment most companies make in ERP software, benefits are by no means guaranteed. When comparing this year's results to our 2008 study, we noted a direct correlation between declining ERP spend and declining levels of satisfaction. Though companies are better at containing implementation budgets in a weak economy, they appear to be cutting costs in the wrong areas (e.g., organizational change management and training). These measures may

Figure D: ERP Results (%)

Fail to Realize 50%+ of Benefits	67.5%
Operational Disruption at Go-Live	40%
Executives Unsatisfied	28.5%
Employees Unsatisfied	32.9%

0% 14% 28% 42% 56% 70%

be leading to lower levels of satisfaction and less-than-desirable benefits realization. Factors such as these have a critical effect on the ROI of the ERP investment and should be carefully managed as part of an overall ERP benefits realization plan.
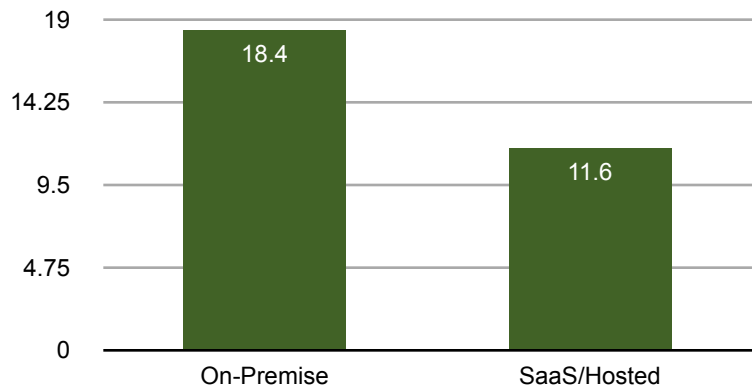
Four: SaaS Implementations Take Less Time Than On-Premise, but Deliver Less Tangible Business Benefits

In addition to broad metrics related to all types of enterprise software implementations, our most recent research also explores differences between on-premise, Software as a Service (SaaS) and hosted solutions. The metrics surrounding SaaS include both subscription-based software options and traditional, single-instance ERP solutions hosted off-site.
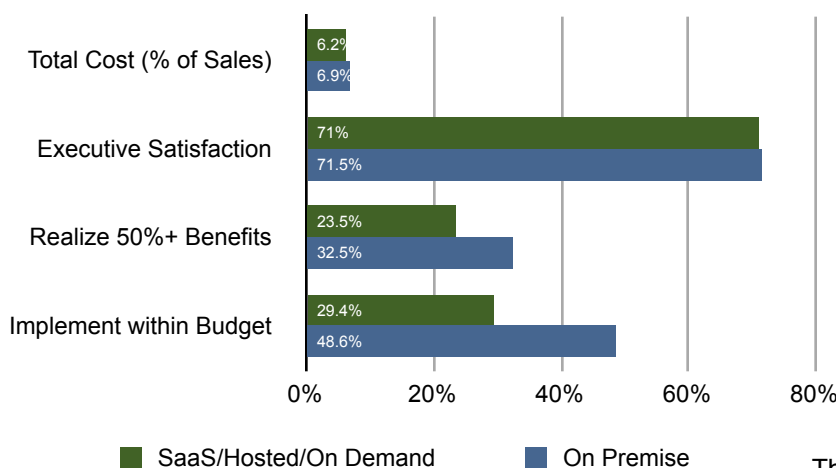
The study reveals that on average, SaaS and hosted solutions are implemented in less time (8.4 months for SaaS vs. 12.4 for on-premise, Figure E), at a lower cost (6.2% vs. 6.9% of annual revenue, Figure F) and at almost the same level of executive satisfaction (71% vs. 71.5%) than traditional on-premise solutions. However, as with any ERP solution, SaaS has its drawbacks. SaaS implementations are less likely to deliver the expected business benefits (23.5% vs. 32.5%) than on-premise solutions. In addition, SaaS implementations are significantly more likely to exceed budget than on-premise initiatives (70.6% vs. 51.4% for other delivery options).

Figure E: Average Implementation Time (Months)

These tradeoffs are attributed to unrealistic implementation expectations. Although SaaS has less software flexibility than on-premise alternatives, organizations may fall prey to SaaS vendor hype and under-

Figure F: SaaS vs. On Premise ERP Results

estimate the time and resources necessary to make the software implementation successful. While SaaS is clearly on a high-growth trajectory, our independent findings reveal that industry hype is misaligned with actual results. SaaS options are more likely to be good fits for smaller and mid-size organizations and for narrow functional scopes, such as CRM, HRM and purchasing. However, SaaS is not as viable for larger, more complex organizations.

These findings will be further explored in forthcoming benchmark data.

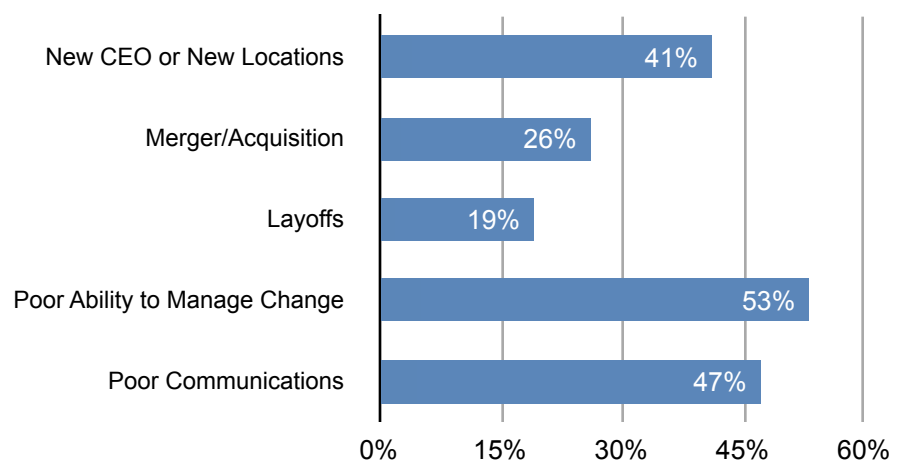# Five: Companies Do Not Effectively Manage the Organizational Changes of ERP

The lack of organizational change management is a critical obstacle in the implementation of ERP solutions within a reasonable timeframe and budget and the realization of measurable business benefits. While this issue has always been a factor in unsatisfactory benefits realization, it is even more pronounced in the last year because of the turbulence, uncertainty, and high degree of change that most companies are experiencing.

The study finds that most organizations are dealing with significant change concurrent with a new ERP system rollout (Figure G). An ERP system rollout alone will impose significant pressures on an organization and its resources.

Throw in other changes such as a new CEO, acquisition of another company, or layoffs, and that change can be the straw that breaks the camel's back.

Over 40% of companies implementing ERP software also are adjusting to either a new CEO or the addition of new office locations. In addition, 26% experience a merger or acquisition around the same time as

Figure G: Companies Experiencing Changes with ERP

Category	Percentage
New CEO or New Locations	41%
Merger/Acquisition	26%
Layoffs	19%
Poor Ability to Manage Change	53%
Poor Communications	47%

their ERP deployment, while 19% go through layoffs (that number is trending upward in more recent data). The magnitude of these changes makes a strong organizational change management program even more imperative.
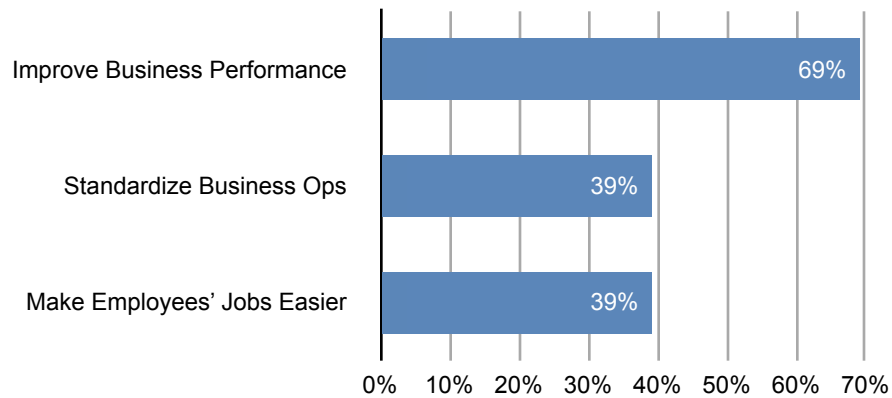
Over 53% of implementing organizations assess their ability to deal with change as fairly poor or very poor. In addition, 47% say communication between management and employees is poor. These types of environments are not conducive to effective ERP implementations. Organizational change management tools, however, help address such barriers to make the rollouts more successful.

In addition, over 60% of organizations suffer from poor visibility of data and poor integration in their old systems. This metric suggests that employees using a new ERP system have strong organizational resistance and steep learning curves. Poor integration between functional areas in the old system was cited by 64% of organizations as a driver for a new system, followed by poor visibility to operational data and reports (62%). These metrics underscore the magnitude of change that implementing a single, integrated enterprise software system such as ERP or CRM entails. An effective organizational change management plan is critical to helping employees understand and leverage the newfound operational visibility in the new system.

Figure H: Companies' ERP Expectations

Despite the organizational challenges outlined above, companies expect their enterprise software systems to deliver real business value. Sixty-nine percent of companies expect their systems to improve business performance (Figure H), while 39% expect the new system to standardize business operations, and 39% expect the new system to make employees' jobs easier. Our experience and research have shown time and again that these goals simply don't happen without effective organizational change management.

Top 10 Traits of Best-in-Class ERP Initiatives

Although the trends are improving in many cases, ERP initiatives still largely fail to deliver meaningful business value at a reasonable implementation cost and duration. Many organizations assume that this success or failure is attributed to the software itself, but our findings indicate that project success is largely due 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 evaluations and 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 is 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 their unique business needs and implement it in a way that does not require extensive customization.

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. **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 the go-live. This is the only way to truly realize the benefit potential and success of ERP software.

4. **Gain commitment from company executives.** Any ERP 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. **Develop a realistic project plan and implementation timeframe.** It may seem obvious that companies don't know their true costs until they develop 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 and time overruns. In addition, many companies in our study failed to recognize that an implementation plan and budget should include non-vendor line items such as process and workflow definition, data migration, and customization of training materials to match unique business processes. Most software vendors do not include these and other activities in their time or cost estimates.

6. **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. Whether

positive or negative, these results must be managed accordingly by a team that includes a strong project manager and other "A-players" from several departments at the company.

7. **Ensure adequate organizational change management and training.** 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. **Limit software customization.** While it may seem an easy choice to "pave the cowpaths" and install new software to run the business the way it has always been run, these customizations can quickly drive up prices and slow down benefits realization. Changes to software source code adds to implementation cost, duration, and risk, so it is important to limit customization to areas that are "must-have" competitive advantages to your organization.

9. **Carefully understand the advantages and disadvantages of multiple software delivery options.** All ERP solutions have strengths, weaknesses, and tradeoffs. Organizations have a wide spectrum of options to choose from including SaaS solutions, on-premise solutions and even hybrid solutions that combine benefits of both. It is important to gain an independent and objective perspective on various options prior to making a final decision.

10. **Leverage independent ERP expertise.** As outlined in our research, ERP selection and implementation initiatives are challenging and require strong expertise. It is often less costly in the long-run to bring in external experts to ensure that your evaluation and implementation goes smoothly. The best-in-class companies leverage third-party expertise to help their internal teams select the right software, implement effectively, and manage organizational change.

Top 10 ERP Predictions for 2010

Based on the above data and the trends we saw in 2009 relative to analysis conducted in previous years, we expect to see ten key trends emerge or continue in the ERP market in 2010:

1. **Diligent focus on ERP software benefits realization and ROI.** Long gone are the days of throwing money at a problem and hoping for the best. CIOs and COOs will continue to face pressure to prove that every dime of investment in ERP systems is justified and generates a solid return on investment. Look for more deliberate spending, more phased rollouts, as-needed license purchases, and hesitancy to invest in more expensive advanced enterprise software modules.

2. **Small business to get back into the ERP software market.** The bright spot in any recovering economy is usually small business (SMBs). As the economy emerges from the recession, SMBs will look for small business software to automate their operations and scale for growth. In addition, large software vendors such as SAP and Oracle will continue to focus on the SMB market to reinvigorate their revenue growth in software license sales.

3. **Increased adoption of software as a service (SaaS) at SMBs.** While SMBs may lead the charge in their small business software investments, they will likely still have difficulty making the necessary investments. Given that tight credit markets will likely continue into the new decade, many SMBs will look to SaaS ERP software to help them minimize up front capital IT costs.

4. **Lots of ERP SaaS talk, but not as much action at large organizations.** Larger companies, on the other hand, are much less likely than their SMB counterparts to commit to SaaS options. As software vendors expand hybrid solutions combining the benefits of SaaS with the flexibility of traditional ERP (e.g., Oracle's On Demand and SAP's Business By Design), larger organizations will continue opting for non-SaaS options to reduce cost and risk while maximizing business benefits in the long-term. These companies will, however, be more inclined to leverage SaaS for some niche functions such as document management systems (DMS), human resource management software (HRM/HCM), product lifecycle management (PLM), and customer relationship management (CRM).

5. **Increasing focus on organizational change management and ERP benefits realization.** As demonstrated by the exponential growth in Panorama's organizational change management practice, companies are allocating much of their ERP software investments to ensure effective implementation and buy-in. The need to more effectively manage organizational and business risk will likely result in a continuation of this trend in 2010.

6. **With ERP software, it's still a buyers' market.** According to our study, 56% of companies plan to replace or upgrade their enterprise software in 2010 (compared to 53% in 2009). Even in the most optimistic scenario, however, overall 2010 enterprise software spending will not return to pre-recession levels. This means ERP software buyers will remain in the driver's seat, which will be reflected in aggressive software pricing and shared benefits implementation models.

7. **Enterprise software risk management.** As CIOs and executive teams must continue to prove the value of their investments, risk management will be the name of the game. Look for more ERP implementations to leverage organizational change management and independent oversight of software vendors to help mitigate business risk.

8. **ERP software vendor consolidation.** Vendor competition was fierce before the recession and is even more so now. Dozens of smaller vendors are starved for cash and unable to fuel R&D and other product innovations without infusions of capital. Add the facts that larger vendors have cash and that some have grown successfully via acquisition to date (e.g., Oracle and Infor), and continued vendor consolidation looks inevitable.

9. **Focus on integration rather than major ERP package enhancements.** Given corporate aversion to risk, companies are going to be less likely to bet on entirely new products or risky upgrades. As a result, vendors are more likely to invest in incremental product enhancements and tighter integration between modules rather than revolutionary changes to their software.

10. **Niches, low-hanging fruit and business value.** Look for companies to be very deliberate about how they invest in enterprise software, the risks they're willing to take, and how they manage implementations. If executives aren't convinced that their enterprise software investments will deliver measurable business value, they won't invest in it. Areas that deliver immediate value will be priorities for the coming year.

Conclusion

As the findings of the **2010 ERP Report** indicate, 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 - or even disastrous - if not managed appropriately. The companies that enjoy successful implementations are those 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.

Panorama Consulting Group offers independent ERP software selection and implementation expertise and tools to 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 across the globe. 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.

Panorama's expertise focuses on three service offerings:

- ERP software selection
- ERP implementation
- ERP organizational change management

More information can be found on its web site, **www.panorama-consulting.com**. Contact Panorama at 303-974-7171 or i**nfo@panorama-consulting.com**.