

P A N O R A M A
CONSULTING SOLUTIONS

2012 ERP Report

A Panorama Consulting Solutions Research Report



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Introduction and Summary

Panorama Consulting Solutions developed the **2012 ERP Report** to investigate trends in ERP software selection, implementation and benefits realization. The report is a summary of the industry's only independent research with the breadth, depth, and objectivity to make meaningful and pragmatic conclusions about ERP software initiatives.

To ensure our findings reflect the current conditions as accurately as possible, polling for the latest edition of the ERP Report was conducted during a recent 12-month period (January to December 2011). The survey was open to all participants via our website at Panorama-Consulting.com.

Organizations represented vary in industry, location, size, goals and needs but all have implemented an ERP system within the past year. In order to conduct a deeper data analysis of responses, we limited the sample size to 246 participants from 64 countries (Figure One). Twenty-nine percent of respondents were from North America and 71-percent were international. Manufacturing, service industries, construction, transportation, communications, wholesale trade, finance, insurance and real estate industries represent 88-percent of the industry distribution of respondents.

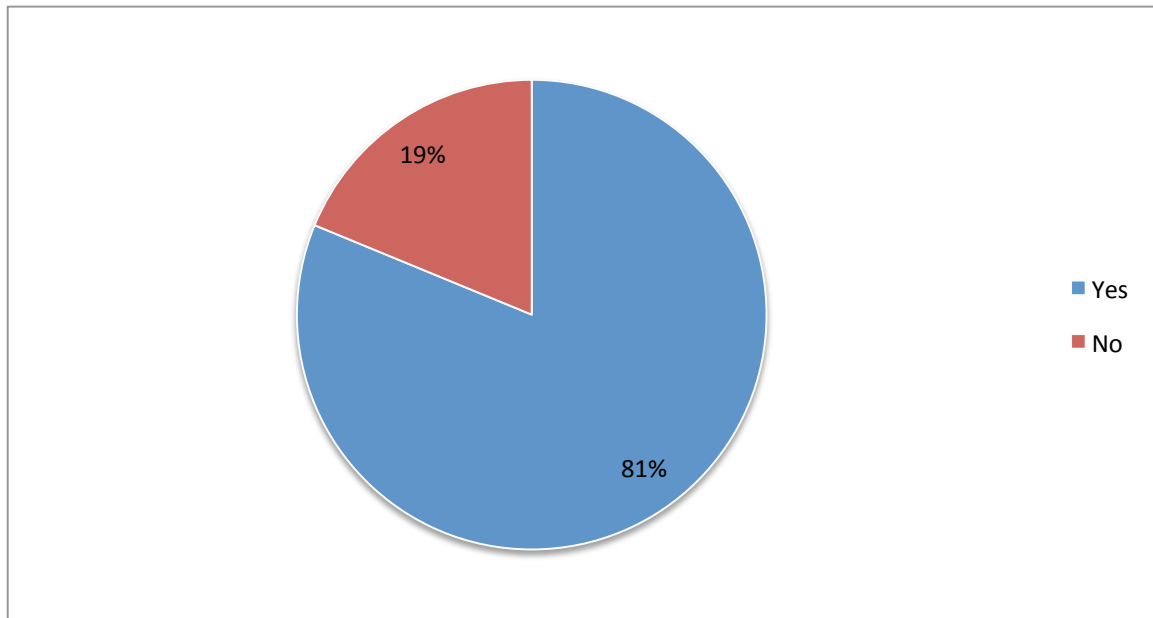


Findings

Satisfaction Levels

There are several key areas Panorama recommends companies focus on prior to moving forward with an ERP implementation project. First is requirement documentation. It is important to gather all critical requirements across all functional areas to reduce the risk of selecting a package that does not fit the needs of your business. According to survey results, 81-percent of respondents are satisfied with their ERP software selection overall (Figure A).

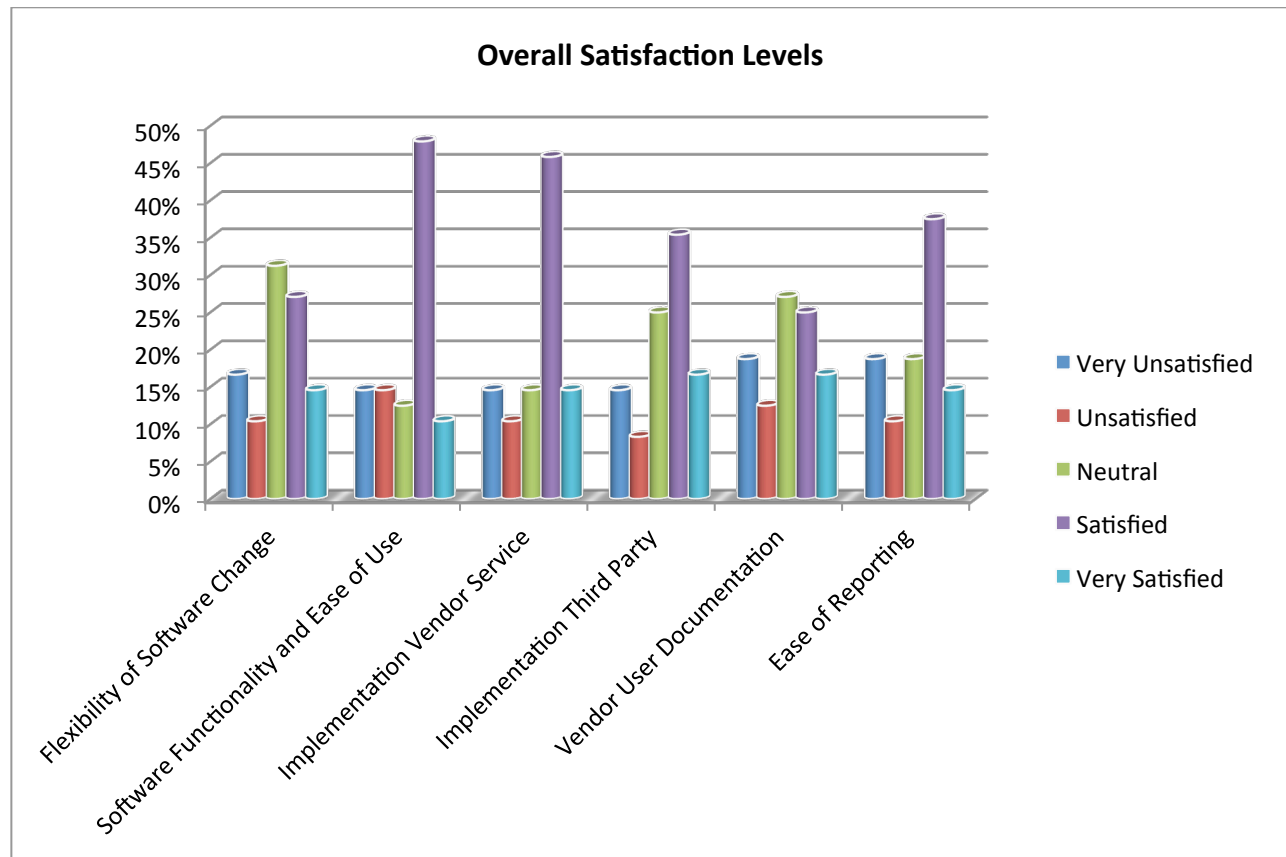
Figure A: Satisfaction with ERP Software Selection



Though this is a positive outcome, it is clear that after the selection is when the real problems come to light in many cases. When asked to score the level of satisfaction of specific ERP functions, there was a low rating across all companies in the flexibility to change the software, the ease of reporting and user documentation provided by the vendor (Figure B). Twenty-nine percent of respondents stated they experienced

challenges within their ERP implementation due to inadequate requirements definition. Therefore, it is important to write clear, concise requirements and understand how the vendor will support the requirements to improve overall customer satisfaction.

Figure B: Satisfaction Level by Specific Functions

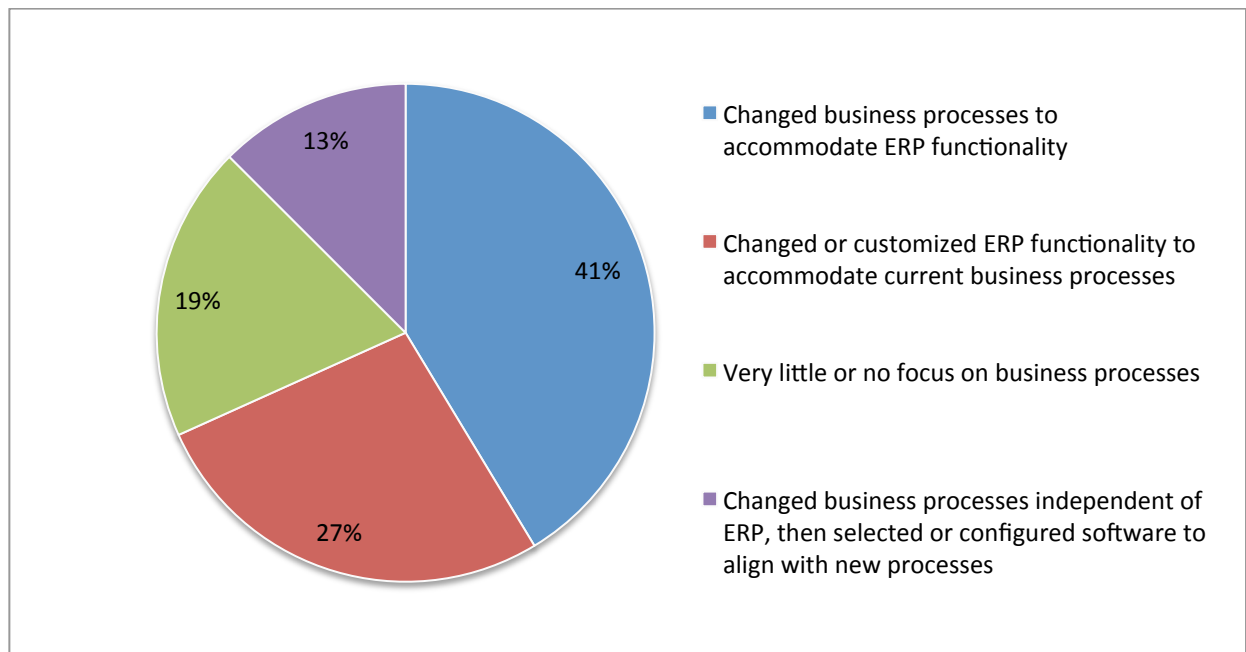


Companies are doing themselves a great disservice if they believe that software selection is the “hard part” and that all the functions and capabilities of the software will instantly be realized if they just choose the right one. The fact of the matter is that most ERP software is robust and customizable and can be adjusted to fit just about any business. It is when the implementation gets going that satisfaction rates (as well as benefits) start to drop.

Business Process Blueprinting

Business process blueprinting is a critical component of any ERP implementation project. Taking the time to document and improve processes provides insight into critical areas of need within a company. It gives organizations the opportunity to design a desired process that will improve business and integrate into a new ERP system. Nearly half (41-percent) of respondents indicated that they changed business processes to accommodate ERP functionality. While it can behoove a company to change non-differentiating processes, Panorama methodology shows that the *software* should be changed to protect any process that provides competitive advantage or differentiation. In addition to identifying these areas, business process blueprinting also can address potential training needs and visibility into significant organizational change management concerns.

Figure C: Business Process Improvement Focus during ERP Implementation

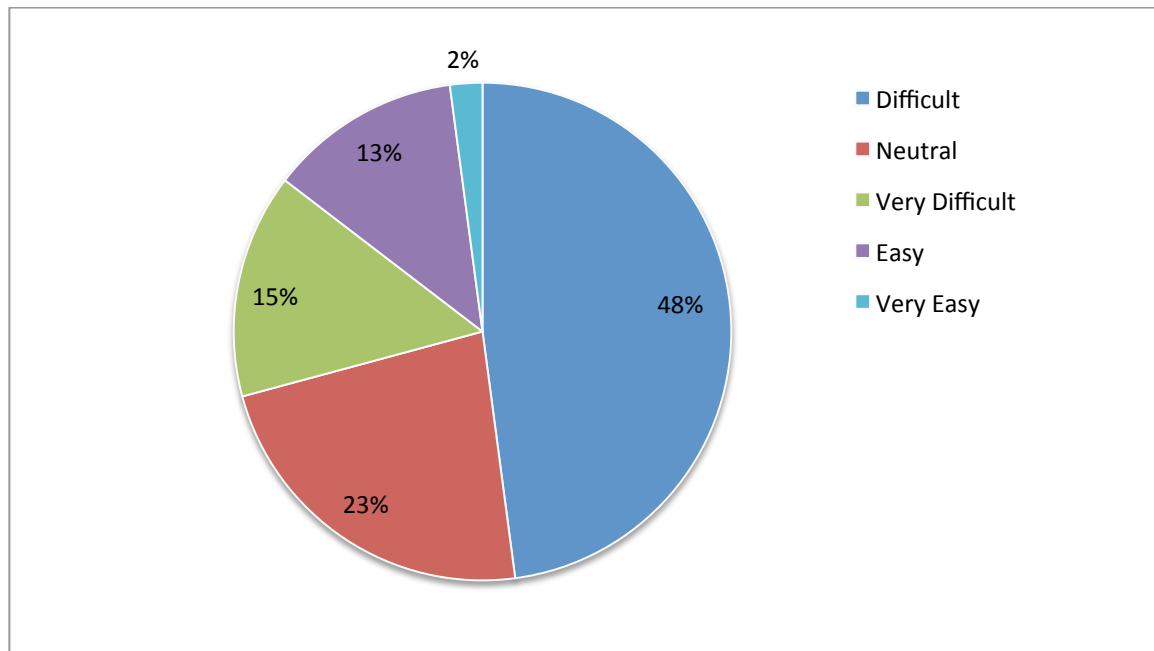


Organizational Change Management

Companies frequently underestimate the importance of organizational change management (OCM) and often do not give it the attention it requires for an ERP implementation. Identifying potential organizational issues during the project planning phase can help companies manage employee transitions appropriately and in a timely manner. Common organizational change challenges are reduction in staff, changes in roles, resistance to moving to a new tool, and training concerns. However, a variety of OCM techniques help a company to identify the challenges and develop plans to manage the changes effectively, including how and when communication will occur. Taking a proactive approach can avoid reactionary actions during an ERP implementation. Reactionary decisions can result in extended project timelines and additional costs.

According to Panorama research, 63-percent of companies experienced difficulty in addressing process and organizational change issues (Figure D). There is no question that companies need to get better at addressing these concerns early in the project to avoid increased costs, timelines and failed implementations.

Figure D: Process and Organizational Change Adjustment



Organizational Change Recommendations

There are several things an organization can do to mitigate significant organizational change management issues. One is business process blueprinting. This identifies areas within an organization that will change and eliminates the element of surprise during implementation. It also helps companies know which roles will change and when to communicate role changes to current employees. The second is targeted training material. Through business process blueprinting an organization can identify what training will need to be developed for users. Training should include both business process and system functionality training. Another critical recommendation is executive buy-in from the top level down. According to Panorama research, 29-percent of survey respondents stated they did not have top-level management commitment. Lack of commitment from key stakeholders can create a large amount of risk to the overall success of an ERP implementation process. However, strong executive sponsorship, proper business process blueprinting and strong, targeted training can go a long way in

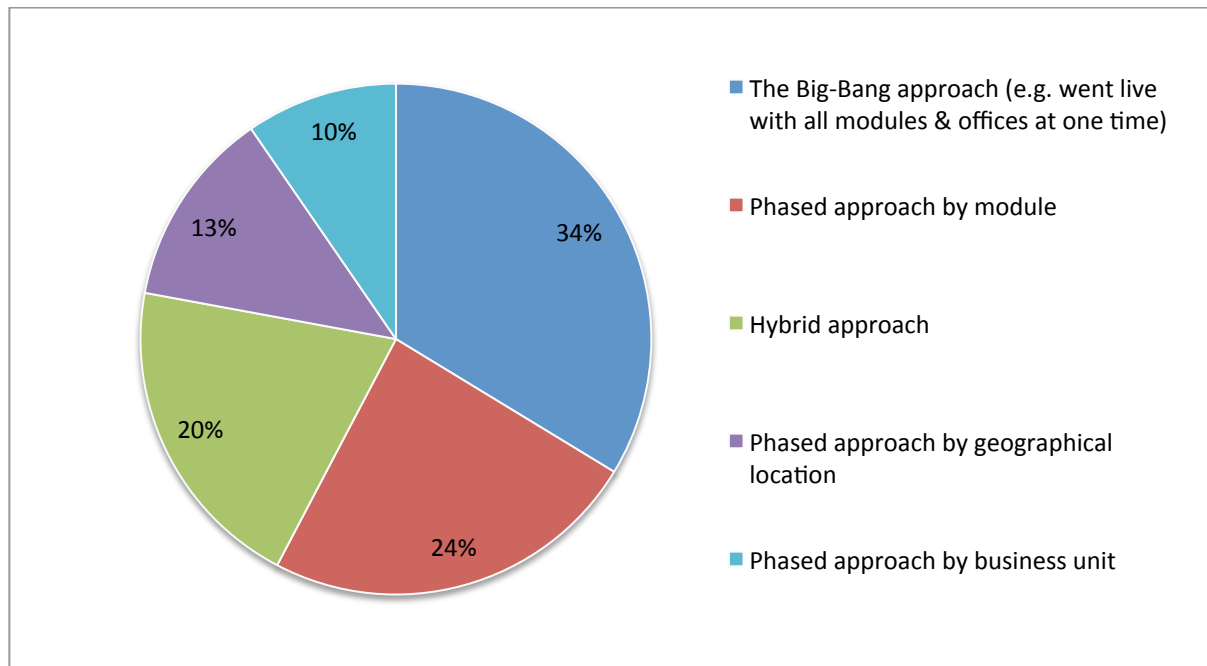
mitigating a lot of the organizational change management issues companies' face during an implementation.

ERP Implementation Approach

One factor that impacts employee buy-in is the determination of how exactly the ERP system will be implemented. Some companies use a 'big bang' approach. The 'big bang' approach implies all modules 'go-live' at the same time in all locations. This approach forces all employees to use the new system with no opportunity to fall back on the old and often results in temporary business disruptions. Other companies use a phased approach in which they implement modules across multiple locations or departments at different times. This can help avoid business disruptions but also may create some resistance to change within departments. And finally, some companies choose to use a hybrid approach (which is when companies use a third-party vendor host a Tier I or Tier ERP system).

According to survey results, 34-percent of companies used a 'big bang' approach when implementing their ERP system. Forty-seven percent used some type of phased approach during their ERP implementation, and 20-percent used a hybrid approach (Figure E). Phased approaches are the most common and provide companies the opportunity to implement gradually across different locations and departments to minimize business disruption and address organizational changes one phase at a time instead of all at once.

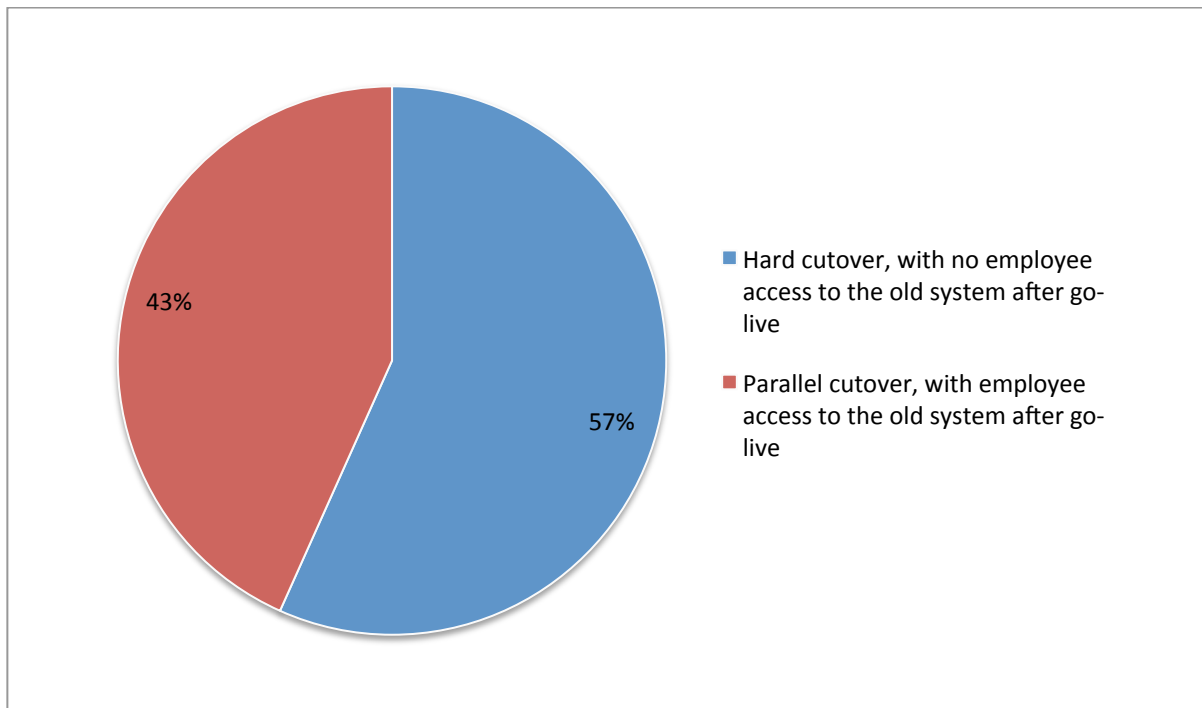
Figure E: ERP Implementation Approach



Software Cutover Approach

Another approach to consider is the software cutover approach. A hard cutover approach provides employees with no access to the old system after 'go-live.' Again, this approach pushes employees into acceptance of the new system, but can also create frustration within the organization. A parallel cutover approach provides employees' access to the old system after 'go-live' but could create issues with resistant employees if they continue to use the old system and refuse to use the new. Survey respondents indicated 57-percent of companies use a hard cutover approach, while 43-percent used a parallel cutover approach (Figure F).

Figure F: ERP Software Cutover Approach



All approaches present change management challenges and require management to take specific actions to minimize disruption to the business and facilitate a successful ERP implementation.

Benefits Realization

Because ERP implementations are costly, it is important that executives understand the financial benefits and time required to realize those benefits. Understanding the benefits often facilitates executive approval for an ERP project. However, if companies do not take time to identify costs and potential cost savings, it is difficult to measure the overall financial impact.

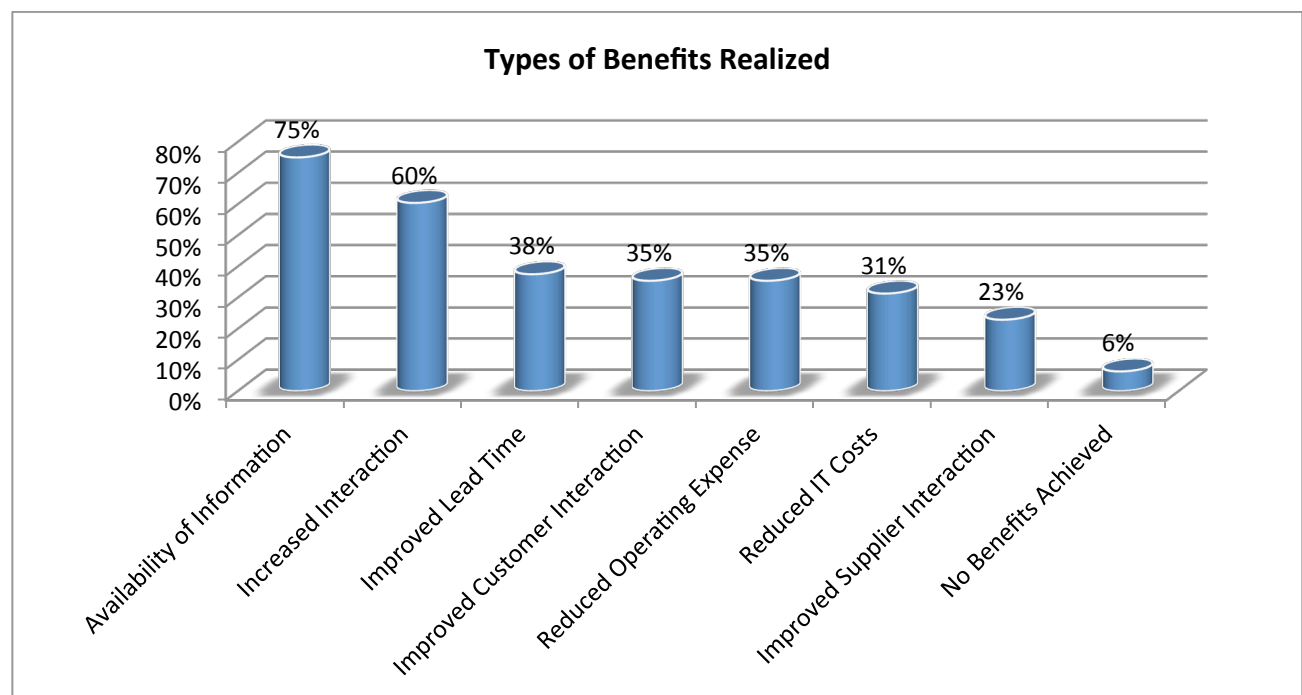
To better identify the overall return on investment, Panorama recommends that companies put together a business case. A business case captures potential cost savings and establishes a baseline that can be measured against to determine

improvement. While organizations want to know when they will realize the total cost of a project, a good organization will capitalize on the ERP system. Not only should a company calculate their breakeven point, but also its overall return on investment. It is important to understand how the project has made the company more profitable over time.

Types of Benefits Realized

There are different types of benefits that can be realized as a result of an ERP implementation project. Some of the common benefits are: improved interaction with customers and suppliers; reduced labor costs; and improved lead times (Figure G).

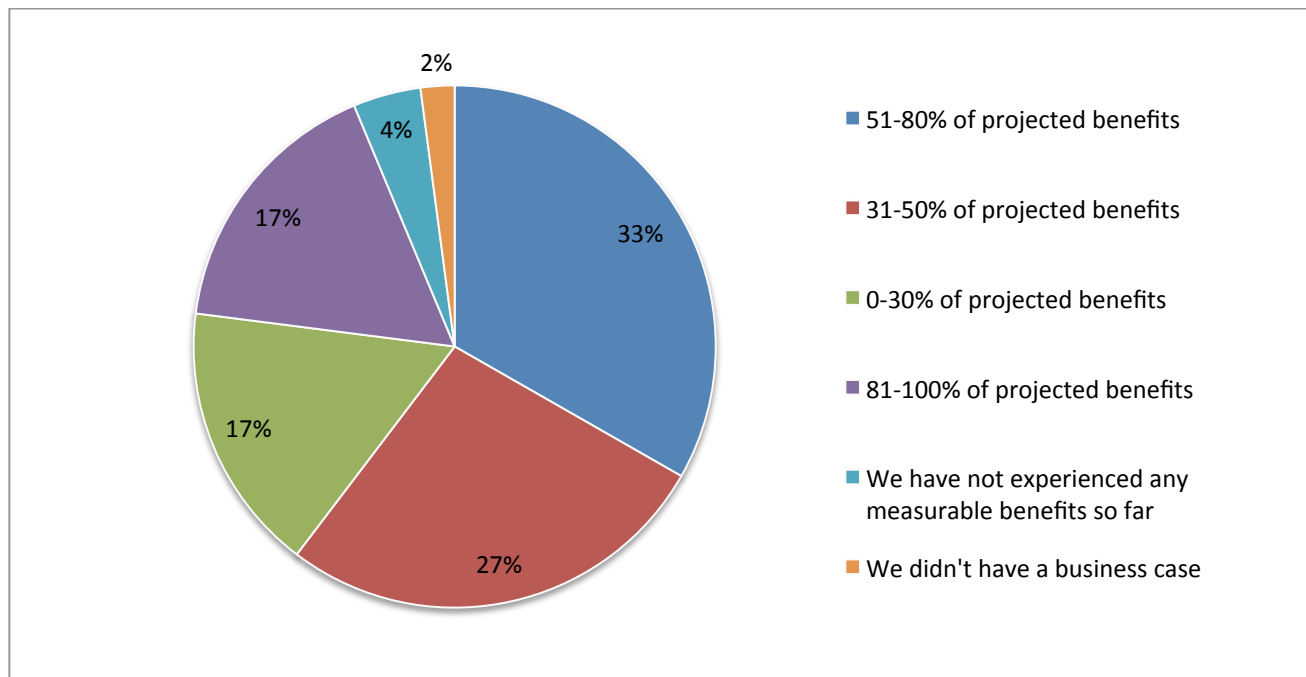
Figure G: Type of Benefits Realized



According to survey respondents, the two benefits realized consistently across organizations are the availability of information, faster response times and increased interaction across the organization as a result of streamlining processes. Overall, 94-

percent of survey responders realized some benefits. Fifty percent realized greater than 50-percent of benefits (Figure H), an eight-percent improvement from findings in the **2011 ERP Report** (available online at www.Panorama-Consulting.com). Only four-percent of respondents stated that they did not realize any benefits. This reinforces the need to do a business case to identify and quantify costs and improvements throughout the project.

Figure H: Percent of Benefits Realized



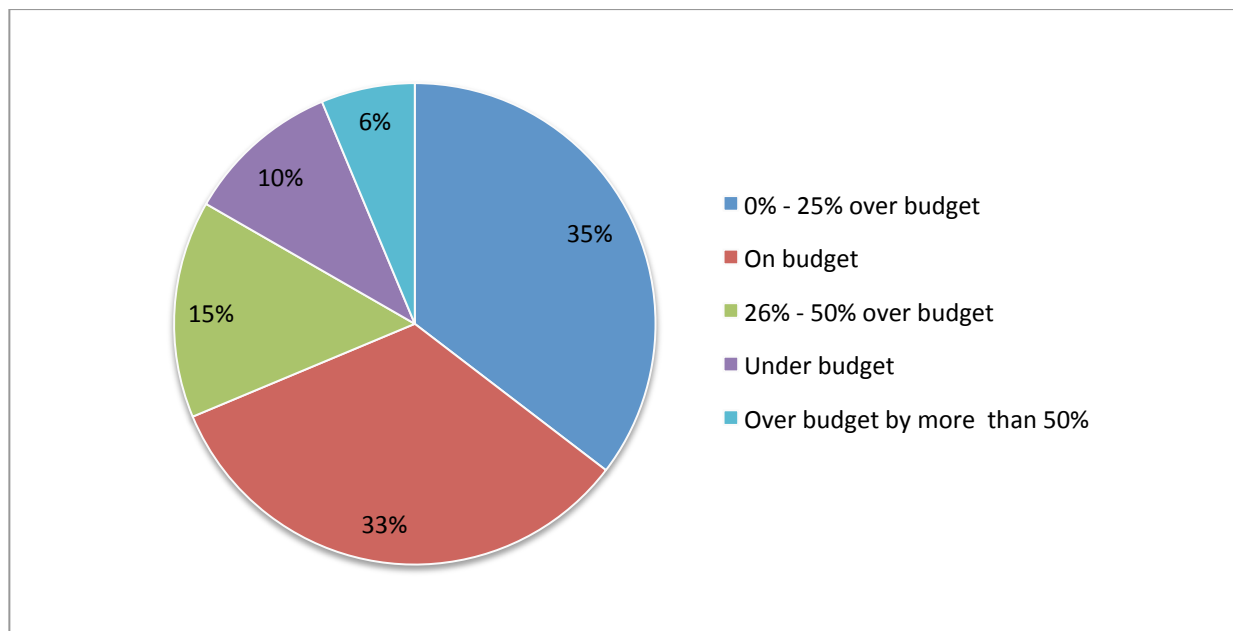
Costs Associated with ERP Projects

There are many considerations that factor into total cost of ownership. Many companies underestimate these costs and ultimately go over budget as a result. Understanding all of the items that make up total cost of ownership will help guide organizations into making better financial projections. The basic costs that factor into ERP implementations such as license and maintenance costs, technical implementation costs, upgrade costs, travel costs and hardware costs. However, there are more that

need to be considered when setting up a budget. Other-cost related items include customization and integration costs, organizational change costs, business process blueprinting costs, training costs and project governance costs. If these costs are not considered, it can result in unexpected budget increases, extended timelines and angry management.

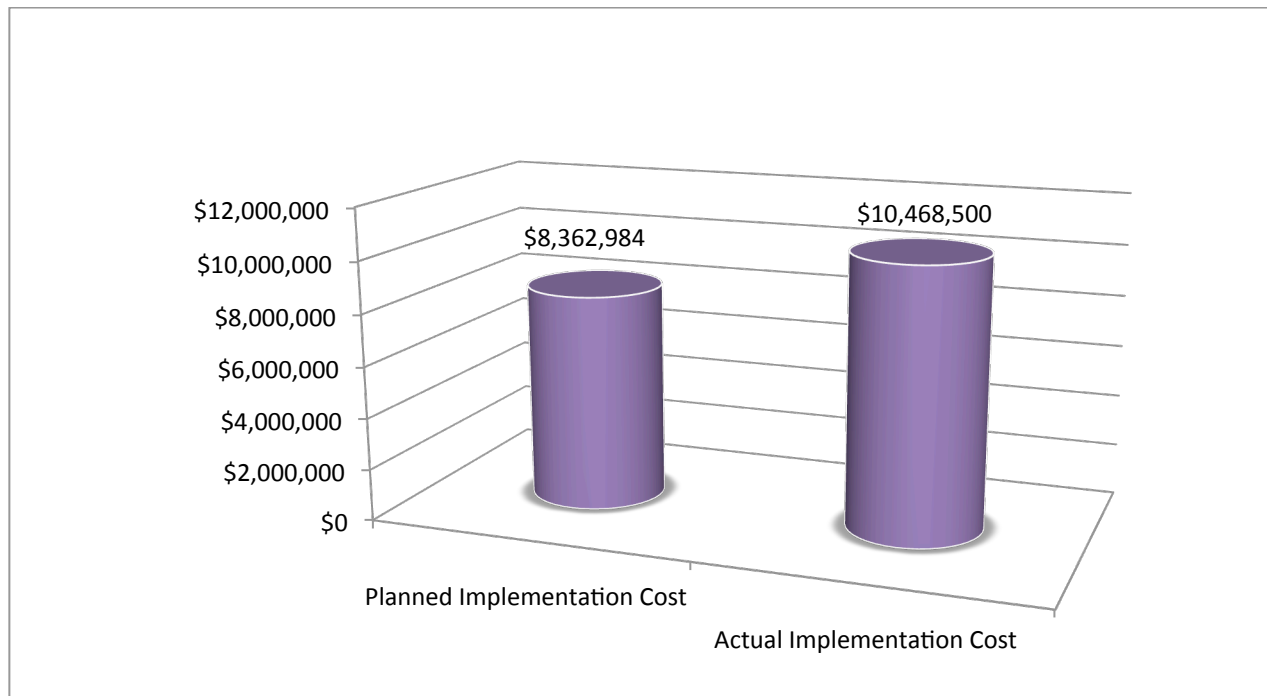
According to Panorama research, implementation costs run over budget 56-percent of the time (Figure I).

Figure I: Implementation Budget Costs



This is an improvement from data analyzed in Panorama's **2011 ERP Report** that indicated 74-percent of projects exceeded budget constraints. In general, projects run approximately \$2 million dollars over budget, with 2011 projects averaging about \$10.5 million dollars (Figure J). Top reasons cited for budget overruns are that the initial project scope was expanded and unanticipated technical or organizational change management issues resulted in additional costs.

Figure J: Planned ERP Costs v. Actual ERP Costs



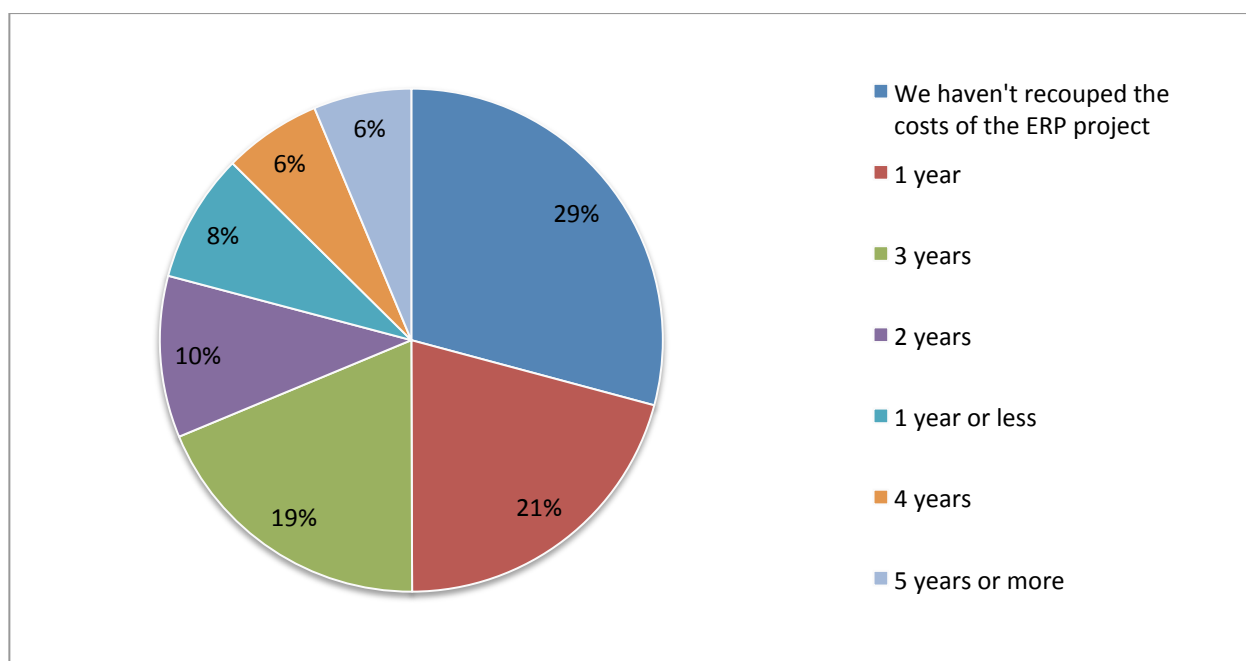
The delta between planned cost and actual cost is 25-percent, which indicates a large gap between estimation and reality. Third-party consultants like Panorama help companies understand the true costs of implementation and benefits realization in order to determine realistic budgets from the start. (Note: The increase in overall project costs from past years is primarily due to the larger size of respondent companies.)

Recouped Costs

In Panorama's experience, organizations often underestimate the time it will take to realize benefits and recoup project costs. According to survey data, 29-percent of companies state they haven't recouped the costs of their ERP project (Figure K). This relates back to the business case. Companies cannot identify where, or when, they will recoup costs if they don't identify them at the beginning of the project. It becomes difficult to manage and report. This can also be the result of unrealistic project expectations in regards to budget and timeline. If proper expectations and planning do

not happen at project onset, it can lead to failed ERP implementations and zero costs recouped. However, 71-percent of companies have recouped their costs (Figure I). On average, these companies recouped their costs between one to years after go-live. Nineteen-percent of companies recouped costs three years after go-live. These numbers are reasonable and what is expected with a large ERP implementation. It is important to set these expectations with executives and project team members to avoid premature disappointment and frustration.

Figure K: Timeline to Recoup Costs



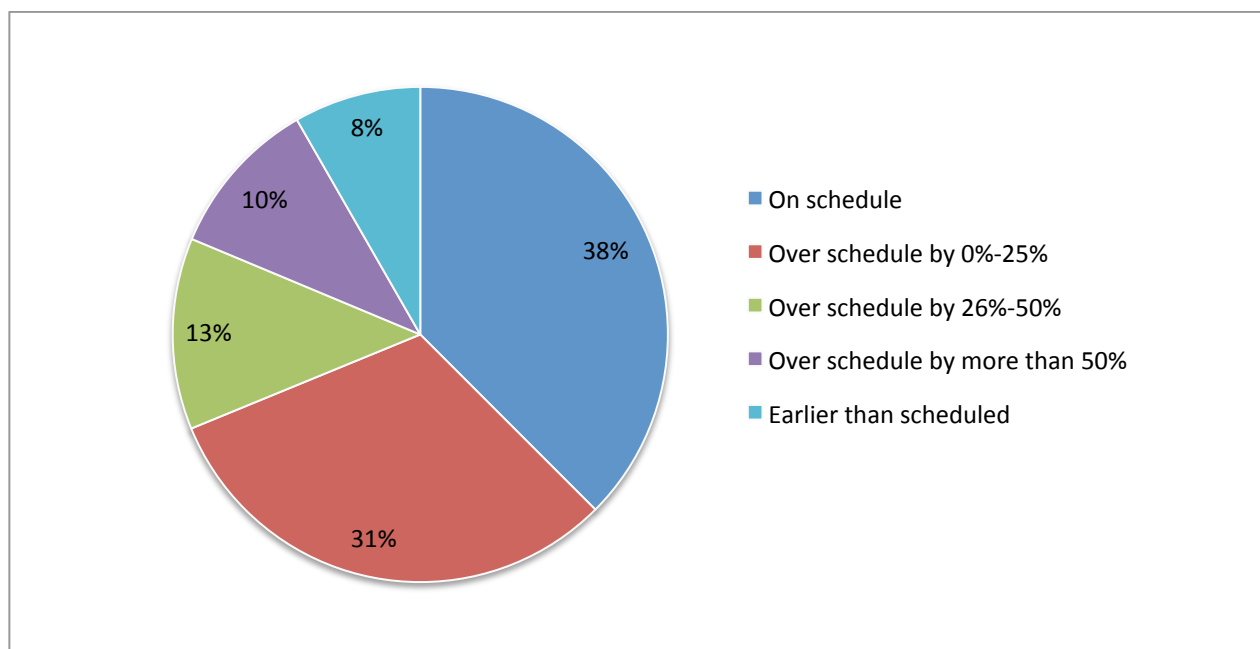
ERP Project Timeline

It's difficult to know how long an ERP implementation will take; however, based on in-depth research, we are able to predict average project timelines based on company size and ERP vendor. There are many factors that can impact project timelines such as a change in project scope, unplanned organizational change management issues, proper training issues and resource constraints. However, all of the items listed are issues that

can be addressed during implementation planning to reduce the risks of a project running over its expected timeline. On average, ERP implementation projects take about 16 months to complete.

Based on recent survey data, 38-percent of projects run on schedule (Figure L). Fifty-four percent of projects run over schedule, and 23-percent run over schedule by 25-percent. This is an improvement over last year when data showed that 61-percent of projects took longer than expected. Companies are doing more planning and identifying some of the risks earlier in the planning phase to mitigate some of the disruptions and consequently result in additional costs.

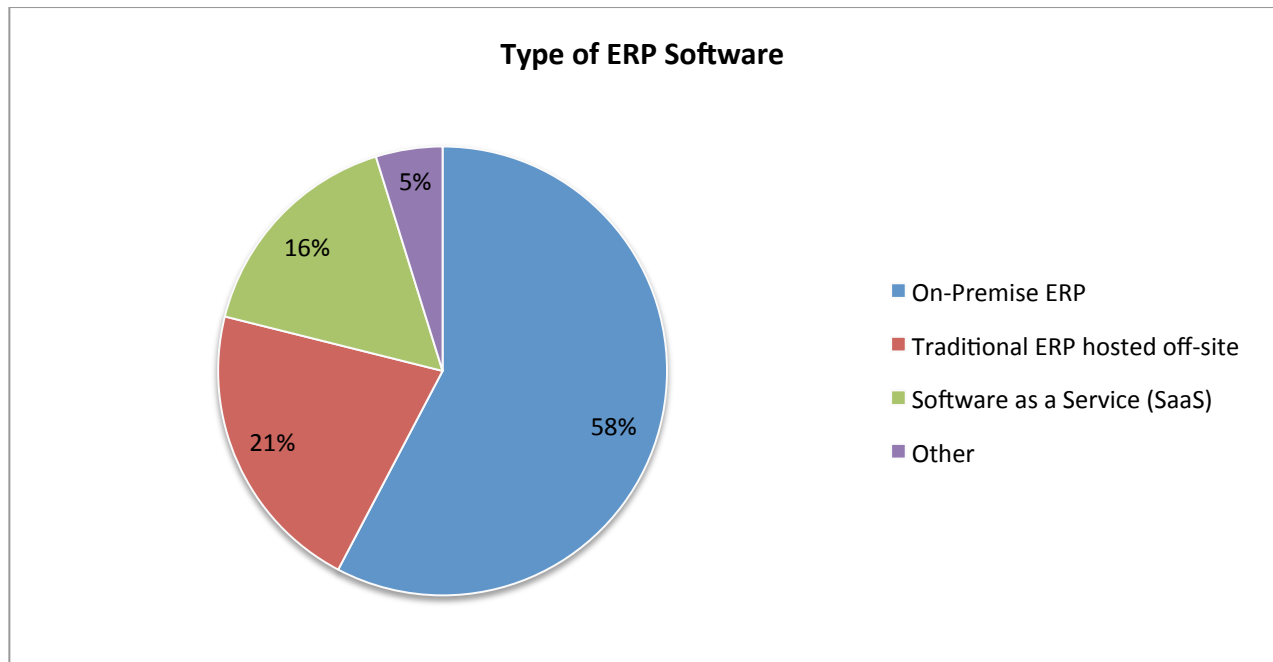
Figure L: ERP Implementation Project Timeline



Deployment and Customization

Fifty-eight-percent of companies are implementing an on-premise ERP system and 21-percent a traditional ERP system hosted off-site (Figure N).

Figure N: Type of ERP Software



Nearly two out of five (39-percent) of companies use third-party build-ons, which frequently leads to increased costs and complexity (Figure O).

Figure O: Third Party Build-Ons

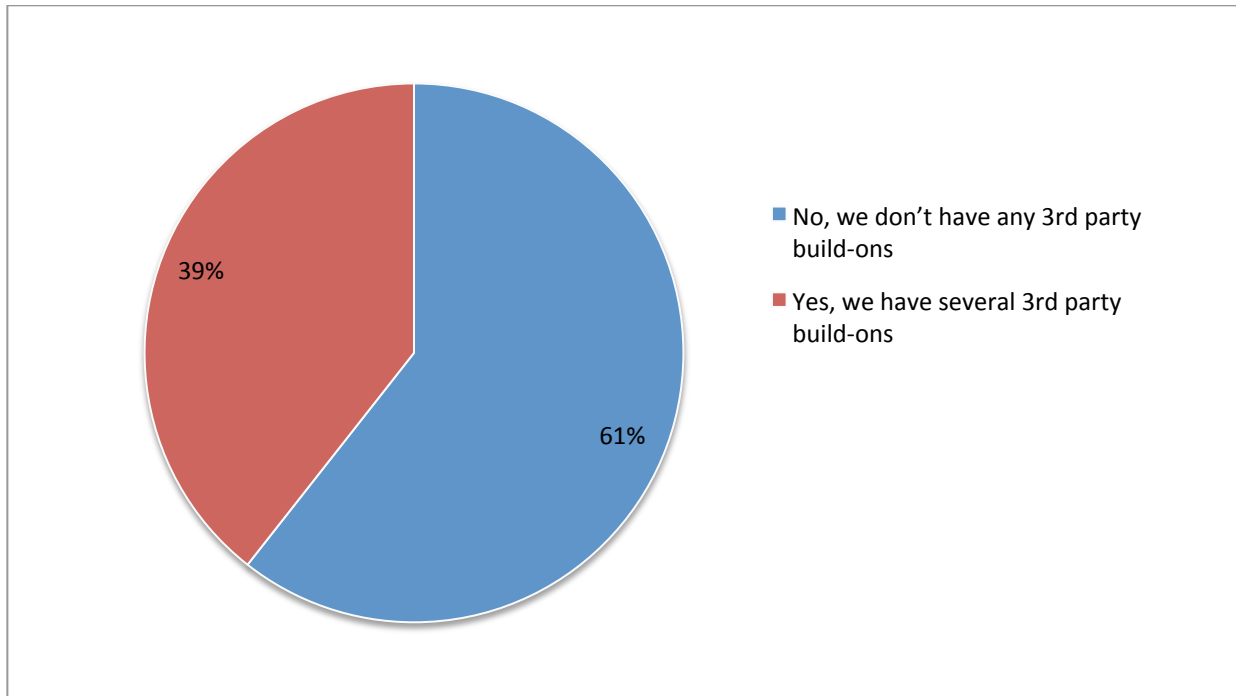
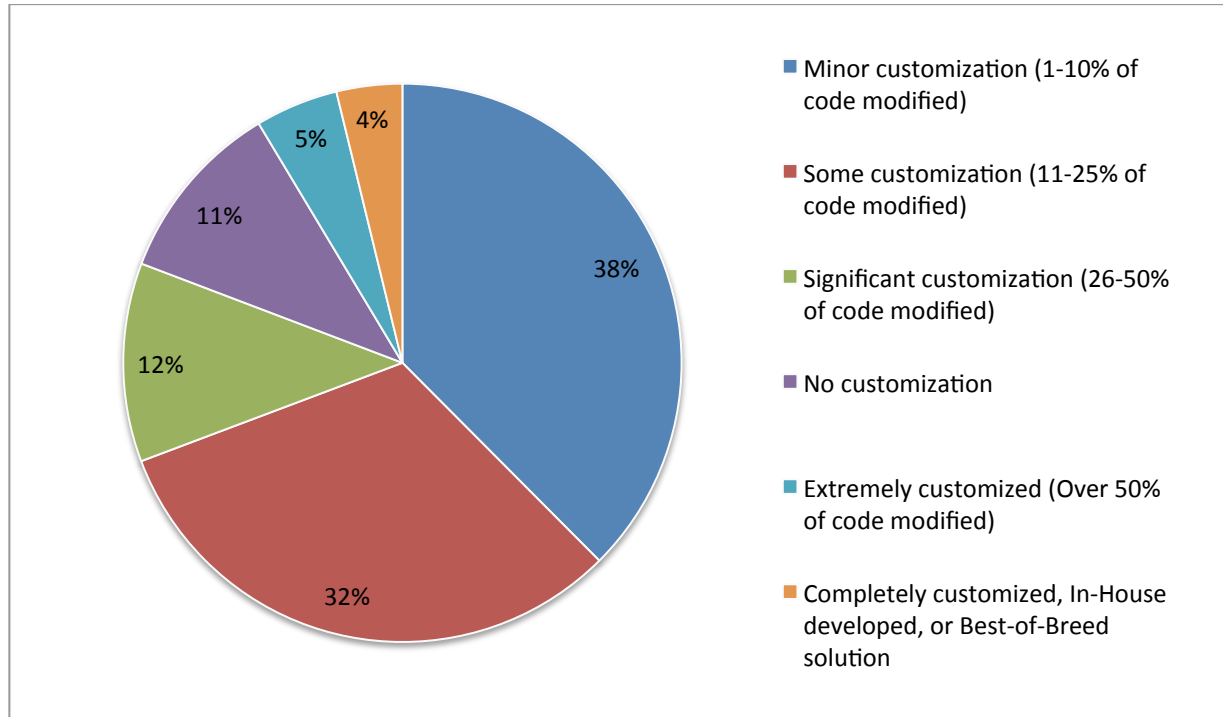


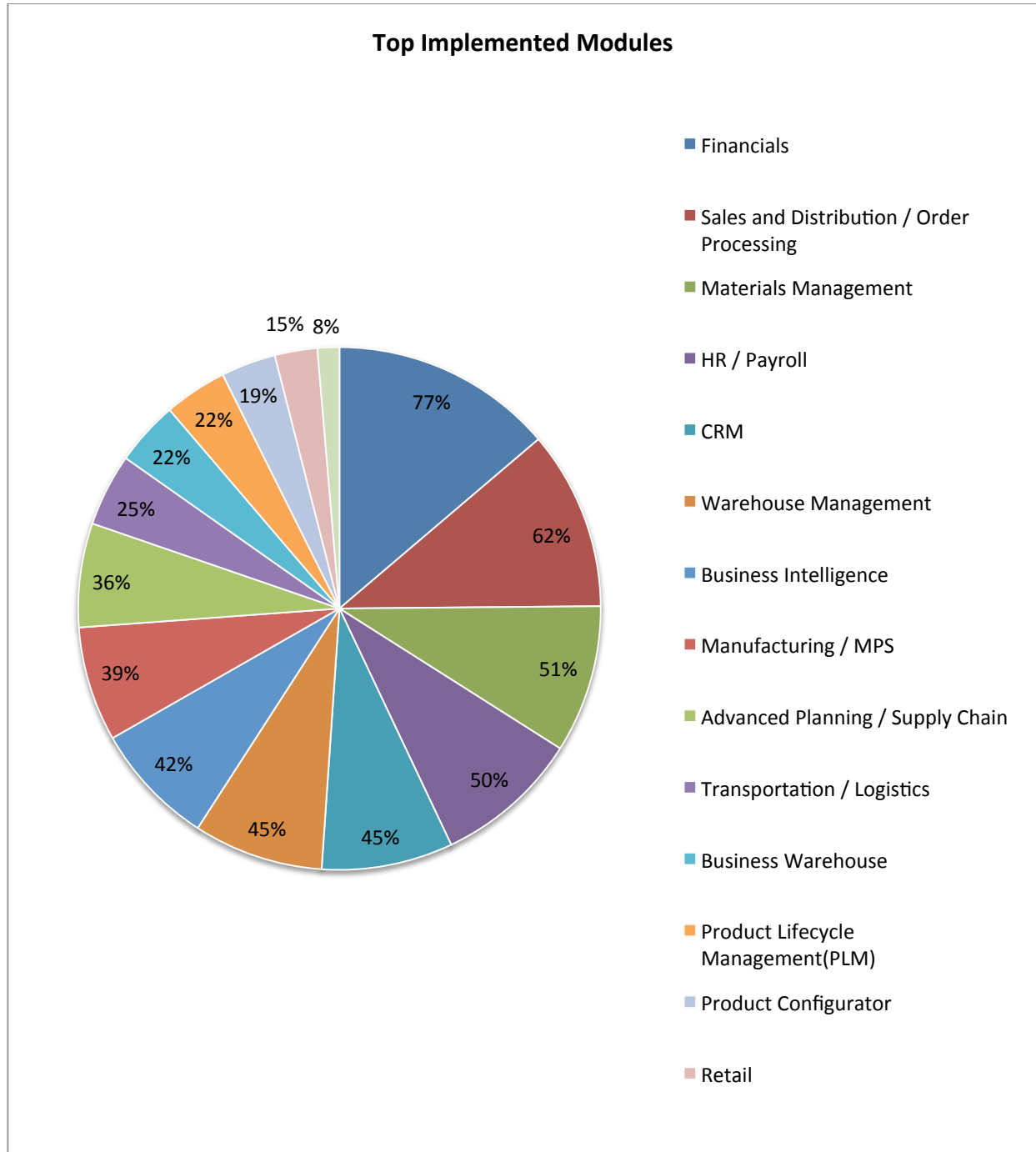
Figure P: Level of ERP Customization



Customization rose in nearly every metric from previous findings. The costs of customization often come as a shock to implementing companies. Those who perform their due diligence of blueprinting and requirements gathering on the front end, however, will frequently find that the software chosen is a much better fit and requires less customization (and build-ons) to start providing benefits.

Compared to previous years' data, the top implemented ERP modules continue to be financials, sales distribution, order processing, materials management and human resources (Figure Q). Companies must assess the areas within their business that will give a competitive edge in their market and select the appropriate modules that will improve business processes and increase profitability.

Figure Q: Top Implemented Modules



Why do Companies Choose to Implement ERP?

In today's challenging economic environment, companies are faced with having to cut costs and improve efficiency within their organizations. Enterprise resource planning (ERP) has become a solution many companies use to integrate internal and external management information across organizations. The purpose is to simplify and expedite information flow to all areas within a business to improve efficiencies. According to Panorama research, more than six out of 10 companies (63.8-percent) implement ERP to improve business performance. Other reasons for implementation include better integration of systems across multiple locations and standardization of global business operations. Though the end result of any ERP implementation project is to reduce costs and improve time spent on business functions; ERP implementations are lengthy by nature and require due diligence in accurate the documentation of requirements, business process blueprinting and organizational change management. Based on our research and our experience with hundreds of ERP implementations, we find that it is critical to understand all of these areas to not only successfully complete an ERP implementation project within budget and timeline constraints but also realize the business and financial benefits associated with the project. Independent consulting firms like Panorama Consulting Solutions help organizations implement ERP quickly and effectively to achieve the best possible returns from their ERP investments.

Conclusion

The data in Panorama's 2012 ERP Report presents a bit of a mixed bag of results. On one hand, it is incredibly gratifying to see that more than four out of five (81-percent) of respondents are satisfied with their ERP software, and that the amount of both implementation budget overruns and schedule overruns have improved over the last year. This shows that organizations are taking more steps to meet implementation goals quicker and are working to stop the absurd cost and duration overages we have seen in years past.

On the other hand, satisfaction levels drop precipitously once a company begins the "nitty gritty" of implementation. While this is due to a number of likely scenarios, including under-staffing, poor understanding of implementation processes, lack of both user and executive buy-in and more, it is of note that nearly half of respondents (41-percent) indicate that they changed their business processes to accommodate ERP functionality. When not managed or conducted with great insight and sensitivity, these types of changes can throw a wrench into a company's entire operations. This finding goes hand in hand with the fact that an astonishing two-thirds (63-percent) of companies had difficulty in addressing both process and organizational change issues.

One of Panorama's key tenets is that the ERP software chosen must be changed to fit business processes that provide key differentiation to a company . . . not the other way around. (It is typically advisable, however, to change processes that are more standardized and don't provide competitive advantage, including human resources and accounting functions, to fit the software selected.) Further, the business processes identified must be the "to be" (or desired) processes, not the "as is" processes. The only way to define how the business should run is through business blueprinting and process mapping, but nearly one out of five (19-percent) of respondents indicated that they had very little or no focus on business processes. Only 13-percent of respondents followed



best practices and changed business processes independent of their ERP selection and then selected or configured software to align with these processes.

So while the software selection may provide a good product, and the budget and timeline may be under control, companies who are implementing software to fit old business processes or, worse, changing those processes to fit the software, will likely suffer from organizational backlash and decreased business benefits as time goes on.

Panorama is an independent ERP consulting firm that helps organizations in a variety of industries achieve return on their ERP investments by aiding in software selection, planning implementations, performing implementation assessments or IV&Vs, salvaging failed implementations, and providing expert witness analysis and testimony when needed. Find out more about our service offerings at www.Panorama-Consulting.com or call (720) 515-1377 to schedule a time to discuss your situation with our staff of ERP experts.

About Panorama Consulting Solutions

Panorama Consulting Solutions is an IT consulting firm specializing in the enterprise resource planning (ERP) market for mid- to large-sized organizations around the world. Independent of affiliation, Panorama facilitates the evaluation and selection of ERP software, manages ERP implementation, and expedites all related organizational change to ensure that each of its clients realize the full business benefits of their ERP systems.

More information can be found on its website, Panorama-Consulting.com and Twitter feed, [Twitter.com/PanoramaERP](https://twitter.com/PanoramaERP).

