THE 2020 ERP REPORT

PANORAMA CONSULTING GROUP

INTRODUCTION

2020 ERP REPORT

Every year, Panorama analyzes industry trends to determine the most important success factors for organizations desiring more than just a technology implementation.

Panorama's *2020 ERP Report* provides valuable insights for organizations considering, or in the midst of, an ERP implementation or digital business transformation.

The report investigates ERP trends across industries, organization sizes and geographic locations. It summarizes Panorama's independent research into organizations' selection and implementation decisions and their project results.

While the report contains data from 2019, Panorama expects the trends we've identified to continue into 2020.

The findings from this year's report point to one important concept: **Replacing outdated technology helps organizations achieve significant business benefits when they seek organizational change management guidance**.

Legacy systems and other outdated technology are becoming increasingly burdensome as we move into the post-digital era. As a result, more organizations are replacing their old systems with modern ERP systems and are gaining competitive advantage.

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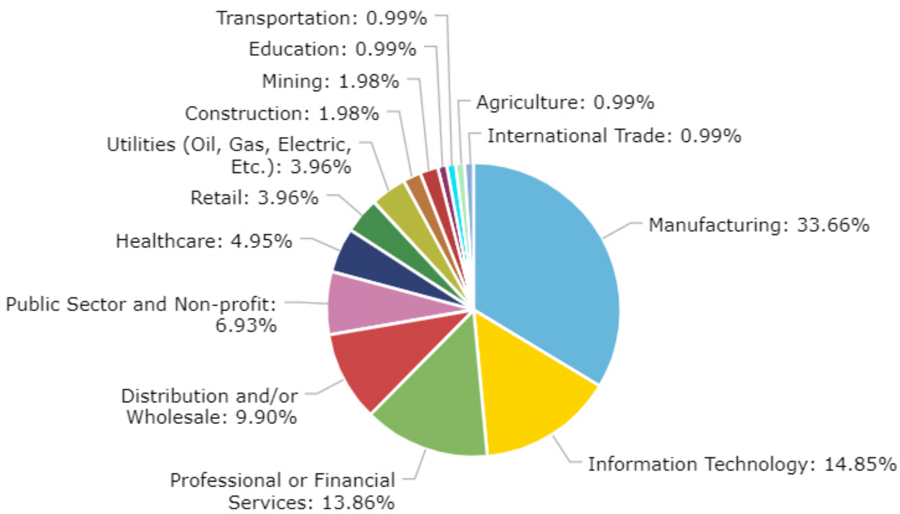
RESPONDENT OVERVIEW

Data Collection Timeframe: June to December 2019
Number of Respondents: 181
Average Annual Revenue: $1.9 billion
Average Number of Employees: 7,243
Average Number of Software Licenses Purchased: 482
Percentage of Multinational Organizations: 48%
Percentage of Organizations That Have Completed Implementation: 47%
Average Time Since Go-live: 8 months

INDUSTRY BREAKDOWN



2019 LOOK BACK

NOTABLE ACQUISITIONS

JANUARY
Microsoft acquired **Citus Data**, a startup specializing in a commercial version of the open-source database, PostgreSQL.

JUNE
Oracle acquired **Oxygen Systems**, a provider of software for the professional services industry.

JUNE
EQT Partners acquired **Acumatica** to complement its 2015 acquisition of another strong ERP vendor, **IFS**.

JULY
IBM acquired **Red Hat**, an open-source enterprise software provider.

AUGUST
Salesforce acquired **Tableau**, a self-serve analytics and data visualization company.

AUGUST
Microsoft acquired **PromoteIQ**, a retail-tech company.

AUGUST
Salesforce acquired the field service software company, **ClickSoftware**.

SEPTEMBER
Microsoft acquired the cloud migration specialist, **Movere**.

OCTOBER
Oracle acquired **CrowdTwist**, a cloud-native customer loyalty solution.

NOVEMBER
Workday acquired **Scout RFP**, a startup that built a cloud-based office procurement system.

2019 NOTABLE FAILURES

- **Revlon's failed SAP implementation**
- **Worth & Co.'s lawsuit against Oracle**
- **LeasePlan's failed SAP implementation**
- **Hertz's lawsuit against Accenture**

2019 LOOK BACK

OTHER ERP NEWS

- Microsoft Azure was selected as an SAP preferred partner to ease customers' transition to SAP S/4HANA and the SAP Cloud Platform.

- Infor Healthcare customers now have access to Amazon Business, where they can drive spend management with thousands of suppliers.

- Oracle Communications' released a new cloud native deployment option for Billing and Revenue Management, giving companies the ability to embrace 5G, IoT and future digital business models.

- SAP and Accenture co-developed a new cloud-based solution for utilities companies, called SAP Cloud for Utilities.

- Infor announced the general availability of its Infor Coleman AI Platform for embedded machine learning models.

ERP SELECTION & IMPLEMENTATION

ERP SOLUTIONS

Potential buyers of ERP software have hundreds of systems to choose from. In fact, we track more than 250 systems in our internal ERP vendor database to help us provide data to clients.

Many of these ERP vendors provide a wide range of capabilities and have industry-standard business processes built into their software. For example, many vendors have strong reporting capabilities that ensure data consistency across departments and enable real-time data insights.

With so many functional products on the market, organizations often have a difficult time selecting the right system. This section of the report provides ERP selection advice and analyzes the selection decisions for a variety of organizations.

UNDERSTANDING THE ERP VENDOR LANDSCAPE

Panorama categorizes ERP systems into Tiers based on factors such as target organization size, vendor revenue, target number of users and other factors, such as functional complexity:

TIER I	These systems are designed for enterprises with more than $750 million in annual revenue. Most enterprises of this size are complex, either due to complex operational processes or complexity in their entity structure and consolidation needs. Tier I applications address multiple industries and scalability.	Example: SAP S/4 HANA, Oracle Cloud Apps, Infor M3, Infor LN
UPPER TIER II	These systems typically serve small to midsized organizations with $250 million to $750 million in annual revenue. Organizations of this size may encompass multiple industries and multiple business units.	Example: Microsoft Dynamics 365 for Finance and Operations, IFS, Sage Enterprise Management
LOWER TIER II	These systems typically serve small to midsized organizations with $10 million to $250 million in annual revenue. These organizations usually represent only one industry and have a single entity to manage.	Example: Infor CloudSuite Industrial, Infor CloudSuite Distribution, NetSuite, abas, IQMS, Plex, Microsoft Dynamics 365 Business Central, SYSPRO, Acumatica
TIER III	There are hundreds of software providers in this tier serving mostly smaller organizations. However, there are also some very robust point solutions with niche functionality that are often used to supplement a larger ERP system.	Example: Sage ERP 100, Sage ERP 300, Aptean, ECI, ASC

THE CONSOLIDATION OF THE ERP INDUSTRY

As IFS and Acumatica come under common ownership to form synergies while remaining mostly independent, we are reminded of all the other acquisitions that have recently happened in the ERP industry. The synergies various ERP vendors form with each other are typically unique.

In addition to the private equity firm acquisition of Acumatica, IFS announced partnerships with Microsoft and Tata Consultancy Services, which will help expand their footprint. Oracle and NetSuite continue to gain benefits from their merger. NetSuite customers have gained advanced applications to enhance their system functionality, and Oracle has improved their Saas offerings.

Most mergers and acquisitions within the ERP market are about reaching new markets and enhancing cloud technology. In 2020, we expect to see many more of these types of acquisitions.

ERP SELECTION DECISIONS

Many companies we work with have a futuristic outlook, so they are looking for an ERP vendor that does, as well. When selecting an ERP system for both current and future goals, it's important for organizations to consider what functionality they will need within the next five years.

With a clearly defined digital strategy and an understanding of business goals, organizations can determine if a particular vendor would be a good choice in the long term. For example, is the vendor moving in the direction of trends like AI (Artificial Intelligence) and IoT (Internet of Things), or do they not even have these ideas on their product roadmap?

Organizations with a long-term digital strategy that involves rapid growth and innovation often look to large ERP vendors, like SAP, Oracle and other Tier I providers. One advantage large vendors have over smaller vendors is other applications in their portfolio complement their main ERP system. This may be an AI solution that can analyze a massive amount of data, or an IoT solution that assists in the efficient picking and packing of products.

Tier I vendors SAP and Infor are leaders in the practical use of AI on the shop floor. They're making AI more accessible, and they're giving tangible evidence of how to use AI with workflow automation and business intelligence.

ERP SELECTION DECISIONS (CONTINUED)

For example, IoT sensors and other devices can integrate with manufacturing execution system data to generate automated alerts and workflows for corrective action if data is outside defined tolerances.

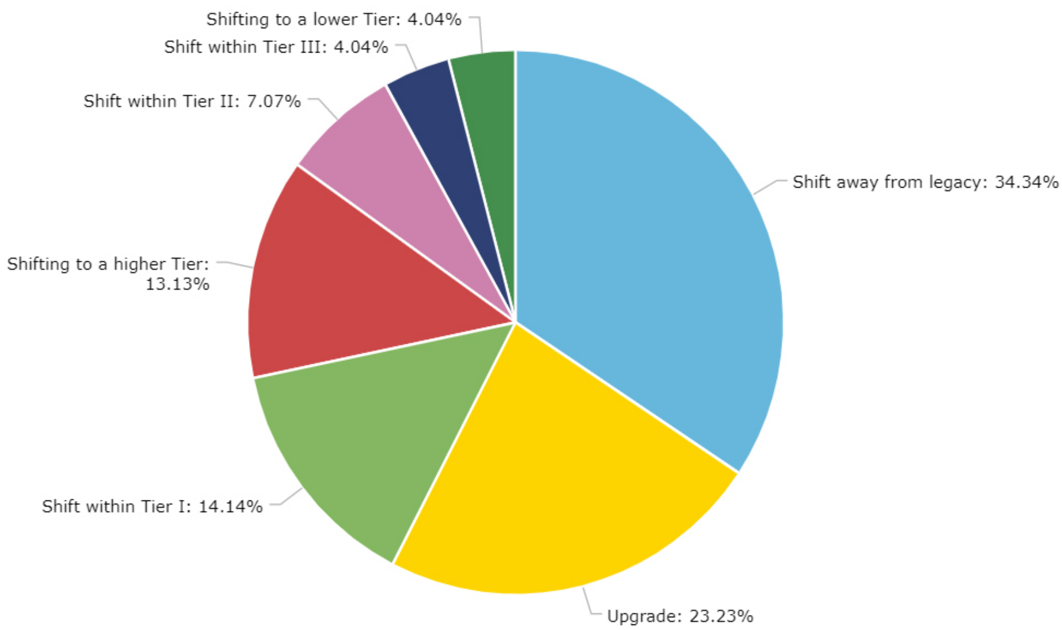
In addition, machine learning can develop an understanding of shop floor equipment and help monitor production and safety more efficiently. Large organizations using legacy systems often move to Tier I ERP systems. While this is a significant change, it can be successfully achieved with the right guidance.

Homegrown systems are still very prevalent with 34% of respondents moving away from legacy systems. Last year, only 14% of organizations were moving away from legacy systems.

COMMON SELECTION SCENERIOS

As organizations grow, they need a system that can scale to meet their needs and support complex operations. Sometimes, these organizations simply need a software upgrade. Other times, they need to completely replace their old system because it is a legacy system, or it is a poor fit for their business.

ERP SOFTWARE SELECTION DECISIONS



SHIFTING AWAY FROM LEGACY SOFTWARE

Homegrown systems are still very prevalent with 35% of respondents moving away from legacy systems. Last year, only 14% of organizations were moving away from legacy systems.

In today's competitive business environment, more organizations are finding they have no choice but to implement a modern system if they want to keep pace with their competitors.

Legacy systems fall short in many areas, but one of the most important areas is advanced analytics. Legacy systems are unable to integrate and analyze large amounts of data.

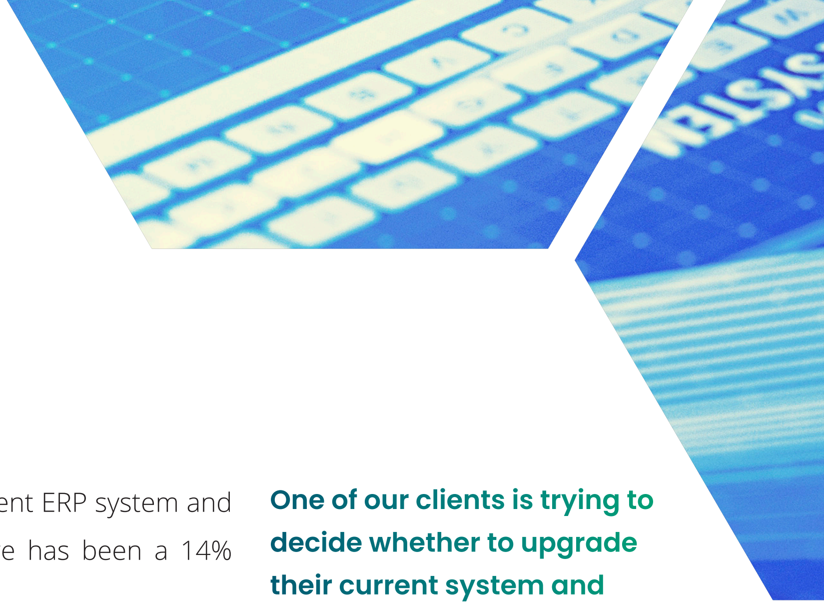
If organizations want to build competitive advantage, they must have access to real-time data insights. These data insights are especially important when it comes to improving the customer experience or optimizing a supply chain.

For example, when inventory is managed through a legacy system, it is not always accurate and may not integrate with other systems. This causes a multitude of issues:

- It is difficult to confirm and schedule orders when there is no simple way to determine if there is enough inventory on hand to complete the order.
- It can cause supply chain issues as buyers can't determine when to re-order inventory since they don't know how much inventory they currently have.
- Assigning inventory to jobs and tracking lot numbers throughout the production process becomes manual and time-consuming.

Modern ERP systems have many advanced capabilities that provide organizations with actionable analytics and enable them to make business decisions that optimize inventory management and increase customer satisfaction.

One of our clients uses a homegrown system for their supply chain management and another for quality control. Their sales and order management are done manually through a combination of "tribal knowledge" and Excel spreadsheets. With the acquisition of a new division, and goals to greatly increase revenue, they are at the decision point to implement a new ERP system.



UPGRADING

Many organizations are deciding to keep their current ERP system and upgrade it. However, compared to last year, there has been a 14% decrease in organizations that are upgrading.

While upgrades tend to be less expensive and less time-consuming than full ERP implementations, this is not always the case. For example, if an organization has heavily customized its ERP system, it may be difficult or impossible to upgrade.

Another reason organizations may choose not to upgrade is because they associate their current vendor with their operational problems, and they don't think an upgrade will make a difference.

One of our clients is trying to decide whether to upgrade their current system and implement it in their newly acquired division or select an entirely new system to implement throughout all divisions. We are conducting requirements gathering sessions to understand the company's current state and their needs going forward.

We have found that this belief is often a misconception. The software is not usually responsible for organizations' pain points. Instead, a lack of business process management and organizational change management is often to blame.

In fact, when organizations upgrade their ERP system – while also focusing on change management and business process management – they often experience immediate business improvements. This is because most ERP vendors make several enhancements throughout any given year, so if an organization is even just a year behind on upgrades, it may be missing out on key functionality that addresses its pain points.

Whether shifting from Tier III to Tier II, Tier II to Tier I, or from Tier III to Tier I, 13% of organizations in our study are moving to a higher tier ERP system.

SHIFTING TO ANOTHER TIER I

Compared to last year, 10% more organizations are shifting from one Tier I system to another.

While SAP, Oracle, Microsoft and Infor products are comparable in terms of basic functionality, it's their advanced functionality that often sets them apart. For example, advanced warehousing functionality may differ between vendors in terms of complexity or user experience.

As the ERP market becomes more competitive, many Tier I vendors are shifting their marketing to be more oriented to specific industry verticals. While these vendors are a good fit for a variety of industries, they are especially appealing to the industries and verticals they target.

Here are two questions we ask clients that are considering a move from one Tier I system to another:

1. Is there another product from the same ERP vendor that can address your needs?

If an organization finds that most of its operational problems lie with the ERP software rather than their people or processes, then it may want to consider whether their current vendor has other viable solutions. This can be a wise choice because the vendor may be able to provide migration credit and other financial incentives to stay in their family of products. Also, the implementation of a sister product from the same vendor can be less risky and costly.

2. Can your company handle the risk of a Tier I ERP implementation?

Tier I systems are complex and robust with differing data structures. It's important to secure adequate resources and expertise as well as strong project management, clearly defined business processes and effective change management. This is essential for addressing the significant differences between the old and new software solution and related business processes.

SHIFTING TO A HIGHER TIER

Whether shifting from Tier III to Tier II, Tier II to Tier I, or from Tier III to Tier I, 13% of organizations in our study are moving to a higher tier ERP system.

This is an 11% decrease from last year, which may be due to the fact that more organizations in our study were originally using Tier I systems or were using legacy systems (which don't technically fall into any tier).

The organizations that did move to a higher tier likely did so for similar reasons as the organizations moving away from legacy systems: data insights, customer experience, competitive advantage, etc.

While organizations preparing for growth are likely to move to a higher tier, many organizations that have already experienced significant growth often shift to a higher tier, as well. Tier I and Tier II systems are better able to scale to support global operations when compared to Tier III systems.

ERP consultants are helpful in all phases of ERP selection, but they are especially essential in the Analyze phase. They can analyze RFPs based on your requirements and determine what percentage of requirements each vendor can handle out-of-the-box. In addition, they can provide a five-year total cost of ownership analysis for each vendor and deployment model.

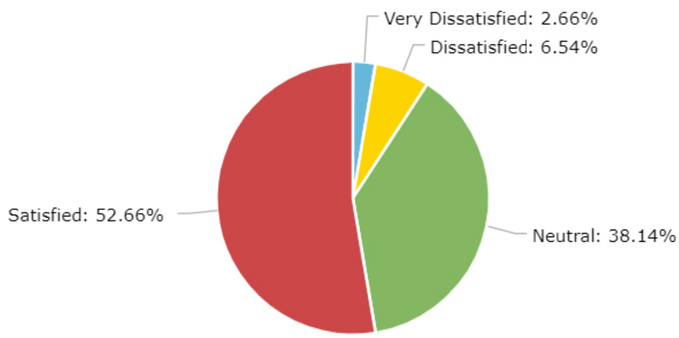
ERP SYSTEM SATISFACTION

While many companies implement ERP systems with the intent of improving business processes, they often end up with an ERP solution that replicates their old system's inefficiencies. In our experience, inefficiency is a leading causing of ERP system dissatisfaction.

When clients ask us for software selection guidance, we always recommend that they look for opportunities for process improvement before evaluating systems. This is essential because a new system will not automatically improve business processes – not even if an organization is moving from a legacy system to a modern ERP system.

Once organizations have improved their processes, they should invite vendors for on-site discovery, allowing the same amount of time for each of their top vendors to understand their requirements.

It appears that many organizations are focusing on process improvement and requirements definition since most of the organizations in our study are satisfied with their choice of ERP system. This is consistent with last year's findings, where 66% were satisfied.



SELECT THE RIGHT SYSTEM IN 4 PHASES

1. PLAN

During this phase, organizations should define the scope of the selection. In other words, what business units, functional areas and locations will be using the new software? This is also the time to secure buy-in from stakeholders and designate process owners and subject matter experts, as well as build a core team. It's also important to define project goals and deliverables during this time.

2. DISCOVER

This is when organizations should conduct requirements gathering workshops, so they can understand pain points within their current business processes. Requirements should be captured at a level of detail consistent with the organization's complexity. Process mapping and process improvement are essential activities during requirements gathering workshops.

3. ANALYZE

If a business is highly complex, it will want to send a request for information (RFI) to the vendors on their long list before sending a request for proposal (RFP) to their top choices. The organization should then analyze RFP responses and write demo scripts. Once vendors have presented their demos, it's important to analyze the demo scores both cross-functionally and broken down by functional area.

4. SELECT

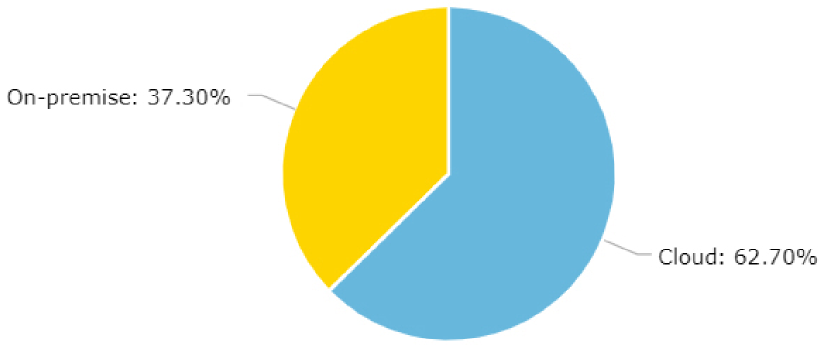
This is when organizations should conduct a total cost of ownership analysis, paying close attention to the hidden costs that many organizations overlook. Once organizations understand the costs, they can negotiate with ERP vendors to achieve lower software and service costs. During this time, organizations need a solid understanding of the scope of work and what activities they will be responsible for versus what the vendor is responsible for.

THE CLOUD

The cloud refers to software hosted in datacenters with providers managing the platform. This software is accessed over the Internet, instead of locally within a computer on which software is installed.

CLOUD VS. ON-PREMISE ERP SOFTWARE

TYPE OF ERP SOFTWARE



More than half of organizations are selecting cloud software instead of on-premise software.

Cloud software is, by nature, hosted in the cloud and can either be deployed in a hosted model or SaaS (Software as a Service) model. For example, both Microsoft D365 ERP applications have been re-developed in cloud (Azure) technology and can be deployed and licensed in a variety of ways. Some organizations purchase D365 applications as a perpetual license - a one-time purchase of licenses that an organization owns in perpetuity. Other organizations prefer a SaaS model as it more closely resembles a leasing method of payment.

On-premise software can also be purchased as a perpetual license, and it can be hosted internally or externally. Most legacy systems are run on-premise (i.e., in the organization's own data center), and the thought of not only moving to a new system but also a new type of infrastructure (the cloud) can be daunting to organizations replacing those legacy systems.

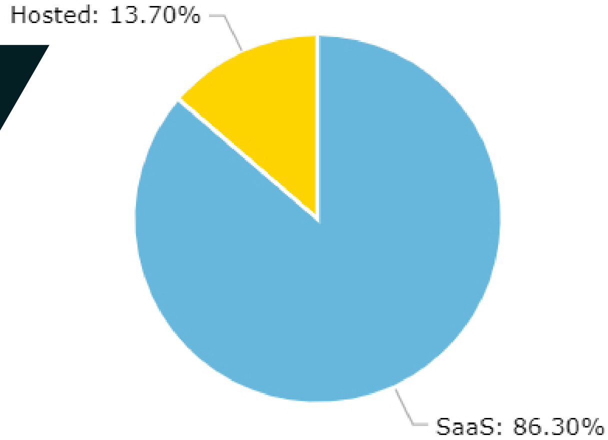
We advise clients in these situations to carefully weigh their options and understand their business requirements as many cloud ERP systems are stronger in some functional areas than others.

We saw many organizations transition to the cloud in 2019. In fact, many mid-sized manufacturers that are running aging legacy ERP systems are making the move to cloud ERP systems and finding a better total cost of ownership. While vendors vary greatly in their cloud model offering, the cloud is generally cost-effective for organizations looking to reduce implementation costs.

DEPLOYMENT MODELS

Panorama found that nearly 90% of companies that selected a cloud based ERP system, opted for a SaaS model over a hosted model.

ERP DEPLOYMENT MODELS

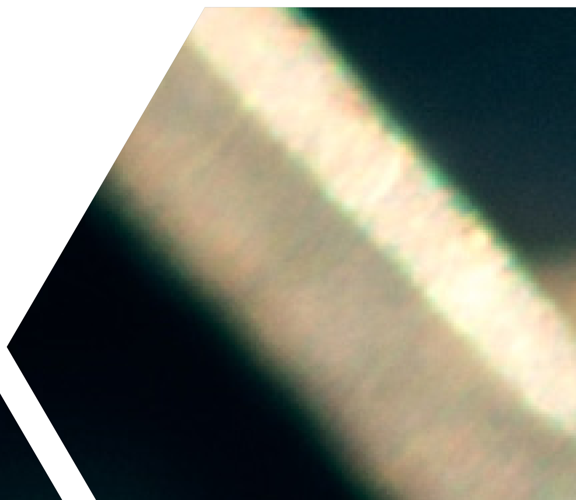


Organizations must weigh the benefits and costs of different digital strategies as hosted/managed and SaaS models have tradeoffs that may or may not align with a particular strategy.

The relative ease of use of SaaS software is one benefit that attracts organizations. SaaS software is entirely managed by the vendor, which means updates are automatic. This translates to lower IT maintenance costs.

However, one of the drawbacks of SaaS is that vendor updates can create changes to process flows creating the need for continual training and process documentation updates. Another disadvantage is that organizations have limited ability to enhance the software themselves – other than by making suggestions in an online community.

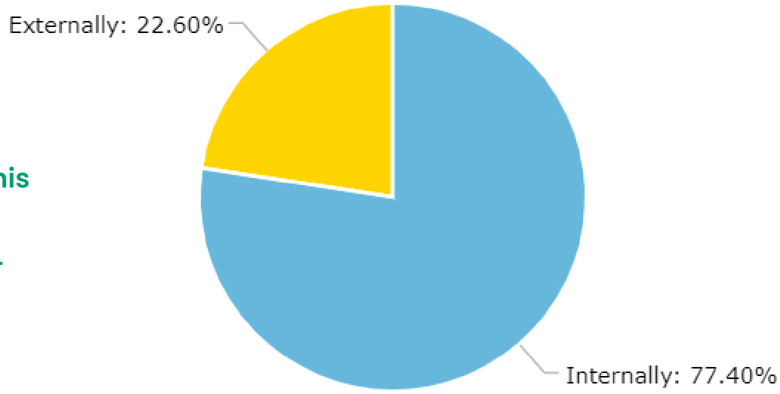
Some vendors, like Syspro, do not offer a SaaS model but just a hosted model and an on-premise option. Other vendors, like Workday, only provide SaaS deployment. Workday has been able to gain significant market share lately – not just due to its recent acquisition of e-sourcing solution, Scout RFP, but also due to the growing popularity of HCM functionality, in general.



HOSTING OPTIONS

Many of the organizations selecting on-premise software have a lack of knowledge about cloud offerings. This explains why so many are deciding against external hosting of their on-premise software.

ERP HOSTING OPTIONS

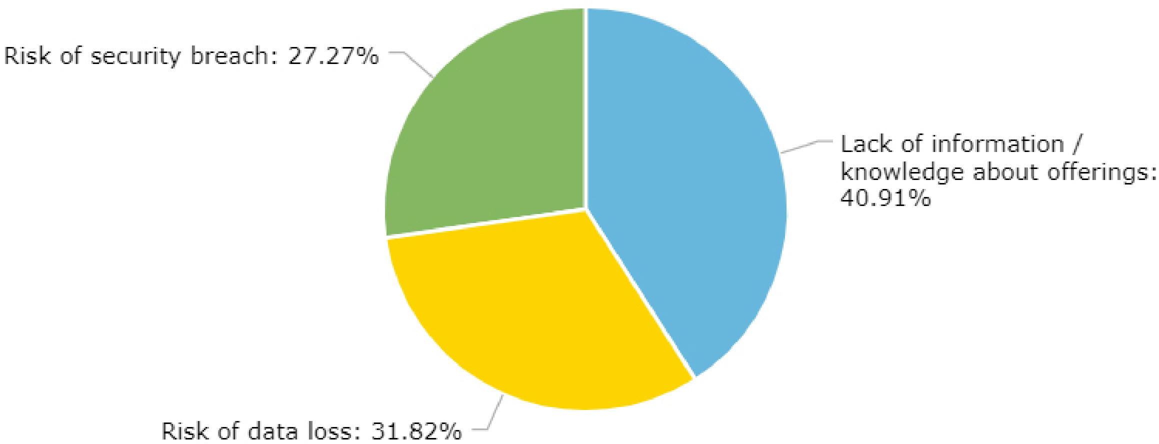


REASONS FOR NOT CHOOSING CLOUD ERP

Among those organizations that are not choosing cloud ERP, the most common reason is "Lack of information or knowledge about offerings." This is consistent with last year. Cloud ERP is relatively new in the ERP industry, and organizations are still learning about its benefits and limitations.

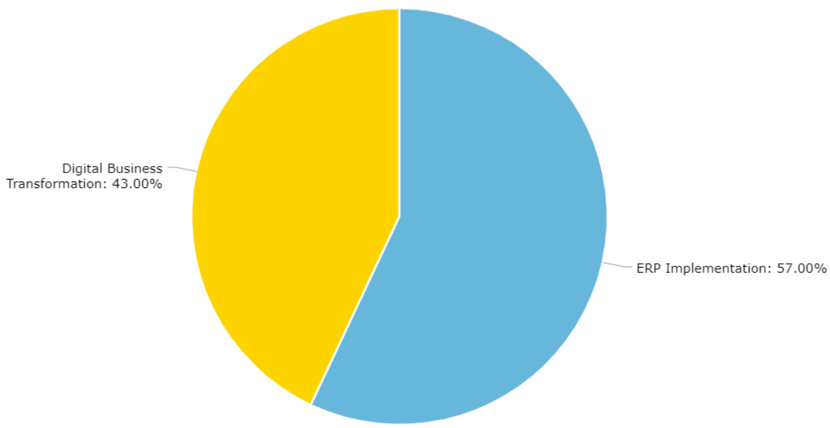
The least common reason for not choosing cloud ERP or hosting is "Risk of security breach." Last year, this was the most common reason. It appears that organizations are realizing how vigilant ERP vendors and hosting providers are when it comes to the security of their customers' information. In fact, we have found that most cloud vendors are, by necessity, extremely vigilant about security because they know they are popular targets for security breaches.

REASONS FOR NOT CHOOSING CLOUD ERP



DIGITAL BUSINESS TRANSFORMATION VS. ERP IMPLEMENTATION

TYPE OF PROJECT



According to Gartner, digital business transformation is defined as "the process of exploiting digital technologies and supporting capabilities to create a robust new digital business model."

Less than half of organizations (43%) describe their project as a digital business transformation.

In our experience, most organizations fall somewhere along the spectrum between an ERP implementation and a digital transformation. It all depends on the size and complexity of their organization.

For example, large and complex organizations often pursue digital transformation, while large but less complex organizations may pursue business optimization, which is a middle ground between the two. Digital transformation requires an intensive project roadmap that includes a current state assessment, customer journey mapping, business design, software selection, pre-implementation planning and implementation.

At the other end of the spectrum, a project might only include a current state assessment, selection and implementation. Most organizations in our survey are closer to this end of the spectrum because, in our experience, most companies are not in position to transform everything at once.

Among organizations moving from legacy systems, only 28% describe their project as a digital business transformation. It's not surprising that fewer of these organizations are pursuing digital transformation as the transition from a legacy system is often more technology-focused than business-focused due to the technical complexities of activities like data migration.

Regardless of the type of project an organization is pursuing, it's important to achieve alignment between systems and business requirements and ensure all stakeholders are aligned in terms of organizational goals.

IMPLEMENTATION APPROACH

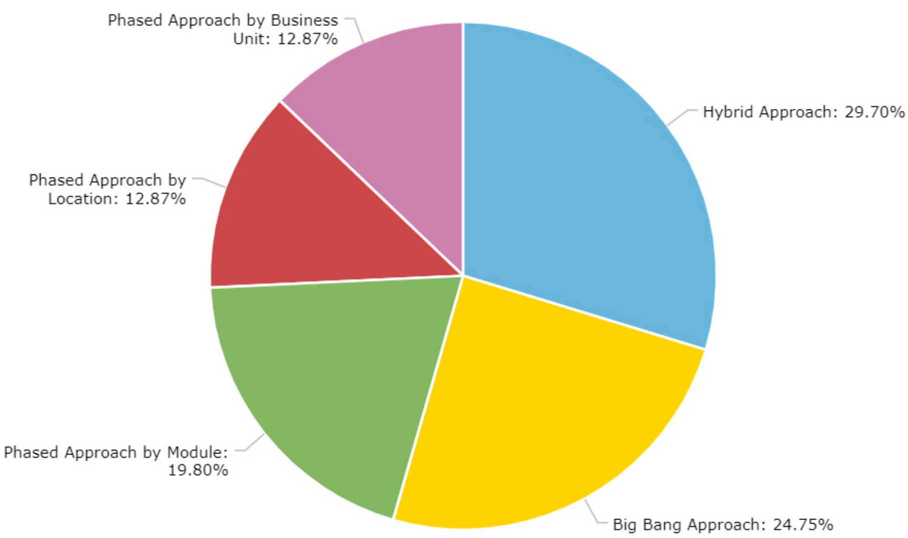
When choosing an implementation approach, organizations should carefully weigh their options, as the ideal phasing strategy depends on many factors.

For example, how quickly will employees adapt the new ERP system? How much risk are we comfortable with? How much money are we willing to spend? These are just a few questions organizations should ponder before deciding on an implementation approach.

Before implementation, we work with project teams to review business processes, which allows us to determine the most effective way to implement the system.

This year, less than half of organizations are using a phased approach, but more than half are using either a big bang approach or a hybrid approach.

ERP IMPLEMENTATION APPROACH



THE HYBRID APPROACH

The most popular implementation approach among respondents is the hybrid approach. This approach combines several different phasing approaches based on an organization's unique needs.

It is a particularly good choice for large organizations with many employees, which is probably why there has been an increase in organizations using this approach since last year. Organizations in our study this year have an average of 6,163 more employees than last year.

In a typical hybrid implementation, organizations may choose to use the big bang approach for smaller business units and a phased approach for larger business units.

THE BIG BANG APPROACH

Another common implementation approach among respondents is the big bang approach. In this scenario, organizations go live with all modules and offices at the same time. This is a common approach for implementations involving only one or two business units.

Since this year's dataset included larger organizations, use of the big bang approach is less prevalent this year. For large implementations involving multiple business units, the big bang approach is less common since it's risky to have multiple business units simultaneously go-live on a new system.

However, among organizations moving from legacy systems, the big bang approach is actually more prevalent compared to this year's average. In fact, 40% of the organizations moving away from legacy systems report using a big bang approach.

This is surprising considering that legacy systems are usually too complex to phase out all functionality at the same time. They are often homegrown, and only a few resources understand their configuration.

Regardless, all of these organizations consider their project a success. This is likely because 80% sought the guidance of a consulting firm. Consultants with experience in complex implementations can help organizations minimize the risks of the big bang approach.

Despite the risks, the big bang approach can work well for organizations that are looking for a faster and lower cost implementation. Organizations that do use the big bang approach should develop contingency plans to account for the possibility of the new system crashing.

THE PHASED APPROACH

There has been a decrease in this approach since last year because more organizations are choosing a hybrid approach. This is likely because they want to simultaneously benefit from the cost savings of the big bang approach and the lower risk of a phased approach.

In a phased implementation, users move to the new ERP system in a predetermined series of steps. The advantage of a phased rollout is that employees have more time to learn and adapt to the new system.

Unfortunately, this approach takes longer than the big bang approach and several adjustments may need to be made along the way to keep the two systems temporarily bridged. Bridging the two systems is essential because the first modules to be implemented may not function optimally without critical information from modules yet to be implemented.

In a phased approach, an organization rolls out one part of the ERP system at a time, beginning at the core and then deploying additional modules in phases.

STRATEGIC ALIGNMENT

When implementing ERP software, a clearly defined strategy is essential. Stakeholders should be aligned around the organization's digital strategy and desired business benefits. Alignment is also necessary between people, processes and new technology.

PEOPLE, PROCESSES AND TECHNOLOGY

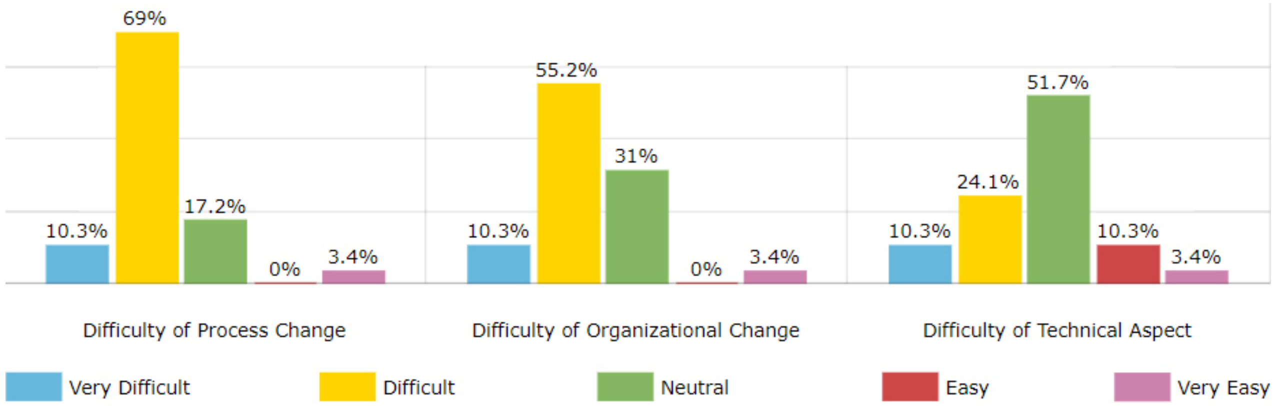
We have found that many companies are predominately focused on the technical aspects of implementation. However, if organizations want to achieve expected business benefits, they must account for not only the technical aspects but the people and process aspects, as well.

Many of our clients pursue projects focused on people and processes. Before they select ERP software, we help them define an enterprise strategy. We also help them design new business processes to support this strategy.

TECHNICAL ASPECTS ARE EASIER THAN PEOPLE AND PROCESS ASPECTS

Of those organizations that have completed implementation, more than three quarters found the process change aspects of their projects to be difficult or very difficult. A slightly smaller percentage of organizations found the organizational change aspects difficult or very difficult, and an even smaller percentage found the technical aspects to be difficult or very difficult.

DIFFICULTY OF DIFFERENT ASPECTS OF ERP IMPLEMENTATION



This is the same as last year, which isn't surprising considering what we've experienced with clients. For example, in our project recovery engagements, we often work with organizations that have overlooked current state processes mapping or business process improvement. These organizations have put their old processes into the new system, inadvertently encouraging workarounds, dependence on tribal knowledge and use of manual processes. Organizations' lack of focus on processes can breed resistance to change as employees feel like they've had no input.

It is no wonder that organizations like this find the process aspects of implementation to be difficult.

Another difficult process-related aspect of ERP projects is defining process and data ownership. With clear ownership, organizations can ensure long-term data accuracy and build a foundation for continuous improvement. Consultants are helpful in this respect as they often will facilitate process mapping to help organizations determine who owns processes and data. This informs decisions about who to involve in the selection process.

We recommend involving stakeholders from all departments. This collaborative approach results in process improvements that align with business goals.

CONSULTANTS CAN MAKE ORGANIZATIONAL CHANGE EASIER

Later in the report, we analyze organizations' use of consultants. When that data is correlated with the above data points, we found that, *of those organizations that sought change management guidance from a consultant, only 8% found the organizational change aspects of their ERP implementations very difficult.*

One of the most difficult organizational change aspects of ERP projects is obtaining employee buy-in. Consultants are helpful in this respect because those with the right expertise can help organizations evaluate their organizational culture and employees' openness to change in order to develop a change management plan. This plan guides communication with employees before, during and after ERP selection.

MOVING FROM A LEGACY SYSTEM CAN LEAD TO CHANGE RESISTANCE

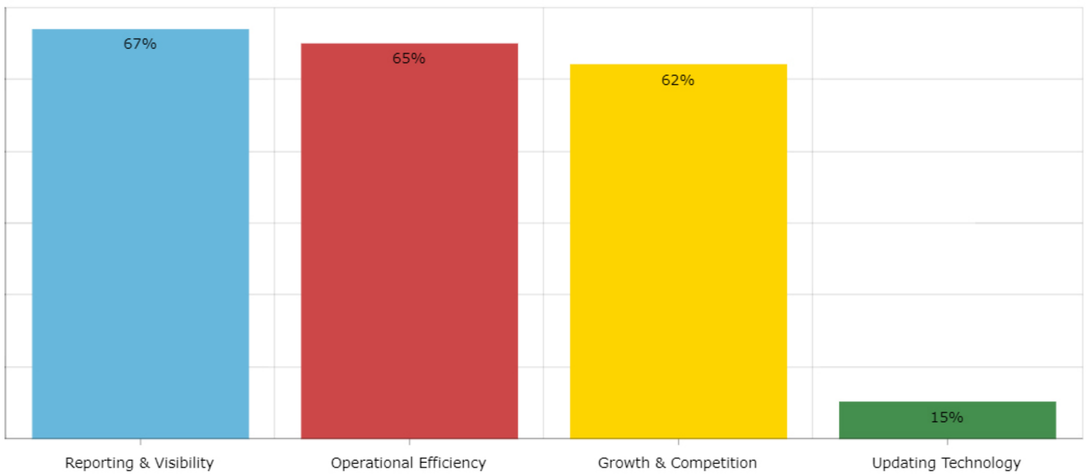
While 65% of all organizations in our study found organizational change difficult or very difficult, this was true of 83% of organizations moving from legacy systems. This significant difference be attributed to the fact that legacy systems and modern ERP systems each have a very distinct user experience and may involve the use of different business processes. This leads to change resistance among employees, especially when a big bang implementation approach is used.

EXPECTED VS. ACTUAL BUSINESS BENEFITS

One of the top warning signs of ERP failure we've seen is the lack of a business case and benefits realization plan. When organizations define metrics of how they expect the new system to improve their business, it ensures their investment is not wasted. We recommend using this business case beyond go-live as the ERP system is refined and optimized.

A strong focus on benefits realization is likely is one reason that, among organizations that completed implementation, more than half realized the benefits they expected to the extent they expected in all but one category.

BENEFITS REALIZATION



This is similar to last year, except that realizing benefits related to growth & competition was an additional struggle area for organizations last year. It is not an area of struggle this year for two possible reasons:

- **More organizations are moving away from legacy systems and toward modern ERP systems. These organizations may be able to meet their growth goals simply by implementing basic ERP functionality.**
- **More organizations are focusing on change management (see People & Processes section), which increases system usage and leads to faster benefits realization.**

OVERALL BENEFITS REALIZATION

This year, the average benefits realization for all categories is 61% – meaning 61% of organizations that expected one of the benefits outlined in our survey realized this benefit (note: this section was only applicable to respondents who said they have completed implementation). This is in line with our findings on how many organizations outlined measurable benefits before implementation – 63% reported that they did this.

Last year, the average benefits realization for all categories was only 37%. We did not ask organizations if they outlined measurable benefits, but based on the low benefits realization, it's likely that fewer organizations outlined benefits last year.

More than half of the organizations that anticipated specific benefits realized them.

BENEFITS REALIZATION BY CATEGORY

REPORTING AND VISIBILITY BENEFITS

Among the different types of benefits, organizations are most likely to realize reporting-related benefits. Following are some examples of reporting and visibility benefits we included in our survey:

- **Gaining access to real-time data**
- **Ensuring regulatory compliance**

With data visibility becoming increasingly important to businesses today, organizations are more likely to pursue implementations with this goal in mind. Many of these organizations are likely defining key performance indicators related to data visibility and ensuring their project stays focused on meeting these targets.

While today's ERP software has more robust data insights than in the past, this fact alone does not increase organizations' chances of achieving reporting-related benefits. All the robust functionality in the world is useless without a plan for how to leverage it.

For example, to take advantage of advanced reporting functionality, many organizations improve business processes within their customer journey. This allows them to identify areas where they could create a more personalized customer experience.

One of our clients is lacking a manufacturing execution system (MES). While their current system tracks some data, other data must be manually calculated. This is causing discrepancies in production numbers as employees are focused on producing as many products as possible instead of keeping accurate production counts. Inaccurate production numbers can create inventory issues as there is no accurate way to determine how much more inventory is needed if you do not know how much you have used. We recommended the client implement an MES system that can integrate with many types of large manufacturing equipment to capture valuable data. With an MES system, costs can be recorded more accurately and in real-time on the shop floor by tracking scrap, downtime, maintenance and labor. This cost data can be used to evaluate the profitability of production runs, which can inform price adjustments or process/ sourcing alterations. In addition, the organization can realize cost savings from the ability to detect quality issues during a production run. These are just a few reporting benefits that a modern MES system will provide our client.

OPERATIONAL EFFICIENCY BENEFITS

Organizations also are likely to realize efficiency-related benefits. Following are some examples of operational efficiency benefits we included in our survey:

- **Improving productivity and efficiency**
- **Reducing operating and/or labor costs**
- **Optimizing inventory levels**
- **Removing silos**
- **Standardizing operations**

With more organizations focusing on change management compared to last year, organizations are likely seeing high system usage as their employees eagerly embrace new processes and technology. As a result, productivity increases as more workflows are streamlined.

Aside from change management, the best way to achieve efficiency gains is by defining process improvements and measuring key performance indicators throughout the project.

One of our clients has no maintenance management system in place. The shop floor houses millions of dollars' worth of machinery that is manually maintained by one individual. Poor awareness of parts life and replacement needs can lead to excessive machine down time as maintenance waits for parts to arrive. Therefore, we recommended the client implement a maintenance management system that can provide alerts for routine maintenance and keep track of the lifecycle of parts. This will help them avoid machine failures that cause downtime, and it will make the process of maintenance monitoring much more efficient.

GROWTH AND COMPETITION BENEFITS

More than half of the organizations that anticipated these benefits realized them. Following are some examples of growth-related benefits included in our survey:

- **Improving the customer experience**
- **Improving interactions with suppliers**
- **Building new operating models**

The reasons that more organizations are achieving these benefits compared to last year may be that more of them are moving away from legacy systems and more are focusing on change management.

Change management is essential to benefits realization because organizations can't realize business benefits if end-users aren't using the new software. Therefore, it's important to communicate with and train employees as early as possible.

We use organizational readiness assessments to help clients identify resistance to change early in the project, so they can proactively address it. The organizational readiness assessment leads to the development of a change management plan that reduces change resistance and helps employees understand how their individual processes support the organization's growth.

TECHNOLOGY BENEFITS

Only 15% of the organizations that outlined technology-related benefits r ealized t hese b enefits. The technology-related benefit included in our survey was "Reducing IT maintenance costs."

One possible reason more organizations are not realizing this benefit is – as mentioned later in this report – more organizations are forgoing business process management or only focusing on it after software selection.

This can create a greater need for software customization as overlooked business needs are recognized later during software implementation. Customization can greatly increase maintenance costs, especially because of upgrade challenges.

EXECUTIVE BUY-IN & INVOLVEMENT

Executives who truly support a project are involved in the following activities (at minimum):

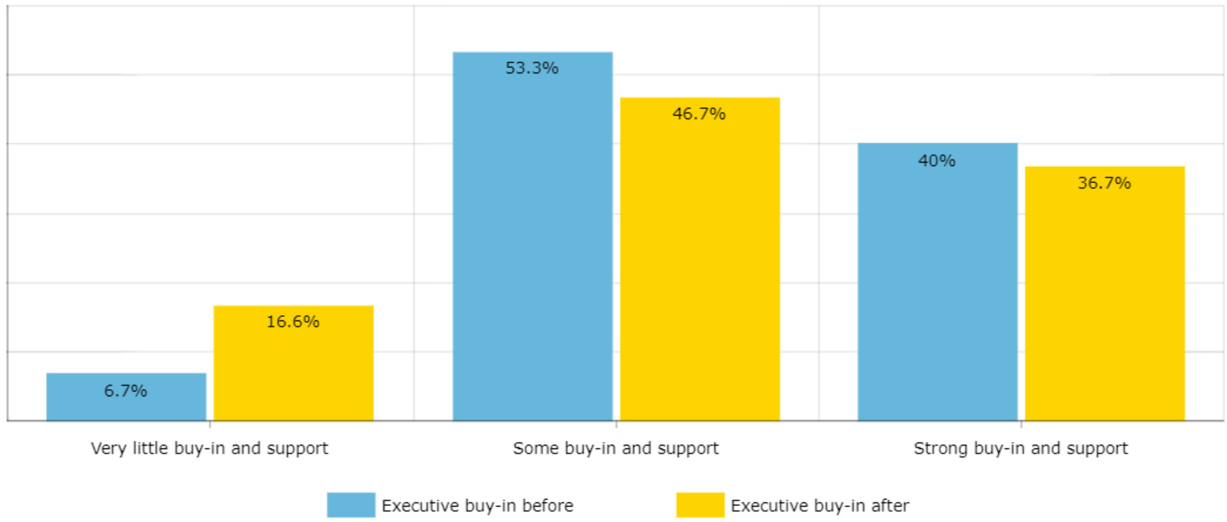
- **Approving the project budget**
- **Assembling a steering committee**
- **Actively participating in key project decisions**
- **Attending project status meetings**
- **Approving changes to scope that make business sense**
- **Judiciously approving software customizations**
- **Championing the project**

Executive involvement ensures the ERP implementation doesn't become a technology project but aligns with the organization's overall strategy. It also ensures that key decisions are made in a timely manner and resources are allocated appropriately.

EXECUTIVE BUY-IN CAN DECREASE THROUGHOUT THE PROJECT

Among those organizations that completed implementation, executive buy-in before selection was fairly high, but after selection it was quite a bit lower.

EXECUTIVE BUY-IN BEFORE AND AFTER ERP IMPLEMENTATION



Unfortunately, sometimes executive interest wanes as they move on to other priorities after selection. Executive support is equally as essential after selection as it is before selection. It's important to use change management techniques to continually encourage executive engagement.

HOW TO GAIN EXECUTIVE BUY-IN

1. Find Out What Executives Want from the ERP System

This may sound simple, but even the process of making them sit down and define it will increase their involvement.

2. Engage a Third Party

A third-party, like Panorama Consulting Group, can add credibility to organizations' recommendations. Executives may be more prone to listen to an independent expert than their own staff.

3. Get Some Numbers Together

If executives aren't grasping the seriousness of the situation, pull figures from our reports. These datapoints can help demonstrate the need for executive involvement.

4. Understand the Problems with Current Systems

Ask employees about their pain points and communicate them to executives by quantifying their cost to the organization.

5. Develop a Business Case

Executives should have a clear picture of the total cost of ownership (TCO) of the new system over the next five years. It's also important to outline business benefits and cost savings over time, then compare this against the costs.

6. Provide Options

Many executives like to see a variety of options. While organizations may feel like a new ERP system is the only viable option, it's important to demonstrate that other options have been carefully considered.

7. Develop a Risk Management Plan

A risk management plan ensures that organizations mitigate risks that their project team may not see. This will decrease executives' fears about potential cost overruns, timeline overruns and other risks.

8. Seek Alliances from Other Functional Areas

Problems with systems and processes generally occur in multiple departments. The more people that are supporting the business case, the more likely executives are to seriously consider the proposition.

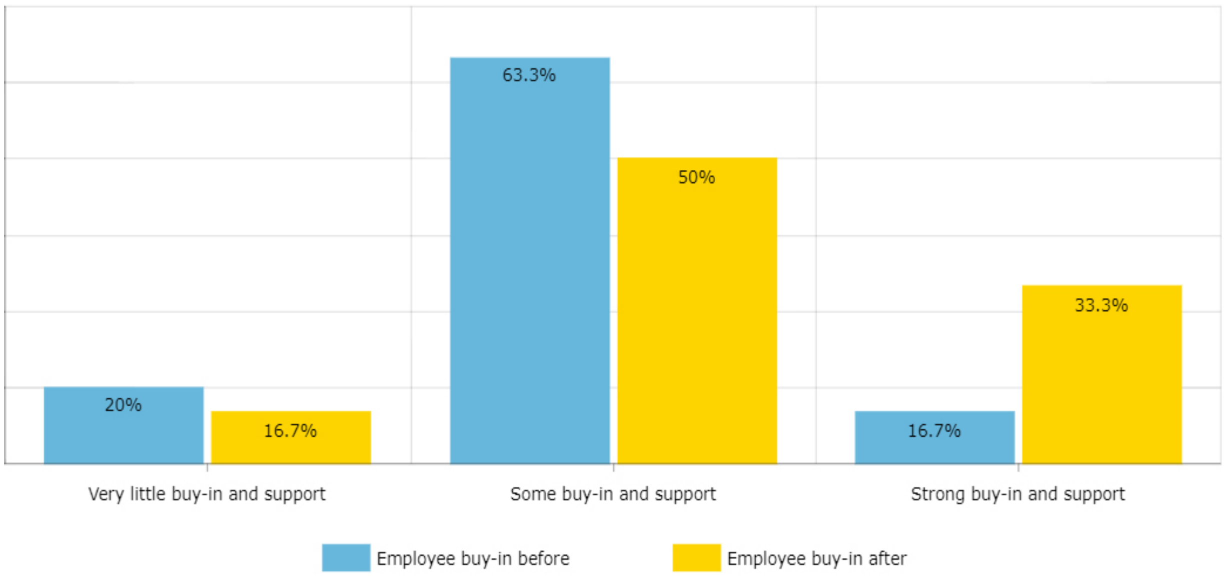
9. Learn from Previous Change Management Mistakes

Organizations should investigate and document previous change management initiatives conducted by their company. What worked? What didn't? This helps organizations position the new project as a well-thought-out initiative based on lessons learned from previous failures.

EMPLOYEE BUY-IN & INVOLVEMENT

While executive buy-in frequently decreases after selection, employee buy-in often increases.

EMPLOYEE BUY-IN BEFORE AND AFTER ERP IMPLEMENTATION



Of those organizations that had little employee buy-in before selection, 83% had at least some buy-in after. This is because it takes time to gain employee buy-in, and sometimes, no matter how much organizations communicate with employees before selection, employees need to actively be involved in selection activities in order to feel confident about the project.

We recommend involving employees in selection activities, like requirements gathering, so they feel like they have input into what system is ultimately selected. They also should attend vendor demonstrations and rate system functionality. By participating in these activities, employees will come away from the selection process with a clear understanding of how the chosen system can make their jobs easier.

Every client we've worked with has had several employees who initially resisted change but became supportive of the project once they had the opportunity to communicate their concerns. This communication often took place one-on-one, but sometimes it was facilitated through "town hall" meetings.

One of our ERP selection and implementation clients achieved strong executive buy-in, which they leveraged to gain employee buy-in. We designed a communication plan to ensure the communication from management was consistently supportive of change and focused on a clear, unified message that employees easily understood.

WHY DOES EXECUTIVE BUY-IN DECREASE WHILE EMPLOYEE BUY-IN INCREASES?

Before selection, executives are typically very excited about the idea of getting rid of outdated technology, while employees like their familiar processes. However, after a system is selected, employees often become more open to change because they've had a chance to share their operational pain points and see firsthand how a new system can make their jobs easier. Executives, on the other hand, often shift their focus to implementation once a system is selected and this reminds them of the time, cost and effort ahead of them and their team.

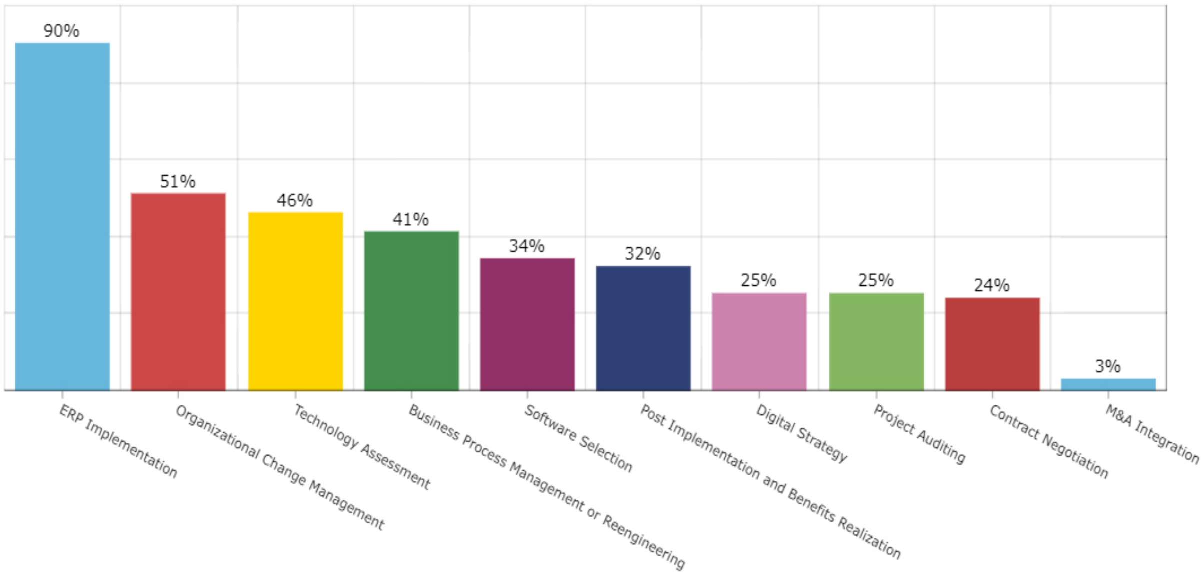
If you want an accurate cost estimate for your project, be sure to accurately scope your project and account for some of the most overlooked costs. ERP consultants can help you set realistic expectations that won't scare executives or get you fired for causing budget overruns.

CONSULTANTS

ERP implementation expertise is vital when it comes to setting realistic expectations and reviewing lessons learned from the most successful and least successful implementations. Oftentimes, organizations can only find this expertise in a third-party, like an ERP consultant or business transformation consultant.

More than three quarters (78%) of organizations in our study are using some type of consultant to assist with their ERP projects, and the most common guidance organizations are seeking is ERP implementation guidance.

CONSULTANT GUIDANCE



The need for implementation guidance was evident in last year's report, as well. This indicates that the type of organizations implementing ERP software generally are not the type with a large number of sophisticated technical resources on staff.

This is in line with the fact that more than a quarter of organizations in our survey this year are replacing legacy software. These organizations have no experience implementing a modern ERP system, so they often seek the experience and expertise of third parties.

Our clients often fall into this category, as well. They seek guidance on implementation activities, such as system design, configuration and testing. In addition, many seek guidance on the people and process aspects of implementation, such as change management and business process management.

CHANGE MANAGEMENT AND BUSINESS PROCESS MANAGEMENT ARE ESSENTIAL IMPLEMENTATION ACTIVITIES

Among the organizations in our survey that are seeking implementation guidance, 49% are seeking implementation and change management guidance, and 43% are seeking implementation and business process management guidance.

It's interesting that less than half of organizations seeking implementation guidance understand that people and process activities should be woven throughout implementation. Another possible explanation is organizations think they can focus on people and processes without external guidance as long as they have external guidance for the technical aspects of implementation.

Among all organizations in our survey, we see a more positive story about change management: 51% are seeking change management guidance, which is a 7% increase over last year. This indicates a trend toward an increased awareness of the value of change management.

This increased awareness is something we've also seen among our newer and prospective clients. This may be due to the focus of our website and other published content, but we are also seeing an increase in change management-focused content across the industry, especially among ERP vendors – many of whom have blogs and other published content of their own.

THE DANGERS OF SELECTING SOFTWARE WITHOUT THIRD-PARTY GUIDANCE

Surprisingly, there has been a 10% decrease in organizations seeking selection guidance from consultants. With the increasing popularity of software review websites, some organizations may feel that they can select software without expert guidance. However, growing volumes of data available online can be overwhelming and can waste time as organizations look for information on the actual functionality of the various systems.

While these websites can be one part of an organization's selection toolkit, they should only play a small role. The rapid pace of technology development means a software review from a few months ago may already be obsolete.

Another problem with review websites is that every company is unique, and just because an organization is looking at reviews from similar organizations does not mean their experience will be the same. *Furthermore, most of these review websites are not truly independent and unbiased, as they promote software vendors that pay them for lead generation.*

For example, it can difficult to know what kind of change management activities an organization used when implementing the software. Without this knowledge, it's impossible to know whether their software satisfaction (or dissatisfaction) was influenced by organizational variables or the software itself.

In contrast, evaluating software with the guidance of an ERP consultant ensures organizations select the best system for their unique needs and budget. It also gives organizations access to up-to-date user experience insights from the consultant's other clients.

One of our clients approached us with the goal to increase revenue and implement a new ERP system. As we assist them in the selection of an ERP system and CRM system, we are conducting onsite requirements gathering sessions and identifying unique pain points, such as a manual sales and order management process. Insights like this are informing our software recommendations.

PEOPLE & PROCESSES

A successful ERP implementation is not strictly an IT initiative. To ensure employees understand this concept, CIOs should shift focus from IT strategy to business strategy.

This is no small feat. Navigating the dizzying array of technology options is time-consuming, leaving little time to consider business objectives.

In addition to understanding business objectives, it's important for executives and the project team to understand the magnitude of proposed changes. This enables organizations to understand the impact of change so they can plan for the appropriate change management activities.

When executives are clear about the project goals and the degree of change, they will know how to support the ERP project team.

BUSINESS PROCESS MANAGEMENT

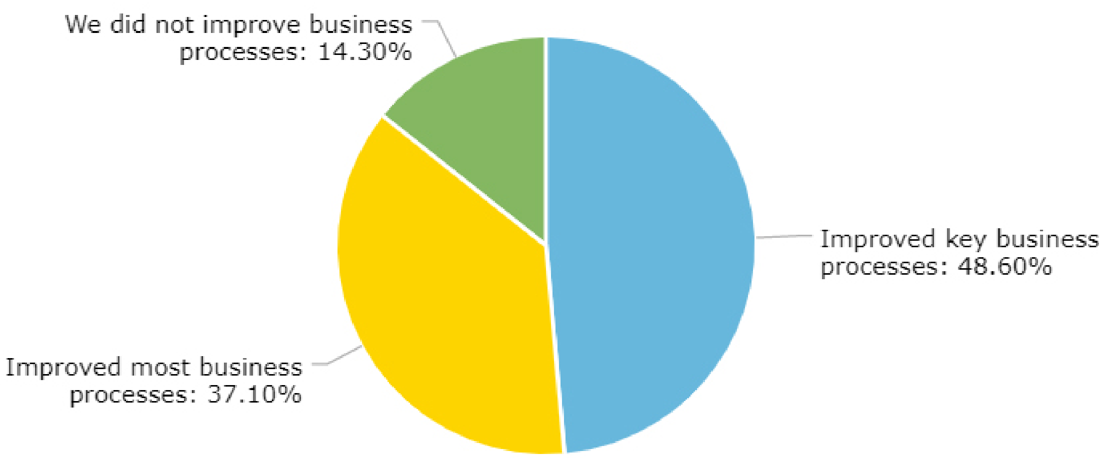
Business process management involves the mapping of current processes, the identification of pain points and the design of future state processes. We have two different approaches to business process management, depending on each client's unique needs:

- **Value Chain Mapping - Top-down phased approach to business design utilizing best practice business process reengineering techniques to break down functional silos and provide end-to-end process understanding.**

- **Value Stream Mapping - Bottom-up business process improvement utilizing Lean/Six Sigma techniques to model lower-level process activities and workflows that are prioritized, defined and optimized for goods or services.**

Of those organizations that completed implementation, almost all of them improved business processes as part of their project.

FOCUS ON BUSINESS PROCESS MANAGEMENT



BUSINESS PROCESS MANAGEMENT (CONTINUED)

Improving only key business processes is more common than improving all business processes. This makes sense since most organizations have some processes that don't need improvement. Keeping these processes in their current state allows more time for improving processes that are truly inefficient.

Compared to last year, there has been a decrease in the percentage of organizations improving only key business processes. This is due to the increase in the percentage of organizations that did not improve any processes.

These organizations are not recognizing the value of business process management. This may be partially due to the fact that ERP vendors are increasingly promoting industry best practices, leading organizations to believe they can rely on technology to define all their processes. Organizations replacing a legacy system are especially vulnerable to these marketing tactics.

However, in our experience, when organizations invest in business process management, their chosen ERP system aligns more closely with their business needs. In addition, employees and executives are more invested in the project's success.

In fact, we've found that one of the leading causes of budget and timeline overruns is a lack of focus on business process management. This also appears to be true of organizations in our study. In addition to the decreasing focus on process management, we also saw an increasing severity of timeline and budget overruns (see the ERP Implementation Results section).

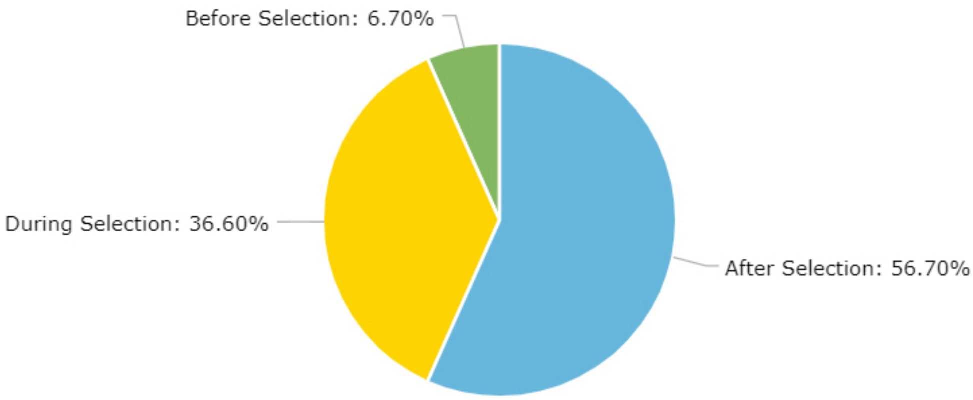
While we do recommend using pre-configured best practices for processes related to how work is done, we don't necessarily recommend pre-configurations for high-level processes related to business policy or process policy.

WHEN TO IMPROVE BUSINESS PROCESSES

Executives and managers with a deep-seated passion for making the business run better are likely to dedicate a strong focus to business process management. These individuals prioritize process work over considering new technologies. They understand that streamlined cross-functional processes enable efficiencies and new organizational capabilities.

However, more than half the organizations that completed implementation improved processes after selection, and more than a quarter improved processes during selection. Only 7% improved processes before selection.

TIMING OF PROCESS IMPROVEMENT



It's surprising to see so few organizations improving processes before selection, as this is what we recommend for most of our clients. However, some of our clients are only interested in investing in current state process mapping.

This involves asking clients for a high-level description of their processes, which allows them to identify pain points and process owners. This is important because employees may be experiencing unique pain points that the ERP vendor may not have accounted for when designing best practices.

Vendors also have not considered process enablers or constraints. For example, there may be multiple owners of one process, and this could constrain efficiency. In cases, like this, it's important to develop a RACI matrix to define who is responsible, accountable, consulted and informed for each process.
We have had to educate many clients about the importance of understanding employees' pain points. This is an especially difficult point to convey to clients who see their ERP project as an IT project instead of business project. However, we have successfully managed to convince these clients to include business stakeholders in the project before evaluating systems.

While these organizations are at least mapping their current state, those that do not invest in future state process mapping before ERP selection may be missing the opportunity to improve their high-level processes based on their organizational goals rather than system functionality.

TRANSFORMING THE CUSTOMER EXPERIENCE

Our clients often focus their process improvement efforts on the customer experience. We work with them to assess their current state and determine what is working and what isn't.

Following are some opportunities for customer experience transformation we've found in several organizations:

- **Using new analytics capabilities to enhance customer intelligence**
- **Leveraging new technology (mobile, ecommerce, etc.) to enhance sales**
- **Integrating customer touch points into a seamless experience**
- **Automating processes to allow workers to focus on innovation and creativity rather than repetitive efforts**
- **Using real-time data to improve performance management**
- **Augmenting physical products/services with digital products/services to share content across organizational silos**

One of our recent clients wanted to launch a new store in a new country and pursue digital transformation. We helped them map their current customer journey and implement improvements while implementing a new ERP system. This client now understands that processes are organizational assets and should be managed as such.

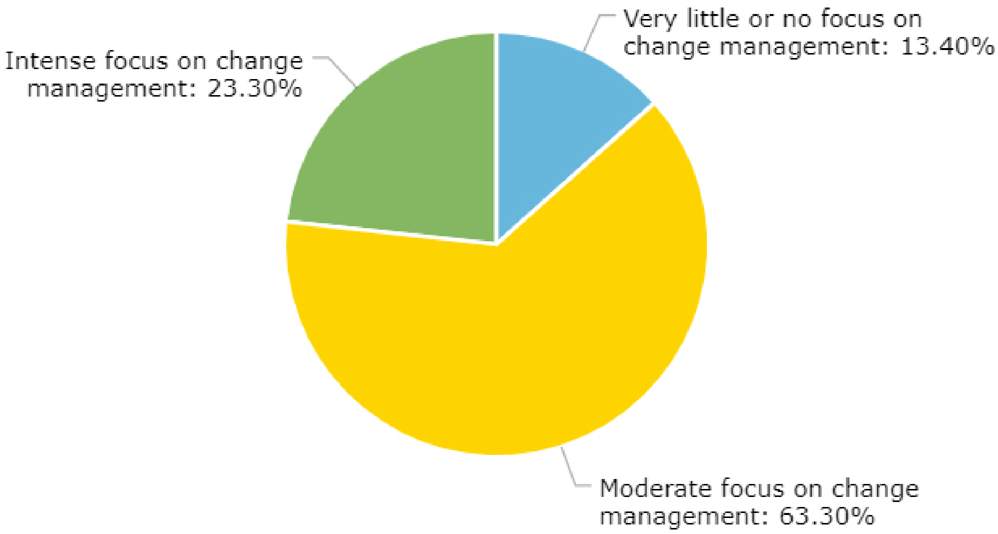
ORGANIZATIONAL CHANGE MANAGEMENT

Organizational change management is an important aspect of ERP implementation. Organizations that dedicate the right amount of focus to change management typically see the following results:

- **High system adoption**
- **Increased productivity**
- **High benefits realization**

Of those organizations that have completed implementation, most dedicated at least a moderate focus to change management.

FOCUS ON CHANGE MANAGEMENT



Many companies assume that the ERP vendor will handle change management, but many vendors don't. Those that do still require involvement from internal employees. For example, while vendors may train employees on how to use the "vanilla" software, they may not customize the training to reflect the company's unique software configurations.

CHANGE MANAGEMENT (CONTINUED)

The percentage of organizations reporting a moderate to intense focus on change management has increased since last year, which makes sense considering the increase in use of expert guidance for change management. In fact, 85% of organizations that used consultants for change management dedicated a moderate to intense focus to change management.

When consultants like Panorama Consulting Group provide change management guidance, they ensure that it isn't an afterthought. They prepare employees for change well before implementation by conducting readiness assessments and analyzing the results to develop a comprehensive change management plan.

While some consultants moderately focus on change management, Panorama intensely focuses on change management because we know that people and processes directly impact the effectiveness of technology.

Further evidence that an intense focus on change management is essential is the fact that, among organizations that are intensely focusing on change management, 100% consider their project a success (project outcomes are discussed in the ERP Implementation Results section).

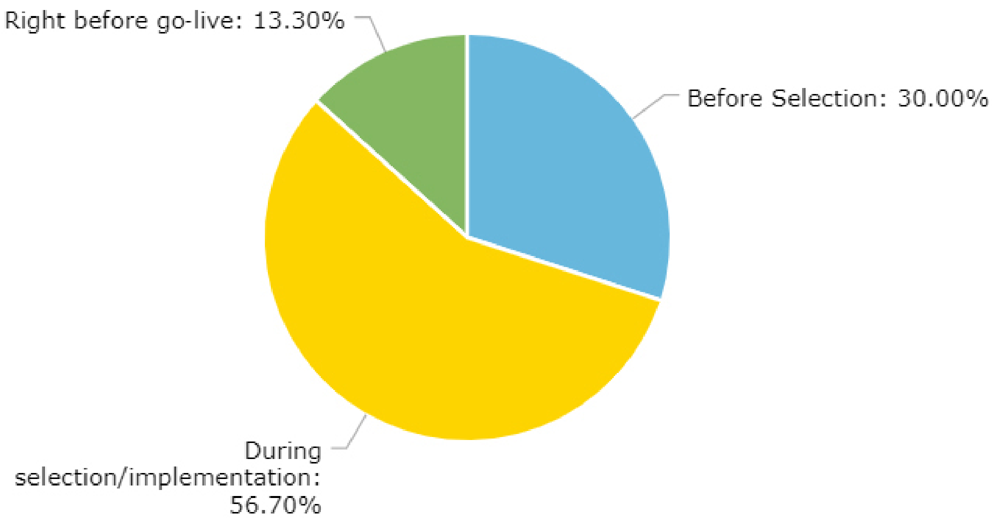
One of our clients from the agriculture industry hired us because they were dissatisfied with the change management plan their ERP vendor provided. We developed a more in-depth change management plan for them and provided a more experienced change management team than the vendor had. This is helping them prepare employees for change.

EMPLOYEE COMMUNICATION IS ESSENTIAL

One of the most important aspects of change management is to proactively communicate with employees by developing a communication plan that identifies the who, what, why and how of the change.

However, only 30% of organizations that completed implementation began communicating with employees before selection.

TIMING OF EMPLOYEE COMMUNICATION



Among those organizations that intensely focused on change management, employee communication was stronger – 57% of these organizations began communicating with employees before selection. While this is significantly higher, it still means almost half the organizations that intensely focused on change management still had an incomplete understanding of change management best practices.

EARLY COMMUNICATION DIRECTLY IMPACTS PROJECT SUCCESS

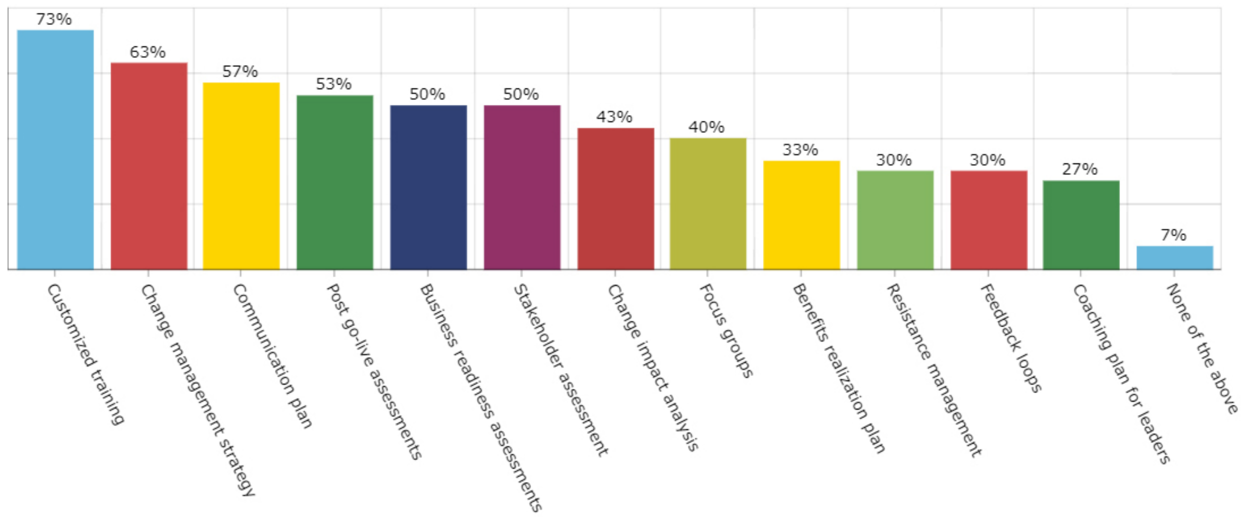
It's unfortunate that more organizations don't communicate early because all of the organizations that communicated with employees before selection consider their project a success, while only 86% of the organizations that began communication during or after selection consider their project a success.

It can be concluded that waiting to communicate reduces the likelihood of ERP success by at least 14%. This is because uninformed employees are much more likely to resist change than employees who understand the project's impact on the business and their individual jobs. This change resistance leads to budget overruns, timeline overruns and slow benefits realization.

ESSENTIAL CHANGE MANAGEMENT ACTIVITIES

The most common change management activities among organizations that completed implementation were customized training and developing a change management strategy. The least common change management activities were developing coaching plans for leaders, building feedback loops and managing resistance.

CHANGE MANAGEMENT ACTIVITIES



Coaching plans, feedback loops and resistance management are important aspects of a change management strategy, so it's interesting that not all organizations that developed a change management strategy focused on these key components. Among organizations that developed a change management strategy, only 32% developed coaching plan, 42% built feedback loops and 37% focused on resistance management.

6 TIPS FOR COACHING EMPLOYEES

Remove barriers

Barriers to change may relate to family, personal issues or physical limitations. Coaches should fully understand the individual situation of each employee to determine how to remove barriers.

Highlight the tangible benefits

Case studies and testimonials can tangibly demonstrate the benefits of change. Conducting pilot programs and sharing the successful outcomes is also useful for generating buy-in.

Build desire by providing choices

Employees need to know, in simple and clear terms, what their choices are and what consequences they face for making a particular choice. This puts a level of control back into the hands of employees.

Use money or power

This tactic works well with mid-level and senior managers that are critical about the success of the ERP project. Offering higher pay in exchange for project support can be worth the investment.

Create hope

Employees are more open to change when it is framed as an opportunity for a better future. Coaches can create desire for change among employees by expressing their own excitement and enthusiasm. While this tactic is effective, it can be misused if coaches create false hope and don't believe in the change themselves.

Convert the strongest dissenters

By focusing their energy on the most vocal dissenters, coaches can reduce the spread of negativity. Another reason that converting vocal dissenters is worthwhile is because they may be some of the most vocal advocates when converted.

Coaching Plan

A detailed outline of how you will mentor employees to accept change.

Feedback Loops

Detailed, clearly defined processes outlining how end-users should share ideas and voice concerns. This also includes processes outlining how the project team should respond.

Resistance Management

Any strategically planned activity aimed at reducing employees' aversion to change.

EDUCATING ORGANIZATIONS ABOUT CHANGE MANAGEMENT DOESN'T ALWAYS WORK

While 30% of organizations developed a resistance management plan and 30% built feedback loops, these activities were even less common among organizations replacing a legacy system. In fact, only 17% developed a resistance management plan and 17% built feedback loops.

It's not surprising that change management awareness is significantly lower among organizations without modern ERP experience. Change management is a much more popular talking point among ERP vendors and ERP consultants today than it was a decade ago.

If organizations aren't used to hearing about the importance of comprehensive change management, they likely will dismiss the concept when they first hear about it. After all, the new technology concepts are already providing an information overload.

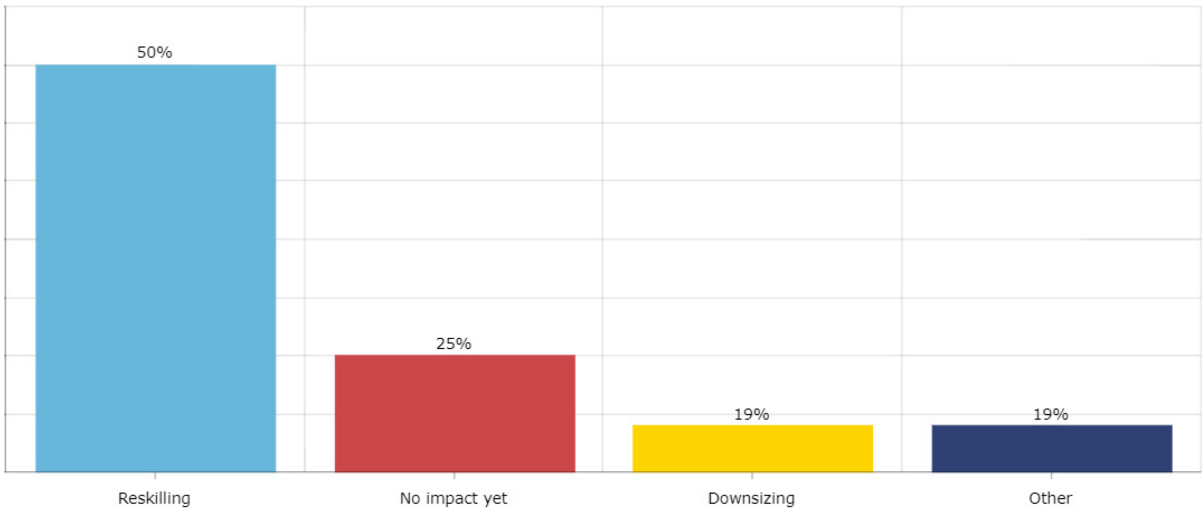
Without a change management team, the project team will most likely become overwhelmed by project fatigue and conflicting priorities. That's why it's important to build a change management team responsible for working with third-parties to develop strategies that address communication, training and benefits realization.

THE IMPACT OF CHANGE

Organizational change management is important because change has a significant impact on an organization's workforce. When employees hear the word "change," they know they will be asked to give up their familiar methods of performing tasks. They also worry that their job may be replaced by automation.

The former is usually true, while the latter isn't necessarily the case in every ERP project. In fact, our data shows that the most common workforce impact of ERP projects and digital transformations is reskilling, while the least common impact is downsizing.

CHANGE IMPACTS



In the "other" category, some of the impacts mentioned were increased collaboration among employees and the need to hire external resources to fill the day jobs of project team members.

In a successful ERP project, the positive impacts of change will outweigh the negative impacts – both from the perspective of executives and employees.

Ultimately, change is essential for organizations that want to grow and thrive in this competitive environment. Instead of giving up hope that employees will accept change, it's important to follow change management best practices and articulate to the employees that a new system can make their jobs easier and is not there to replace them.

ERP IMPLEMENTATION RESULTS

A successful ERP implementation not only requires a focus on people and processes, but it requires a focus on timeline development, project governance and resource planning. Without a focus on these pre-implementation activities, the ERP implementation may be delayed or over budget.

PROJECT COST

The costs associated with an ERP project can be difficult to estimate. There are many activities organizations don't consider upfront, and these unrealistic expectations can lead to unexpected costs and budget overruns.

OUR CLIENTS TYPICALLY ANTICIPATE THESE COSTS

- License
- Maintenance
- Hosting
- Support and systems management
- Technical implementation
- Travel
- Hardware

WE OFTEN EDUCATE OUR CLIENTS ON THESE COSTS

- Customizations and integrations
- Optional products
- Internal resources (core team, SME's, etc.)
- Backfill
- Change management
- Pre-implementation tasks
- Project governance

THE FREQUENCY OF BUDGET OVERRUNS IS DECLINING

Of those organizations that have completed implementation, more than half (62%) completed their projects at or under budget. This is an increase of 7% over last year.

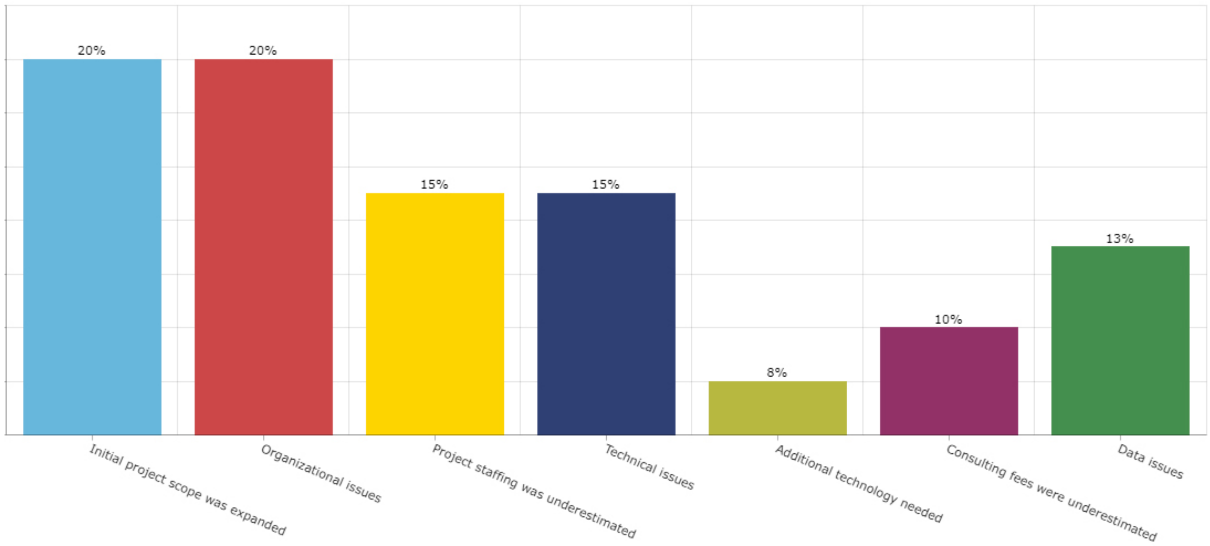
However, those that did experience overruns were an average of 66% over budget with $2,651,183 as their expected budget and $4,395,623 as their actual budget. Last year, organizations' budget overruns were less significant (24% over budget).

This could be due to the fact that, last year, more organizations were focusing on business process management. As mentioned earlier, a lack of business process management can increase customization needs, which is an unexpected cost that accumulates as employees submit change orders throughout implementation and beyond.

ORGANIZATIONAL ISSUES ARE A PRIMARY CAUSE OF BUDGET OVERRUNS

The most common reasons for budget overruns were organizational issues (i.e., governance issues, resistance to change, process redesign) and scope expansion.

REASONS FOR BUDGET OVERRUNS



A system that doesn't align with an organization's business processes causes employee frustration and other organizations issues. On a related note, scope expansion is often caused by frustrated employees making change requests, which leads to unexpected customizations.

These two reasons also were the most common reasons for budget overruns among organizations replacing legacy systems. Scope expansion was the most common reason, and this is likely because organizations that have never implemented a modern ERP system do not understand the complexities of modern technology, and ERP vendors are not providing realistic expectations.

QUICK REFERENCE

Organizational Issues (i.e. governance,resistance to change, process redesign, etc.)

Technical issues (i.e. hardware or database issues, scalability, system integrations, etc,)

Data issues (i.e. reconciling multiple data sources, ensuring data integrity, etc.)

ORGANIZATIONS HAVE REALISTIC EXPECTATIONS ABOUT CONSULTING FEES

The least common reasons for budget overruns were underestimated consulting fees and additional technology purchased. Compared to last year, fewer organizations underestimated consulting fees.

In our experience, unrealistic expectations about ERP success factors is a leading cause of underestimated consulting fees. It is encouraging to see more realistic expectations this year. It appears that organizations are realizing their need for success factors, like change management, before the project is underway, and as a result, they are encountering fewer unexpected costs.

During client engagements, we are seeing more stakeholders with realistic expectations about the need for change management. These stakeholders are not surprised to see us propose a significant focus on change management.

HOW MANY INTERNAL RESOURCES DO ORGANIZATIONS NEED?

While "resource constraints" was not a common reason for budget overruns, our clients frequently inquire about the level of internal resource commitment they need.

Our report reveals that small and medium sized businesses that have completed implementation used an average of 18 full-time internal resources, and large enterprises used an average of 31 full-time internal resources.

Overall, the average number of internal resources was 25. This is nine resources more than last year, which may be attributed to the fact that larger organizations are participating in our study compared to last year. These organizations have more employees and are purchasing more software licenses. More employees means more resources are needed to conduct training and lead other change management activities.

Some internal roles essential to change management:

- Project Manager
- Project Sponsors
- Sponsor Coach
- Change Leader
- Change Champion

NEGOTIATING WITH ERP VENDORS

Despite the cost overruns organizations experienced, many organizations (including those that have not completed implementation) saved a significant amount on their software purchase by negotiating with their ERP vendor. Our study shows that organizations are saving an average of 27% from the vendor's initial cost estimate.

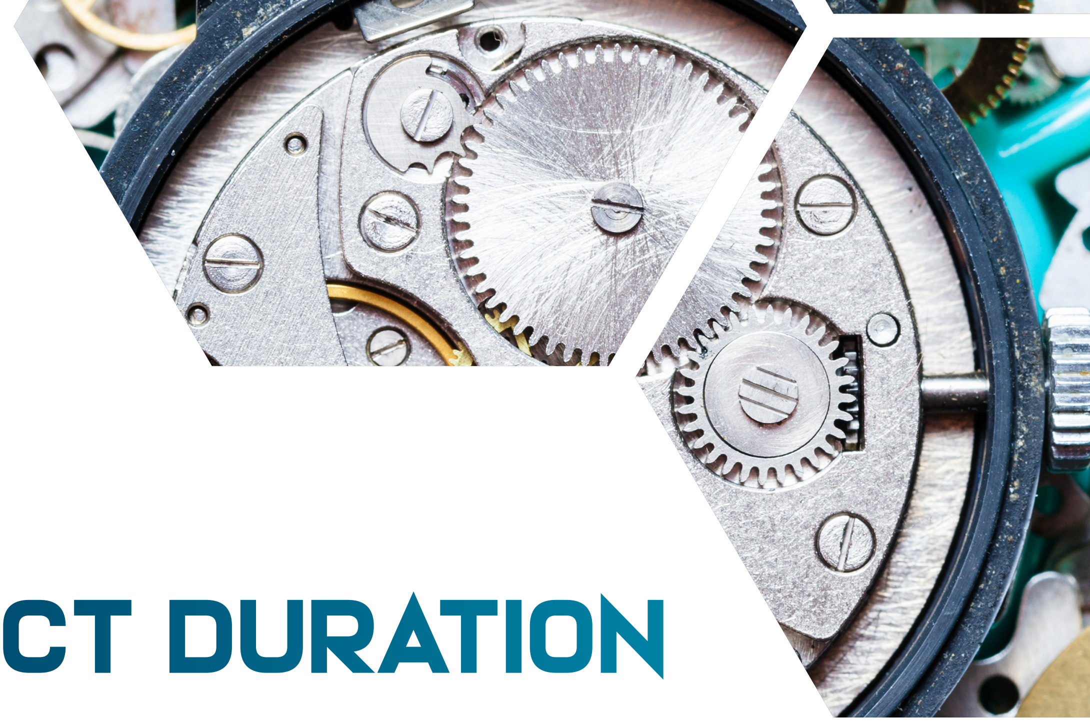
Of course, cost savings are relative to the size of the organization. This is what our study found in regard to organization size:

	Cost Savings	Licenses Purchased
SMBs	*27%*	*251*
Large Enterprises	*39%*	*992*

Large enterprises saved 15% more this year compared to last year. This is likely because they spent more time developing an overall negotiation strategy and relying on third-party guidance throughout the process. While only 24% of organizations used consultants for negotiation guidance, this is a 3% increase over last year.

Organizations that work with consultants for negotiation likely find more negotiating leverage with vendors due to consultants' ability to use the increasingly competitive vendor landscape to the client's advantage. This may account for the majority of the increase in cost savings.

When working with a third party for vendor negotiations, we recommend looking for experts that provide their clients with negotiation workbooks detailing apples-to-apples price comparisons.



PROJECT DURATION

Like the project budget, the project timeline is influenced by a variety of factors that many organizations don't consider when developing their project plans.

Even with a carefully crafted timeline, most organizations find the need to adjust the timeline throughout the project. This is generally a good thing as long as it is done infrequently and strategically (and long before go-live).

THE FREQUENCY OF TIMELINE OVERRUNS IS DECLINING

Of those organizations that have completed implementation, more than half (53%) completed their project within the expected timeline. This is an increase of 11% over last year. Again, an increased focus on change management likely is a large contributor.

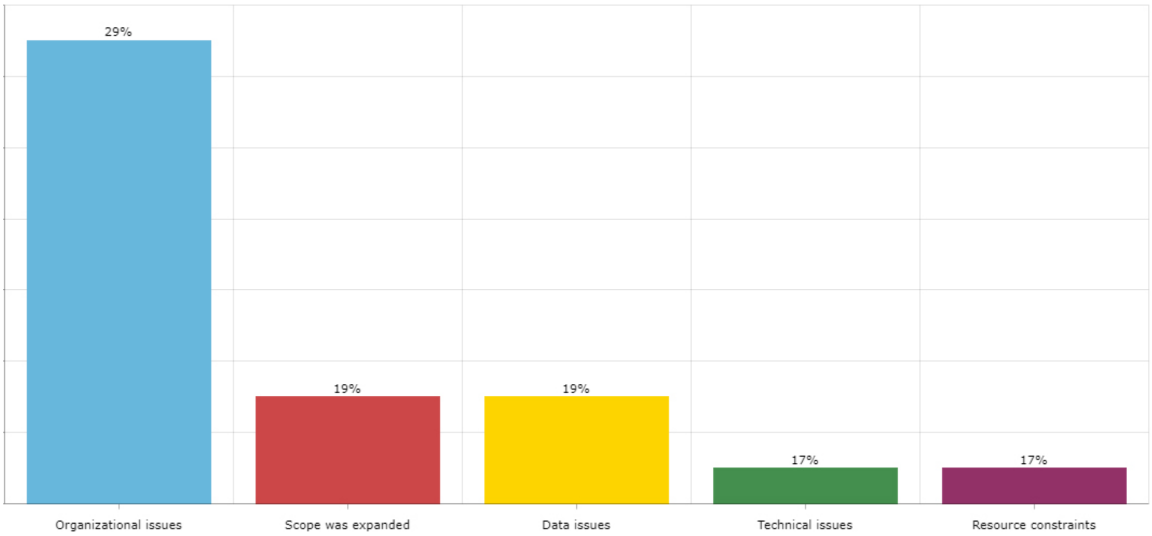
In addition, the decrease in the use of the "big bang" implementation approach may have contributed. This approach tends to be riskier than organizations anticipate, so opting for another approach may reduce the likelihood of encountering unexpected, time-consuming roadblocks. Organizations that exceeded their original timeline were an average of 33% over their expected timelines with 12 months as their expected timeline and 16 months as their actual timeline.

Last year, organizations were an average of 11% over their expected timelines. This increased severity of timeline overruns is closely related to the increased severity of budget overruns.

ORGANIZATIONAL ISSUES LEAD TO TIMELINE OVERRUNS

The most common reason for timeline overruns was the same as that of budget overruns: organizational issues (i.e. governance issues, resistance to change, process redesign). The least common reasons for timeline overruns were technical issues and resource constraints.

REASONS FOR TIMELINE OVERRUNS



In our experience, organizational issues are often a result of underestimating the amount of business-related activities involved in an ERP project and overestimating the IT-related activities.

SCOPE EXPANSION IS A STRUGGLE AREA FOR ORGANIZATIONS REPLACING LEGACY SYSTEMS

Among organizations that replaced legacy systems, scope expansion was the most common reason for timeline overruns – just as it was the most common reason for budget overruns. Again, this likely is due to an organization's lack of experience as well as unrealistic expectations from vendors.

Many ERP vendors make unrealistic estimates for project timelines. They do not account for resource constraints or essential project activities, like resistance management. We recommend developing a timeline broken down into phases and activities and detailing the level of core team and project management commitment required each month.

RECOUPING COSTS

Organizations take an average of seven months after go-live to recoup ERP project costs. Our clients typically realize full business benefits from out-of-the-box functionality within nine to twelve months of go-live. By "full," we mean the full amount of benefits they expected.

In our experience, many organizations recoup ERP project costs sooner than they achieve full benefits realization because the expected benefits we outline together are typically long-term benefits or part of a continuous improvement plan.

SUCCESS & FAILURE

We asked organizations that completed implementation whether they would consider their overall ERP project to be a success or failure. Nearly all (93%) organizations said they consider their ERP project a success. This makes sense, considering the increase in on-time and on-budget projects and the increase in overall benefits realization.

HOW TO DEFINE ERP SUCCESS

Some companies' measurement of success is whether the project is on-time and on-budget and the ERP system is being used. For them, true return on investment is an afterthought.

Instead of taking this approach, we recommend that organizations define and quantify how they will measure success. For example, is their measure of success to reduce inventory costs and internal overhead? Is it to materially improve customer service and satisfaction? If so, by how much?

Whatever benefits an organization hopes to achieve, it is important to define key performance indicators and communicate them to all stakeholders. This will help the ERP project team determine what ERP software and business processes are necessary to achieve the company's goals.

CONCLUSION

As organizations replace their old systems, they are realizing their need for change management guidance. Transitioning from old technology to new technology typically requires a more intense focus on change management than moving from one ERP system to another.

In fact, the stark differences between old technology and new technology make training more challenging and change resistance stronger. This steeper learning curve means that preparing employees requires more time and money than many ERP vendors estimate since they're often basing their estimates on clients that moved from one modern ERP system to another.

While organizations continue to struggle with the specifics of organizational change management, they are dedicating more focus to it than in years past.

While more organizations are seeking change management guidance, each consulting firm's methodology is different, which explains why many organizations are overlooking several important change management activities. The change management activities we recommend for clients – especially those transitioning from legacy systems – are focused on building awareness, desire, knowledge and ability among employees and reinforcing change through performance management.

The increased focus on change management this year yielded more positive results in terms of benefits realization. It also resulted in fewer budget and timeline overruns.

Clearly, the importance of change management cannot be argued – whether an organization is moving away from a legacy system or from one ERP system to another.

A FEW FINAL TIPS FOR ERP PROJECT SUCCESS FROM PANORAMA'S EXPERTS

1. Ensure Executives are on Board

Executives should understand the importance of change management and understand what activities are necessary for change management success. This is essential because the most effective change management strategies start at the top. People model the behavior they see, and inconsistency erodes employees' trust in leadership.

2. Build a Project Team

When it comes to large-scale projects that involve many stakeholders, it's essential to form a project team. Part of this project team should include an organizational change management team responsible for determining employees' change readiness and developing a change management plan.

We also recommend designating change agents as key influencers within the change management team responsible for executing many of the communication activities within the change management plan.

3. Facilitate Organizational Readiness Assessments

An organization cannot implement transformational change without understanding their employees and their organizational culture. Conducting an online survey and series of focus groups can give organizations an idea of the strengths and weaknesses of their organizational culture. This insight can identify the root causes of change resistance and help organizations determine strategies for implementing change.

4. Conduct Organizational Impact Assessments

Organizations can simply inform employees that their jobs will change, or they can explain exactly how they will change. An organizational impact assessment helps organizations understand the degree of change and nature of change, so they can effectively communicate this to employees. Communication should be targeted, personalized and continuous.

5. Begin Training Early

There is a common assumption among project managers that employee training should be conducted a few weeks before changes are rolled out. Instead, employees should receive multiple rounds of training well before they are expected to adopt new processes and technology.

While it is tempting to train employees in one session, this is never a productive practice. Regular training sessions ensure employees retain information and learn to use new software functionality as it is rolled out over time.

6. Customize Employee Training

While most ERP vendors have training materials for their products, the training isn't customized. When organizations train employees without considering the nuances unique to their organization, employees may experience confusion, and training won't be nearly as effective.

Training materials should be tailored to an organization's unique business processes. A training program should cover more than just how to use the ERP system. Employees also need to know what processes and decisions need to happen outside the system.

7. Listen to Employees' Concerns

Bottom-up communication is important because end-users may have insights that senior leaders don't have. End-users have this insight because they are the ones performing the business processes.

In addition to insights, end-users will also have concerns. These should not be taken lightly, as employees respond much more positively to change when they know their concerns are seriously considered.

These seven tips will help your organization achieve ERP project success. You also will need a strong focus on business process management and strategic alignment. Request a free consultation on the following page to learn more about the success factors necessary for achieving organizational goals.

ABOUT PANORAMA CONSULTING GROUP

Panorama Consulting Group is an independent, niche consulting firm specializing in business transformation and ERP system implementations for mid- to large-sized private- and public-sector organizations worldwide. One-hundred percent technology agnostic and independent of vendor affiliation, Panorama offers a phased, top-down strategic alignment approach and a bottom-up tactical approach, enabling each client to achieve its unique business transformation objectives by transforming its people, processes and technology.

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