February, 2012

Making Enterprise Business Systems Pay Dividends

IS IT TIME TO PURCHASE A NEW ERP?

HINT: IT'S NOT BRAIN SURGERY. DON'T WAIT UNTIL THE PATIENT IS DYING

Data Source

From mid-July through the end of September 2011 Mint Jutras collected more than 1250 responses to an electronic survey for its ERP Solution Study. More than 900 responses were qualified by the participant's knowledge of and involvement in ERP implementations. These responses were used to investigate ERP goals, challenges and status and also to benchmark performance of ERP implementations.

All but 4% of survey respondants had an ERP solution currently installed. This does not imply 96% of all companies have ERP; those without ERP were qualified based on their participation in the evaluation and selection of a potential solution.

Whether you are contemplating a first time purchase for your entire company, expanding into a new territory currently not supported by Enterprise Resource Planning **(***ERP***)***, or deciding whether to replace your existing ERP solution, it's a big decision. For decades ERP implementation in general, and more specifically ERP replacement, has been compared to brain surgery. You just don't do it unless the patient is dying. But today the better analogy is joint replacement. You suffer with that bum knee or hip until you can't stand the pain any longer, or you simply can't function properly. Apply these same principles to your next (or first) ERP purchase. Suffer along if the status quo is "good enough." But what if it's not? Sure there will be some "recovery" time required; plan for it. But with careful selection and planning and aggressive goal setting you too can be operating pain-free and better than ever by implementing a new ERP.*

ERP IS LIKE BRAIN SURGERY…OR NOT

According to data collected for the Mint Jutras 2011 ERP Solution Study, 62% of businesses with ERP installed are running the first solution ever implemented in the company. Why? Because for years most people equate replacing ERP to brain surgery. You just don't do it unless the patient is dying. "Rip and replace" was avoided at all cost, even when there was no possible way the existing solution or its underlying architecture could keep pace with new market drivers and changing business needs. Upgrades were viewed as difficult and painful but a reimplementation was often seen as pure evil.

Yet if 62% are still running their first ever ERP, that means 38% have in fact bitten the bullet and replaced an ERP solution. This doesn't necessarily mean a change in solution provider. A replacement could mean a newer or different product from the same vendor or it could mean opening the door for a competitive bid. Two out of three of our survey respondents that replaced their ERP also replaced their vendor. That means one in three stuck with the owner of their current ERP. That of course may not have been the same vendor they purchased it from. Given the massive consolidation of the ERP market

over the past two decades, it is entirely possible the ownership of the intellectual property of your ERP solution has changed hands. However, this also provides additional choices for ERP solutions without the necessity of switching vendors. Your experience with that vendor will determine if that is viewed as a plus or not.

A BETTER ANALOGY

While the brain surgery analogy is catchy and dramatic, there actually might be a more appropriate comparison today, one that doesn't presume a fatal prognosis. That better analogy is joint replacement. When do you replace a knee or a hip? While not a life-threatening situation, a replacement is precipitated when either the pain becomes unbearable or you can no longer do what you want or need to do. In other words, you can't function properly.

While not a life-threatening situation, a replacement is precipitated when either the pain becomes unbearable or you can no longer do what you want or need to do. In other words, you can't function properly.

The same should apply to ERP. Replace it when the pain of outdated technology, hard to use software and/or missing features and functions becomes too great. Or when your current solution simply cannot support your business needs.

There is of course a certain level of subjectivity in this type of decision, partly based on your tolerance for pain and partly based on your needs and desires. If you want to climb mountains or ski down them, you will be more inclined to replace that knee. But if all you want to do is sit on the couch and watch television, maybe not. After all, it provides you with the perfect excuse for not being active. If you have no plans to grow and no need to improve the performance of your business, then your current ERP may be just fine, even if it doesn't perform well or produce world class business results. Just fine, that is, until your business or the market around you changes. But don't let your current ERP, or lack of an ERP solution, become an excuse for poor performance or stagnation.

75% of companies that replaced ERP said functionality was one of the top 3 reasons

67% sited outdated technology as a catalyst for replacement

40% said their prior ERP could not support their growth

WHY DO COMPANIES REPLACE ERP?

We asked this question of the 38% that had actually replaced an ERP solution. Lack of functionality available, outdated technology and the inability to scale with growth of the business were the top three reasons by far, with all other reasons trailing significantly. Yet when we asked a similar question of all respondents, asking what might prompt a replacement in the future, the responses were more evenly spread across a variety of factors (Figure 1).

Functionality (51%) and outdated technology (44%) still claimed the top two spots, but the inability to support growth plunged to the bottom (16%). Taking its place at third (38%) was the perception that there was a cost advantage in replacing ERP. In fact this was number 4 for those that had already replaced ERP, but at a much lower percentage (18%). While a full scale replacement is never free, there can be a huge cost saving potential as a result of many of the other factors shown in Figure 1.

Figure 1: What Would Prompt ERP Replacement in Future?

Source: Mint Jutras 2011 ERP Solution Study

When do you consider trading in your car? Typically when the maintenance bills start to escalate.

COST SAVINGS

Some of the cost savings are obvious, but some are more subtle. Clearly the implementation of newer technology and more functionality should result in productivity gains. Replacement of outdated technology can also save in terms of maintenance, both preventative and remedial. When do you consider trading in your car? Typically when the maintenance bills start to escalate.

Of course added mileage and wear and tear on ERP are not the issues. It's more a question of ERP being able to keep up with market and business changes, as well as the accelerating pace of business. Long gone are the days when effective decisions could take days, weeks or months without negatively impacting business. We're talking minutes today, which requires a level of visibility and transparency that few companies have been able to achieve today. Can you?

CONSOLIDATION STRATEGIES

Consolidation strategies can often result in very significant cost savings. A proliferation of different ERP solutions might be the product of merger and acquisition (M&A) activity or result from divisions and business units being left to make their own decisions and purchases. Few companies today operate

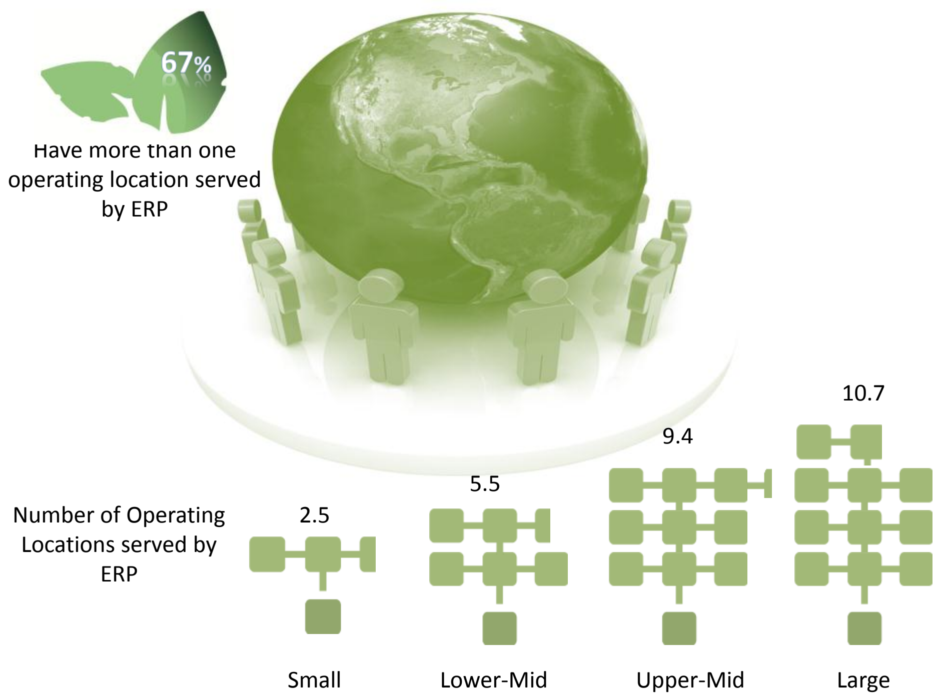
Company Size

Survey responses represented companies from all sizes, based on annual revenue:

- ✓ *41% Small (under $25 million)*
- ✓ *40% Lower Midsize ($25m - $250m)*
- ✓ *13% Upper Midsize ($250m - $1 billion)*
- ✓ *6% large (Over $1b)*

from a single operating location. Two out of three (67%) of companies surveyed have more than one operating location served by ERP even though our sample included companies of all sizes, from very small to very large (Figure 2). As companies grow beyond the $250 million (annual revenue) mark, the likelihood of operating the enterprise on a single ERP declines dramatically. The average number of ERP solutions in an upper mid-size company is 2.9 and 4.8 in a large company. Reducing the number of different solutions supported across the enterprise can produce both hard and soft savings. This of course raises all sorts of questions regarding standards and either single or multi-tier strategies, which are beyond the scope of our discussion here, but should be considered nonetheless.

Figure 2: Distributed Environments Are a Reality



Source: Mint Jutras 2011 ERP Solution Study

INTEGRATION

Any proliferation of enterprise applications, including both ERP and other applications which might surround or extend ERP, raises the issue of integration of both data and processes. Service Oriented Architectures (SOA) and object technologies and standards make integration far easier than the point to point, custom built integrations of the past. Does your current ERP make this easy or hard?

If customizations have you stuck in older releases, perhaps re-implementing the same software at the most current release provides more opportunity, at a lower cost, than an upgrade.

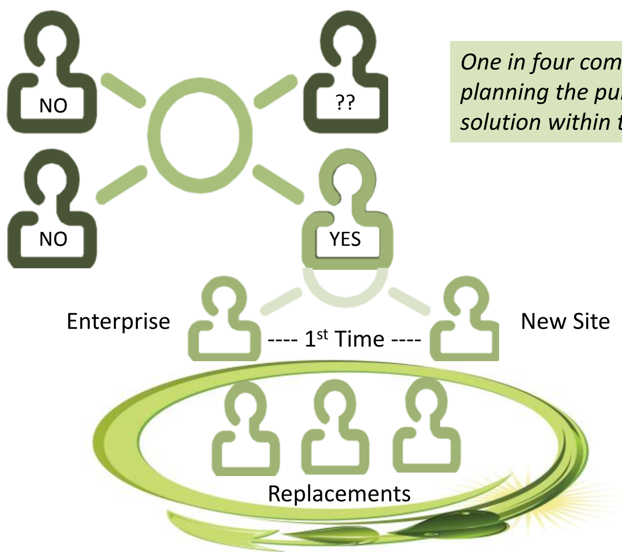
CUSTOMIZATION

Heavily customized solutions may prevent companies from moving forward. But if you truly require heavy customization, then it may be time to reevaluate whether you have the right solution for the job at hand. Perhaps you made the best decision at the time of the purchase, but newer technology and rapid application development models have allowed ERP solution providers to add features and functions at a far more rapid pace than in days gone by. Perhaps you are now able to purchase that same functionality off-the-shelf, thereby eliminating the recurring costs of maintaining customizations, while allowing you to take better advantage of innovation you are already paying for with your maintenance dollars. In fact your current solution provider may have already incorporated features into the standard software that you developed as custom. If customizations have you stuck in older releases, perhaps re-implementing the same software at the most current release provides more opportunity, at a lower cost, than an upgrade.

WHAT ABOUT FIRST TIME PURCHASES?

We asked survey respondents if they planned to purchase ERP within the next three years. Only one in four said yes (Figure 3).

Figure 3: Planned ERP Purchase Within 3 Years?



One in four companies are already planning the purchase of a new ERP solution within the next 3 years.

Three out of five will be replacements of existing ERP solutions, while remaining two out of five are first time purchases either for the entire enterprise or for a new site, previously not supported by ERP.

Source: Mint Jutras 2011 ERP Solution Study

About half (51%) gave a definitive "No" while 24% either didn't know or were undecided. If in fact replacements are driven by consolidation strategies, these results under-estimate the number of new ERP implementations planned since replacing an ERP in order to reduce the number of disparate applications may in fact not require purchase of a new ERP. Instead it may simply require the purchase of a new site license or additional users of an existing ERP. Even so, 25% of all ERP installations today represent a staggering number and that percentage may rise as those "undecided" actually make a decision.

Three out of five of those planned purchases will be a replacement of a current ERP, indicating either patients are dying or decision makers are beginning to understand the benefits of not waiting for a terminal diagnosis.

FIRST TIME FOR THE ENTIRE COMPANY

One in five of those new purchases will be a first time purchase for the company. Of course many of those without any ERP today are small companies, as evidenced by the fact that 34% run their companies on desktop applications and another 16% still use some combination of manual processes and spreadsheets. Yet almost half (47%) do have some enterprise applications. They might run accounting only while others have either a single or multiple applications that they describe as "legacy" applications or just can't be called ERP.

How do you know when it is finally time to invest in real ERP? Here are some of the signals:

You lack control: Processes are manual; data is scattered in file cabinets, offline spreadsheets and across desktops. Data is transferred between desks repeatedly, adding little value and introducing the risk of errors.

You want to grow but you are running blind: Your business is growing. But you have no visibility as to where you made your best profit. Was it in your newest product domestically? Should you expand into emerging markets? What about your established products? Are they still profitable?

You can't meet customer demand: Your inventory levels are rising, yet you still can't seem to meet customer requested ship dates. How do you better forecast demand, lean out your inventory, and produce product just-in-time?

Cash is tight: Should you finance your supply chain costs? Invest in growth? Credit is tight. Can you prove to your investors or creditors that you are credit-worthy?

FIRST TIME FOR A NEW SITE

The final one in five of planned purchases is for a new site that has not previously been supported by ERP. This requirement may grow out of expansion into a new territory and usually implies a separate legal entity, possibly crossing international boundaries; otherwise there is no need to segregate the business and the operating location would simply be supported through a single ERP implementation.

Alternatively the requirement might also stem from a recent acquisition. If the acquisition was also a divestiture from a previous owner or parent company, then typically the acquired unit must quickly replace whatever the previous owner had provided by way of ERP or pay a steep price. Even if the acquired company brings an ERP along with the acquisition, defined standards or a consolidation strategy may drive a replacement, but this would likely not be viewed as a first time purchase, but fall into the "replacement" category.

Both of these situations might result in a new or expanded ERP implementation without purchasing a "new" ERP solution. Again, it may simply require the purchase of a new site license or additional users of an existing ERP. Yet the same care should be taken to insure that the needs of the new site are satisfied, or the results will fall far short of expectations.

JUSTIFYING THE INVESTMENT

Perhaps you are one of the undecided, or perhaps you have decided you need a new ERP, but still have to convince your CEO or Board of Directors. How do you justify the investment? Projecting a return on your investment (ROI) is a good place to start but an often overlooked step when the patient is dying. Why bother to project cost savings or other improvements when you feel your very survival should be enough to justify the purchase? The answer is simple. By establishing a baseline of metrics, setting goals and measuring results, you derive more value. What are reasonable goals? How about looking at the results measured by our survey respondents?

World Class ERP Performance

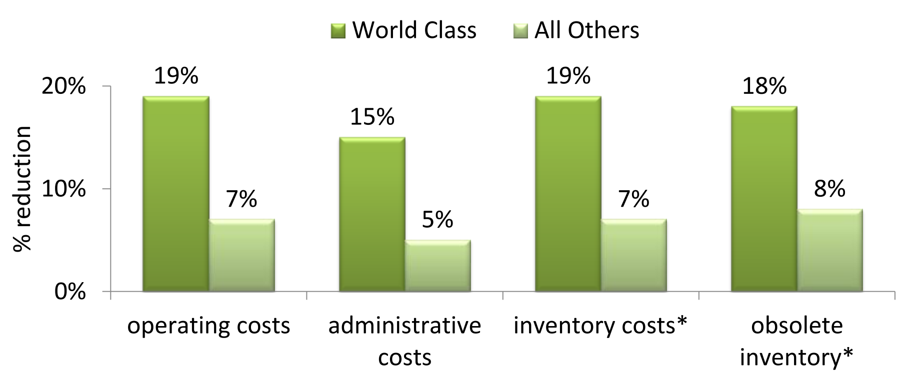
Mint Jutras defines World Class using a composite metric which includes:

- ✓ Actual measured results experienced since implementation
- ✓ Progress made in achieving company-specific goals
- ✓ Current performance in selected KPIs

The top 15% of survey respondents comprise "World Class." The remaining 85% are referenced as "All Others."

In the charts that follow, you will see a comparison between the results of "World Class" ERP implementations and "All Others" (i.e. those that are not World Class). In benchmarking the performance of ERP we use a composite of three different categories of metrics: results, progress in achieving goals and current performance. The metrics we use in defining World Class can be universally applied to any type of business (but we also collect other metrics specific to manufacturing and distribution companies) and therefore can be used as a starting point in terms of projecting possible cost savings or other improvements that might affect top line performance.

Figure 4: Cost Savings Experienced Since Implementing ERP

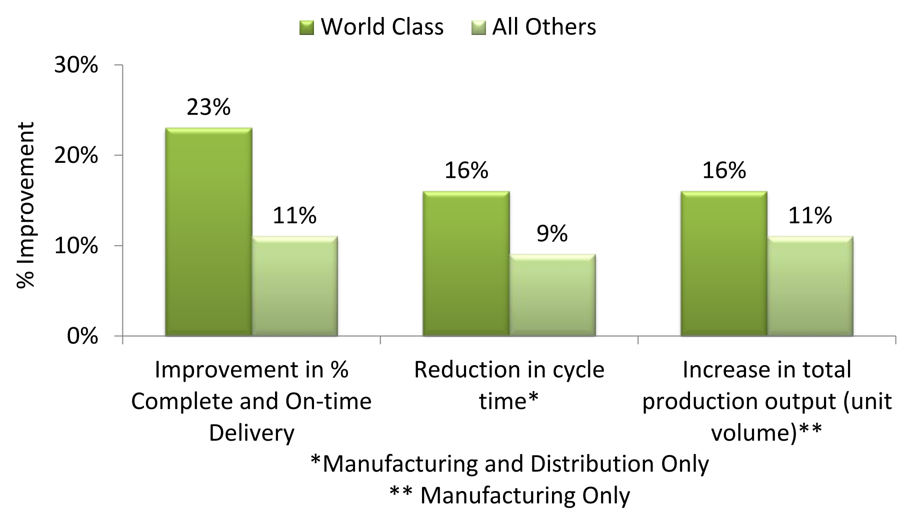


* Manufacturing and Distribution companies only

Source: Mint Jutras 2011 ERP Solution Study

Notice that the title of Figure 4 refers to savings experienced "since implementing ERP" and not "as a result of ERP." While ERP is perhaps the catalyst and provides a timeline, it is always a combination of people, processes and technology that produces results. Figure 5 includes other improvements that may either directly or indirectly impact top or bottom line performance.

Figure 5: Other Improvements Experienced Since Implementing ERP

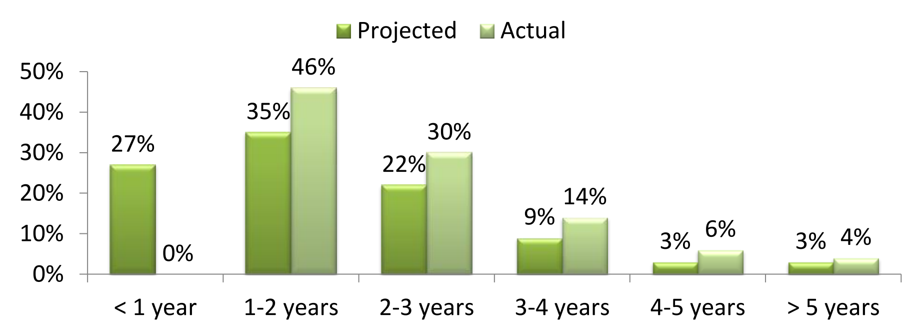


Source: Mint Jutras 2011 ERP Solution Study

While the cost savings and improvements of World Class ERP implementations are often more than double those of All Others, it is important to note that even the average cost savings can easily cost justify the initial expense.

There is no set timeline for achieving these results. None of our survey respondents admitted to not projecting a time line for recouping their return on investment (ROI) in ERP, yet only 70% answered the question, leaving little room for doubt that many actually do not. Yet 96% of World Class implementations answered the question and you can see from the charts above they produced better results.

Figure 6: Projected and Actual Return on Investment Timeline



Source: Mint Jutras 2011 ERP Solution Study

Ordinarily we would encourage companies justifying the purchase of ERP to be aggressive in achieving ROI, but it would appear that recouping the cost within a year is unrealistic (Figure 6). This is not surprising given the average time to achieve the first "go live" milestone was 8.2 months (6.9 for World Class); this appears to have chewed up too much of that first year and left too little time for actual results. However, we should point out that results can be seen even before going live, particularly if a company is disciplined in evaluating current processes before automating them. Often ERP can be used as a catalyst for process and organizational change that is conducive to improvement. After all, if all you intend to do is recreate what you are currently doing, why bother?

HOW TO CHOOSE: DEFINING SELECTION CRITERIA

Suppose you have gone through the exercise of cost justifying an investment and you have decided that you will purchase a new ERP. How do you decide on a solution? Volumes have been written on this subject and there is no shortage of independent consultants that can help you with the process. Understand that the software itself, while very important, is not the only deciding factor in terms of success or failure. The support available from your ERP solution provider is important, as is the support within your own organization.

The table in Figure 7 provides a list of possible selection criteria. Survey respondents prioritized each criterion on the list on a scale of 0 to 4 where 0 was "not a consideration" and 4 meant "must have/most important." You should do the same and prioritize each and add any other factors you feel are important.

Selection Criteria Priorities

Selection criteria was prioritized using a scale of 0 to 4:

- 0: Not a consideration
- 1: Nice to have
- 2: Somewhat important
- 3: Important
- 4: Must have/Most important

Figure 7: Selection Criteria Priorities (Scale of 1 to 4)

	Mean Rank
Ease of use	3.49
Fit and Functionality	3.49
Flexibility to address changing business needs	3.42
Quality and availability of vendor support services	3.30
Total cost of ownership	3.21
Integration technologies and capabilities	3.20
Ease and speed of implementation	3.18
Ability to tailor functionality without programming	3.08
Must be an integrated suite rather than multiple point solutions	3.06
Level of product expertise available from business partners	3.02
Software cost	3.01
Ability to access ERP through a mobile device	2.31
Deployment model	2.29

Source: Mint Jutras 2011 ERP Solution Study

Selecting the software with the best fit and functionality has always been the top priority of selection committees, but ease of use has become more and more important as users of ERP have become accustomed to intuitive interfaces and easy-to-use consumer applications. Why should an enterprise application be so much harder to use than a free "app" that you download to your smartphone? And if it is not easy to use, will employees embrace the solution?

It is not only important that the solution fit your current needs, but your future needs as well. In fact survey respondents reported managing change as the top challenge to achieving expected results from ERP. As noted earlier, ERP can actually be the cause of change, but change can also occur after ERP is implemented. In fact today, plan on things changing and carefully evaluate any ERP solution's ability to adapt to changing needs.

The other selection criteria listed are quite self-explanatory, but the two on the bottom of the list (mobile access and deployment options) are worth noting, for just that reason – they are on the bottom of the list. And yet "mobility" and Software as a Service (SaaS) or cloud deployments are possibly two of the hottest topics today.

MOBILITY

"Mobility" seems to be all the rage these days. While mobile devices free us from wired connections, they actually seem to tether us more firmly to our businesses. Professionals are "always on" and "always connected" even when traveling for business, attending a child's soccer game or on vacation. But do we really have better access to the enterprise data we use to make decisions and run our businesses? While many use their "smart phones" as a means to be alerted to a potential problem or situation, once alerted, most turn that smart phone into a dumb phone. They call a colleague or a subordinate rather than directly access enterprise data. OK maybe they text or email instead of calling, but that has the same result.

A lot of companies and individuals still miss the connection between proactive management and the underlying enterprise data that runs their business. It is just a matter of time before this will change, and when it does, the changes will be dramatic. Those executives who have always been one step removed from directly touching ERP will have their hands all over it. So if you are contemplating replacing your ERP solution, make sure mobile access is available today or you see a clear path to mobility.

CONSIDERING SAAS

The hype cycle surrounding Software as a Service (SaaS) has been escalating over the past several years, building to a crescendo entering 2012. ERP holds a special place in the grand scheme of SaaS. While companies seemed willing enough to let the applications that surround and extend ERP reside in a SaaS environment, they were less willing to place their systems of record in a cloud they did not specifically own or control. Today that is changing and many are weighing the pros and cons of SaaS ERP.

This can be an important consideration for first time ERP purchases, particularly if the reason for not previously investing was cost. Cost savings, including TCO, startup costs and cost of IT staff can be substantial with a SaaS deployment. Even if the subscription cost equals the cost of software and maintenance over time, there are still the savings achieved by eliminating the purchase or continued maintenance of hardware. If you have no IT staff today, there is no need to hire any. If you are seeking a replacement and have good IT staff on board, let them engage in more strategic, value-add activities than routine maintenance.

The accounting advantages of treating the investment as an operating expense (OpEx) versus a capital expense (CapEx) may be appealing to you as well.

If you are considering a first time purchase for a new site, consider the advantages a SaaS environment can bring in terms of standardization across the enterprise as well as the possibility of supporting a new location remotely with your current staff.

CONCLUSION AND RECOMMENDATIONS

Deciding to purchase ERP is indeed a big decision. Whether you view it as brain surgery or joint replacement, there is no such thing as non-invasive surgery. It can and should have a serious impact on your business, but hopefully in a positive way. Look back at the average cost savings, even for those which were not “World Class.” Yes, there will be failed implementations. But there will also be those which can be truly classified as successful. Often the same ERP solution is at the heart of both. So while it is critical that you select a solution that fits your needs, it is equally important to give the evaluation, selection and implementation the proper attention to produce that success.

Here are a few recommendations for a successful ERP journey:

- **Don’t wait until the patient is dying**. Making a selection and running an implementation project when the business is under duress does not create an atmosphere of careful consideration, planning and execution. You will be tempted to take shortcuts that you may later regret.
- **Need it but can’t afford it**? Consider the potential cost savings. Most ERP solutions pay for themselves within a two to three year time period. If capital funds are not available to support the project, consider SaaS deployment with less up front cost. Also, survey respondents with SaaS implementations reached their first go-live milestone 19% faster than those with on-premise solutions.

- **Set goals and measure**. Before embarking on your ERP project, decide which metrics will measure success. Establish a base line, set goals and measure progress against those goals. When you reach them, set another goal. Continue to measure and continue to reap more benefits.

An ERP implementation is not easy. Just like surgery, there will be some “recovery” time. But that doesn’t mean your business stops during that recovery period. It just means you need to take extra care to insure a full recovery, with the result being a healthy business that is able to function better than ever.

About the author: Cindy Jutras is a widely recognized expert in analyzing the impact of enterprise applications on business performance. Utilizing over 35 years of corporate experience and specific expertise in manufacturing, supply chain, customer service and business performance management, Cindy has spent the past 6 years benchmarking the performance of software solutions in the context of the business benefits of technology. In 2011 Cindy founded Mint Jutras LLC (www.mintjutras.com), specializing in analyzing and communicating the business value enterprise applications bring to the enterprise.

