

ERP Selection

Starting Out on the Right Foot

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ERP Selection: Starting Out on the Right Foot

Enterprise Resource Planning (ERP) software selection and implementation can be a complicated process. But having an ERP strategy in place from the start makes it easier. And a good ERP strategy starts with the selection of the ERP system itself. From Aberdeen's ERP research survey launched in May, 2011 and which is still active, 75% of Best-in-Class companies start with a Best-in-Class ERP selection process.

Aberdeen's 2011 ERP survey as of July, 2011 looked at not only how ERP impacts a company's overall performance, but how they selected and implemented ERP. Table 1 shows the performance difference of companies based on Aberdeen's Maturity Model.

This Analyst Insight will examine the how Best-in-Class companies select their ERP system as part of an overall ERP strategy.

Table 1: Business Benefits Achieved from ERP

Benefit from ERP	Best-in-Class	Industry Average	Laggard
Reduction in operating costs	20%	13%	5%
Reduction in administrative costs	18%	10%	4%
Reduction in inventory	22%	11%	3%
Improvement in internal schedule compliance	18%	12%	7%
Improvement in complete and on-time shipments	17%	13%	5%

Source: Aberdeen Group, July 2011

Why are we even doing this?

The start of an ERP selection process is the decision to replace either an existing system or process. Figure 1 shows what companies are replacing with an ERP system. Interestingly, 59% of Best-in-Class companies have some experience with ERP already, while less than half of all others have any experience with a formal ERP system prior to the selection process.

Analyst Insight

Aberdeen's Insights provide the analyst perspective of the research as drawn from an aggregated view of the research surveys, interviews, and data analysis

Research Methodology and Maturity Model

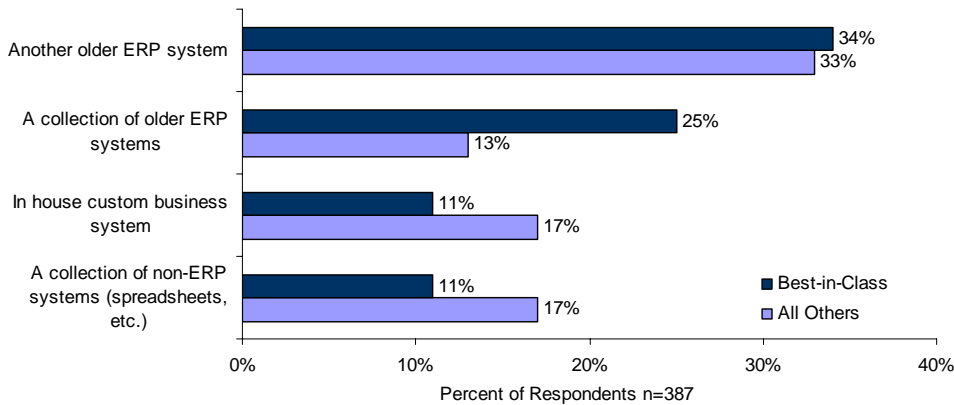
The Aberdeen Maturity-Class Framework defines enterprises as falling into one of the following three levels of practices and performance:

Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.

Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.

Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.

Figure 1: What did, or are you, replacing with ERP?



Source: Aberdeen Group, July 2011

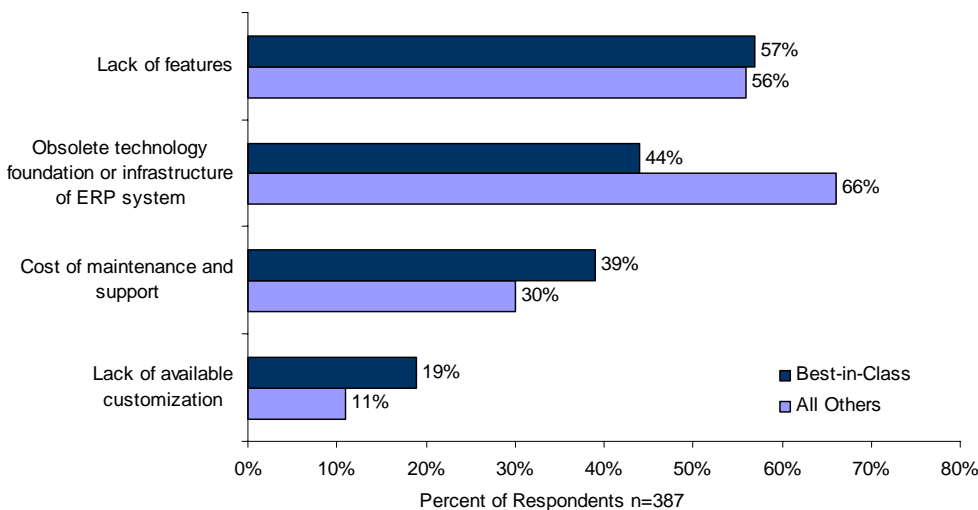
“ERP has provided the ‘backbone’ for which we link all departments. It has also provided standards for doing business.”

~ William Elder, Manager,
Micro Manufacturing Systems

What also stands out in the research is that for all companies, replacing manual systems was less than 10%. This shows that most companies have reached a threshold of technology where they are at least using some form of information system to assist in their business processes.

Figure 2 answers the next obvious question; why are they replacing their current system. All companies are concerned about feature fit, with well over half of all companies listing it as a top reason for system replacement. But a large divergence appears when looking at whether modernizing technology infrastructure is a driver. While still the second most common reason for replacing a current system, almost two-thirds of all other companies (the Industry Average and Laggard companies combined) list this as a key reason compared to less than half of Best-in-Class companies.

Figure 2: Top reasons for replacing the current system



Source: Aberdeen Group, July 2011

Best-in-Class Criteria

From its May to July, 2011 research survey data, Aberdeen defines Best-in-Class ERP implementation as follows:

- ✓ Days sales outstanding (33 for the Best-in-Class)
- ✓ Operating margin growth (18% for the Best-in-Class)
- ✓ Days to close books (3.1 days for the Best-in-Class)
- ✓ Complete and on-time shipment (96% for the Best-in-Class)

Best-in-Class companies in the current ERP study are also 25% more likely than all other companies to have ongoing support costs as a reason for replacing their current system. This can be correlated to Aberdeen’s research findings in *Aging ERP: When Old ERP is Too Old*, June 2011, where we found companies having their ERP less than 10 years old outperformed companies with older systems. These newer systems are more likely to still be on maintenance and support contracts with their original ERP vendor.

“Having been through an ERP implementation before, I was able to do a much better job this time in knowing what questions to ask and where to look for skeletons.”

~ VP of Operations, Food Processing Company

Are we ready yet?

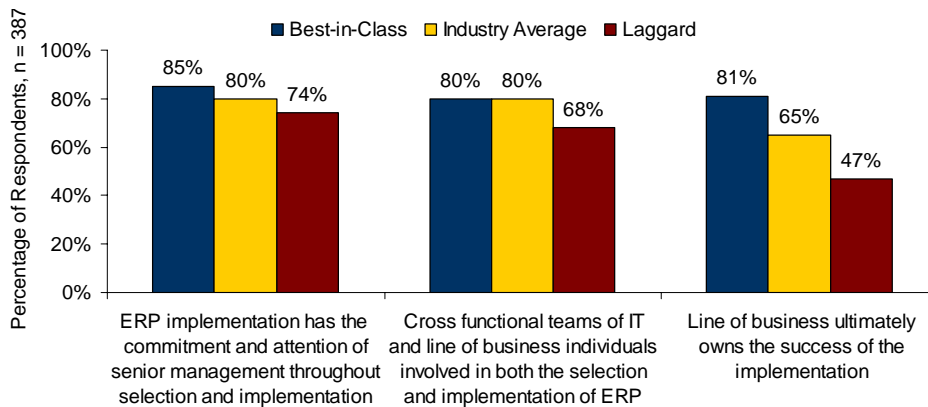
One aspect frequently overlooked in selecting an ERP system and developing an ERP strategy is if a company has the organization set up to successfully select and implement an ERP system. Figure 3 shows some critical areas that a company must consider around its organization. One of the most important factors that set the immediate tone during the selection process is management commitment. As Figure 3 shows, 85% of Best-in-Class companies feel they have an ongoing management commitment. Even though Laggards are 15% less likely to feel they have management commitment, almost three-quarters of them still feel they have some level of commitment from the management team.

Typical selection process

Every selection process is different, but typically follows the following high-level sequence:

- ✓ Business and IT develop top level needs through a steering committee
- ✓ IT puts together long list of vendors and an RFI
- ✓ Cross functional selection team builds business case and short list (three vendors) and RFP
- ✓ A detailed demo is done for each vendor with specific task workers evaluating vendor
- ✓ Cross functional team makes final recommendation

Figure 3: Organizational capabilities



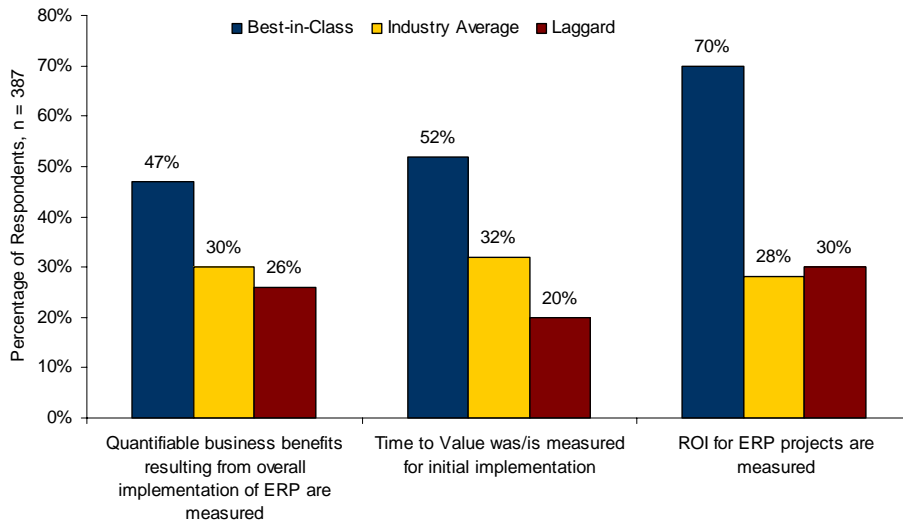
Source: Aberdeen Group, July 2011

Figure 3 also shows that most companies drive cross functional teams throughout the selection and implementation process. Typically, companies develop a steering committee made up of IT and business leaders to manage and steer the selection process. What becomes a differentiator for the Best-in-Class is that the majority, 81%, make line of business leaders ultimately responsible for the success of the ERP implementation. This drives business executives to be much more engaged in the selection process. You can see that significantly less than half of Laggards, 41%, have business leaders accountable for ERP success.

Getting ready to measure success

Now in order to make someone accountable, they have to have something to be measured with. Figure 4 shows how companies compare in measuring the success of their ERP implementation.

Figure 4: Do you, or will you, measure your ERP implementation



Source: Aberdeen Group, July 2011

Measuring your ERP implementation is important in the selection process because these measurement processes need to be in place before a business case is built and a selection committee is built. This is where having a solid steering committee made up of business and IT becomes important. The measurements are typically taken from the requirements built into the business case.

As Figure 4 shows, Best-in-Class companies are almost twice as likely as any other company to use quantifiable benefits to measure an ERP implementation. Those same companies are also almost three times as likely to have an idea of the time needed to generate value from the ERP system. Best-in-Class companies are over 250% more likely to actually measure a Return on Investment (ROI) on an ERP system.

All of these measurement processes are only available if, during the selection process, a company sets out these measurements as part of the business case. Best-in-Class companies set expectations and involve the business leaders in the selection process at a far greater pace than Laggard companies

Setting a strategy for selection

Let's take a look at how companies view standardization of the selection process. Figure 5 shows some key elements of a selection strategy. A selection strategy should be the start of a full ERP strategy. The first part is

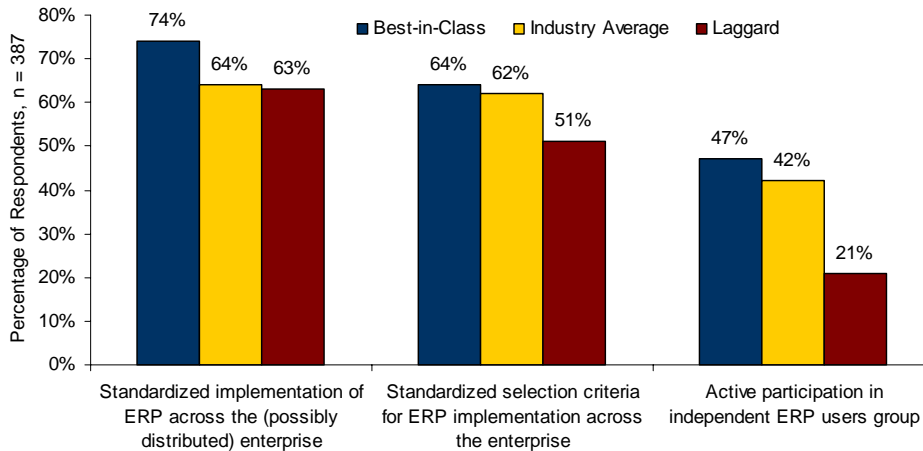
Choosing the Right Reference

Most ERP selection processes use references as a benchmark to determine the fit of the ERP system. The following are some suggestions in choosing the right reference:

- ✓ Always be skeptical of references provided by a vendor
- ✓ A reference based on number of users and employees is usually a better gage just on revenue
- ✓ Speak to actual daily users of the system, not just the IT group
- ✓ Get references from the ERP vendor's user group
- ✓ Prioritize references by how close their organizational structure is to yours

deciding how far an ERP strategy will go within an organization. The majority of companies, almost 70%, have a set ERP implementation strategy for the entire organization.

Figure 5: ERP selection strategy



"Working with a user group for an ERP system we were considering, we determined it was not a good fit. The user group saved us significant time and effort."

~ Director of IT, \$500M manufacturer of electrical components

Source: Aberdeen Group, July 2011

A more obvious question is if there is even a standard selection process for choosing an ERP system. Figure 5 shows that almost two-thirds of Best-in-Class companies have standardized their selection process. Compare this to barely half of Laggard companies. This result correlates to what was shown in Figure 2 with almost 60% of Best-in-Class companies already having significant experience with ERP systems.

One interesting element that comes out of Figure 5 is peer support. Best-in-Class companies are twice as likely to be engaged with peers through independent ERP user groups. These are groups that unaffiliated with any ERP vendor, but band together to provide support to companies selecting or using a specific ERP system. They are almost always focused on one ERP vendor.

Key Takeaways

The selection process and strategy is the most important part of an ERP strategy. It lays the groundwork and foundation for an ongoing and successful ERP strategy. Some of the key elements to consider in the selection process

- How much experience your company has with ERP already
- Are you organizationally prepared for the selection and implementation
- Are you ready to measure and set accountability
- Are you looking for critical features that are an immediate issue if a proposed ERP systems lacks them

Laggards Steps to a Successful Selection

- **Make line-of-business leaders accountable.** Over 80% of Best-in-Class companies make their business leaders accountable for the success of selection and implementation. Compare that to less than 50% for Laggards holding business leaders accountable. Getting business leaders heavily engaged in selecting and implementing ERP gives them ownership that will be driven down to all users of the system.
- **Layout ROI measurements from the start.** ROI measurement has its start in the selection process. Almost three-quarters of Best-in-Class companies measure ROI on their ERP implementation, while less than a third of Laggard companies do. Laggard companies should follow the lead of Best-in-Class companies and have their ERP metrics set during the selection and business case process.
- **Get engaged with your peers.** Less than 20% of Laggard companies are engaged with ERP user groups, while almost half of Best-in-Class and Industry Average companies turn to their peers for support. This is typically free, or very low cost, support for companies starting out on the ERP selection path. Not taking advantage of this resource is the first step to Laggard performance.

Industry Average Steps to Selection Success

- **Make sure you have the internal resources allocated.** According to Figure 3, Industry Average companies are 20% less likely than Best-in-Class companies to have laid out and allocated their internal resources to manage selection and implementation. Having those resources allocated and in place during the selection process is critical to the final selection.
- **Measure like the best.** The Best-in-Class out-measure Industry Average companies in all aspects of tracking. From basic ROI, to time to value, to business benefits of ERP, Figure 4 shows a gap from a factor of two to three in differences between Best-in-Class and Industry Average companies. This starts during the selection process with setting the goals and expected benefits in the business case.
- **Standardize your ERP strategy.** Best-in-Class companies outstrip Industry Average companies by 15% in using a standard ERP implementation throughout their organization. Setting that strategy during the selection process allows a company to leverage what they learn through any other selections and implementations.

"ERP has increased client retention by 18%, increased cash flow by 12% while reducing CPE by 20%."

~ Employee, Financial Services Organization

Best-in-Class Steps to Selection Success

- **Set yourself up to measure the ERP benefits.** Less than half of Best-in-Class companies measure the actual business benefits of their ERP system. This usually starts at the selection process. Best-in-Class companies should set their expected benefits and then

measure them. This should then be rolled back into any future selection processes to make business cases more accurate.

- **Take advantage of your peers' feedback on ERP.** Almost half of Best-in-Class companies use the ERP user groups to some extent. But using it to get peer support during the selection process should be the primary goal of any user group relationship. It is in those groups that companies can find references and unvarnished opinions on an ERP vendor.

The selection process is the start of your ERP strategy. But the selection process must be constantly refined and adjusted through experience. That experience comes both internally through measurement, as well as externally through peers.

For more information on this or other research topics, please visit www.aberdeen.com.

Survey Demographics

Demographics for survey respondents between May and July, 2011:

- √ **Job title:** Respondents had the following job titles: C-Level (23%); EVP / SVP / VP / GM (12%); Director (16%); Manager (29%); Staff and other (20%).
- √ **Industry:** Respondents were from a wide range of industries with the largest being: IT services (19%); software (10%); and industrial product manufacturing (8%).
- √ **Geography:** The respondents were 62% from the Americas. Remaining respondents included those from the Asia-Pacific region (11%) and EMEA (27%).
- √ **Company size:** Twenty-four percent (24%) of respondents were from large enterprises (annual revenues above US \$1 billion); 37% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 39% of respondents were from small businesses (annual revenues of \$50 million or less).
- √ **Headcount:** Twenty percent (20%) of respondents were from large enterprises (headcount greater than 5,000 employees); 37% were from midsize enterprises (headcount between 251 and 5,000 employees); and 43% of respondents were from small businesses (headcount between 1 and 250 employees).

Related Research	
ERP in Manufacturing 2011: Defining the ERP Strategy; July 2011	Aging ERP: When Old ERP is Too Old; June 2011
To ERP or Not to ERP: In Manufacturing, It Isn't Even a Question; April 2011	ERP: Is High ROI with Low TCO Possible?; January 2011
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