2013 ERP REPORT

A Panorama Consulting Solutions Research Report

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Introduction

Panorama Consulting Solutions developed the ***2013 ERP Report*** to investigate ERP software selection, implementation and satisfaction trends across industries, company sizes and geographic locations. The report summarizes Panorama's independent research into the experiences of ERP customers with regards to enterprise software, vendors, consultants and implementations overall.

To ensure our findings reflect the current conditions as accurately as possible, polling for the ***2013 ERP Report*** was conducted on Panorama's website (**Panorama-Consulting.com**) during a recent four-month period (September 2012 to January 2013). One hundred seventy-two respondents completed the surveys upon which this data is based.

Data Summary by Year

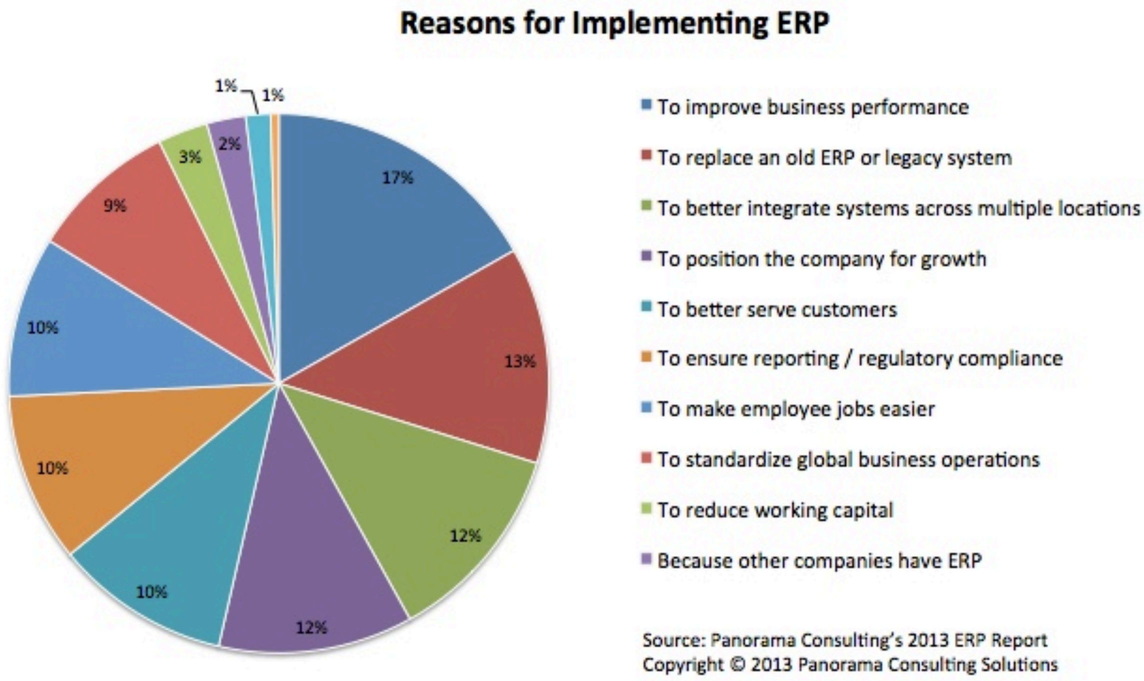
YEAR	COST	% OF COST OVERRUNS	DURATION	% OF DURATION OVERRUNS	% RECEIVING 50% OR LESS BENEFITS
2012	$7.1MM	53%	17.8 months	61%	60%
2011	$10.5MM	56%	16 months	54%	48%
2010	$5.5MM	74%	14.3 months	61%	48%
2009	$6.2MM	51%	18.4 months	36%	67%

Over the past four year's of Panorama's independent ERP research, the average cost of implementations has been $7.3 million dollars and the average duration has been 16.6 months. In this period, approximately 59-percent of projects have exceeded their planned budgets, 53-percent of projects have exceeded their planned durations and a full 56-percent of respondent organizations have received less than 50-percent of the measurable benefits they anticipated from their ERP software initiatives.

While costs, durations and benefits received fluctuate year to year due to economic conditions, implementation trends and data set make-up, the facts remain: an organization is more likely to surpass its cost and timeline expectations and receive less than half of the benefits it expects than it is not.

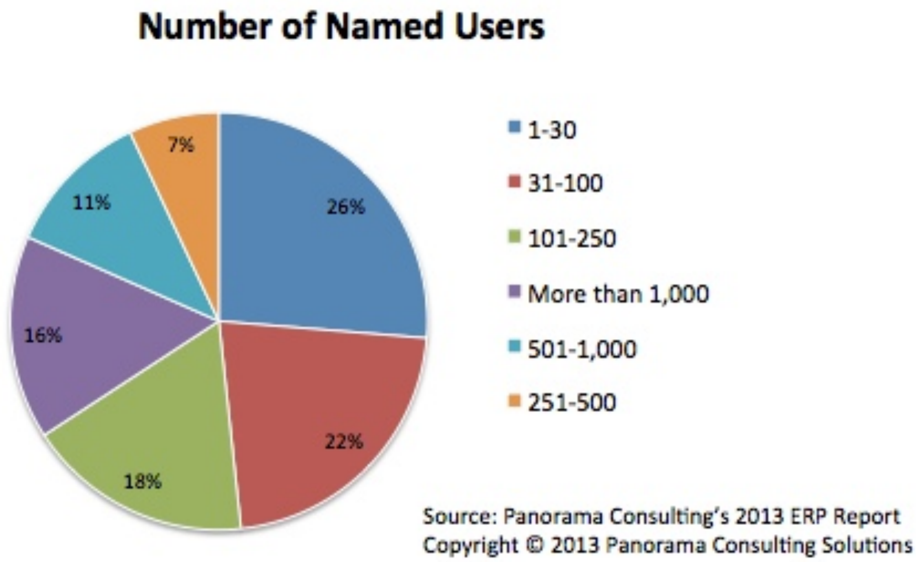
Respondent Overview

Although the organizations represented by survey respondents vary in industry, location, size, goals and needs, all respondents have had recent ERP project experience. Two out of five respondents (40-percent) have completed their ERP implementation while 36-percent are in the process of implementing and 17-percent are in the planning phase. The top reasons cited for implementing ERP were to improve business performance (17-percent), to replace an old ERP or legacy system (13-percent), to better integrate systems across multiple locations (12-percent) and to position the company for growth (12-percent).

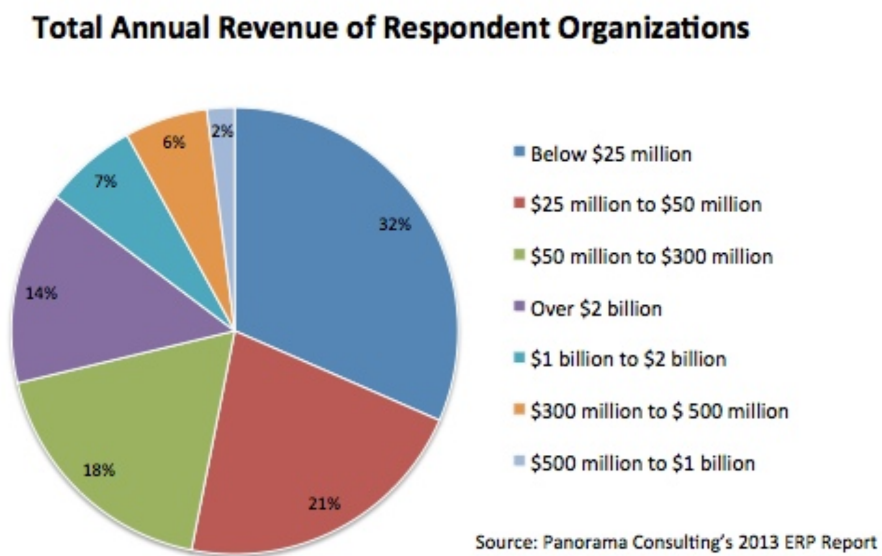


More than three out of four respondents (78-percent) indicated that their companies were implementing or had implemented ERP software at two or more locations. The ERP systems were purchased to replace out-of-date, existing ERP software (45-percent), a non-ERP system or systems (19-percent) or homegrown systems (16-percent). Six-percent of respondents indicated that they had no "true system" and were paper-based prior to the ERP implementation.

The number of named users of the ERP system identified by respondent organizations varied greatly. As the graph on the following page shows, nearly half of the companies represented (48-percent) had between one and 100 named users and 36-percent had between 101 and 1,000 named users.



Utilities, manufacturing, distribution, retail trade, public sector and professional service firms made up 85-percent of respondents. Half of respondent companies (50-percent) are multinational and, as shown in the chart below, total annual revenues reported ran the gamut from less than $25 million (32-percent) to $1 billion or more (21-percent).

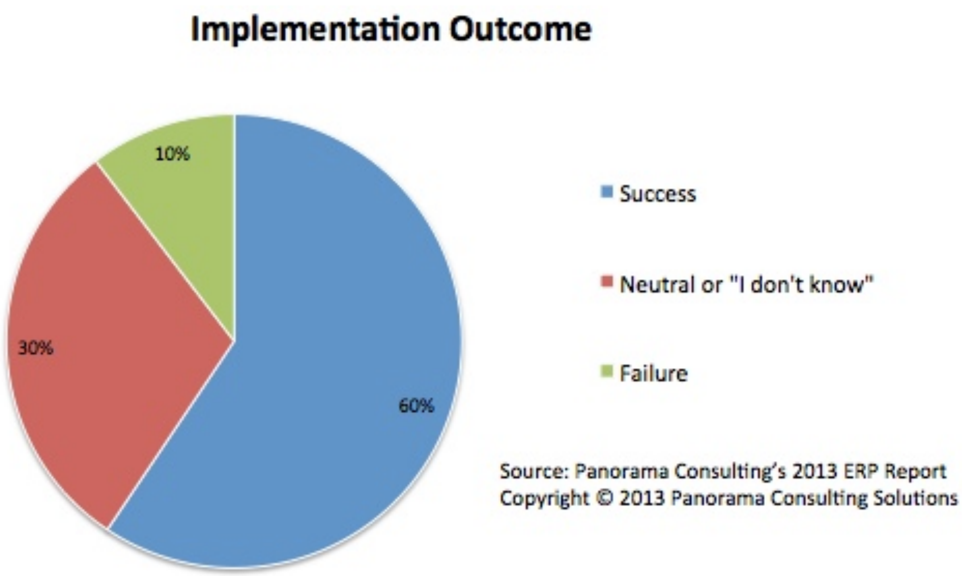


Given the large size and earnings of respondent companies, it is somewhat surprising how relatively few members of the organizations are named users of the ERP system. This disparity indicates a lack of holistic usage across the organizations, which could stem from severe underestimation of the true, cross-functional impacts (and benefits) of enterprise software.

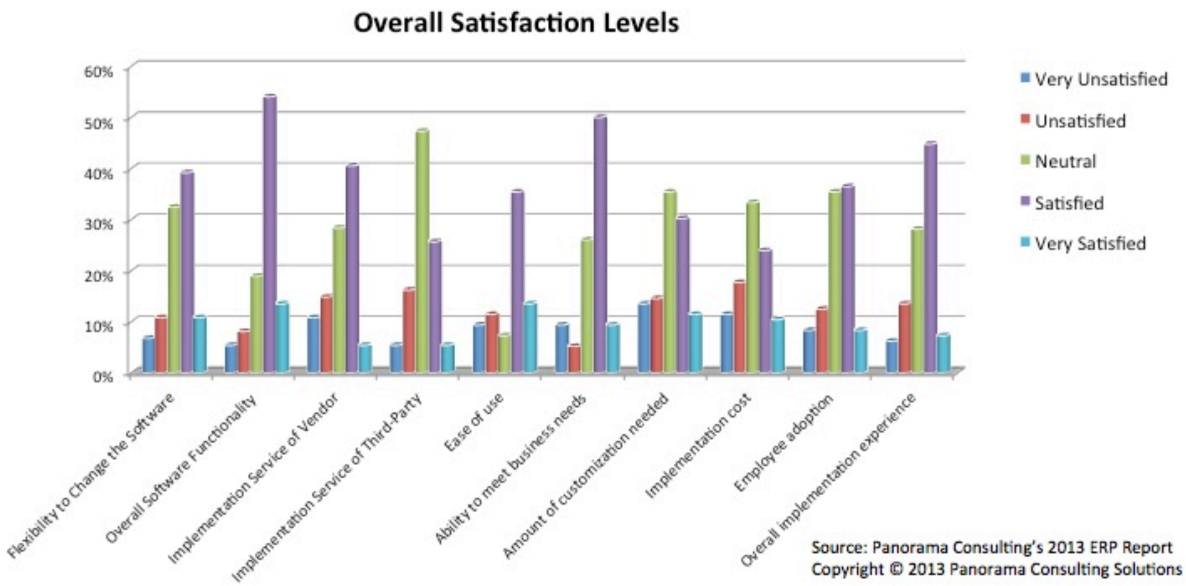
ERP Software Satisfaction Levels

General satisfaction levels for ERP software continue to trend high. The majority of respondents (86-percent) are satisfied with their ERP software (as compared to 81-percent in 2012) and 81-percent would select their chosen software again.

Given the high levels of overall satisfaction with the software, it is compelling that only 60-percent of respondents actually call their ERP project a "success." Perhaps even more interesting is that nearly one-third of respondents (30-percent) are "neutral" or "don't know" if their project was a success, which points to a lack of a business case, lack of post-implementation auditing and / or a lack of communication about project results from leadership. One out of ten respondents (10-percent) indicate that their organization's ERP project was a failure.



In terms of satisfaction based on individual components, respondents were most "satisfied" with the overall software functionality (54-percent), the ability of the software to meet their business needs (50-percent) and the overall implementation experience (45-percent). Respondents were hesitant to rate themselves "very satisfied" or "very unsatisfied" for any of the components listed. The highest satisfaction rates emerged from overall software functionality (68-percent "satisfied" or "very satisfied") and the software's ability to meet business needs (59-percent "satisfied" or "very satisfied") while the lowest satisfaction rates were found in the amount of customization needed (29-percent "unsatisfied" or "very unsatisfied") and the implementation costs (29-percent "unsatisfied" or "very unsatisfied").



The fact that the majority of respondents self-described as "satisfied" with their ERP software selection, yet cannot translate that satisfaction into individual components points to a cloudy definition of "satisfaction" among organizations. Companies that do not use a business case – and thus do not measure actual project results against any expected benefits – likely have a harder time defining success or failure for the company, various functional areas or even individuals. Clear communications to end-users and stakeholders about the goals of the ERP project, expected benefits and actual results can create a more unified and realistic satisfaction and success measures.

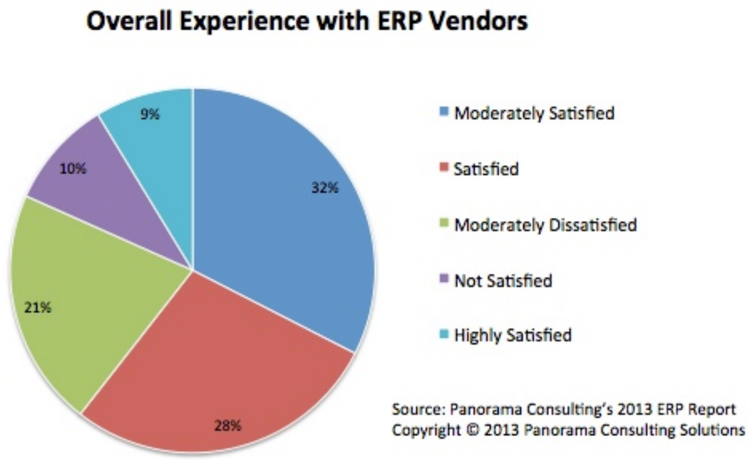
It is also important to note that project fatigue can result in executives, implementation teams and end-users breathing a sigh of relief at go-live and considering the project "done" and themselves and the company "satisfied." Organizations must be careful to ensure that end-users and executives know that results will be measured against key performance indicators *for the life of the software* and that go-live is just one of the goals of the project.

ERP Vendors

Sample ERP Vendors Included in Data Set
Abacus
Clarizen
ECi Solutions
Epicor
EZware
IFS
Infor
Jobscope
Lawson
Microsoft Dynamics
NetSuite
Oracle
Plex Systems
Sage
SAP

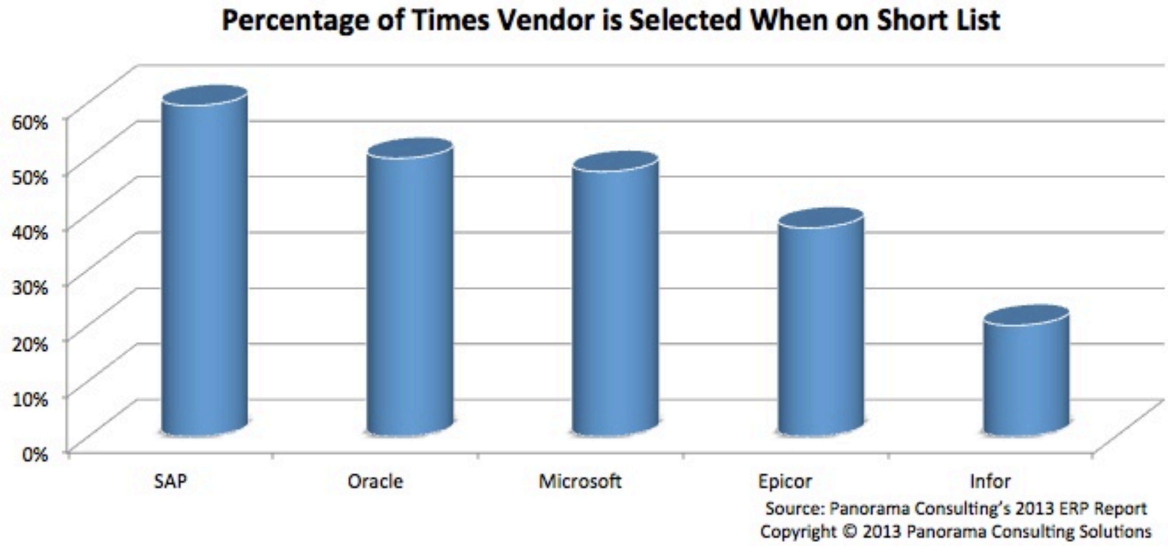
As displayed in the table on the left, survey respondents' choice of ERP vendors is varied and shows the vast amount of enterprise solutions available in the marketplace at large.

The graphic below shows that the majority of respondents (69-percent) reported at least some level of satisfaction with their chosen ERP vendor:



Nearly one out of three respondents (31-percent), however, reported being "moderately dissatisfied" or "not satisfied" with their overall experience with their ERP vendor. In Panorama's experience, much of the dissatisfaction can stem from the delta between promises made in the sales cycle and actual results. Organizations that don't have clearly defined requirements and plans to achieve the benefits they are promised during the demonstrations will often find themselves, rightfully or not, feeling rather shorted by the ERP vendors themselves.

In terms of specific vendors chosen, SAP was the vendor most frequently shortlisted by respondent organizations (34-percent), followed by Oracle (26-percent), Microsoft Dynamics (19-percent), Epicor (seven-percent) and Infor (five-percent). In terms of percentage of times the vendor was chosen after they had been shortlisted, SAP again was the vendor most frequently selected (59-percent of the time), followed by Oracle (50-percent of the time), Microsoft (48-percent of the time), Epicor (38-percent of the time) and Infor (20-percent of the time).

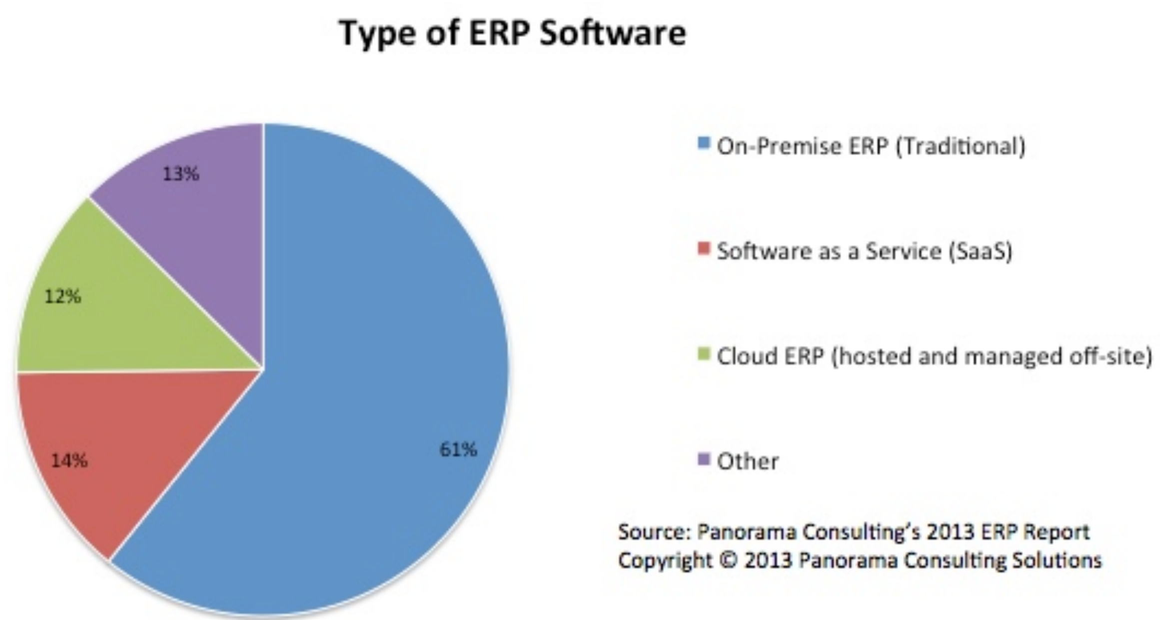


There is no question that Tier I solutions SAP, Oracle and Microsoft have impressive salespeople, enormous advertising budgets and the benefit of being "household names" in the ERP market. More noteworthy is that Tier II vendors Epicor and Infor are making substantial inroads into the Tier I titans' potential customer base. The fact that Epicor is being selected nearly two out of five times it is shortlisted and Infor is being selected one out of five times it is shortlisted indicates strong market share for both of these companies.

Please note that additional vendor-specific research and analysis will be available in Panorama's ***2013 Clash of the Titans Report***, due in the summer of 2013.

ERP Solutions

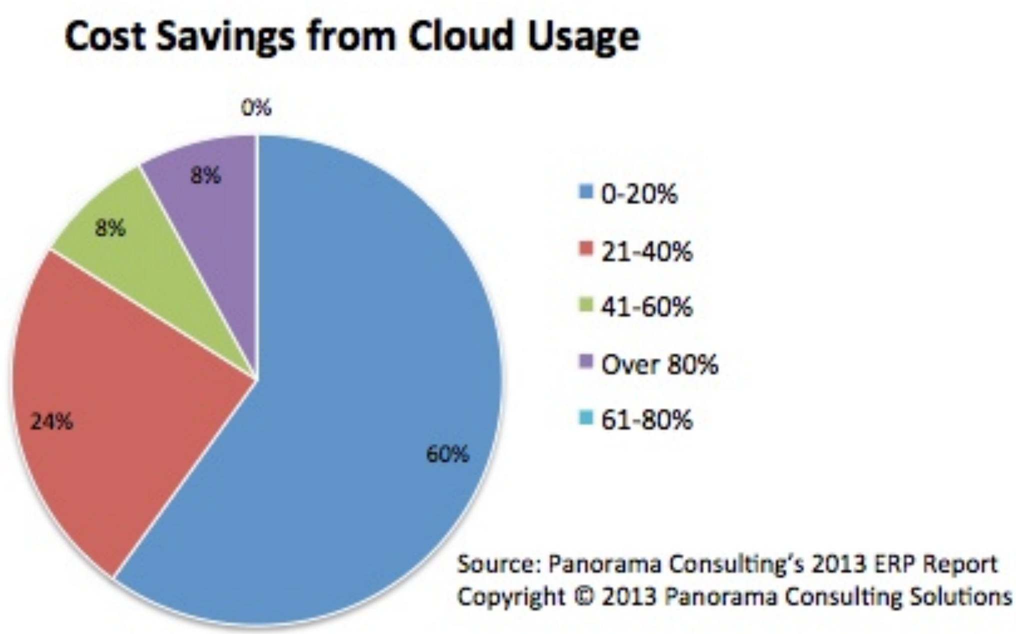
As we have seen in previous years, the majority of respondents (61-percent) has implemented or is in the process of implementing on-premise ERP software (an increase of three-percent over last year). Together, 26-percent of respondents selected software as a service (SaaS) and cloud ERP.



While the media continues to promote cloud ERP as the wave of the future, less than one out of five respondents (18-percent) indicated that any part of their ERP system was hosted in the cloud. The reasons why companies shy away from employing this technology include risk of security breaches (32-percent), lack of information or knowledge about the offerings on the market (32-percent), and risk of data loss (17-percent).

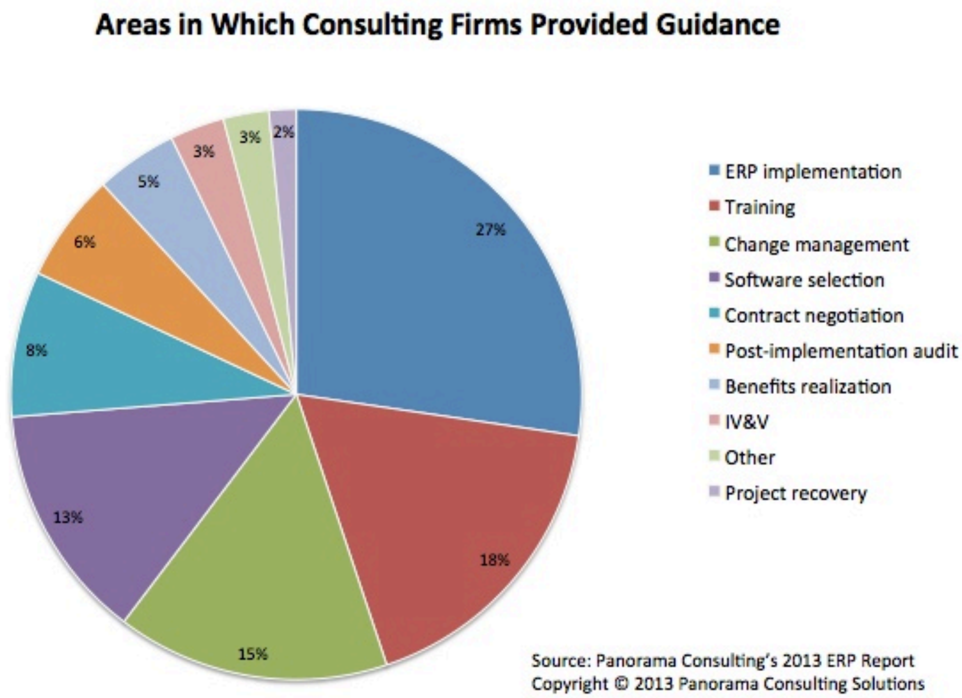
Although the market for cloud usage is growing, its adoption rate continues to suffer from the perception that it is a risky endeavor. Panorama's experience has shown that cloud providers typically provide more secure and reliable solutions than any internal IT group ever could, which is an important point for executives to consider during the software selection process.

One of the benefits often touted by cloud ERP vendors is its price tag. According to respondents' experiences, however, it is evident that this is not necessarily the case. Indeed, when asked what percentage of cost savings their organization realized or expected to realize from cloud usage, three out of five respondents who had deployed cloud technology (60-percent) indicated that they had recognized between zero-percent and 20-percent cost savings. A further 24-percent revealed that they had only saved between 21-percent and 40-percent. Organizations that deploy cloud technology primarily as a cost-savings measure would be wise to consider the true cost of ownership over time.



ERP Consultants

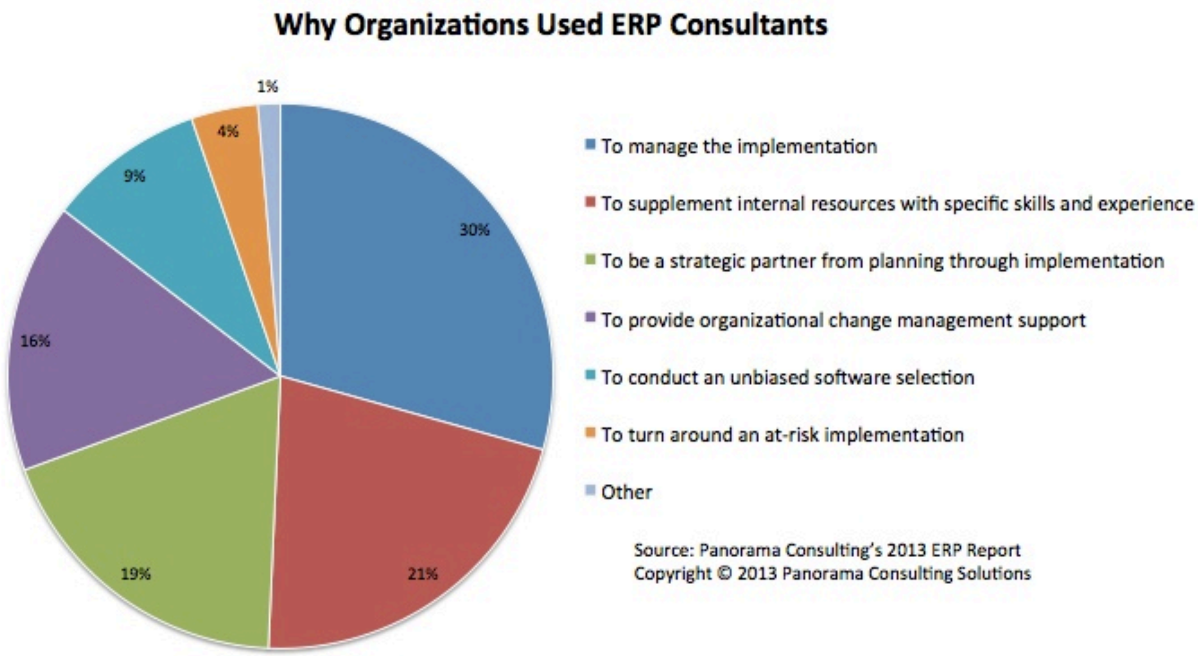
The majority of respondents (60-percent) employed the services of an ERP consulting firm to help plan an ERP project, evaluate and purchase the enterprise software, implement the software and / or conduct a post-implementation audit. Organizations have come to realize that the advice, assistance and experience of an ERP consulting firm can not just be of great benefit to project teams, project management and overall benefits realization, but also can be leveraged at any time during the initiative. Equal amounts of respondents brought in consultants during the planning phase (35-percent) and the selection and purchasing phase (35-percent), while more than a quarter of respondents (28-percent) chose to utilize consulting services during implementation. Only two-percent of respondents indicated that they used consultants after implementation, which could be due to a lack of knowledge of the benefits that ERP systems are supposed to bring (and how consultants could help achieve those benefits) and / or a lack of motivation to allocate any additional resources after the system is implemented. The inclusion of consultants that late in the game could also indicate project recovery work.



The key aspects that consultants were asked to provide guidance for include ERP implementation (27-percent), training (18-percent), organizational change management (15-percent) and software selection (13-percent).

Somewhat distressingly – and in line with the data presented both directly preceding and within the satisfaction metrics – only five-percent of respondents leveraged ERP consultants for benefits realization services. The low amount of companies incorporating independent verification and validation (IV&V) services into their consulting budgets also gives pause, as it indicates that organizations may not be aware of the benefits that neutral, third-party oversight can bring to their ERP projects. Executive leadership must realize that while some project teams are completely equipped to implement a system with proper benefits targets and measurement tools in place, they all too frequently lose the drive to measure achievements in order to adequately understand if their project is a failure or a success. The motivation of a project team member to show that the ERP system is not providing ample ROI is often – and understandably – limited. Third-party services can be invaluable in assessing the project, determining proper KPIs and ensuring that the return more than justifies the investment.

When asked why organizations chose to bring ERP consultants onto their teams, 30-percent of respondents indicated that consultants were hired to manage the implementations. More than one out of five respondents (21-percent) indicated that consultants were hired to "supplement internal resources with specific skills and experience" and 19-percent of respondents hired them "to be a strategic partner from planning through implementation."



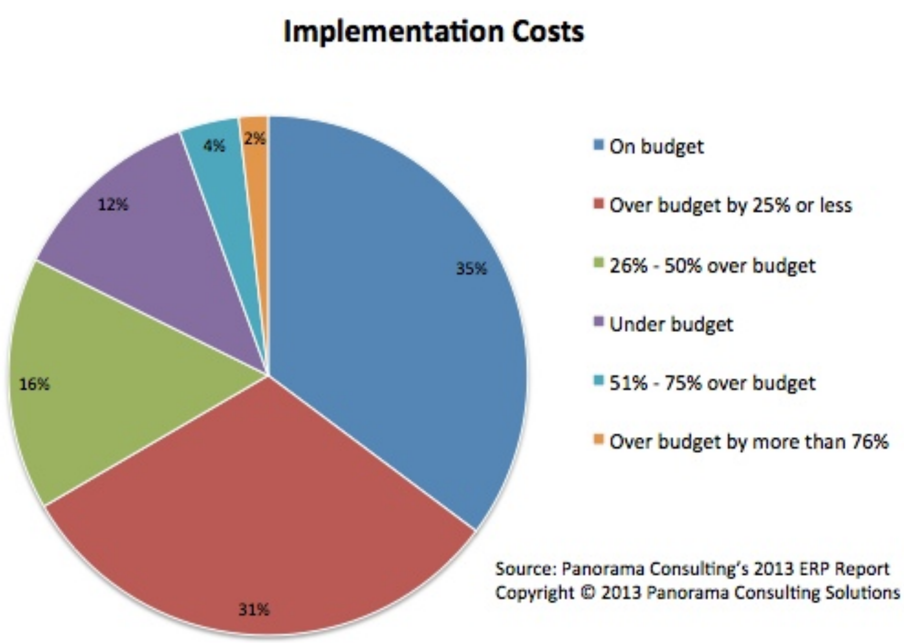
When shopping for consultants, it is critical to find an organization who can jump in at any point before, during or after the project to start providing value. While one-third of the consultants hired (30-percent) were brought in to provide implementation project management, forward-thinking companies also look to leverage these resources to provide business process management, organizational change management, IT strategy, benefits realization and IV&V services. There is no substitution for well-rounded and holistic expertise.

One additional point of note is that while consultants can sometimes be seen as one of the most expensive components of an implementation, respondents' experiences proved otherwise. Slightly more than one out of three of respondents who used consultants (34-percent) spent between zero and 25-percent of their entire ERP budget on those services while an additional 29-percent spent between 26-percent and 50-

percent on third-party assistance. Consultant costs vary greatly and clearly hinge on the level of involvement the consultants have with the project. The old adage about being a pound wise or a penny foolish cuts to the heart of the matter. An ERP implementation affects every aspect of a business and, in turn, every employee of that business. If an organization wants to do it right, chances are it will need a high degree of third-party guidance to light its way.

Project Budgets

In terms of overall costs, the data shows that the majority of ERP projects (53-percent) exceed their project budgets:

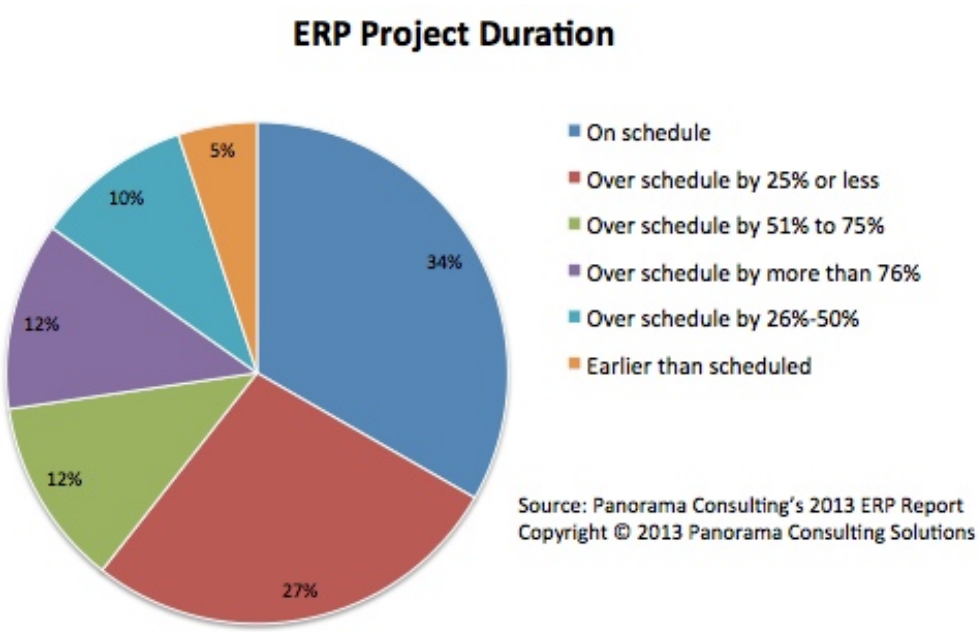


While troubling, it is worth noting that this shows an improvement over the findings presented in the ***2012 ERP Report*** (available at Panorama-Consulting.com) wherein 56-percent of projects had gone over budget. This incremental change is still a positive one, as it shows that organizations may be getting more realistic about the time, effort and resources necessary to implement an ERP system. It remains concerning that the majority of leadership teams are unable to accurately predict total cost of ownership. When asked why the projects went over budget, 25-percent of respondents indicated it was because the project scope was expanded and 17-percent of respondents noted that “unanticipated technical or organizational issues created additional costs.”

One further positive note found in the data is that organizations, on a whole, are spending less on their implementations. While there is no denying that the investment remains a significant one, survey respondents in this data set spent, on average, $7,069,000 on their ERP initiatives. Data presented last year found that the average cost was about $10.5 million.

Project Durations

In addition to budget overages, ERP projects are all too often affected by issues related to anticipated vs. actual time durations. As shown in the graphic below, slightly more than one out of three respondents (34-percent) reported that their projects were on schedule and only five-percent reported that their projects came in earlier than scheduled. The rest of the respondents (61-percent) experienced duration overages.



When compared to last year’s data, which showed that 38-percent of projects ran on schedule and 54-percent of projects ran over schedule, this shows a negative trend. Similar to budgets, durations are affected by a number of factors that can cause suboptimal circumstances when not considered at the beginning of the initiative.

In terms of actual duration, respondents indicated, on average, that they had planned for a 14.2-month long project but the initiative actually took 17.8 months. Results from the ***2012 ERP Report*** indicated that projects lasted, on average, about 16 months, representing an average duration increase of nearly two months.

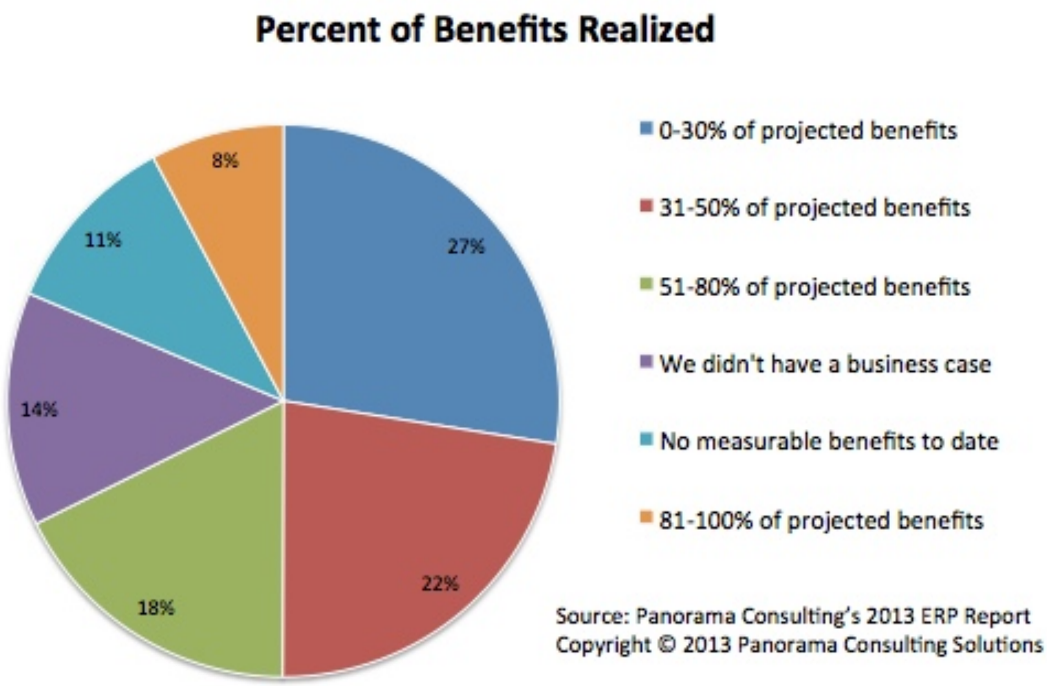
Over the last four years, the rolling average of ERP cost as percent of revenue of survey respondents is 5.5-percent.

This year, when asked to detail why the project had exceeded its timeline, 14-percent of respondents noted organizational issues, 13-percent of respondents indicated scope expansion and 12-percent called out technical issues. In Panorama's experience, excessive durations can also often be tied to the lack of backfilling resources, third-party guidance, solid, actionable plans for implementation, organizational change management, and business process improvements, among other reasons.

Benefits Realization

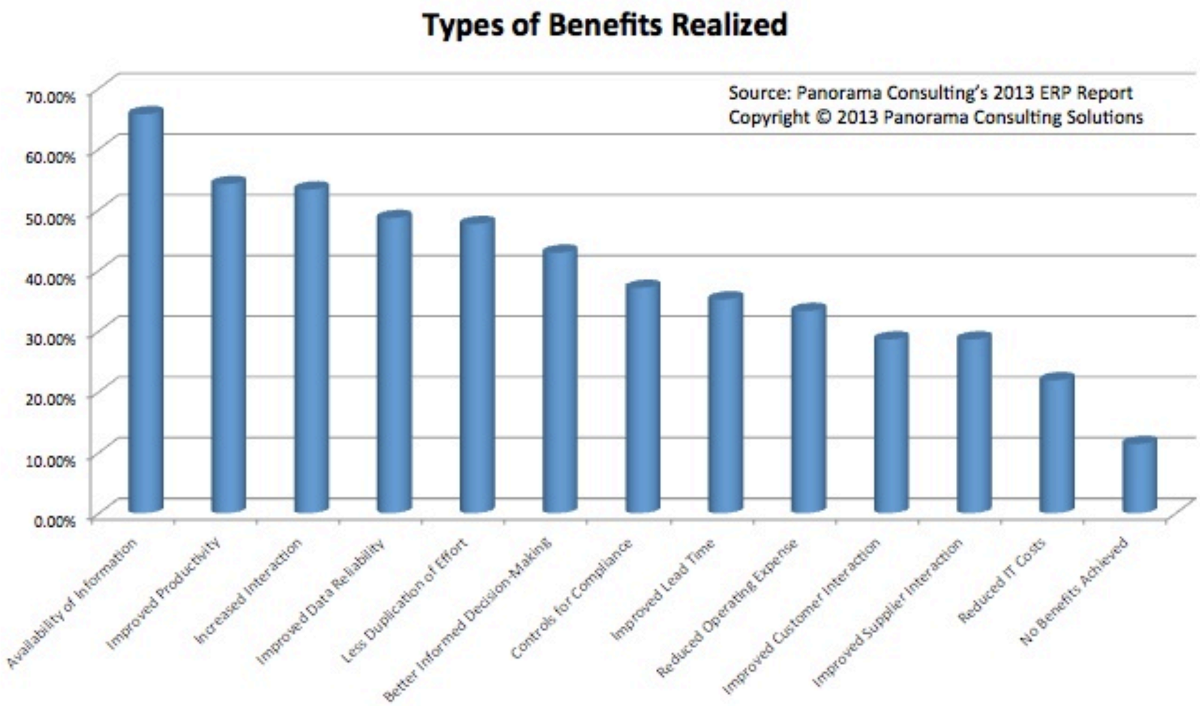
Benefits are at the heart of any ERP implementation. Why take on an expensive, lengthy and stressful project if not to receive true, measurable benefits over the life of the software? Smart organizations take the time to create a strong business case on the front end, agree on key performance indicators or other measurement tools, tie performance back to individuals or functional areas, and conduct post-implementation audits to see if and where "benefit leakage" is occurring.

Only 75-percent of respondents realized some measurable business benefits (a drop of 19-percent from last year's data). Of those, 60-percent realized less than half of the benefits (between zero- and 50-percent) that they anticipated. Only 26-percent realized between 51-percent and 100-percent of anticipated benefits.



This is a significant drop from last year's findings, which showed that 50-percent of respondents realized greater than 50-percent of their anticipated benefits and only four-percent of respondents indicated that they had received no benefits from the project (an additional two-percent didn't have a business case). It is worthwhile to posit that the lower benefits realization may correlate to the lower total cost of ownership seen this year, as organizations looking to shave costs and time typically (and regrettably) nix the business case and other key measurement activities in an effort to get the system installed quickly and cheaply.

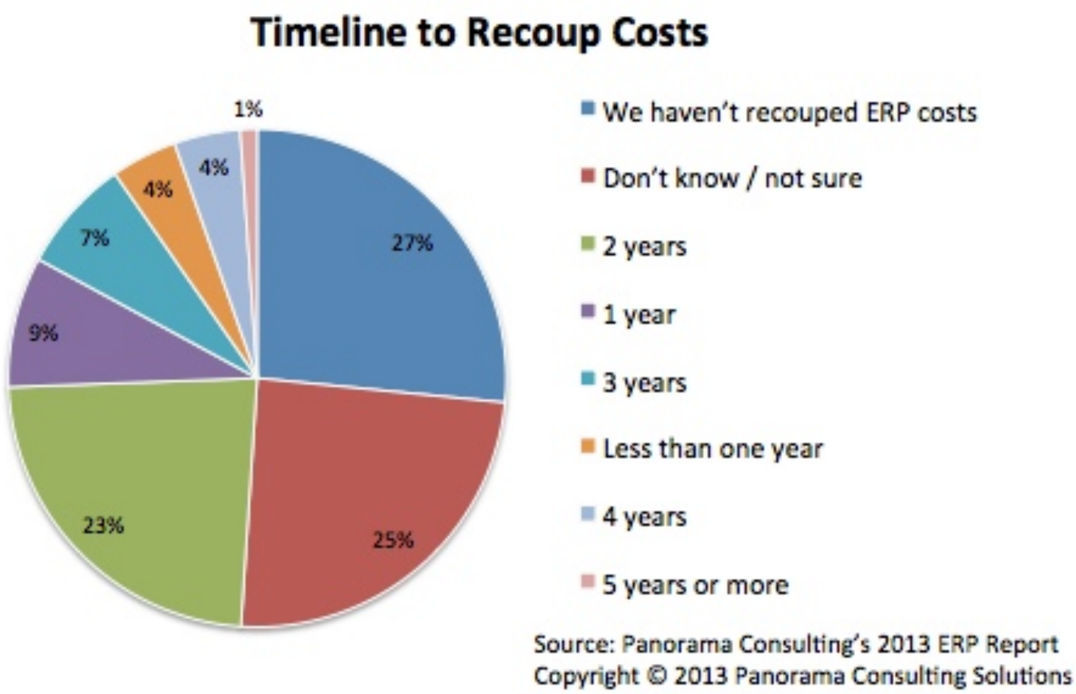
Among those who did receive benefits from their ERP system implementation, 24-percent realized them within zero to three months after go-live, 24-percent realized them within four to six months after go-live and 30-percent realized them within seven to 12 months after go-live. In our experience, benefits such as increased interaction or increased availability of information happen quickly while benefits such as improved productivity or improved data reliability take longer to achieve.



In terms of specific benefits realized by the organizations, responses line up with previous years' findings. As shown above, the top five benefits noted by organizations included availability of information, improved productivity, increased interaction, improved data reliability and less duplication of effort. ERP implementations seemed to have little positive effect on IT costs (which makes sense given the IT department's likely staffing and hardware expenditures), supplier or customer interaction or even operating expenses.

Timeline to Recoup Costs

In an ideal world, the costs of an ERP system implementation should be recouped by an implementing company in terms of gained productivity and efficiency, improved customer service and acquisition and, in some cases, decreased headcount. More than one-quarter of respondents (27-percent), however, have not recouped their costs. Nearly one-quarter of respondents (23-percent) report that they recouped costs in two years, which is a realistic timeframe and in line with Panorama's previous findings that costs are typically recouped within two to three years after go-live. An additional 25-percent are unsure (pointing again to a lack of communication about the project and its results and a lack of a business case to measure against). **The average payback period reported by survey respondents was 25 months.**



When compared to responses analyzed in the ***2012 ERP Report***, the complete lack of project cost recoupment is down by two percent and the amount of companies who have taken three years to recoup costs is down from 19-percent to seven-percent. Indeed, the last four years of data shows that average payback periods have dropped by two or more months each year.

Average Payback Periods	
2012	25 Months
2011	28 Months
2010	30 Months
2009	32 Months

It is critical to manage executive and end-user expectations with regards to both project budget and the time it will take to realize benefits. Organizations must expect to recoup costs and put the necessary measures in place (e.g., business case, key performance indicators, audits, etc.) to ensure that they are on track to earning their investment back. But it stands to reason that some organizations can become so overwhelmed by the task of implementation that they lose sight of the need to achieve returns in both the short- and long-term. This is yet another place where third-party assistance can greatly improve both a project trajectory and an organization's bottom line.

Key Reasons Behind Budget and Timeline Overages

The 2013 ERP Report clearly explicates the fact that many ERP projects exceed budget and timeline expectations. Panorama's experience and research shows that overages are due to a number of factors, including:

1. Budgets and timeframes that do not take into account business process improvement, organizational change management, backfilling and resource allocation, and / or software customization. ***Mitigation Step: Create a business case and devote adequate resources to ensure accurate project planning.***

2. Leadership teams that choose systems based on reputation or vendor sales pitches rather than systems that truly fit their "future state" requirements. ***Mitigation Step: Leverage independent resources to conduct full requirements gathering, business process improvements and software evaluations and negotiations.***

3. Leadership teams that fail to anticipate the magnitude of the project and the impact it has on end-user productivity and / or morale both prior to and following software implementation. ***Mitigation Step: Conduct executive alignment and education exercises; create a business case determining goals and measurement tools, and ensure strong organizational change management planning and execution.***

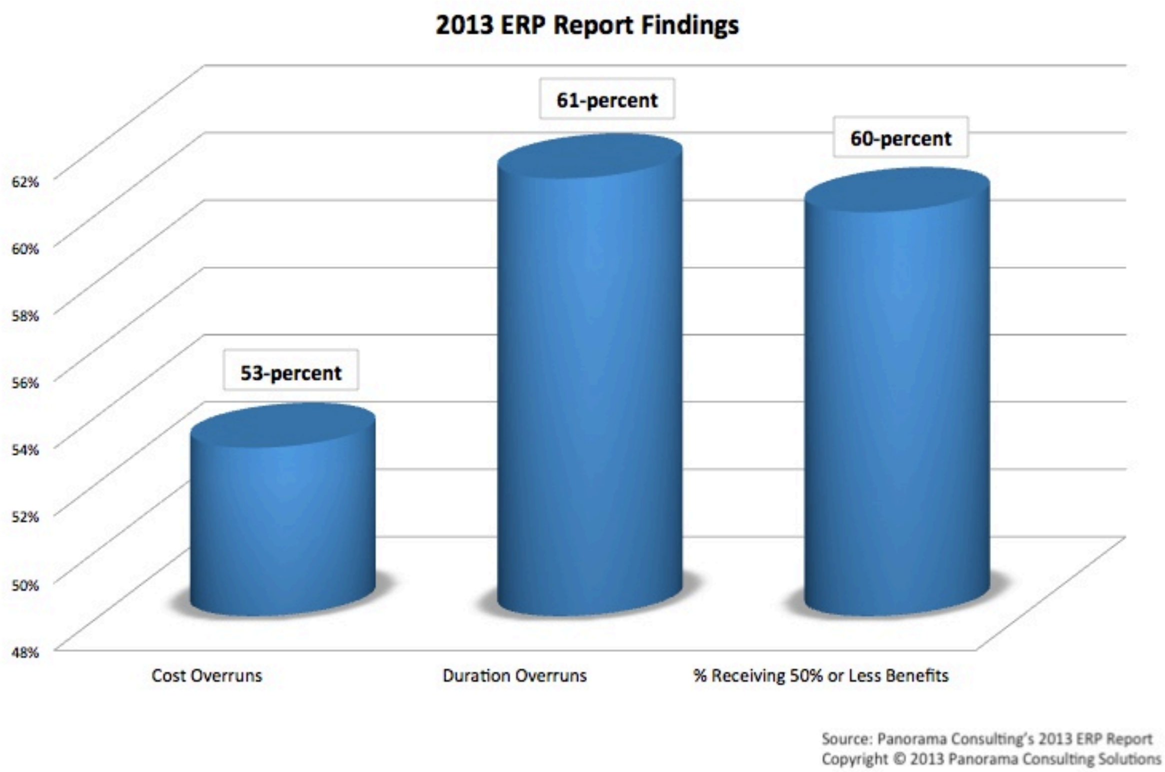
4. Non-customized training that is based solely on the technical aspects of the system and fails to train users on new processes. ***Mitigation Step: Leverage third-party resources to customize training to each practice area and its processes.***

5. Lack of concerted communication to end-users about the reasons behind the implementation, the anticipated benefits stemming from successful adoption and the ways in which each individual end-user and executive will affect project success or failure. ***Mitigation Step: Create and follow a comprehensive organizational change management plan.***

The first key to preventing overages is to find software that matches the organization's needs and only requires customization in areas that provide competitive advantage. The second is to improve processes and ensure end-users and supervisors are well trained, understand the reasoning behind the changes and are held accountable for proper system usage. The third step is to invest in an organizational change management campaign to increase buy-in, boost morale and communicate key messages from executive leadership over the span of the project.

Conclusion

Over the years Panorama has been conducting its independent research, we have found that more often than not, ERP implementation costs and durations exceed organizations' expectations. To add insult, all of the extra cost and time spent to implement the systems does not seem to have a positive impact on the amount of benefits organizations receive.



These are very real risks that every organization considering an ERP project should consider. The way to mitigate these risks, however, does not include budget cutting in the very areas that need resources the most. An ERP implementation risk mitigation strategy should involve taking the time upfront to develop a strong, solid ERP strategy and plan that addresses the following key principles: 1) organizational change management issues, 2) business risk, 3) a clear definition of key business and functional requirements, 4) project governance to manage system requests and changes, 5) efficient future state processes, and 6) a strong business case that outlines all benefit realization opportunities and the time expected to achieve results.

As is arguably reflected in the data presented, a system can be installed without the above principles. Employees and executives may even be satisfied by the software. That’s not surprising: ERP systems are flashy and exciting and, no matter how sub-optimally implemented, often represent an improvement. But satisfaction does not always indicate high ROI. An organization that can’t quantify its achievements, pinpoint areas that aren’t producing as expected and align the corporation on a whole around the need for and expectations of the system, is treading in far more dangerous territory than it may realize. Successful organizations determine what they really want out of the system, how they’re going to get their employees to want the same things, how they’re going to measure their achievements and how they’re going to mitigate potentially poor benefits realization long before embarking on implementation.

About Panorama Consulting Solutions

Headquartered in Denver, Panorama Consulting Solutions is an IT consulting firm specializing in the enterprise resource planning (ERP) market for mid- to large-sized organizations around the world. Independent of affiliation, Panorama facilitates the evaluation and selection of ERP software, manages ERP implementation, and expedites all related organizational change to ensure that each of its clients realize the full business benefits of their ERP systems. Panorama maintains a global presence with current and planned offices in Chicago, New York, Washington, D.C., San Francisco, London, Shanghai and Dubai.

More information can be found on its website, Panorama-Consulting.com and Twitter feed, Twitter.com/PanoramaERP.