

Maximizing enterprise resource planning ROI: A guide for midsize companies



Executive summary

Introduction

Over the past few years, when companies have been asked to rank their top IT spending priorities, enterprise resource planning (ERP) applications have consistently remained near the top of the list. The amount they indicate they will spend is growing at the rate of almost 7 percent each year and it is likely to surpass the \$10 billion mark globally in 2012.¹ This is no surprise: ERP systems are the core business applications for many companies, connecting different parts of their organizations and facilitating the flow of information between business functions.

At the same time, a substantial number of ERP implementations are not successful and others do not deliver the expected return on investment. In particular, midsize businesses struggle with wringing the most value from their ERP applications. As a result, many midsize businesses are left wondering if upgrading their ERP application or installing a new one is worth it and many rely on spreadsheets and manual processes to fill the void.

Midsize businesses should take heart, however. ERP applications can provide them with cost savings, improve operations and support organizational growth. In this paper, we highlight the common reasons why midsize companies often do not realize significant ROI with their ERP system implementations and suggest solutions for getting the most value from their applications.

Why aren't more ERP implementations delivering?

For midsize businesses, ERP implementations are often a daunting proposition. ERP applications are costly and demand a great deal of time, burden already-stressed IT resources and require a significant cultural change. Once an application is up and running, many do not realize much value from them. As a result, some companies look at their aging ERP applications and decide not to upgrade. Those that do not have ERP applications look at the selections available to them and throw up their hands in confusion. Still others feel cheated in the ROI department—especially those who have acquired applications recently. This is unfortunate.

The truth is that midsize businesses can truly benefit from an ERP system. The following reasons explain why many are not.

Lack of a comprehensive or thorough business case

Did you know that very few midsize companies create a thorough business case for their ERP implementations? Many small and midsize businesses view an ERP implementation as something that involves only IT and therefore they only compile brief descriptions of the proposed ERP solutions for review. They do not understand that an ERP implementation provides them with an excellent opportunity to transform their businesses nor do they realize that most ERP implementations entail significant organizational change and that they need a thorough business case that they can provide executives and business stakeholders. Without support from business, the ERP implementation falters and IT often has a hard sell for keeping it around.

Not keeping track of the numbers

Bad news travels like wildfire when it comes to software and systems solutions. There are numerous stories about poor or no return on ERP investments floating around. Yet, when asked point blank if they know what the ROI of their ERP application is, many companies are not sure. And why aren't they sure? Because they haven't estimated ROI to begin with.

A recent survey of 920 small and midsize companies shows that 52 percent "sometimes" or "never" estimate ROI to provide justification for an ERP implementation. An even greater number do not calculate ROI after implementation.² There are midsize companies that have estimated ROI; however, many of them do not have the metrics and key performance indicators in place to track ROI sufficiently or drive business goals. Many use static reports that provide historical information, but no on-demand, real-time metrics or predictive analytics that provide better decision-making capabilities and help mitigate risks.

None of this is good news. If you are not able to track the performance of your system and you never had a clear idea of what the ROI might be in the first place, it is very difficult to justify the investment or perceive that it has value.

Unnecessary customization, application redundancy and integration with outdated existing systems

Companies generally install ERP systems to:

- Reduce the number of systems, overlapping functionality and manual processes they are using.
- Automate capabilities such as internal controls and segregation of duties.
- Comply with global regulations.

Because of time and business pressures, however, many do not study their applications in depth so they can understand how their features work and what they can do. They often end up with ERP systems that are too complex or that create issues with languages and currencies that are not necessary. Some companies even engage in unnecessary customizations or manual processes either to compensate for perceived lack of functionality or in hopes of reducing complexity.

Then there are outdated existing systems. In some cases, companies have chosen an ERP that cannot handle or does not provide some of the functionality of their older systems. An integration project ensues, driving up the total cost of ownership and the amount of effort to maintain the ERP application and the older system.

Insufficient internal resources

Most midsize companies are not loaded with countless resources. Usually, a system integrator or a value-added reseller has the task of installing and implementing the ERP system, assisted by a few of the midsize company's IT personnel. And although business user commitment is a key factor to a successful ERP system, those from the business side of the company, who will probably use the system the most, are left out and miss an important opportunity to learn about all its dimensions and capabilities.

In addition, in most cases, the installation and implementation project team is formed solely for that purpose. After "go live," the members move on to the next project or business role. The ongoing management of the application is left to IT and business users are left with very little idea of how the ERP system can support their business. This can prevent the application from being able to meet the company's needs.

Vendor selection

In the ERP market, there is a dizzying array of choices from a daunting number of vendors—big and small. Many midsize companies are not sure which vendor or which product to select and are not sure where to turn for a solution. Some might choose a vendor based on a recommendation without researching whether that vendor's product really meets all their requirements. Another common mistake midsize companies can make is to deploy a solution that fits their current needs and markets but leaves no room for future growth, changes in the marketplace or new product introductions. Without thoroughly researching a vendor, seeking guidance from a third party or considering future needs, the midsize company could select an ERP with a higher total cost of ownership and lower ROI.

What can you do?

An effective, efficient ERP that exceeds expected ROI is within your grasp. By addressing the most common reasons that ERP applications fail or do not yield desired financial results, you can implement an ERP application that will help you run your business more efficiently and facilitate decision making and innovation.

Make the case

Application projects can be costly and complex. Consequently, the CEO of any company involved in an implementation must fully support the initiative as its executive sponsor. However, as mentioned previously, you must have support from other business stakeholders and users, especially because an ERP implementation creates significant organizational change. You need to get the approval and backing of your CEO and then build your business case.

Getting buy-in from your CEO

When an involved executive sponsor takes ownership of an ERP implementation, the project is more likely to succeed. To garner your CEO's buy-in, make sure you:

- Describe the investment in terms of quantifiable benefits for your company. Your CEO will be more likely to support the deployment if you can show him or her how the company benefits, especially if you point out projected cost savings or revenue growth.
- Outline your ERP implementation strategy. If your CEO knows the plan for how you will install, deploy, maintain and use the ERP system, then it will be easier for him or her to support it.
- Include metrics, using existing performance as a baseline. When you provide key performance indicators and other measurements that show quantifiable improvement versus the status quo, the CEO will better understand the benefits.
- Describe successes that other companies have had with ERP implementations (including your competitors or your business partners). Showing your CEO how other companies have benefited is a very effective selling point.

It is important to note that CEO support means more than signing the check. An ERP implementation is more likely to succeed if you keep the CEO involved in the process all the way to the day you realize the improvements you described initially.

Build the business case

After you have secured your CEO's support, it is time to build a robust business case for the initiative. Start by assembling an ERP team that includes senior business and IT executives to define how your ERP application can help address your company's business strategy. This is a critical activity. When you

can show business stakeholders how an ERP implementation relates to your business, you generally win their approval and backing. You also gain an organizational vision you can take to vendors to see if they can support your company in its strategic initiatives.

The next step is to quantify the impact of your ERP implementation and look at alternatives. Create another team, ideally composed of business stakeholders, financial representatives and IT personnel, to determine the expected cost savings after automating and improving ongoing operations and their processes. The team should make sure that the business case covers the effects the implementation will have on people, processes and technology, such as more collaboration, greater cross-functional cooperation, more customer focus and new revenue opportunities. It is also important to include key performance indicators for the implementation: Reporting requirements, goals reporting and other metrics.

Finally, document the business case and then take it through a robust review. If you follow this process, you can minimize the challenges created when no one has much of an idea about what you hope to achieve with your implementation and how it will effect your entire organization. If you feel like you do not have the expertise to complete this task, vendors such as SAP (Value Lifecycle Manager) Oracle (Upgrade Value Assessments) and Lawson (Opportunity Analyzer) provide tools that help organizations develop business cases, bring about business-IT alignment and maximize value from their investments. Systems integrators with expertise in the industry and ERP consulting can also be your allies in this process. They can bring an unbiased perspective.

Follow the numbers

Questions about the effectiveness of an ERP application and whether it has added significant value abound. This is because many companies fail to include an expected ROI in the business case—if they even had a business case (see previous section). A savvy CIO and his or her business case team estimates the ROI as part of the business case and then periodically monitors it after implementation and stabilization.

To determine the ROI, calculate the total costs of your solution by including components such as software, hardware, upgrades, support, maintenance, training, customization, implementation services and more. Compare those costs with the tangible benefits the investment will provide and you will have your ROI. Tangible benefits could be in the form of process improvements enforced by the ERP that have helped your company improve its efficiency, or a rise in revenues or profits because you were able to identify new opportunities. To establish baseline metrics for this process, collect data on the various measures of operational efficiency, sales and financial performance, such as Days Sales Outstanding, days in inventory, average, accounts receivable, sales per employee and so on.

An ERP system also provides many intangible benefits such as faster response to market dynamics, improved customer service and reduced risk. Their intangible nature makes quantification difficult, but ignoring them will not give a realistic picture of the ROI. List the important intangible benefits you expect, and track them regularly along with the other business metrics to capture successes attributable to the ERP system.

Know your ERP and retire your old applications

Midsized businesses are often dazzled by the promised functionality of an ERP application that is actually better suited for a much larger organization. The lack of knowledge of functionality touched on earlier is often a result of purchasing a package that is daunting to use or understand, especially after time pressures to roll the application out have drained your IT resources. Then, the next thing you know, you are cobbling together quick fixes because the application is so overwhelming or trying to connect to a system that you had hoped you would no longer need when you decided to acquire an ERP application. This is why it is critical that you do your homework and study your options before you present your business case.

There are ERP applications in the marketplace that were created for midsize businesses. The key is to look for preconfigured, vertical-specific solutions that are based on industry best practices and yet can be tailored to meet your company's specific needs. The standardized information and processes of these solutions will streamline your operations so that they are more efficient. The industry best practices will prepare you to handle external pressures, such as competition and compliance. Customization will ensure that your particular needs are being met. You should also search for a solution that can "go live" quickly and be flexible to meet changing business needs. Phasing in portions, for example, is one way to obtain that flexibility. Some solutions enable you to add applications as you go. For example, you start with budgeting, forecasting and planning; add workforce management and possibly end up with business intelligence or predictive analytics. In addition, to reduce TCO, your company should make the push to retire your older systems, rather than integrate them.

There are times when you might need more customization. This is possible when you have a business process that you cannot change and your current ERP implementation cannot handle it. Customizing the application to suit that business process might be expensive, but after weighing the pros and cons, it could be the best answer. You could consider SOA strategy for custom development. Just be sure that you are certain that an industry best practice is not a better solution before you take any major steps. Identify the areas of competitive advantage for your company and then adjust the application accordingly with specialization in associated core processes.

Cross the IT-business divide

ERP applications form the information backbone of your business. Increasingly, business executives, the ones making decisions and trying to increase profits, are using these applications and need the information it can provide. So, it is very important to the success of your ERP implementation that you reach across the line that is often drawn between business and IT and establish a group of "power users" or "super users." These are the people you will charge with assuring that your application is flexible enough to meet current and future business requirements while maximizing ROI. Therefore, they must know your business and be aware of the strategy and vision in the business case for the business processes they support. They should understand the process areas and how their assigned departments function, along with how the implementation can support your business. They should be part of the process of defining functional requirements for the application.

Of utmost importance is the participation of these power users in the actual implementation. Knowing that they contributed to application installation and have hands-on knowledge of how the application works will make them credible communicators. They will be able to respond to questions and concerns about system functionality and business processes, help other users navigate the application and address process and system use problems. In addition to assisting users with the application, power users make sure that the line of communication between business and IT regarding the application stays open. They tell IT how business users are utilizing the system, identify issues and areas of concern, optimize training content and help the IT helpdesk prioritize user requests.

When you involve power users in the ERP installation and implementation process, the result is greater user acceptance and satisfaction. Meanwhile, IT organizations can focus on the more technical aspects of system support.

Choose wisely, armed with a vision for your future

Finding an ERP solution that best fits all requirements—both present and future—is very important for midsize companies. Therefore, it is not sufficient to select an application that only fits your current budget and addresses your current needs. It is just as critical, if not more so, to look for a solution that has what it takes to help you right now—and down the road. You should also take into account how technology might change, grow and evolve, so that you are not stuck with a platform that is too rigid to upgrade.

You also need to ask yourself whether the solution vendor understands your market and your vision. The vision that is the result of your business case process can help you here. Look for a vendor that has such a strong grasp of your

requirements that it is easy for them to convert them into products and services. The vendor should also be technology savvy with the financial stability to continue supporting customers long after they have implemented their solutions.

Do not be tempted by solutions from vendors that claim high ROI until you have done all your homework. You should look for solutions that are manageable in terms of cost and functionality. If the search becomes too confusing, you can always take the help of established third-party vendor consultants who have robust methodologies to help you choose the right ERP.

Conclusion

ERP software can be an expensive and time-consuming IT investment. However, when a company selects an ERP that meets current and future requirements and it is implemented properly, it is well worth that investment. ERP applications facilitate the standardization and acceleration of business processes and contribute to the visibility necessary to run your business well and grow revenue and profits. To ensure that your company is one of those reaping the benefits of an ERP application, you should take these actions:

- Prepare a thorough business case.
- Estimate and track ROI.
- Familiarize yourself with all features of your solution.
- Create a group of users that can keep the lines of communications open between business users and IT.
- Do your vendor homework.

Why IBM?

Properly implemented, ERP applications can help you reduce operating costs, facilitate day-to-day management and decision-making activities and support long-term strategic planning. Whether your business is well established or new and growing, IBM can help you find the right solution to meet your needs. IBM offers smart and affordable solutions, developed specifically for midsize companies, by partnering with ERP vendors. These preconfigured solutions provide a wide range of functionality and can be implemented quickly.

In addition, IBM offers services to help midsize companies implement SAP ERP applications. For more than 35 years, IBM Global Business Services® and SAP have combined services, technologies and applications to successfully complete more than 5,000 projects at more than 9,000 client sites. IBM employs more than 16,000 SAP practitioners in 80 countries, with an average of nine years of hands-on SAP experience on the team. By combining our broad understanding of how SAP ERP technology can be used to facilitate your company's business process with our leadership position in SAP application support and consulting services, IBM is in a prime position to create solutions to help you succeed in today's turbulent global economy.

For more information

To learn more about IBM ERP solutions for the midmarket, please contact your IBM marketing representative or IBM Business Partner, or visit the following Web site: ibm.com/businesscenter/smb/us/en/ERP

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¹ George Lawrie (with Sharyn Leaver and Varun Sedov), "CIOs: Plan Effectiveness Review To Squeeze More Value From ERP Investments." Forrester Research, August 11, 2009.

² Thomas Wallgum, "SMB ERP Projects: Don't Forget the ROI." *CIO*, April 1, 2009. http://www.cio.com/article/487794/SMB_ERP_Projects_Don_t_Forget_the_ROI



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