

Best-in-Class Strategies for Selecting an ERP Solution in 2013

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Analyst Insight

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

Aberdeen Methodology

The Aberdeen maturity class is comprised of three groups of survey respondents:

- ✓ **Best-in-Class:** Top 20% of respondents based on performance
- ✓ **Industry Average:** Middle 50% of respondents based on performance
- ✓ **Laggard:** Bottom 30% of respondents based on performance

Respondents to Aberdeen's [2013 ERP Services, Selection, Implementation, and Training survey](#) were ranked on the following criteria:

- ✓ **Months it took to reach Return on Investment (ROI):**
Best-in-Class — 14.6, Industry Average — 34.7, Laggard — 102
- ✓ **Percentage of original budget spent on ERP project:**
Best-in-Class — 88%, Industry Average — 117%, Laggard — 153%
- ✓ **Lateness of ERP project completion:**
Best-in-Class — 3%, Industry Average — 20%, Laggard — 54%

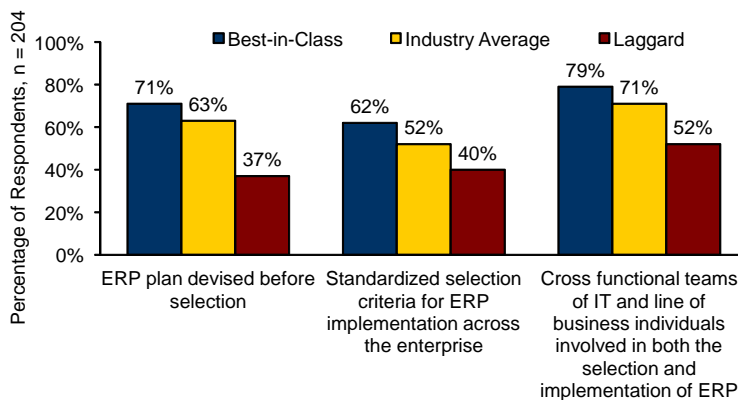
Best-in-Class Strategies for Selecting an ERP Solution in 2013

Finding a needle in a haystack is hard, but the task pales in comparison to finding a specific needle in a pile of needles. Selecting the ideal Enterprise Resource Planning (ERP) solution from among the numerous options on the market can feel like just as daunting a challenge. ERP represents a serious investment for any organization and is vital to future success. As such, a great deal is at stake. The ERP selection process should be regarded as a top priority, with appropriate time and resources devoted to it. Top performing organizations approach the selection process with a clear plan in mind and come away with solutions that implement smoothly and help drive business immediately. Less meticulous organizations become saddled with solutions that continually disappoint, put additional strain on the organization, and often need to be replaced. This report explores the strategies Best-in-Class organizations employ to find the right ERP fit that will give them the tools they need to thrive.

The Strategy Behind Selection

Best-in-Class organizations do not subscribe to the belief that the best laid plans oft go awry. Top performing organizations analyze their needs and existing internal capabilities as they survey the ERP landscape and determine how an ERP solution will be implemented to positively impact business. Data from Aberdeen's [2013 ERP Services, Selection, Implementation, and Training survey](#) as of July 2013 indicates that the Best-in-Class are 31% more likely than All Others to devise such a plan prior to selection.

Figure 1: Forming an ERP Selection Strategy



Source: Aberdeen Group, July 2013

The benefits of a comprehensive plan are twofold. First, organizations with a clear plan are more likely to find a solution that most aptly fits their needs. And second, once the solution is chosen and implementation begins, the organization already has a defined path to follow.

In order to devise these plans, the organization must decide what is most important in a prospective ERP solution. Are there certain features that are absolutely essential? Is there industry specific functionality that must be secured? Is there a price limit? Sixty-two percent (62%) of the Best-in-Class have standardized criteria for ERP implementation across the enterprise. Since ERP will be the backbone of the organization, the selected solution must be in alignment with that backbone. While many organizations only need to make one ERP investment, some larger organizations utilize multi-tiered ERP strategies with an “administrative” ERP in corporate offices and an “operational” ERP in geographically distributed business units. Selection criteria should reflect these strategies throughout the organization and align with corporate objectives.

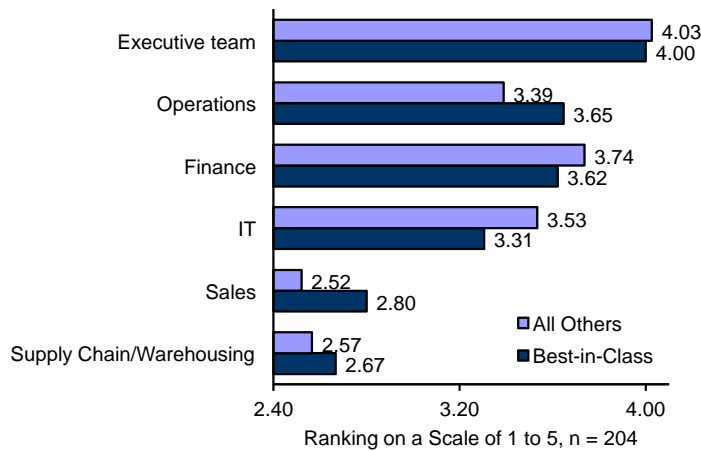
But who should be involved in devising these criteria? A final ERP selection should not be the product of a single voice. Organizations are best served by a chorus of input and perspectives from individuals across multiple departments. Seventy-nine percent (79%) of the Best-in-Class involve cross functional teams of IT and line of business individuals in their ERP selection. No single person is aware of all the needs of an organization or the idiosyncrasies of its infrastructure. Those who will be using ERP on a daily basis are in the best position to provide advice on the essential functionality and features that will help the organization improve. By facilitating collaboration between IT and the line of business, top performing companies ensure their ERP solution will both run smoothly and wholly fulfill its mandate.

To prove this point, Aberdeen’s research finds that while departments such as IT, management, and finance have significant influence in the selection process, the Best-in-Class put a greater emphasis on involving the line of business in the ERP selection decision than All Others (Figure 2). Each respondent was asked to rate the amount of input each function has on the ERP selection process, with 5 being the most input and 1 being the least. On average, the Best-in-Class rank the line of business more highly than All Others.

Note

This report is an update to 2012’s [ERP Selection: Finding the Right Fit](#). The themes and message are the same, but data has been updated from a more recent survey.

Figure 2: Increased Emphasis on the Line of Business



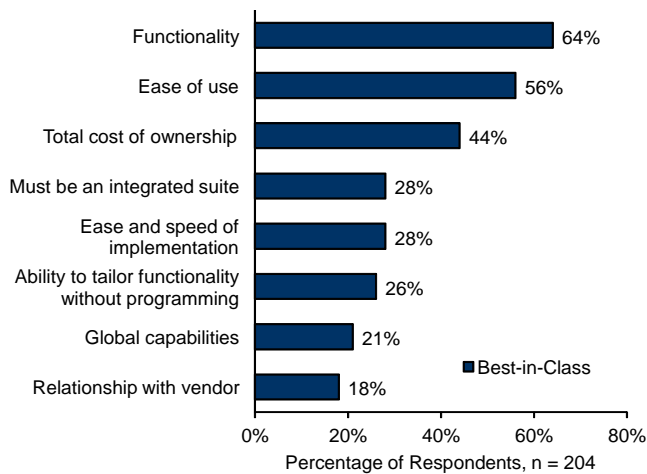
Source: Aberdeen Group, July 2013

Conversely, all other organizations are taking a top-down approach and placing greater emphasis than the Best-in-Class on the input of the executive, finance, and IT when selecting an ERP solution. While these business leaders are ultimately in charge of the final investment, the Best-in-Class selection process is less top heavy, as these organizations are more likely to seek out the opinions of employees in sales, supply chain, and operations. Top performing organizations recognize the value of input from employees in the trenches of day-to-day operations in addition to the opinions of the upper echelons of the corporate structure. Placing an emphasis on line of business input helps ensure that a final ERP selection comprehensively addresses an organization's needs.

How to Choose

Devising a plan and knowing that tailored selection criteria is important is one thing, but what should actually be included in these selection criteria? Best-in-Class organizations evaluate prospective ERP solutions on a number of criteria before making a final selection (Figure 3). The number one attribute the Best-in-Class look for is functionality (64%). Simply put, top performing organizations expect their ERP solution to work, and work well. The majority of the Best-in-Class have detailed plans for what they hope to accomplish with their ERP, but those plans are useless if they select a solution that does not work as expected or lacks necessary features. For example, are the processes that are necessary for the organization's success supported in the potential solution? Does the organization need to be able to perform product recalls? Is full financial or field service functionality needed? Top performing organizations find ERP solutions that run smoothly and deliver as promised.

Figure 3: Best-in-Class ERP Selection Criteria



Source: Aberdeen Group, July 2013

The Best-in-Class also look for ERP solutions that are easy to use (56%). Even the most functional of ERP solutions is a waste of money if employees can't use it. A user-friendly ERP solution will lead to a higher employee usage rate and the solution's benefits will more quickly and profoundly manifest themselves throughout an organization. A clean, intuitive interface will decrease user confusion and increase overall productivity.

It may be surprising that total cost of ownership is only the third leading selection criteria. The Best-in-Class care more about the functionality and ease of use of an ERP solution than its impact on their wallets. Nevertheless, ERP does represent a significant investment and top performing organizations want to be sure their capital is well spent. When evaluating cost, some organizations may find that certain ERP solutions have features they do not need and are therefore not worth paying for. An organization may not have the resources available to make a large up-front capital investment and would prefer to pay on a month-to-month basis for a Software-as-a-Service (SaaS) ERP solution. The Best-in-Class evaluate cost to make sure they only buy what they need.

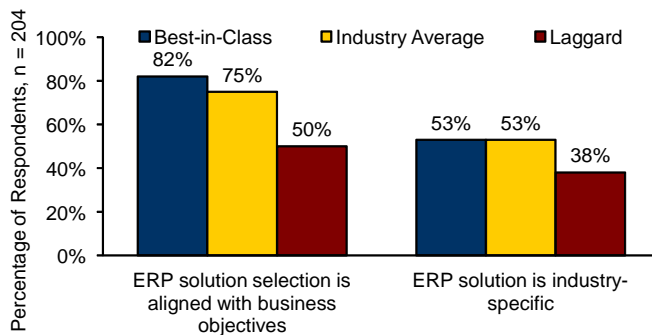
Some of the Best-in-Class are concerned about the ability to change or augment ERP, as 26% listed the ability to tailor functionality without programming in their selection criteria. ERP is not "one size fits all." Organizations may anticipate their business evolving, creating the need for an ERP system to evolve along with it. As organizations add processes, products, or business units, their ERP system must be able to reflect those changes to the business quickly, cheaply, and without disruption. Often companies have very specific resource planning requirements they need their ERP solution to easily accommodate without new programming or a vendor consultation. However, 8% of all respondents did list quality and availability of support as a top criterion. Organizations look for reliable vendors that give them customization and independence, but are always there to troubleshoot and oil the machine. This is why 18% of the Best-in-

Class list their relationship with the ERP as a top selection criterion. Third party support is also a viable alternative to direct vendor support, as explored in Aberdeen’s August 2012 report, [ERP Services: More Bang For Your Buck](#).

Finally, since the entire purpose of an ERP solution is to contain all of the essential data for running a business, 28% of Best-in-Class organizations are interested in ERP solutions that are integrated suites. This preference for a set of programs and applications that work together seamlessly has numerous benefits (see Fast Facts). Employees are better able to find the data they need to make decisions and are better able to seek out and find that data on their own. Decision makers can use an integrated suite as a one-stop-shop for actionable data that also serves as the organization’s system of record.

As organizations evaluate the various criteria for their selection, they must also consider what exactly they hope to accomplish with their ERP solution (Figure 4). Eighty-two percent (82%) of the Best-in-Class align their ERP selection with business objectives. In other words, the vast majority of the Best-in-Class know what they need ERP to do before they implement it. These organizations view ERP systems properly — not as a blanket solution to all their problems, but as a tool to help them reach their goals. With business objectives clearly in mind, organizations can find the appropriate functionality and features among the myriad of ERP solution options.

Figure 4: Looking for the Best Fit



Source: Aberdeen Group, July 2013

For example, business objectives in one industry can be completely different than objectives in another industry. Also, some processes, such as the ability to do a product recall based on batch information, are just not necessary in some organizations. There are industry-specific ERP solutions available that provide a template for best practices for a variety of industries. These solutions are common across all levels of performance. Almost half of all organizations have ERP solutions designed for their respective fields. These organizations get the tailored functionality they need while avoiding features that are unnecessary for their line of business. Looking for an industry-

ERP Best-in-Class

- ✓ In this report, Best-in-Class organizations from the [2012 ERP Benchmark](#) survey achieved:
- ✓ 3.3 days to close a month
- ✓ 29.7 days sales outstanding
- ✓ 97% complete and on-time delivery
- ✓ 18% increase in profitability over the past 2 years

Fast Facts

Data from the [2012 ERP Benchmark](#) survey found:

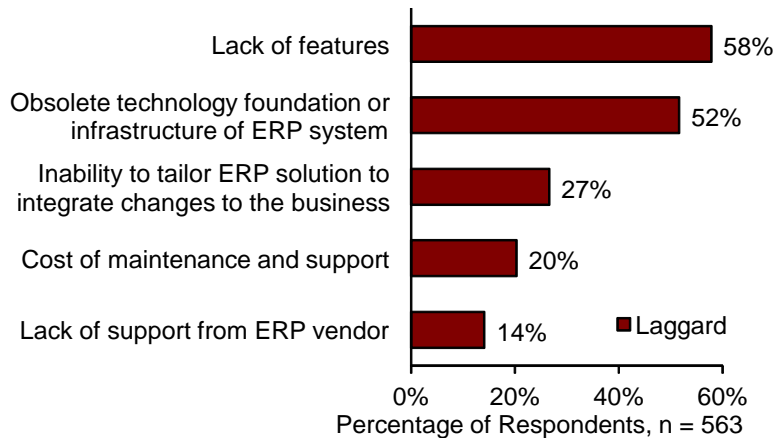
- ✓ Sixty-five percent (65%) of the Best-in-Class have integrated business applications serve as a complete and auditable system of record
- ✓ The Best-in-Class are 55% more likely than All Others to have data that appears to be shared across applications seamlessly and transparently
- ✓ The Best-in-Class are 82% more likely than All Others to be able to complete process flows that span different applications without consciously switching between applications

specific solution will also help narrow the wide field of ERP choices and provide a solution that is the best fit.

The Consequences of Improper Selection

When it comes to ERP selection, not all organizations get it right on the first try. A company may choose an ERP solution that ends up being a poor fit for the business or simply falls short of expectations. While in many cases selecting a bad fit only leads to an organization not receiving the full return on their investment, improper selection may also lead to an ERP solution being replaced. Such failure is more common among Laggard organizations from Aberdeen's [2012 ERP Benchmark survey](#), which cited several reasons for ERP replacement (Figure 5).

Figure 5: Reasons that ERP Needs to Be Replaced



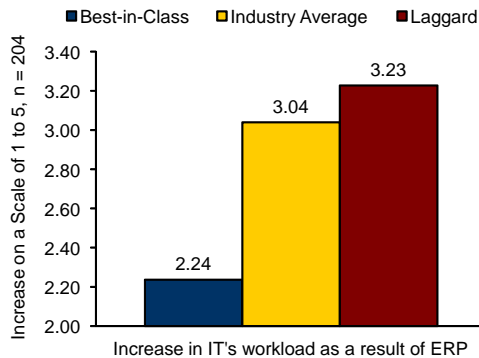
Source: Aberdeen Group, September 2012

Fifty-eight percent (58%) of Laggards cited a lack of features as a reason for ERP replacement. This shortcoming is easily avoided by forming a comprehensive ERP selection plan and knowing exactly which features are pertinent to the organization. Decision makers should evaluate what features they currently require, as well as the features they will possibly need in the future.

The inability to tailor an ERP solution to integrate change to the business, cited by 27% of Laggards, is also an avoidable pitfall. The ability to tailor ERP was one of the top selection criteria of the Best-in-Class. If an organization knows it will need to customize, it should only seek out ERP solutions with that ability during the selection process. More than half of all Laggards cited obsolete technology foundation or infrastructure as a reason for ERP replacement. To avoid having to replace an ERP system sooner than expected, organizations should filter out solutions supported by outdated hardware when making their ERP decision. They may also have to take a hard look at any of their own legacy infrastructure that is detrimental to a newer ERP system's function.

Additionally, a poorly selected ERP can introduce unnecessary strain to all aspects of an organization, but this is especially true for IT departments (Figure 6). Respondents from Aberdeen’s Data from Aberdeen’s [2013 ERP Services, Selection, Implementation, and Training survey](#) as of July 2013 were asked to rate the impact that their ERP software has had on their IT department’s workload with 5 being the most and 1 being the least. Laggards reported a 44% greater increase in IT’s workload as result of ERP compared to the Best-in-Class. A second-rate selection process leads to an onerous ERP implementation process that unnecessarily distracts IT from its numerous other responsibilities. Additionally, ongoing ERP support will take excessive IT resources that the organization will either need to hire on or divert from other projects. Sound planning and careful deliberation can save an organization from potential IT frustration and burnout.

Figure 6: Burdening IT



Source: Aberdeen Group, July 2013

The Results of Informed Selection

The rewards of correctly selecting an ERP will quickly manifest themselves for any organization. But the Best-in-Class stand out again as they reap the greatest benefits across several metrics (Table I). On average, Best-in-Class organizations are able to “go live” more than six months earlier than all other organizations. This accelerated pace helps keep ballooning implementation costs contained and the Best-in-Class see a significantly quicker Return on Investment (ROI). The Best-in-Class also experience a 56% greater reduction in operational costs compared to All Others as a result of their ERP solutions. This means the functionality that was selected was properly tailored to play to the organization’s strengths. Overall, informed selection gets the Best-in-Class their ERP solutions faster, cheaper, and those solutions have a greater impact when they go online.

Table 1: Less Disruption, Greater Improvements

| Performance | Best-in-Class | Industry Average | Laggards |
|---|---------------|------------------|----------|
| Months from installation to first “go live” | 6.7 | 12 | 15.4 |
| Percentage of original budget spent on implementation | 88% | 117% | 153% |
| Percentage of time implementation project ended beyond original timeframe | 3% | 20% | 54% |
| Reduction in operational costs as a result of ERP solution | 14% | 9% | 9% |

Source: Aberdeen Group, July 2013

Key Takeaways

The ERP selection process need not be intimidating for those organizations with the right mindset. Organizations looking for a smooth and successful ERP selection process should take the following steps:

- **Develop a clear plan prior to selection.** Seventy-one percent (71%) of the Best-in-Class devise a clear plan prior to ERP selection. This helps them know exactly what they are looking for as they enter the market and gives them a roadmap to follow once they begin implementation.
- **Value functionality and ease of use over cost.** The Best-in-Class look at functionality and ease of use before they consider cost, as saving money on ERP is a moot effort if the solution fails to work as needed. Spending a little extra on a successful ERP solution will save much more down the road than living with a cheaper but disappointing solution.
- **Get input from all levels of the organization.** The Best-in-Class put a greater emphasis on the input of sales, supply chain, and operations when making an ERP selection than all other organizations. Utilizing cross functional teams will also ensure that all voices within the organization are heard and ERP serves every department’s needs.
- **Align ERP with your goals and industry.** Organizations can set up their ERP solution for success if they know exactly what they hope to accomplish with it. It is easier to find the right solution when ERP is viewed as a tool to achieve a business objective. All organizations can also benefit from solutions designed specifically for their respective industries that offer ideal functionality and features.

By following these steps, organizations can find an ERP solution that will meet all their demands and propel them to sustained success.

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| <i>ERP in SME 2012: Using Emerging Technologies to Stand Out</i> ; September 2012 | <i>ERP Implementation and Training: A Guide to Getting Your Business in Gear</i> ; April 2012 |
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