TOUGH AT THE TOP

Are ERP packages still kings of the IT jungle? Cliff Mills sifts through our latest user survey.

What are organisations looking for from ERP systems these days? Clearly they do still want their data and processes to operate in an integrated way; they do still want consistency within those processes; and most importantly they want value from those systems, both in terms of reduced operating costs and better information to make informed decisions.

So is one provider the way to go or, with the onset of service orientated architectures, is 'best of breed' now a viable option for organisations who need the level of business process visibility that makes a real impact on how they go to market in the future? We researched these questions in this year's Evaluation Centre survey.

From the results, it's clear that ERP packages still play a significant role in organisations' enterprise applications environments. Nearly half the companies interviewed (49%) deploy them either as their main application strategy (23%), or in combination with bespoke solutions (13%) or additional standalone packages (13%).

Nevertheless, a significant number of companies have steered away from the integrated approach and based their core systems either on standalone best of breed packages (23%) or bespoke solutions (17%).

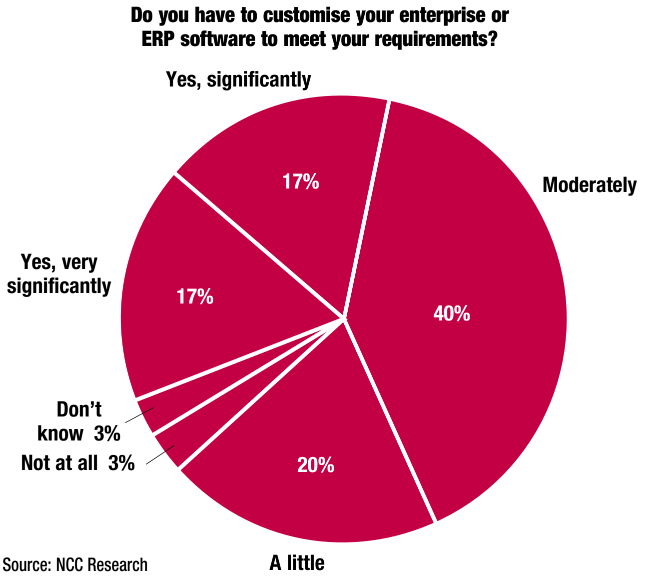
A number of factors have shaped companies' applications environments. The need to improve business processes is key for 63% of respondents, in order to make their business more efficient and competitive.

The development is driven by corporate strategy in 60% of cases, while 33% are more pragmatic and say it has come about through evolution and necessity rather than strategic planning.

Supplier or customer-driven changes have had an impact in 20% of cases and user-driven pressure in 13%. E-business demands have been a factor for 10% of companies.

The amount of customisation required to make an ERP or enterprise solution fit a company's needs varies greatly (see Figure 1). In 17% of cases, it has required 'very significant' changes and in a further 17% 'significant' alterations. Generally, companies say the modifications have been 'moderate' (40%), while 20% have been able to get away with few changes and 3% with none at all.

FIGURE 1: Tailoring ERP software



Source: NCC Research

However, a key issue is not so much the initial implementation but how easy it is to modify the system around the inevitable changes in business requirements and business processes. Too few companies see this as being 'very easy' (3%) or 'easy' (17%) while the largest number (44%) find it 'moderately difficult'. A further 10% say that it is 'very difficult' and 23% 'difficult'.

In selecting any integrated solution, you have to ensure the software functionality meets your business requirements and supports all the company's business processes.

But getting an exact match between the software and the business requirements appears to be difficult, with only 10% of companies saying the software is used to its full extent and 27% saying it's used extensively. The largest number (46%) say that a 'significant' portion of the software is not used, with 17% admitting that a 'large' portion of the software is not used.

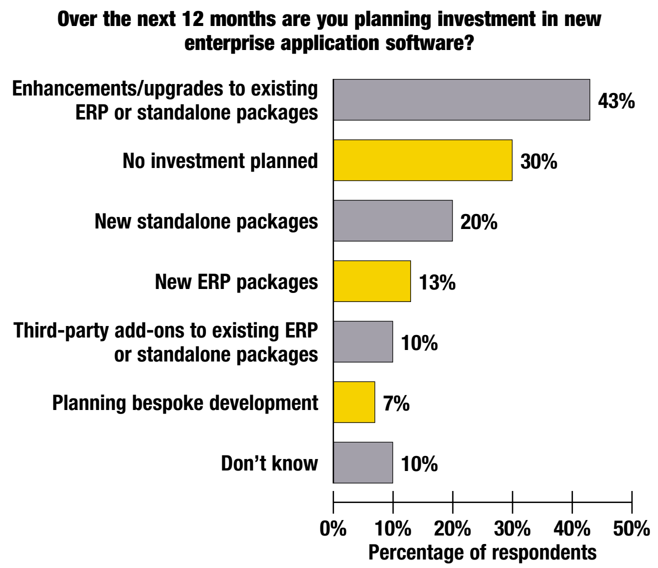
This may be due to the software having a lot more capability than required; or users have failed to implement all their requirements due to difficulties in using the full features and facilities.

Reflecting the fact that business needs are constantly evolving, there appears to be a significant amount of investment planned in enterprise solutions over the next 12 months (see Figure 2).

New standalone packages are a target for 20% of companies, with 13% looking to invest in new ERP solutions. But the greatest expenditure will be on enhancements or upgrades to existing ERP or standalone systems (43%).

A further 10% are planning third-party add-ons to existing ERP or standalone packages and a few (7%) plan bespoke development. Nearly a third (30%) are not planning any investment at all.

FIGURE 2: Spending plans



Note: respondents could choose all that apply

Source: NCC Research

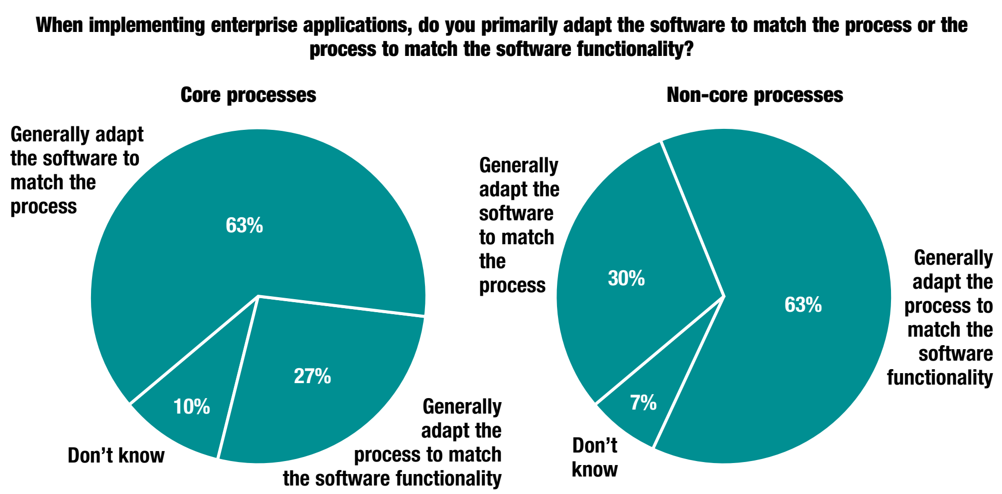
The reasons behind the software investment reflect the aims of most organisations, with improved efficiency and effectiveness being the key driver for 81% and producing cost savings cited by 52%.

When implementing enterprise applications, many companies tend to treat the way they handle core and non-core business processes differently (see Figure 3). For core processes 63% generally adapt the software to match the process, as against 27% who will adapt the process to match the software functionality. For non-core business processes only 30% will generally adapt the software to match the process whereas 63% will alter the process.

The cost of enterprise/ERP solutions can be high in terms of the initial software purchase, implementation and ongoing support costs. In addition there have been many cases where the application has taken far longer to get up and running than anticipated and the system has failed to deliver all the benefits expected.

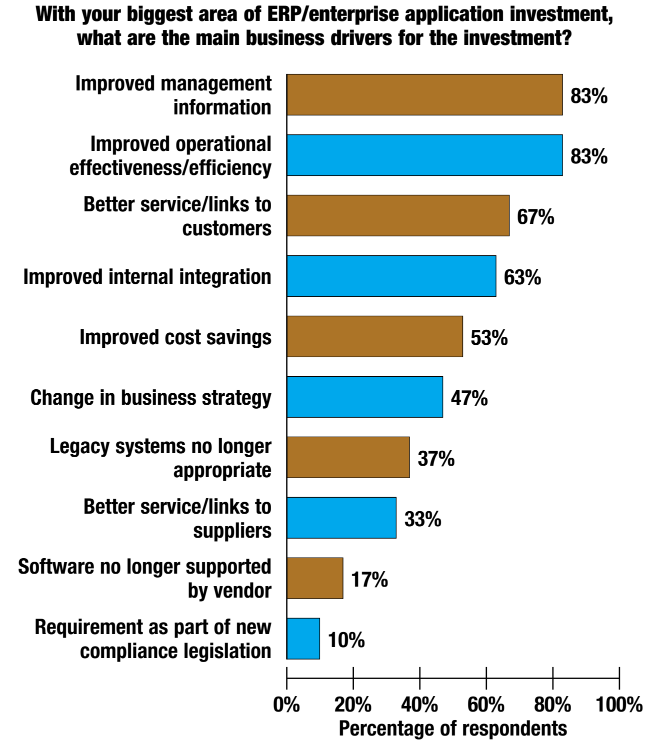
From our survey, the initial purchase cost of the software has generally met expectations in 47% of cases but in a substantial number (30%) it has exceeded the anticipated costs. In 13% of companies the costs have been less than projected.

FIGURE 3: Adapting the business to ERP software



Source: PMP Research

FIGURE 4: Key business drivers



Note: respondents could choose all that apply

Source: NCC Research

The initial implementation costs are a bit more problematic, exceeding expectations in 37% of cases and meeting them in 37%. They have come in lower in 13% of cases.

There are mixed experiences over the length of time required to complete the solution implementation, with 23% saying this has exceeded expectations and 17% that it has ‘greatly exceeded’ the anticipated timescales. On the other hand, 30% of respondents feel the implementation has been on time and 23% say it has been shorter than expected.

The implementation times have a knock-on effect on the time to cost-benefit of the solution, with 20% saying this has exceeded expectations and 7% that it has greatly exceeded the anticipated time. However, 33% have generally met cost-benefit timescales and over a quarter (27%) say they have been shorter than expected.

Being able to respond rapidly to business needs is more essential than ever for companies to maintain their competitive position. IT systems need to be able to respond quickly to business demands – and overall 57% of respondents feel their systems are an enabler for business change, compared to 33% who think they are not. Conversely, 27% feel their IT systems are actually a barrier to business change as opposed to 60% who do not.

The reasons for investing in ERP or enterprise applications are many and varied, but two stand out clearly (see Figure 4).

Providing improved management information so that decision makers have better insight into the business and hence make more informed decisions is a critical factor for 83% of the respondents. Enabling improvements in the overall operational effectiveness and efficiency of the organisation is also cited by 83%.

Other key motivators are to provide improved service to customers (67%) and improved internal integration between applications (63%).

When it comes to implementing new ERP or enterprise solutions, the majority of companies (56%) rely on their own staff, with relatively few using outside resources. External support tends to be provided either by the software vendor (14%), third-party consultants (10%) or freelance contractors (10%).

SURVEY STATISTICS

We spoke to a broad range of companies for this year’s survey on ERP and enterprise solutions. A substantial proportion (23%) are from the manufacturing sector, which was the original base for ERP solutions. But many other sectors use enterprise solutions, including the public sector (17%), retail (10%), distribution & logistics (7%), IT & telecoms (7%) and financial services (7%).

The respondents represent a spread of different-sized companies with 3% having in excess of £5 billion turnover, 13% in the £1 billion to £5 billion bracket and 17% in the £500 million to £1 billion range.

In the mid-range 23% have a turnover between £100 million and £500 million and 13% £50 million to £100 million. At the smaller end 17% have a turnover of between £10 million and £50 million and 14% £5 million to £10 million.

When asked what they see as the most serious threats to the success of an enterprise initiative, the main obstacle – mentioned by 57% of respondents – is finding people with the right skillset to complete the project.

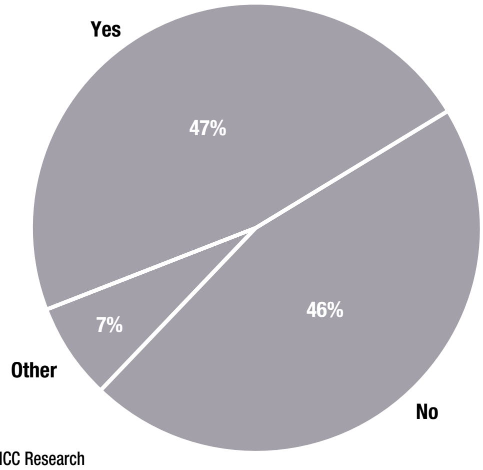
Cost constraints are an issue for 40% of organisations as is poor functionality in some areas of the products being implemented (37%). Difficulties in defining an accurate functional specification (37%) and problems in the integration interfaces to other applications or accessing data (33%) are also an issue.

Some organisations have experienced difficulty with ill-defined objectives or boundaries to the project (30%) and this may well go hand-in-hand with being able to manage people's expectations as to what the system can deliver (30%).

A number of companies (27%) have also experienced difficulties in the working relationship with their vendors, systems integrators or other third parties. Likewise, difficulty in mapping business processes onto the applications is an issue for 27% of companies, while 17% complain of a lack of knowledge or accurate assessment of the existing situation making it difficult to measure results.

FIGURE 5: Return on investment

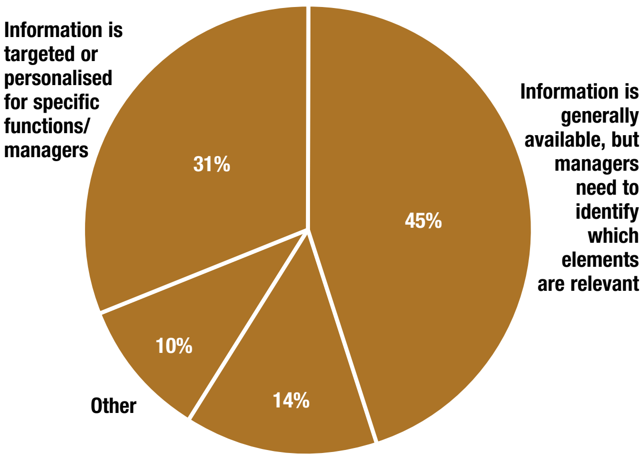
Does your organisation formally measure ROI for enterprise applications?



Source: NCC Research

FIGURE 6: Quality of information produced

How would you describe the information delivered to managers in your organisation via your ERP and enterprise systems?



Source: NCC Research

Given that most organisations operate under cost constraints, it is surprising that 46% make no effort to measure the return on investment for enterprise applications (see Figure 5). This compares with 47% who do measure their effectiveness – with the majority of these (85%) choosing a mix of financial metrics and qualitative objectives.

In addition, 27% of companies use a range of metrics to measure the ongoing business performance of their enterprise solutions. A further 40% sometimes do this, but 23% do not bother with any performance measurement at all. The key performance criteria used are financial metrics (80%), internal customer service (70%) and meeting compliance (55%).

Companies appear to be getting better at tailoring the information delivered from their enterprise solutions, with 31% saying information is targeted or personalised for specific functions or managers (see Figure 6). A further 45% say that information is generally available but managers need to identify which elements are relevant.

However, 14% admit that many of their managers cannot easily pick out the relevant information.

One issue that the majority of organisations agree on (80%) is that their enterprise software needs to become more agile and flexible to meet the changing pressures on the business.

A few organisations (10%) feel their software environment is already well-prepared to meet new business challenges and 3% think their systems do not need any enhancements to make them more agile.

Service oriented architecture (SOA) is seen in some quarters as providing a way to create an enhanced infrastructure that allows systems to be more adaptable. However, when asked if they believe an SOA approach will make for a more agile and responsive organisation, over half the respondents (52%)

couldn't say one way or another. Of the rest, 31% feel that it will, compared to 17% who think it will not.

This uncertainty about the real benefits that SOA can deliver is reflected in the relatively low number of companies who are adopting this approach. Only 3% are using SOA methodology throughout the organisation with 13% piloting SOA in parts of the company and 10% planning to do so in the future.

The majority are adopting a wait-and-see approach, with 27% looking at SOA in the future and 34% having no plans to move in that direction.

● *Cliff Mills is research manager for Evaluation Centre publisher NCC. If you are interested in this study, please contact Cliff on +44 (0)870 908 8767. Email cliff.mills@ncc.co.uk.*

● *If you would like more information about this article or any of the products or companies mentioned in the article, please contact us at info@evaluationcentre.com.*