PANORAMA

CONSULTING GROUP

2011 ERP REPORT

A Panorama Consulting Group Research Report

4949 S. Syracuse, Suite 500 - Denver, CO 80237 Telephone +1.303.974.7171 www.Panorama-Consulting.com

Introduction and Summary

Panorama Consulting Group developed the **2011 ERP Report** to investigate the effects of the ongoing economic difficulties on the ERP market. The report is a summary of the industry's only independent research with the breadth, depth, and objectivity to make meaningful and pragmatic conclusions about ERP software initiatives.

To ensure our findings reflect the current conditions as accurately as possible, polling for the latest edition of the ERP Report was conducted during a recent six-month period (June to December 2010). The survey was open to all participants via our website at www.Panorama-Consulting.com.

Organizations represented vary in industry, location, size, goals and needs but all have implemented an ERP system within the past year. In order to conduct a deeper data analysis of responses, we limited the sample size to 185 participants from 57 countries (Figure One). Thirty-percent of respondents were from North America and seventy-percent were international. Manufacturing, service industries, transportation, communications, electric, gas, sanitary services, public administration, construction and wholesale trade organizations represent 90-percent of the industry distribution of respondents.

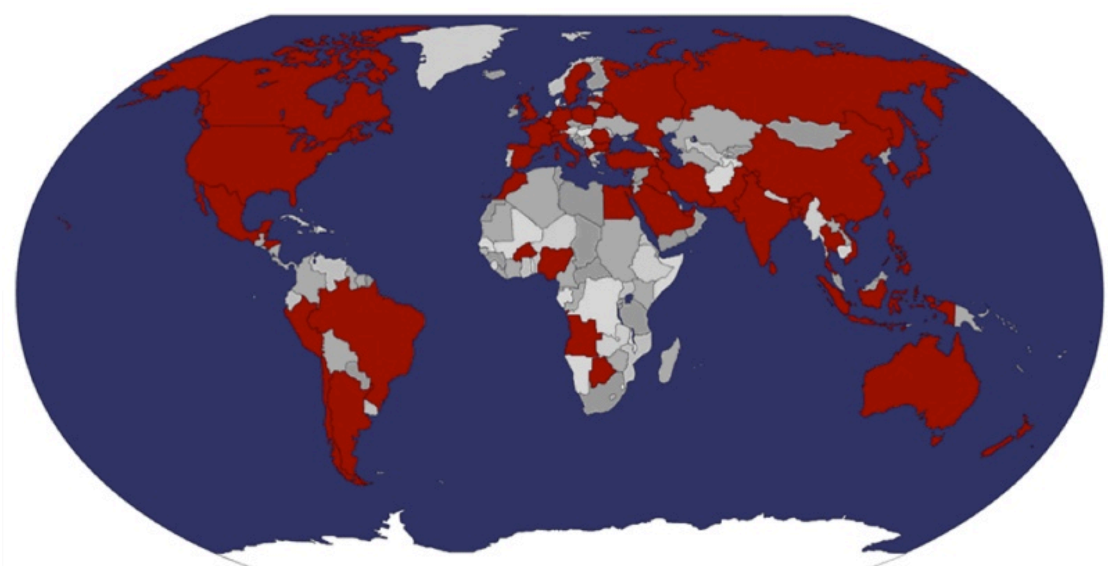

Figure One: Distribution of Survey Responses

Deployment

Over the past several years, the scope of software-as-a-service (SaaS) functionality has broadened significantly and companies have responded in kind by increasing their adoption rates of SaaS offerings. In 2010, nearly one out of five (17-percent) of survey respondents reported using SaaS for their ERP solutions (compared to the less than six-percent of companies who indicated they implemented SaaS during our 2009 polling).

Unsurprisingly, a significant number of traditional ERP vendors have begun to develop SaaS models to cater to the demands of this new market and offer the option to host ERP systems off-site. Nearly a quarter (24-percent) of respondents use traditional ERP solutions that are hosted off-site (Figure Two).

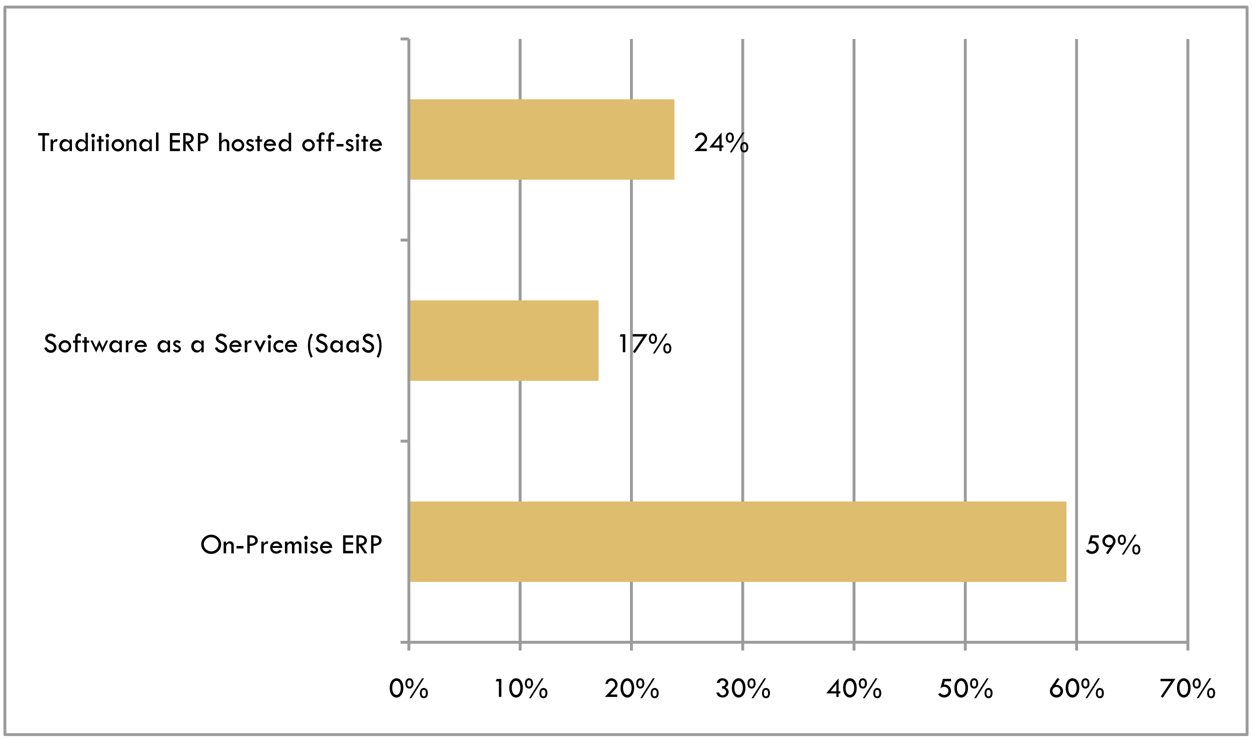

Figure Two: ERP Deployment Model

Project Statistics

The following table compares critical project factors (average project cost, duration, payback period, and the percentage of ERP cost to total revenue) over the past two years of our survey findings. In that short period, each metric lowered: average project cost declined from $6.2 million to $5.48 million, average duration declined from 18.4 months to 14.3 months, average payback period declined from 2.7 years to 2.5 years, and percentage of ERP cost to total revenue declined from 6.9-percent to 4.1-percent.

Metric	2010 Average	2009 Average
Project Cost	$5.48 million	$6.2 million
Project Duration	14.3 months	18.4 months
Payback Period	2.5 years	2.7 years
% ERP Cost/Revenue	4.1%	6.9%

As the figures above and below show, the recession impacted respondents' ERP implementation experiences in both positive and negative ways. On one hand, companies with strained IT budgets were forced to be more prudent with their software implementation spending (as the decreased percentage of ERP cost to total revenue shows). Further, tighter project controls and budget adherence led to decreased cost, duration and payback periods. On the other hand, respondents indicated that there were significantly more companies with ERP project overruns (61.1-percent) or budget issues (74.1-percent) in 2010 than there were in 2009.

Risk Factor	2010 Average	2009 Average
% Take Longer Than Expected	61.1%	35.5%
% Cost Exceeds Budget	74.1%	51.4%
% Benefits Realization < 50%	48.0%	67.0%

One reason for the significant growth in these figures might be that companies are trying to reduce budgets as much as possible before implementations. It is important to realize, however, that ERP projects can easily go awry without enough supporting resources. In our experience, an unrealistic budget and/or insufficient allocation of resources will always prove detrimental to an ERP project and may cause additional problems in the short- and long-term. Unfortunately, executives frequently underestimate ERP costs and don't realize that implementations often span several years and involve endless amounts of organization-wide effort and change. ERP systems don't end at the software purchase; they require changes in business practices across the the entire company. These issues often result in unanticipated costs (e.g., employee training, software customization, and/or external consulting assistance for implementation strategies) which blow budgets and lengthen durations. Moreover, ERP vendors, in efforts to make their bids more competitive, have been known to underestimate the complexity of the implementation and suggest an unrealistic project plan to company executives.

Perhaps the most surprising metric from 2010 was the increase in business benefit realization compared to 2009. In 2009, a full two out of three (67-percent) of companies polled indicated they received 50-percent or less of anticipated benefits while in 2010, less than half (48-percent) of the companies indicated the same. 2009 also saw an alarming 55-percent of companies realized 30-percent or less of anticipated benefits while in 2010 only one out of five (21-percent) of companies realized so little. In addition, 2010 figures show an uptick in the percentage of companies (42-percent) who realized between 51- and 100-percent of business benefits when compared to 2009 (33-percent).

As stated in our previous reports, a business case is a crucial component of a successful ERP project. The increased percentages of business benefit realization can perhaps be, in part, attributed to the increased usage of business cases. In 2009, 15-percent of companies didn't have a business case for their ERP project, while in 2010 only three-percent of companies stated that they didn't have a business case.

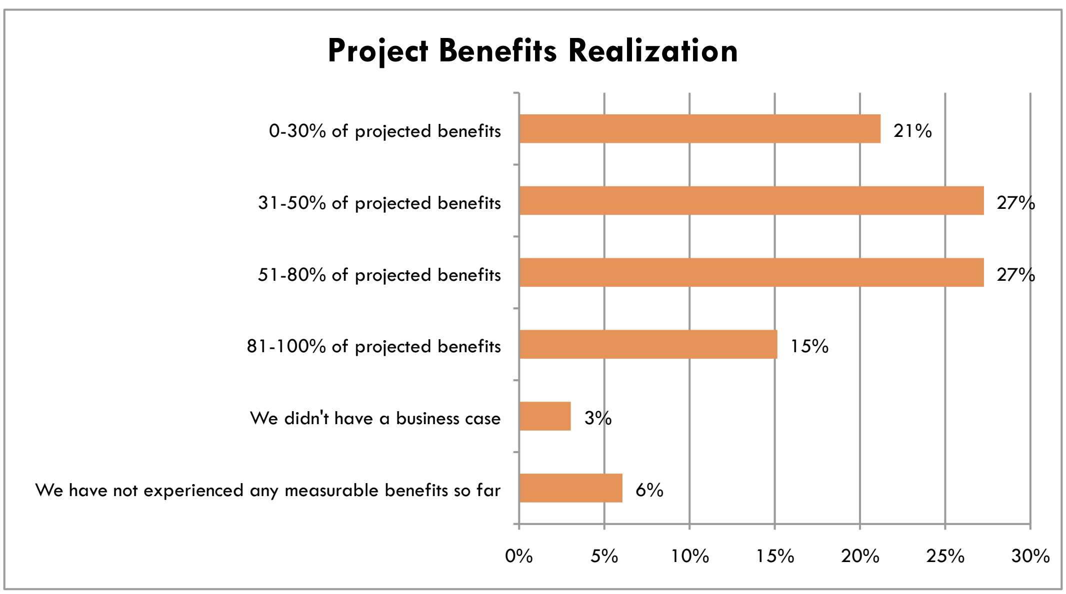

Figure Three: ERP Project Benefit Realization

2010 findings show a slight improvement over 2009 in "project payback period." Respondents indicated they recouped the return on their ERP investment period in 2.5 years (compared to 2.7 years in 2009). As shown in Figure Four (below), nearly four out of five companies (79.2-percent) recouped their investment in three years or less, which is similar to the pattern we saw in our **2010 Vendor Report** (available for download at www.Panorama-Consulting.com).

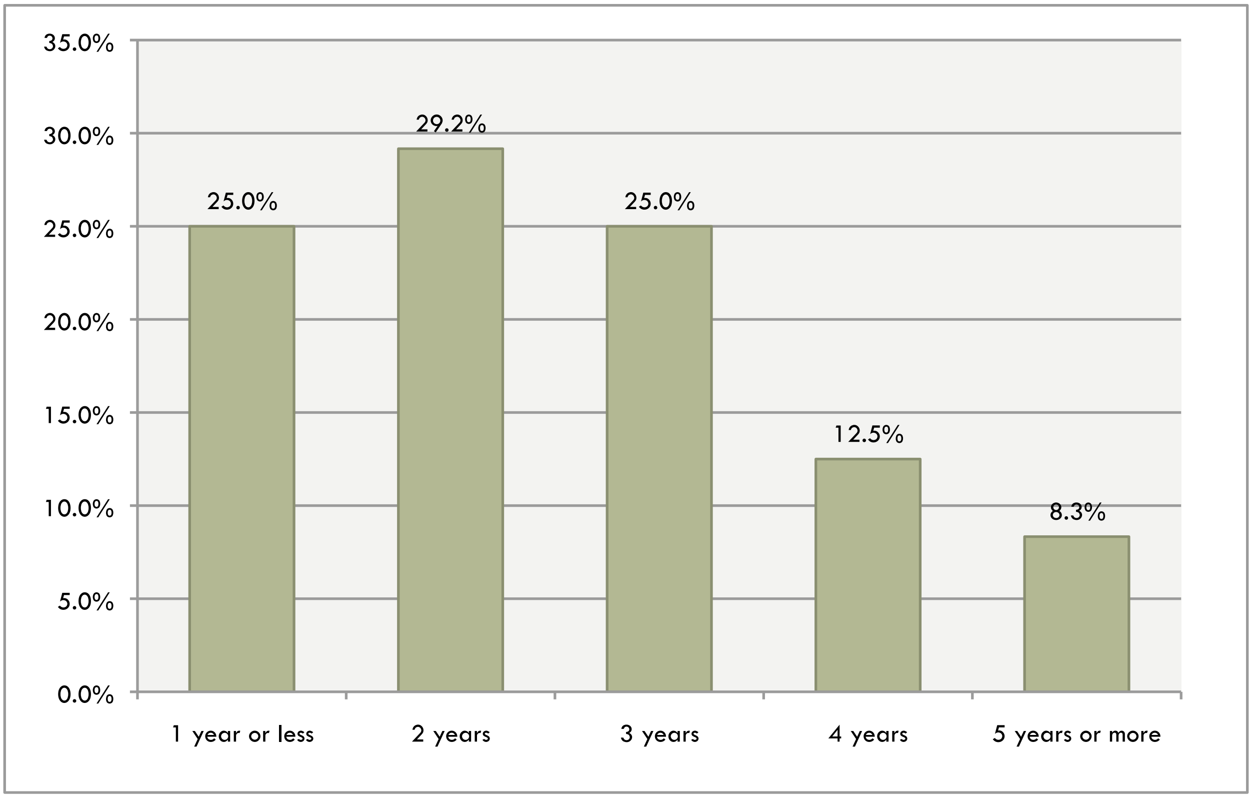

Figure Four: ERP Project Payback Period Distribution

Top Short-listed Vendors

From the data collected, it is evident that no single ERP vendor dominates the market. The table below shows the likelihood of each vendor being short-listed by the respondents. For example, 38-percent of respondents put SAP on their short-list, and 32-percent of respondents put Oracle (which includes eBusiness Suite, JD Edwards and PeopleSoft) on their short-list. As in 2009, SAP, Oracle and Microsoft are the three major vendors most often short-listed.

Short-listed Rank	Vendor	Short-listed Rate
1	SAP	38%
2	Oracle	32%
3	Microsoft	24%
4	Epicor Software	8%
4	Infor Global Solutions	8%
5	Sage	4%
6	Lawson Software	3%
7	Exact Software	3%
8	IFS	3%
9	OpenBravo	3%

Top Selected Vendors

The selection ranking below is determined based on actual selection per total responses. (Please note that this methodology differs from that employed in the **2010 Vendor Report** in which the selection rate reflected the percent of time a vendor was chosen after it was short-listed.) Oracle (which includes eBusiness Suite, JD Edwards and PeopleSoft) was selected by 22-percent of respondents, 19-percent of respondents selected SAP, and 14-percent of respondents selected Microsoft. All three of these vendors were the top three selected vendors during 2009 as well.

Selection Rank	Vendor	Selection Rate
1	Oracle	22%
2	SAP	19%
3	Microsoft Business Solutions	14%
4	ABAS Software	5%
5	Activant Solutions	4%
5	Epicor Software Corporation	4%
6	IFS	4%
7	Lawson Software	4%
8	Unit 4	4%
9	Infor Global Solutions	3%

Implementation Strategies

Module Adoption

Companies select from a variety of ERP modules to best suit the nature of their business and specific business processes. Although a standard ERP system typically includes modules like “Financials,” “Supply Chain,” “Manufacturing,” “Sales,” and so forth, companies ascribe different levels of importance to each module when determining their best-fit ERP.

Nearly seven out of ten (69.6-percent) respondents indicated that the “Financials” module was their key selection while only 10.9-percent chose “Retail.” Although low in comparison, the selection rate for advanced modules such as “Product Configurator” (15.2-percent), “Product Lifecycle Management” (17.9-percent), and “Business Intelligence” (31.5-percent) are of note because the implementation of those advanced modules usually occurs during the second phase. To take full advantage of their increased functionality, companies must adequately define their corresponding business processes and/or sufficiently train employees to leverage these modules’ capabilities. Oftentimes, they dramatically increase competitive edge and deliver measurable business results.

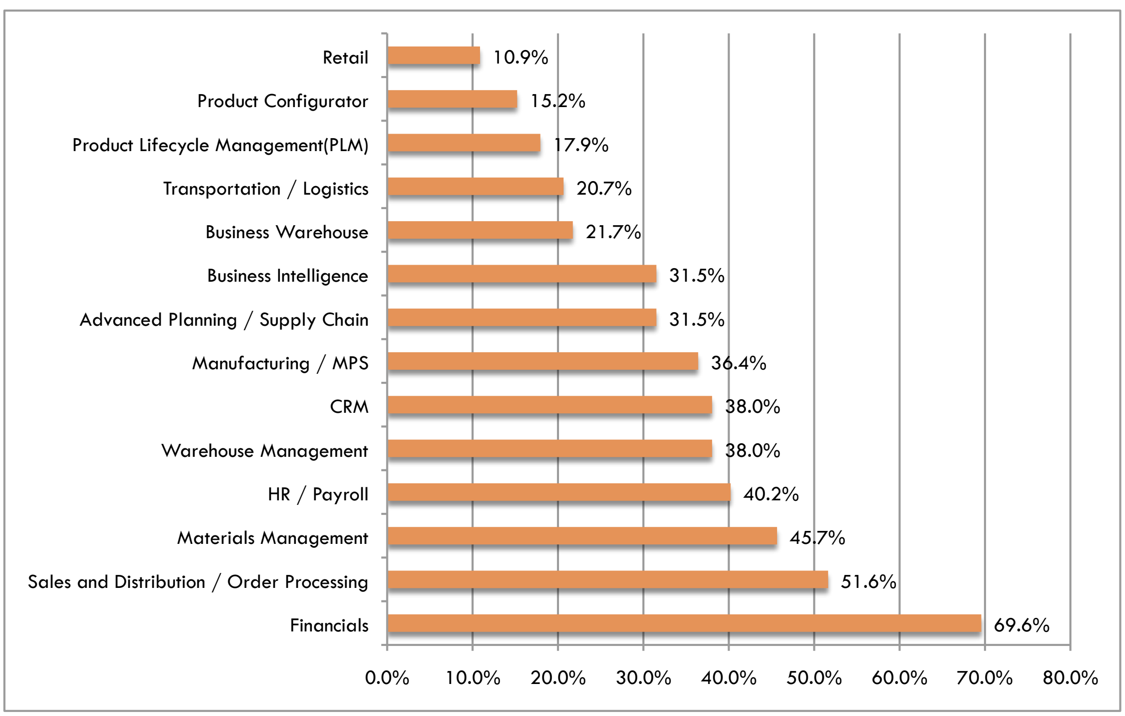

Figure Five: ERP Module Adoption

Implementation Rollout Approach

Implementation rollout can be done in one of three ways: big bang, phased or a hybrid of the two. The big bang approach refers to a system going live simultaneously with all modules and offices at one time. A phased approach indicates a system going live in sequence (generally by location or module). A combination of the two involves implementing in a phased manner in some areas and big bang for others. As shown in Figure Six, more than half (53-percent) of companies used a phased approach for their implementations, 35-percent used big bang, and the rest (11-percent) chose a hybrid method.

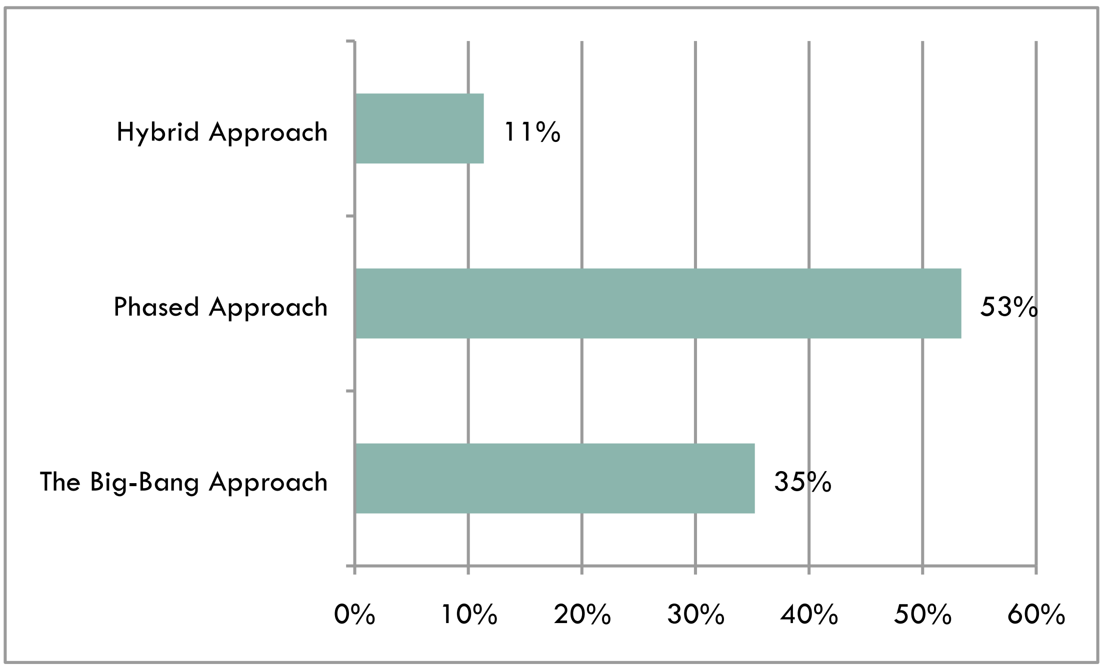

Figure Six: ERP Implementation Roll-out

Cutover Strategy

To best manage the transition from the old system to new, companies choose between two cutover options: hard (with no employee access to the old system after go-live) and soft (with some or total employee access to the old system). Figure Seven (below) shows that two-thirds of respondent companies (66-percent) chose a hard cutover and one-third (34-percent) chose a soft (or parallel) cutover. Panorama consultants recommend parallel runs of both systems over the conversion system to ensure nothing unexpected occurs.

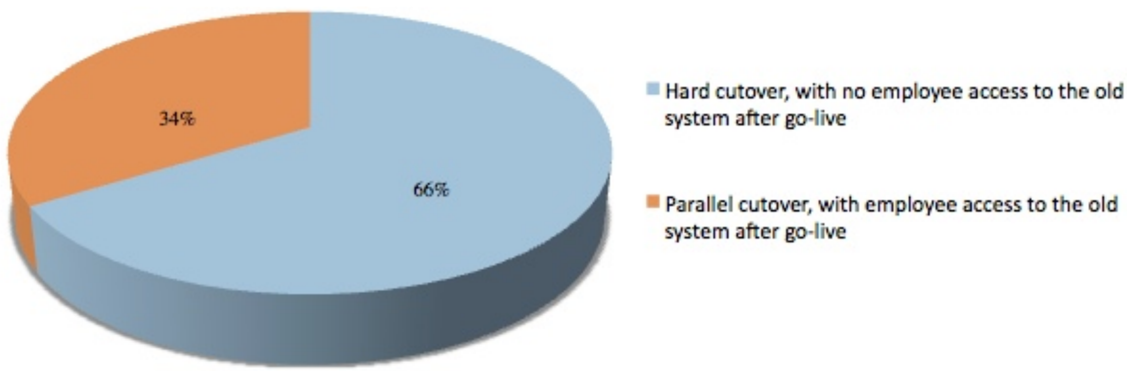

Figure Seven: ERP System Cutover Approach

Customization

Deciding on the right level of customization for a company's business processes is critical to the success of an ERP project. While customization can enhance the value of out-of-the-box software and allow the company to maximize its cutting-edge advantages, it also can result in high implementation costs without the realization of expected benefits. The question of how a company should balance schedule and budget goals against the benefits of customizing its ERP system has always been a source of great debate during selection and implementation.

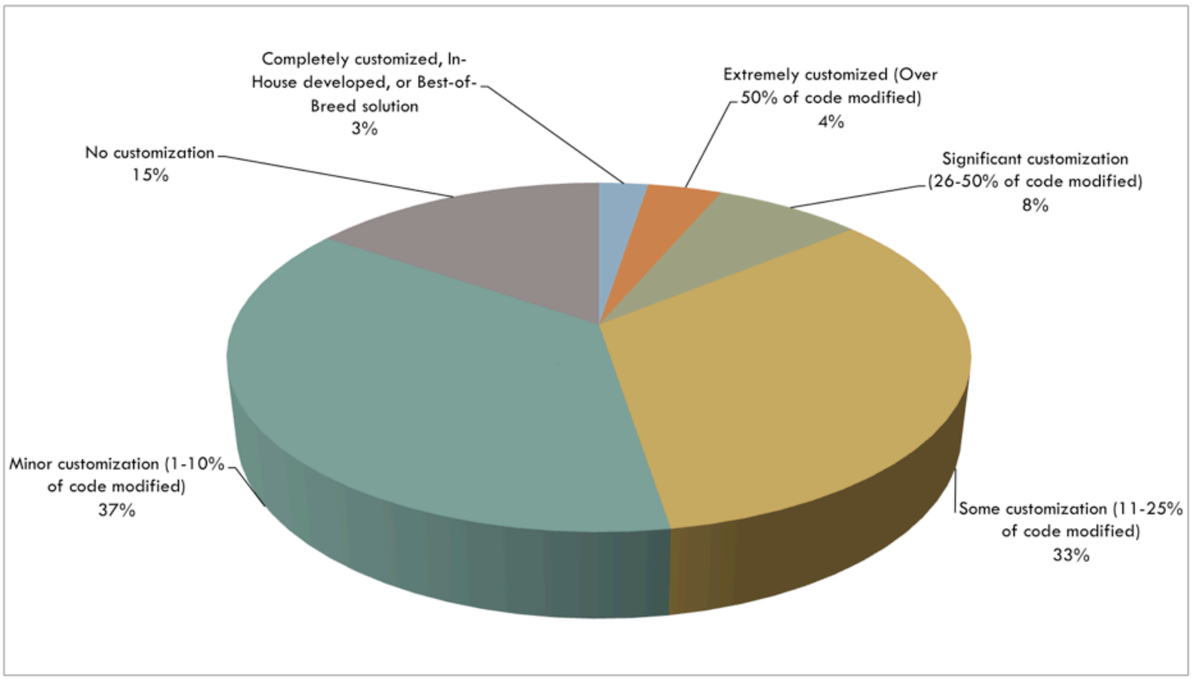

Figure Eight: ERP System Level of Customization

In 2010, only 15-percent of companies chose "plain vanilla" software (down from 28.3-percent in 2009). The remaining 85-percent chose at least some customization of their ERP software. Companies are still conservative, however. The majority of respondents (37-percent) chose minor customization while 33-percent chose "some" customization. It is interesting to note that while companies are tending to spend less on their ERP projects overall, they are not ignoring the necessity of customization. Although customization has always been one of the major reasons that projects take more time and cost more money than anticipated, "plain vanilla" is obviously not the preferred option for most companies.

Top Ten ERP Predictions for 2011

1. **Risk management and mitigation.** Even though the economy may not be quite as bad as it was at this time last year, companies are still extremely risk-averse. They are not willing to spend millions of dollars on ERP software that is difficult to implement or doesn't deliver measurable value. When they do go to implement, executives are going to rely on outside consultants and experts to help them manage and minimize risk.

2. **Increasing focus on organizational change management.** Since risk management is the name of the game for CIOs, executives are finally smartening up and realizing that organizational change management is arguably the single best way to mitigate and manage implementation risk. As recently as two or three years ago, before the current recession began, companies viewed org change as an optional and nice-to-have implementation activity – now they are realizing that it is critical.

3. **Increasing need for ERP business cases, ROI analysis and benefits realization.** In the latter half of 2010, we saw a marked shift to organizations focusing on clearly defining a business case and conducting an ROI analysis to assess the viability of their ERP initiatives. Given the risk aversion of many companies, this trend is likely to continue into 2011. This quantitative focus has been a core part of Panorama's methodology since our inception, so this is a welcome trend that will ultimately benefit companies.

4. **ERP lawsuits and canceled ERP projects.** Despite companies' desires to mitigate risk and focus on organizational change, they are still going to be pressured by slim IT budgets. This is going to create pressure to cut costs in the wrong places, which will ultimately increase the rate of ERP failures. In addition, because of the low tolerance for risk, companies will be faster to pull the plug on troubled projects and file lawsuits against their ERP vendors if warranted.

5. **ERP vendors will get their "mojo" back.** Until recently, most ERP vendors were getting hammered by a mix of increased competition, tight IT budgets, and mediocre financial results. Signs in the latter half of 2010 pointed to increasing IT spending and pent-up demand for enterprise systems, which is likely to continue into 2011. This should give software vendors increased confidence to hold the line on software pricing, invest more in R&D, and provide more product enhancements.

6. **ERP vendor consolidation**. Even though ERP vendors on a whole will be stronger in the coming year compared to years past, they all won't be so lucky. As we emerge from the recession, the market will diverge into a class of stronger ERP advisors and a class of weaker players. Look for the stronger players to acquire some of the weaker ones, resulting in a wave of consolidation.

7. **Heavy adoption of software-as-a-service (SaaS) models at small- and mid-size businesses (SMBs).** Assuming SMBs and start-ups lead us out of the economic doldrums as they have in past recessions, they will look to enterprise software to provide their business foundations for growth. However, these bootstrapped start-ups aren't likely to have the capital funds for heavy up-front costs so they will likely look more to SaaS ERP and CRM systems.

8. **Continued buzz around cloud computing.** While SaaS ERP systems are still years away from capturing a significant portion of the ERP market among mid-size to large organizations, CIOs will continue to look at other cloud computing options. For example, hosted ERP solutions and outsourced IT infrastructures will likely be on the minds of many CIOs. In addition, although larger companies may not yet be in a position to adopt enterprise-wide SaaS models, they will continue to evaluate targeted SaaS solutions, such as Document Management Systems (DMS), Human Resource Systems (HRM/HCM), Product Lifecycle Management (PLM), and Customer Relationship Management (CRM).

9. **A good year for CRM software.** Most companies have cut their operating and labor costs to the bone throughout the recession. Many are also starting to realize that the only way to make it out of the recession stronger is to fuel top-line growth and sales, and most will do so without hiring too many new sales and customer service reps. For this reason, companies will look to CRM software and social CRM applications to help make their existing sales and customer service functions more effective and efficient.

10. **More focus on diagnostics, analytics, and business intelligence.** Companies have reduced their margins of error for missteps during the recession, so will continue to rely on their ERP systems to provide operational data to help make better and more informed decisions. Look for diagnostics, analytics, and business intelligence applications to gain momentum in the coming year.

Conclusion

The 2010 ERP market witnessed significant ups and downs in various industries, along with a number of highly publicized failures and lawsuits. After analyzing our survey results from this intense period, several interesting trends were noted. Our data indicates that though companies were forced to lower budgets, shorten durations and more tightly control their ERP projects in 2010, they also realized significantly higher business benefits and slightly shortened payback periods than they did in 2009. One factor that likely contributed to business benefit realization was companies' willingness to customize their ERP software. Overall, there were more customizations performed in 2010 than the year before, indicating that more and more companies are discovering that their ERP solutions needed to be customized to fit their business needs.

The data also showed, however, that increased customization, decreased expenditures and/or shortened timeframes can blow a companies' ERP project assumptions out of the water. Nearly two out of three companies in 2010 reported project overruns and nearly three out of four reported budget overruns. When compared to 2009, the increase is rather staggering and shows the troublesome effects of mismanaged expectations.

About Panorama Consulting Group

Founded in 2005, Panorama Consulting Group is a niche consulting firm specializing in the enterprise resource planning (ERP) market for mid-sized companies across the globe. Independent of affiliation, Panorama helps firms evaluate and select ERP software, manages the implementation of the software, and facilitates all related organizational changes to assure that each of its clients realizes the full business benefits of its ERP implementation.

Panorama's expertise focuses on three service offerings:

- ERP software selection
- ERP implementation
- ERP organizational change management

More information can be found at **www.panorama-consulting.com**. Contact Panorama at (303) 974-7171 or **info@panorama-consulting.com**.