

ERP: Your Strategic Weapon

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ERP provides a necessary infrastructure that forms the transactional system of record upon which a business is based, it serves as a source of cost savings and operational improvements, and it streamlines and accelerates business processes.



As optimism increases for a worldwide economic recovery, small to mid-size enterprises (SMEs) once again look forward to revenue growth. As a result, SMEs must seek competitive advantages that enable them to contain costs to ensure that growth of revenues is not at the expense of profits. Enterprise Resource Planning (ERP) can indeed be a strategic weapon.

Recent research indicates that SMEs are optimistic about future revenue growth and profits. The first quarter 2010 Aberdeen Business Review found these to be the top two business goals of small to mid-size enterprises. In addition, plans for growth are quite aggressive and significantly outstrip those of larger companies in terms of percentages, if not in terms of absolutes.

Cost Reduction as a Driver

By definition, small companies will have limited resources to devote to the implementation and maintenance of ERP. Small numbers of transactions and manageable volumes of data translate to a low perceived need for ERP. Small

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companies tend to invest more in resources that directly fuel growth, rather than infrastructure. Data collected for the Q4 2009 Aberdeen Business Review found ERP is implemented in 41 percent of all companies surveyed, but only in 29 percent of SMEs. These adoption rates varied significantly across industries, with manufacturing companies more than twice as likely to have adopted ERP (74 percent), but SME manufacturers still lag at only 66 percent.

While growth of revenue and profits are the top goals for SMEs in 2010, the top business driver impacting ERP strategies is the need or desire for cost reduction, which in turn has a very direct impact on operating margins. When Aberdeen defines “Best-in-Class” in generic terms across all types of industries, we use metrics that are universal across all industries and reflect both effectiveness and efficiency in both back-office and customer facing metrics, as well as the financial health of the business. However, when we define a Best-in-Class ERP solution for manufacturing companies only, we are able to use more specific metrics:

- reduction in inventory as a result of ERP.
- inventory accuracy.
- percentage of orders delivered complete and on-time.
- manufacturing schedule compliance.
- number of days to close a month.

How to be Best-in-Class

However, in addition to measuring the reduction in inventory as a result of an ERP implementation, we also capture reductions in operating costs as well as administrative costs. Part of the report compares the average savings of Best-in-Class (the top 20 percent of aggregate performance scorers) to Industry Average (middle 50 percent) and Laggard (bottom 30 percent), as well as the average SME manufacturer.

While we see a gap in performance across the classes, the conclusion we can draw is that any ERP implementation produces results, but those that “do it right” reap more rewards.

So what do Best-in-Class companies do that is different? First off, they use more functionality. It is a common belief that only 20 percent of ERP is used. However, this assertion (and the actual percentage) is rarely validated. Since 2006, Aberdeen has been measuring the use of ERP in terms of the number of modules implemented and the percentage of functionality that is available that is actually used. We define a list of 24 generic modules that may be included in ERP for manufacturers. These may not be the way all ERP solution providers sell and deliver their products, but can provide a general guideline. These generic modules include general ledger, accounts payable, accounts receivable, inventory control, and MRP, just to name a few. We ask survey respondents to check off the modules they use and then separately indicate the percentage of available functionality that is actually used. We divide the number of modules by 24 and then weight it with the percentage of functionality to get a weighted average usage. Best-in-Class SME ERP

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implementations use an average of 39.1 percent of ERP while Laggards use 42 percent less (or 27.6 percent).

Best-in-Class SME implementations are also 96 percent more likely to be running on the latest release of software available. SMEs offer many reasons for delaying upgrades, including the belief that the current release satisfies their needs. However these same companies are very likely to be paying maintenance fees and those maintenance fees are funding innovation.

By stagnating on older releases, SMEs are not getting the best return on their original or on-going investment. Keeping current on new releases is one indication of a continued commitment by senior management. It is widely recognized that this top level commitment is necessary for the initial success of the ERP implementation, but it is equally important over time. Top performing ERP implementations have that continued support, and are more likely to assign ownership of the implementation to the line of business executives that stand to gain the most benefits from it, rather than leaving it entirely up to IT to deliver, implement, and maintain.

But perhaps the most significant difference between Best-in-Class and those that have not achieved this level is the dedication to measuring results. Top performing ERP implementations are 80 percent more likely to quantify the business benefits and are 95 percent more likely to measure the time to value. This requires due diligence up front to establish a baseline of metrics, the setting of goals and then the continued diligence to measure progress. The best ERP implementations are never “done.” As technology and applications evolve, there are always more benefits to be gained.

To read the full report, visit www.aberdeen.com [1].

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