

2008 ERP in the Mid-Market

August 2008

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Executive Summary

In the face of rising energy costs and a fear of a global economic downturn, reducing costs is a top priority for today's mid-size companies as they develop their Enterprise Resource Planning (ERP) strategies. Yet, in order to preserve revenue streams and market share, cost reductions cannot come at the expense of customer service. This report explores feedback from over 500 mid-size companies, and aims to serve as a roadmap to those that desire to reduce costs, and improve accuracy and delivery performance.

Best-in-Class Performance

Aberdeen used five key performance criteria to distinguish the Best-in-Class from all other companies. While the implementation of ERP produced a reduction in costs and improvements in inventory levels across all companies, Best-in-Class companies achieved significantly better results in the following:

- 19% reduction in operational costs and 22% reduction in administrative costs
- 95% complete and on-time delivery
- 22% reduction in inventory, with 95% inventory accuracy

Competitive Maturity Assessment

Survey results show that the companies enjoying Best-in-Class performance shared several common characteristics:

- Top performers use 13% more ERP functionality
- Top performers are 15% more likely to be running their ERP vendor's latest release, and are 52% less likely than Laggard companies to be running significantly outdated ERP releases
- Top performers are 1.5-times as likely to notify decision makers in real-time as exceptions occur, thus enabling an immediate response

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Continue to broaden and deepen use of features, modules, and extensions and expand ERP access to more employees across the organization
- Standardize common business processes and ERP implementations
- Assign ownership of ERP success to line of business executives

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

Mid-size Definition

For the purposes of this study, mid-size organizations were defined as those companies reporting annual revenue between \$50 million and \$1 billion

"Our ERP implementation has helped us improve on-time delivery from below 74% before implementation, to 95% currently. Inventory accuracy has improved from below 50% to 98%. Planning modules have helped us optimize productivity and maintain inventory levels at a constant and reliable level. By maintaining customer / supplier relationships between internal facilities and managing the flow with MRP, we have reduced freight by 40%. We are looking to expand our ERP next year by implementing Kanban and customer forecasting modules."

~ Janice D'Amico, Manager
Business Applications
Hillsdale Automotive LLC
an Eagle Picher Company

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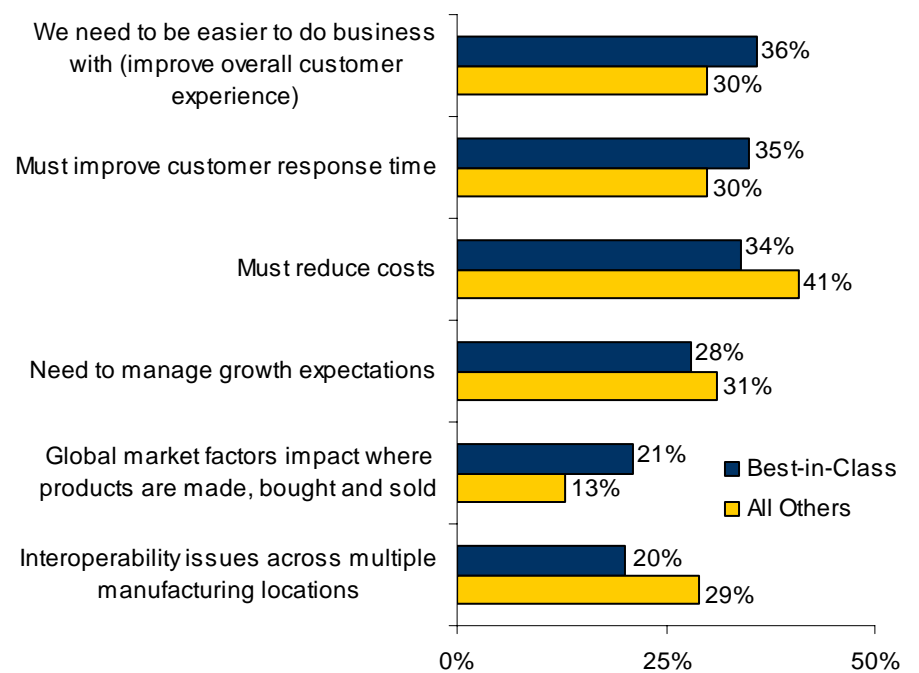
Chapter One: Benchmarking the Best-in-Class

Business Context

In evaluating business drivers impacting Enterprise Resource Planning (ERP) strategies, Aberdeen's annual *2008 ERP in Manufacturing* (published in June 2008) Benchmark Report found pressures resulting from anticipated growth down by 33% since last year, while the need to reduce costs inched ahead as the top business driver. Increased global competition combined with rising costs place continued pressure on all mid-size companies to optimize resources, meet tighter delivery schedules for products and services, and improve overall responsiveness.

When looking at the business pressures driving the top performers of mid-size companies, however, we see a different story (Figure 1). These Best-in-Class mid-size companies are also concerned with cost and other internal pressures, but place more focus on external issues like customer service and response times. Having already achieved top performance in cost reductions, Best-in-Class companies are not as pressured by the need to reduce cost to ensure profitability.

Figure 1: Business Drivers Impacting ERP Strategies in Mid-Size Companies



Source: Aberdeen Group, August 2008

Although most of these pressures aligned closely with those reported by companies of all sizes, interoperability proved a bigger issue for mid-size

Fast Facts

- √ Best-in-Class companies reduced costs by 21% through the implementation of ERP, compared to 9% by Industry Average companies, and only 1% by Laggards
- √ The Best-in-Class have 17% better performance than Laggards in delivering complete and on-time
- √ The average number of operational locations supported by ERP triples as companies grow from \$50 million to \$1 billion in annual revenue, significantly increasing the complexities associated with implementation

Competitive Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of the three following levels of practices and performance:

Best-in-Class (top 20%)—practices that are the best currently being employed and significantly superior to the industry norm

Industry Average (middle 50%)—practices that represent the average or norm

Laggard (bottom 30%)—practices that are significantly behind the average of the industry

companies, with 27% citing this as a “top two” pressure, as compared to 22% of all companies. As companies grow, business operations become more dispersed and interoperability becomes more important. Those at the smaller end of the range are most likely to be encountering these realities for the first time, and may be required to re-think ERP strategies. Global market factors are indeed impacting where products are made, bought, and sold. While not one of the top pressures identified by our survey respondents, Best-in-Class companies are 54% more likely to identify this as a key driver influencing ERP strategies. Mid-size companies experiencing high growth rates and those entering global markets would be well-advised to consider these factors in mapping a strategy today.

“Even at a run rate of \$100 million [in annual revenue], we were running a glorified checkbook system. But we knew we were on the cusp of substantial growth. We needed a system that could provide us with everything we needed as a manufacturing company and could scale with us. That meant we needed a fully functional ERP system.”

~ Senior Director of Finance,
Manufacturer of Solar Panels

The Maturity Class Framework

Aberdeen used five Key Performance Indicators (KPIs) to distinguish the Best-in-Class from Industry Average and Laggard organizations. These KPIs were chosen not only because companies should be measuring them, but also because a well executed ERP implementation can have a very significant impact on these metrics. Due to the rising focus on cost reductions found in Aberdeen’s recent research, the Best-in-Class criteria emphasizes reduction in costs, in conjunction with current performance.

Table 1: Companies with Top Performance are Best-in-Class

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 22% reduction in inventory levels ▪ 19% reduction in operational costs ▪ 22% reduction in administrative costs ▪ 95% complete and on-time delivery ▪ 95% inventory accuracy
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 12% reduction in inventory levels ▪ 11% reduction in operational costs ▪ 8% reduction in administrative costs ▪ 93% complete and on-time delivery ▪ 92% inventory accuracy
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 3% reduction in inventory levels ▪ 2% reduction in operational costs ▪ 0% reduction in administrative costs ▪ 81% complete and on-time delivery ▪ 87% inventory accuracy

Source: Aberdeen Group, August 2008

The Best-in-Class PACE Model

To achieve these significant benefits from an ERP solution, a combination of strategic actions, organizational capabilities, and enabling technologies are required. These can be summarized as shown in Table 2.

Table 2: Best-in-Class PACE Framework

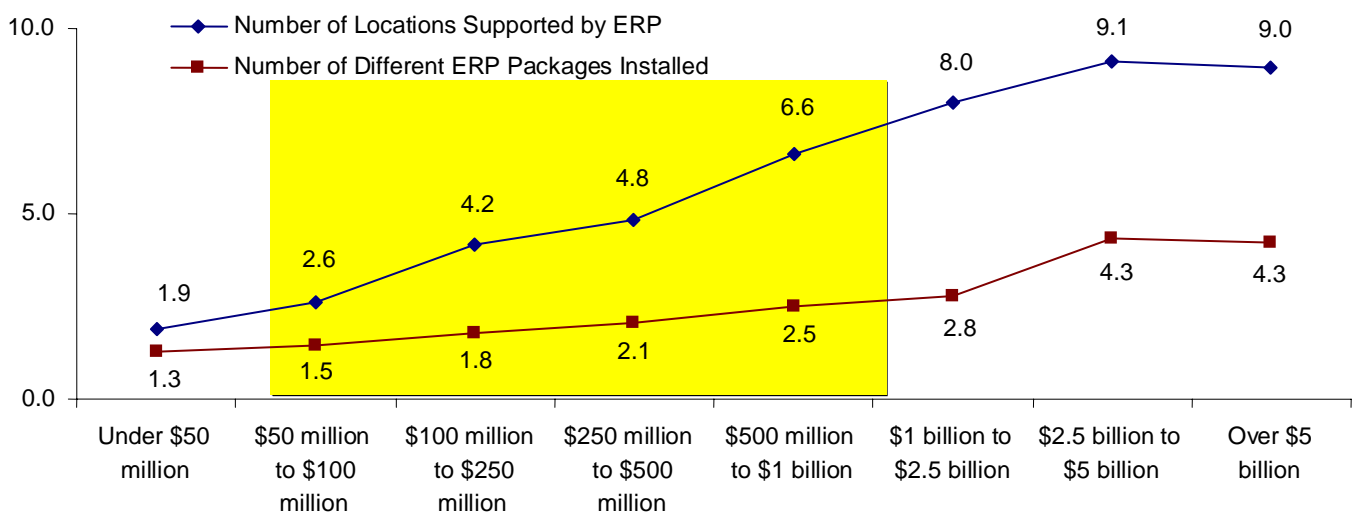
Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> Must reduce costs 	<ul style="list-style-type: none"> Provide visibility to business processes across functions and departments Standardize and accelerate front and back office processes Optimize the use of current capacity 	<ul style="list-style-type: none"> Standardized enterprise-wide procedures for order management, procurement, operational execution, cash collection, and financial reconciliation Line of business ultimately owns the success of the implementation From summary data, decision-makers can drill down to transactions that form the fiscal and operational audit trail Real time visibility into status of all processes from quote to cash 	<ul style="list-style-type: none"> Integrated ERP modules: general ledger, accounts payable, accounts receivable, fixed asset management, MRP, shop floor control, purchasing, inventory control, after market service, ECM, CRP, DRP, MPS, forecasting / demand planning, human resources, order management, project management, EAM, supplier collaboration / scheduling, sales and marketing, product configurator, payroll Business Intelligence (BI) or analytical tools Workflow automation / Business Process Management (BPM) Event management (triggers and alerts) Access to ERP through mobile devices

Source: Aberdeen Group, August 2008

Best-in-Class Strategies

As mid-size companies grow, they are increasingly likely to operate in a distributed environment (Figure 2).

Figure 2: ERP Across the Distributed Enterprise



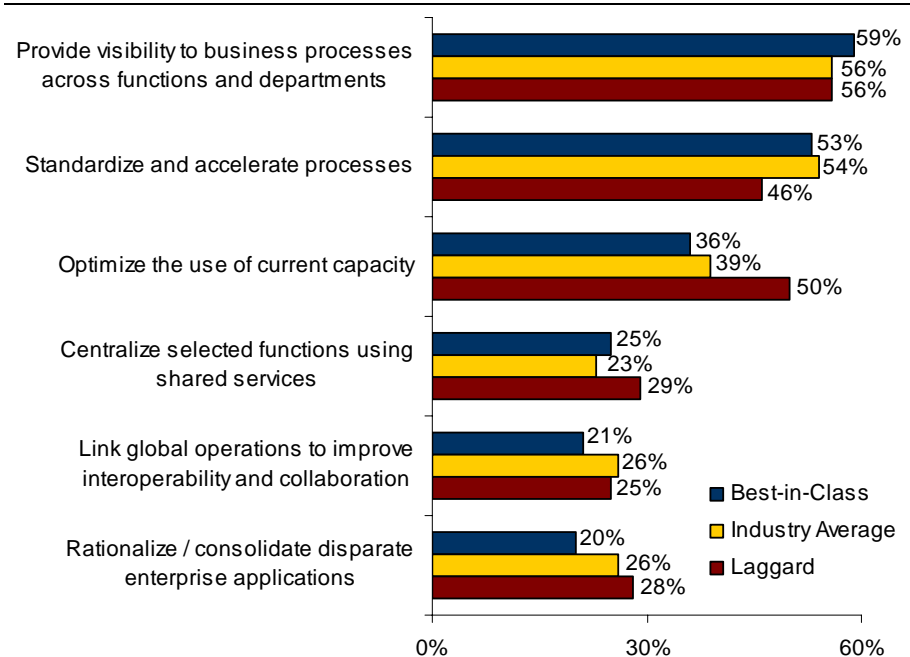
Source: Aberdeen Group, August 2008

ERP implementations in mid-size companies supported an average of 4.1 separate operating locations. Twenty-two percent (22%) operate from a single facility, 18% operate two, another 18% operate three, and 42% operate four or more. This is in stark contrast to small companies: 61% of which operate from a single facility and another 22% that operate two, 9% that operate three, and only 8% with four or more. Even within the mid-size revenue range, the trend toward multiple operating locations grows as the company size grows.

In addition, mid-size companies are supporting multiple ERP packages across the enterprise. While the majority (63%) have only one ERP package, a sizeable 19% have two, and the remaining 18% have more than two. ERP packages proliferate when divisions are allowed to make their own ERP decisions or as a result of mergers and acquisitions, forcing decisions around rationalization and consolidation of ERP packages long before companies reach the \$1 billion threshold of annual revenue.

As environments become more distributed and applications proliferate, visibility across functions, departments, and operating locations becomes increasingly difficult, yet increasingly important. Not surprisingly, providing this visibility is the top strategic action of mid-size companies, as seen in Figure 3.

Figure 3: Strategic Actions of Mid-Size Companies



Source: Aberdeen Group, August 2008

Companies at all performance levels understand the need to standardize, accelerate, and provide visibility into these processes: from planning, sourcing, and operational execution; to delivery, cash collection, and financial reconciliation. This causes strategies to be very similar. The

differentiating factor is in the execution of strategy and the success of the implementation. Best-in-Class companies are more able to reduce costs and optimize performance. Laggard companies have not been as successful in cost containment and are therefore more budget constrained. As a result, they have a far greater concern for optimizing the utilization of capacity, increasing output without additional spending.

In addition to the need for cost containment, another concern for Laggard organizations is dealing with a proliferation of applications. Best-in-Class companies are 26% less likely to be rationalizing or consolidating disparate enterprise applications than the combination of Industry Average and Laggard companies. This is not to say disparate applications do not exist in Best-in-Class companies. Indeed, many have not only multiple ERP packages, but also other extensions to ERP or other independent applications. However, the hallmark of a Best-in-Class implementation is standardization of both processes and master data such as charts of account, customers, suppliers and products. A majority (69%) of Best-in-Class companies have a standardized implementation of ERP across a potentially distributed and global environment. Whether this has resulted from developing and implementing standards up front or from a consolidation effort, this is a recommended state for any company.

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Thirteen percent (13%) of respondents (of all size companies) do not have an ERP implementation at all. Some might assume that a company without ERP must be extremely small. This isn't necessarily the case, as companies may have legacy or home-grown applications. They may also have non-integrated applications that can make moving to a fully integrated ERP quite difficult. In fact, of those companies without ERP, 64% are small companies with revenues under \$50 million, but 25% of them are mid-size companies, and the remaining 11% are large companies with revenues over \$1 billion.

When mid-size companies were asked what might prompt them to consider taking the plunge into such an investment, many of these companies pointed to pressure from outside: the need for collaboration with customers and suppliers, regulatory compliance requirements, and mandates from a parent company (Figure 4).

continued

Optimizing Capacity

The optimization of capacity can mean different things to different types of companies:

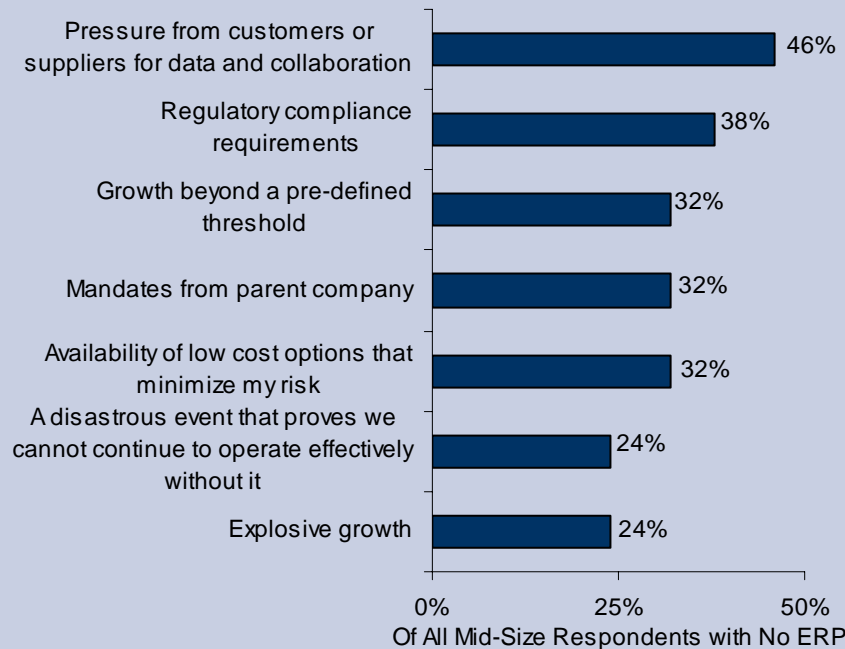
- √ For manufacturers, capacity can be defined in terms of people (labor), plants and equipment. Increasing efficiencies and throughput of existing capacity can be critical in fueling growth.
- √ For distributors, optimization of existing warehouse space and effective utilization of fleets can reduce costs and support revenue growth.
- √ For services organizations, capacity is measured in the efficient scheduling and utilization of people.

"Having a lot of different, unlinked packages and applications defeats the point of ERP being an enterprise application."

~ CIO
Printing Equipment
Manufacturer

Aberdeen Insights — Strategy

Figure 4: What Could Prompt an ERP Investment?



Source: Aberdeen Group, August 2008

Small companies are 42% more likely than mid-size companies to invest in ERP as a result of explosive (and possibly unexpected) growth, but are most concerned with the availability of low cost options which minimize risk. On the other end of the spectrum, large companies are 32% more likely than mid-size companies to implement ERP as a result of the need to comply with regulatory requirements. What does this mean for mid-size companies? As companies grow, so do the complexities of the business. Many C-level executives of companies that have grown from small to mid-size often feel they have lost control. The longer they wait, the more difficult it will be to institute the level of control and regain visibility into their operations.

“We were broaching the \$60 million mark but we still had a ‘small company’ feel. That worked in our favor in implementing ERP. Internally we had the luxury of simply telling people they were going to do this, but we also used a consultant experienced in fast implementations. I was not interested in spending countless hours documenting everything. In a compressed implementation timeframe that is not possible. Therefore we made extensive use of the ‘best practices’ built into the ERP solution we chose. In fact the very existence of these best practice implementation templates was a large factor in selecting this vendor.”

~ President
Ceramics Manufacturer

“As a small company I felt in control of the business. But as we grew, I felt like I was on the bridge of a ship and I was steering through fog. What I needed was something that would help blow away the fog and help me steer my ship.”

~ CEO, Manufacturer of a
Weight Loss Management
Product

In the next chapter, we will see what the top performers are doing to achieve these gains.

Chapter Two: Benchmarking Requirements for Success

The selection and implementation of ERP is a major undertaking for any company. However, using ERP as a template for standardization of business processes, as well as the integration and coordination of people, processes, and technology, can have a significant impact on the benefits achieved.

Case Study — Gallant Greetings

Gallant Greetings Corporation is one of the top 10 creators and publishers of greeting cards in the United States. With a 40 year history as a major supplier of “social expressions,” the company is a complete source for services and products, from creative design to production, with state of the art printing and converting capabilities.

In 2005, Gallant Greetings found itself challenged in a number of ways. It was operating four different computer systems, including a home-grown database, a stand-alone financial application, a specialized order entry system designed specifically to manage greeting cards, and Microsoft Excel for purchasing and reporting. “The disparate systems required an excessive number of manual processes, including data transfer between systems and excessive time spent maintaining interfaces. IT talent was being wasted on maintaining status quo functionality on current systems versus developing new applications for a cost savings advantage. Without a common database application, accessing information to evaluate all areas of the business was very limited,” said Dan Caithamer, Gallant’s Chief Financial Officer. “If you asked four different departments the same question, you got four different answers. Everyone was operating on a different version of the truth.”

Gallant’s solution was to implement a fully integrated ERP system, allowing them to consolidate the majority of their prior systems and significantly reduce the reliance on manual systems. While the company still relies on its specialized card manager system for about 15% to 20% of its order entry, the vast majority of its processes are automated with an integrated ERP implementation. They have implemented the following modules thus far, and intend to add Human Resources (HR) as part of their phase two implementation:

General ledger	Manufacturing
Cash manager	Marketing and sales
Accounts receivables	Resources
Accounts payables	Supply planning
Inventory management	Fixed assets
Purchasing	Warehouse management

continued

Fast Facts

- √ Compared to 2007, mid-size companies are **13%** more likely to have drill down capability from summary data into individual transactions
- √ Best-in-Class companies use **13%** more ERP functionality
- √ Best-in-Class companies are **52%** less likely than Laggard companies to be running significantly outdated ERP releases
- √ Best-in-Class companies are **three times** as likely as Laggard companies to use workflow and event management technologies

Case Study — Gallant Greetings

“We have been able to significantly reduce costs,” Caithamer adds. “All data is available 100% in real time. We have improved communication and collaboration with manufacturing partners and have a central data repository for all facets of corporate reporting. Today we operate from a single version of the truth.”

“We have reduced our inventory by 25%. While it used to take us a week and a half to close a month, today we do it in two to three days.”

~ Dan Caithamer, CFO
Gallant Greetings

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the standardization of business processes and ERP implementations); (2) **organization** (line of business ownership of ERP); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (scope of ERP deployment); and (5) **performance management** (the ability to manage exceptions). These characteristics (identified in Table 3) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 3: Competitive Framework

	Best-in-Class	Average	Laggards
Process	Standardized enterprise wide procedures for order management, procurement, operational execution, cash collection and financial reconciliation		
	76%	58%	50%
	Standardized implementation of ERP across the (possibly distributed) enterprise		
	69%	69%	69%
Organization	Line of business ultimately owns the success of the implementation		
	57%	51%	38%
Knowledge Management	From summary data, decision-makers can drill down to transactions that form the fiscal and operational audit trail		
	65%	43%	28%
	Real-time visibility into status of all processes from quote to cash		
	40%	34%	24%

	Best-in-Class	Average	Laggards
Technology	ERP modules currently implemented:		
	<ul style="list-style-type: none"> ▪ 12.1 modules implemented¹ ▪ 77% of functionality available deployed ▪ 39.1% weighted average of ERP usage² ▪ 10% event management ▪ 33% workflow technologies 	<ul style="list-style-type: none"> ▪ 11.1 modules implemented¹ ▪ 73% of functionality available deployed ▪ 33.8% weighted average of ERP usage² ▪ 5% event management ▪ 21% workflow technologies 	<ul style="list-style-type: none"> ▪ 10.4 modules implemented¹ ▪ 71% of functionality available deployed ▪ 30.9% weighted average of ERP usage² ▪ 3% event management ▪ 11% workflow technologies
Performance	Decision makers are notified in anticipation of exceptions and respond proactively		
	36%	23%	16%
	Decision makers are notified in real-time as exceptions occur and can react immediately		
	30%	22%	17%

1. The number of modules is based on a set of 24 generic ERP modules
2. Calculated as: average number of modules / 24 * percent of functionality used

Source: Aberdeen Group, August 2008

"We have reduced paper and the need for the 'presence' of people by simply creating a workflow of a business process, attaching roles and people to the steps of the flow and activating the flow in our Internet based ERP system. Now, no matter where someone sits, a process instead of 'paper' can flow through the business quickly and efficiently to complete tasks at hand. We have currently initiated workflow with regard to capital expenditures, purchase requisitions, quoting, blueprint processing, document control, new hires, preventive maintenance work orders, and contract review."

~ Janice D'Amico, Manager
Business Applications
Hillsdale Automotive LLC
an Eagle Picher Company

Capabilities and Enablers

Based on the findings of the Competitive Framework and interviews with end users, Aberdeen's analysis of the Best-in-Class demonstrates that standardized enterprise wide procedures coupled with comprehensive use of features and functions with appropriate executive oversight can lead to significant cost reductions and improvements in schedule performance, resulting in improved customer satisfaction.

Process

ERP provides visibility to business process throughout the enterprise and is generally viewed as a necessity, but just having an implementation is not enough to be competitive. Best-in-Class companies are 31% more likely than the Industry Average to have standardized procedures in place for order management, procurement, operational execution, cash collection and financial reconciliation. In addition, they are 23% more likely than the Industry Average to standardize their ERP implementations across the enterprise, ensuring consistency in both their processes as well as in their data. Ensuring that the distributed enterprise works efficiently together, using standardized processes and ERP implementations, is increasingly important as mid-size companies continue to grow and add more locations. Even with multiple ERP packages, top performing companies adhere to

standard product, customer, and account identification conventions, as well as standardized business processes that support internal company collaboration and consolidation.

Organization

While an IT department's assistance is certainly critical in implementing ERP, the greatest Return on Investment (ROI) can be measured when line of business takes responsibility for its success. The Best-in-Class are 12% more likely than Industry Average, and 50% more likely than Laggard companies, to have line of business ownership of their ERP implementations. This means that the responsible parties are measured on the same metrics that ERP can influence, rather than on traditional IT metrics such as cost and time to implement.

Knowledge Management

The ability to view summary data and drill down into individual transactions is also a Best-in-Class capability. Not only is this important in terms of improving efficiency and productivity, drill-down capabilities also ensure that data is integrated and consistent. Comparing results with the September 2007 survey for the [*2007 ERP in the Mid-Market: Serving the Needs of 1.2 Million Businesses*](#) report shows that there was a significant improvement in this area over last year. In 2007, 38% of all mid-size companies had the capability to drill down into transaction level data from summary data, as compared to 43% this year. Best-in-Class companies are 51% more likely than Industry Average companies and 2.3-times as likely as Laggard companies to have this capability. However, despite the fact that providing visibility was a top strategic action being taken by mid-size companies, even Best-in-Class companies still have room for improvement in gaining full visibility from quote to cash.

Technology and Performance Management

In addition to drill-down capabilities, automated event management and exception handling capabilities grant companies real-time visibility into the status of business processes from quote to cash. Best-in-Class companies are 36% more likely than Industry Average companies and 1.8-times as likely as Laggard companies to notify decision makers in real-time as exceptions occur. This means they can react immediately and minimize the impact of problematic issues. To further differentiate themselves, they are 57% more likely than Industry Average and 2.3-times as likely as Laggards to anticipate exceptions and react proactively. These two capabilities are not mutually exclusive. While prompt reaction to exceptions is important, predictive capabilities enabling organizations to anticipate exceptions can provide a significant competitive advantage.

Two ERP modules that specifically support exception handling are event management and workflow solutions. This year's results show increased adoption of workflow technologies, but the advantages of event management are still not being recognized. Best-in-Class companies are

"We only had four or five people on the core team and we only have three people on our IT staff. But we didn't look at this as an IT project. We kept it out of IT and managed it from an organizational level in order to get buy-in from the entire organization and the best ROI. We put those in charge who stood to gain the most value from the implementation."

~ CFO
Semi-conductor Manufacturer

"We chose an ERP solution that had a 'push' orientation. In the past, we relied on people to initiate action. They had to go run a report to see what needed to be delivered, invoiced, or approved. Things could easily slip through the cracks. Now, when they log into the system, or even when they are on the road, they are constantly reminded of action that needs to be taken. It has forced a discipline into our operation we could not hope to achieve without automation."

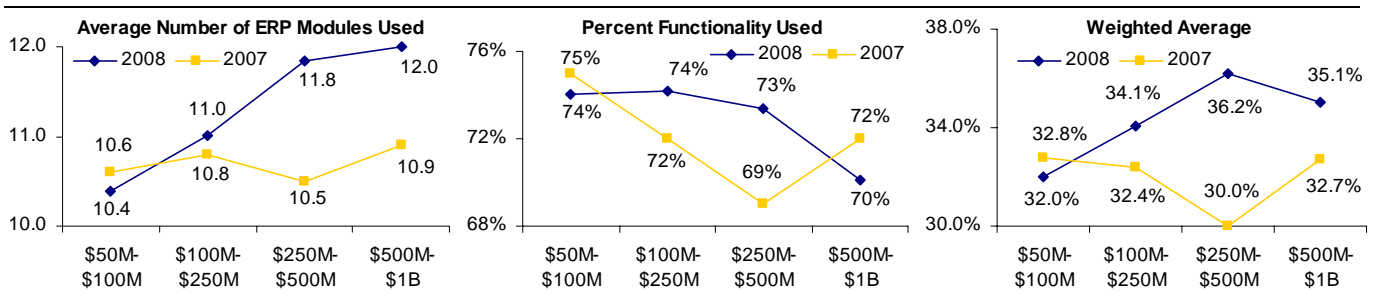
~ Principal
Professional Services Provider

twice as likely as Industry Average companies to have event management, however only 10% of them have the technology in place. In fact, many companies today are unaware of the technologies available to monitor events in real-time: tracking when events occur or fail to occur, triggering alerts, and sending automated notifications to interested parties. Event management capabilities can directly impact cost by minimizing risk and improving response times to adverse events.

ERP Usage

Aberdeen's [2007 ERP in the Mid-Market](#) benchmark survey explored the extent of ERP utilization. Findings showed the average mid-size company used 10.7 out of 24 generic ERP modules and approximately 72% of the functionality available in those modules, for a weighted average use of 32.1% of ERP functionality. This year's survey found ERP utilization growing for all company sizes. Among mid-size enterprises, average ERP usage has increased to 11.1 modules and 73% of available functionality, equivalent to a weighted average use of 33.9%. Figure 5 depicts how these numbers have changed year over year, and how they varied throughout the mid-market.

Figure 5: ERP Utilization Across the Mid-Market



Source: Aberdeen Group, August 2008

With the exception of businesses with \$50 to \$100 million in annual revenue, all mid-size companies saw an increase in average ERP usage since last year. Companies with \$250 to \$500 million in revenue, with a weighted average ERP usage of 36.2%, are approaching Best-in-Class levels for ERP usage. Companies with \$500 million to \$1 billion in revenue are not far behind. Actually, this group of mid-size companies had the highest average number of ERP modules used (12.0) out of all companies of all sizes, although they saw a slight dip in the percent of functionality used. It is often at this point where companies operating less full featured applications will choose to replace existing applications with more feature rich solutions.

Aberdeen Insights — Technology

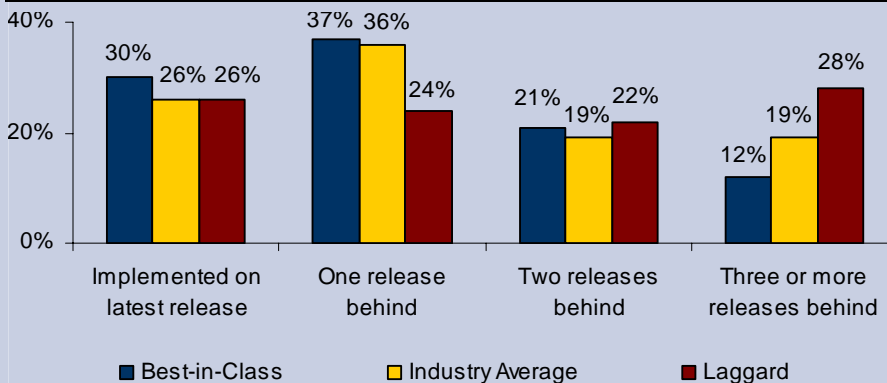
While it may be acceptable to skip a release or run one release behind the most currently available, lagging significantly behind on an ERP implementation will leave functionality and technology improvements largely unused. Not taking advantage of new releases can mean losing a competitive advantage and wasting the money paid in maintenance fees. The July 2008 Sector Insight, [Total Cost of ERP Ownership in Mid-Size Companies](#) found that mid-size companies are paying average maintenance fees equivalent to 16.0% of software costs, or an average of \$110,035 per year. Over the life of an ERP implementation (6.9 years for mid-size companies in 2008), maintenance fees alone can add up to over \$750,000 dollars.

Are companies making good use of their maintenance dollars? Of mid-size companies with ERP implementations, 27% are running on the latest release and a third are just one release behind. However, 40% are running ERP implementations that are significantly outdated: 20% are two releases behind, and the remaining 20% are three or more releases behind. These numbers are similar to those of the overall population, but the Best-in-Class are clearly more likely to be current with their ERP implementations (Figure 6).

“We’ve started to look at ERP vendors as partners, so we’re using the same ERP but we’re upgrading all the time. This extends the ERP’s life and keeps us current on technology and functionality. Longer ERP age doesn’t necessarily mean we have an outdated ERP.”

~ Jim Moore,
CIO, Robbins & Myers

Figure 6: Current Status of ERP Implementations



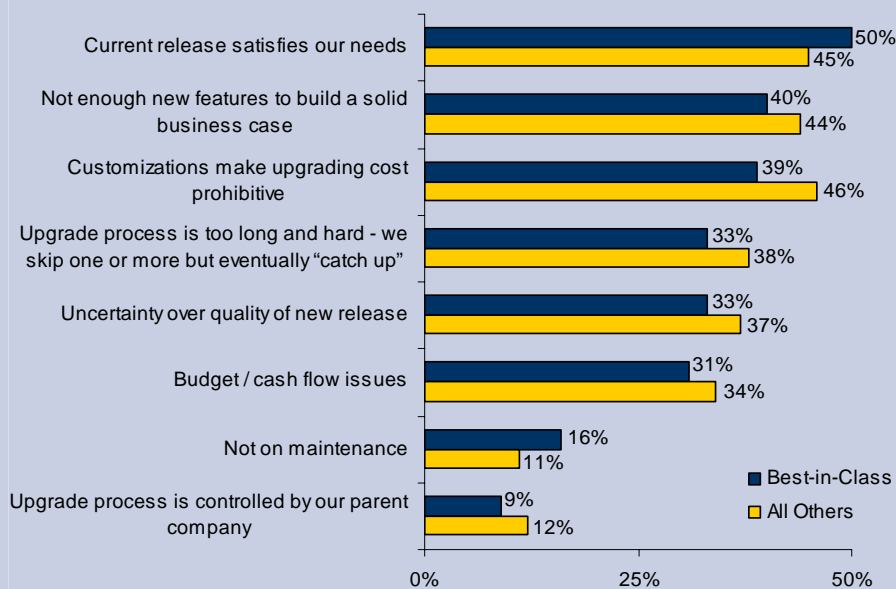
Source: Aberdeen Group, August 2008

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Aberdeen Insights — Technology

So why aren't companies upgrading their ERP implementations? Figure 7 indicates these factors fall into three general categories: feature / functionality, cost, and quality. Best-in-Class companies are more likely to view their current implementations as satisfying their needs and are less constrained by cost and difficulty of upgrading. This is not to say Best-in-Class companies do not customize, but not all customizations are created equal and many ERP products today allow companies to configure and adapt functionality without touching the underlying code.

Figure 7: Reasons Preventing / Delaying ERP Upgrades



Source: Aberdeen Group, August 2008

Uncertainty of the quality of new releases remains an issue for more than a third of our survey respondents, further explaining why operating one release behind is standard operating procedure for many companies at all levels of our competitive framework.

Chapter Three: Required Actions

Whether a company is trying to move its performance in ERP implementation from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

Laggard Steps to Success

- **Assign ERP ownership to the line of business executive that stands to gain the most benefit from the implementation.** Laggard implementations stop short of reaching the full benefits that can be attained in terms of cost reductions, improvements in schedules, and further business benefits. While the reduction of cost was the top business driver of ERP strategies for 44% of Laggard companies, 16%, 17%, and 21% of them do not measure reductions in inventory, operational costs, or administrative costs, respectively. Assigning ownership to an executive measured by these criteria will ensure a more complete implementation and better ROI.
- **Standardize enterprise wide procedures.** Best-in-Class companies are 52% more likely than Laggard companies to standardize procedures for order management, procurement, operational execution, cash collection, and financial reconciliation. Standardized procedures that allow Best-in-Class companies to implement best practices and better support cross-functional, cross-departmental, and cross-location coordination and collaboration.
- **Standardize the ERP implementation across the enterprise.** Best-in-Class companies are 35% more likely than Laggard companies to standardize their ERP implementation across the enterprise, a capability which becomes more critical as the number of operational locations grows along with company size. The level of autonomy and heterogeneity between operating locations will impact the extent of standardization. While standardization is far easier with a single ERP package, and most easily accomplished with a single instance of the software, these are not requirements. Harmonizing charts of accounts, product, customers, and supplier codes will better enable interoperability and consolidated reporting across the enterprise.

Industry Average Steps to Success

- **Broaden and deepen use of ERP.** This recommendation has been a consistent message throughout Aberdeen's ERP benchmark reports, but results are clear: Best-in-Class manufacturers make more extensive use of ERP in terms of number of modules implemented and the percentage of available functionality deployed.

Fast Facts

- √ **50%** of all employees at Best-in-Class companies have access to ERP, as compared to 41% at all other companies
- √ Best-in-Class companies are **51%** more likely than Industry Average companies to have drill-down capabilities from summary data into transactional data
- √ Best-in-Class companies are **35%** more likely than Laggard companies to have a standardized ERP implementation
- √ **16% to 21%** of Laggard companies do not measure reductions in inventory, operational costs, or administrative costs

“We were on a very tight time schedule and therefore fast-tracked our ERP implementation. We’re running our business and we’re doing it well, but the system is very underutilized. Our next step is to fully understand the potential and begin to take fuller advantage.”

~ President,
Ceramics Manufacturer

- **Allow drill down into transactions from summary data.** When decision-makers can drill down to individual transactions, then gain greater visibility into the fiscal and operational audit trail. Best-in-Class companies are 51% more likely than Industry Average companies to have this capability.

Best-in-Class Steps to Success

- **Extend the use of ERP beyond core modules.** ERP modules like event management and workflow prove to be great differentiators for top performance, yet even the Best-in-Class have low adoption of these modules. Since core ERP technology has become a commodity, advanced features and functions beyond the basics can be a source of differentiation. Real-time triggers and alerts allow decision makers to respond quickly to exceptions, or even anticipate problems before they occur. Resolving issues quickly can mean improvements in schedule compliance, improved product or service quality, and increased customer satisfaction as a result.
- **Extend ERP access to more users in the organization.** Fifty percent (50%) of all employees at Best-in-Class companies have access to their ERP implementation, as compared to 41% at all other companies. In addition, employees at Best-in-Class companies spend 31% more of their time daily within enterprise applications including ERP. ERP is a system of record, therefore, decision-makers should be looking to it for answers, not working around it or relying on extraneous spreadsheets and auxiliary databases to find answers they could get directly from ERP.

“In jumping from a PC based application to ERP, it was difficult to understand where we would wind up. Looking back I would have spent more time on the reporting side. We started out thinking we were just going to push buttons and use what we got. In retrospect, we should have spent more time tailoring it to our needs.”

~ Senior Director of Finance,
Manufacturer of Solar Panels

Aberdeen Insights — Summary

In the quest to reduce costs while maintaining profitability and customer satisfaction, mid-size companies must maximize and standardize their ERP implementations. Features and functions beyond the basic core, such as event management and workflow technologies, can help to reduce the impact of adverse events and ultimately improve product or service quality. In addition, extending ERP use to more users in the organization and implementing drill-down capabilities so that individuals can view transactional data from summary data will improve visibility into business processes and boost corporate productivity.

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Appendix A: Research Methodology

Between April and July 2008, Aberdeen examined the use, the experiences, and the intentions of over 500 mid-size enterprises using ERP in a diverse set of manufacturing enterprises.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on ERP strategies, experiences, and results.

Responding enterprises included the following:

- *Job title / function:* The research sample included respondents with the following job titles: VP or above (24%); Director (13%); Manager (25%); Analyst (6%); and Enterprise Applications IT (8%).
- *Industry:* The research sample included respondents from the following industries: general manufacturing (17%); industrial equipment manufacturing (9%); automotive (8%); food and beverage (7%); aerospace and defense (6%); services (6%); metals and metal products (5%); high technology (4%); chemicals (3%); consumer durable goods (3%); consumer packaged goods (3%); distribution (3%); medical devices (3%); and pharmaceutical (3%).
- *Geography:* The majority of respondents (63%) were from North America. Remaining respondents were from Europe (19%), Asia-Pacific (14%), South and Central America (2%), and Middle East and Africa (2%).
- *Company size:* Thirty-six percent (36%) of respondents were from enterprises with annual revenues between \$50 million and \$100 million; 29% were from enterprises with annual revenues between \$100 and \$250 million; 19% were from enterprises with annual revenues between \$250 million to \$500 million; and 16% were from enterprises with annual revenues between \$500 million and \$1 billion.
- *Headcount:* Three (3%) of respondents were from enterprises with headcount between 51 and 100 employees); 18% were from enterprises with headcount between 101 and 250 employees, 28% were from enterprises with headcount between 251 and 500 employees; and 22% were from enterprises with headcount between 501 and 100 employees.

Solution providers recognized as sponsors were solicited after the fact and had no substantive influence on the direction of this report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Study Focus

Responding manufacturing executives completed an online survey that included questions designed to determine the following:

- √ The degree to which ERP is deployed in their operations
- √ The structure and effectiveness of existing ERP implementations
- √ Current and planned use of ERP
- √ The business benefits that have been derived from ERP initiatives

The study aimed to identify emerging best practices for ERP usage in manufacturing, and to provide a framework by which readers could assess their own management capabilities.

Table 4: The PACE Framework Key

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p>Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, August 2008

Table 5: The Competitive Framework Key

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p>Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p>Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p>Organization — How is your company currently organized to manage and optimize this particular process?</p> <p>Knowledge — What visibility do you have into key data and intelligence required to manage this process?</p> <p>Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p>Performance — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, August 2008

Table 6: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, August 2008

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report include:

- [2008 ERP in Manufacturing Benchmark Report](#); June 2008
- [The Order-to-Cash Cycle: Integrating Business Processes to Improve Operational Performance](#); March 2008
- [ERP Plus in Process Industries](#); February 2008
- [ERP in SMB: Exploring Growth Strategies](#); December 2007
- [ERP in Industrial Machinery and Components Manufacturing](#); November 2007
- [2007 ERP in the Mid-Market: Serving the Needs of 1.2 Million Businesses](#); September 2007
- [Two Worlds Converge: Enterprise Applications Meet the Desktop](#); September 2007
- [2007 ERP in Manufacturing Benchmark Report](#); July 2007
- [2006 ERP in Manufacturing Benchmark Report](#); August 2006

Information on these and any other Aberdeen publications can be found at www.Aberdeen.com.

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