



2014 ERP REPORT

A Panorama Consulting Solutions Research Report



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Introduction

Panorama Consulting Solutions developed the **2014 ERP Report** to investigate ERP software selection, implementation and satisfaction trends across industries, company sizes and geographic locations. The report summarizes Panorama’s independent research into the experiences of ERP customers with regards to enterprise software, vendors, consultants and implementations overall.

To ensure our findings reflect the current conditions as accurately as possible, polling for the **2014 ERP Report** was conducted on Panorama’s website (Panorama-Consulting.com) during a recent thirteen-month period (January 2013 to February 2014). One hundred ninety-two respondents completed the surveys upon which this data is based.

Data Summary by Year

| YEAR | COST | % OF COST OVERRUNS | DURATION | % OF DURATION OVERRUNS | % RECEIVING 50% OR LESS BENEFITS |
|------|----------|--------------------|-------------|------------------------|----------------------------------|
| 2013 | \$2.8MM | 54% | 16.3 months | 72% | 66% |
| 2012 | \$7.1MM | 53% | 17.8 months | 61% | 60% |
| 2011 | \$10.5MM | 56% | 16 months | 54% | 48% |
| 2010 | \$5.5MM | 74% | 14.3 months | 61% | 48% |

Over the past four years of Panorama’s independent ERP research, the average cost of ERP implementations has been \$6.5 million and the average duration has been 16.1 months. In this period, approximately 54-percent of projects have exceeded their planned budgets, 72-percent of projects have exceeded their planned durations and a full 66-percent of respondent organizations have received less than 50-percent of the measurable benefits they anticipated from their ERP software initiatives.

Of those respondents who exceeded their planned durations, the majority indicated that “organizational issues” was the main reason. Unsurprisingly, the data also revealed that more than half of respondents spent 0-25-percent of their budget on organizational change and business process management. These data also may explain why only eight-percent of respondents reported “excellent buy-in” among employees.

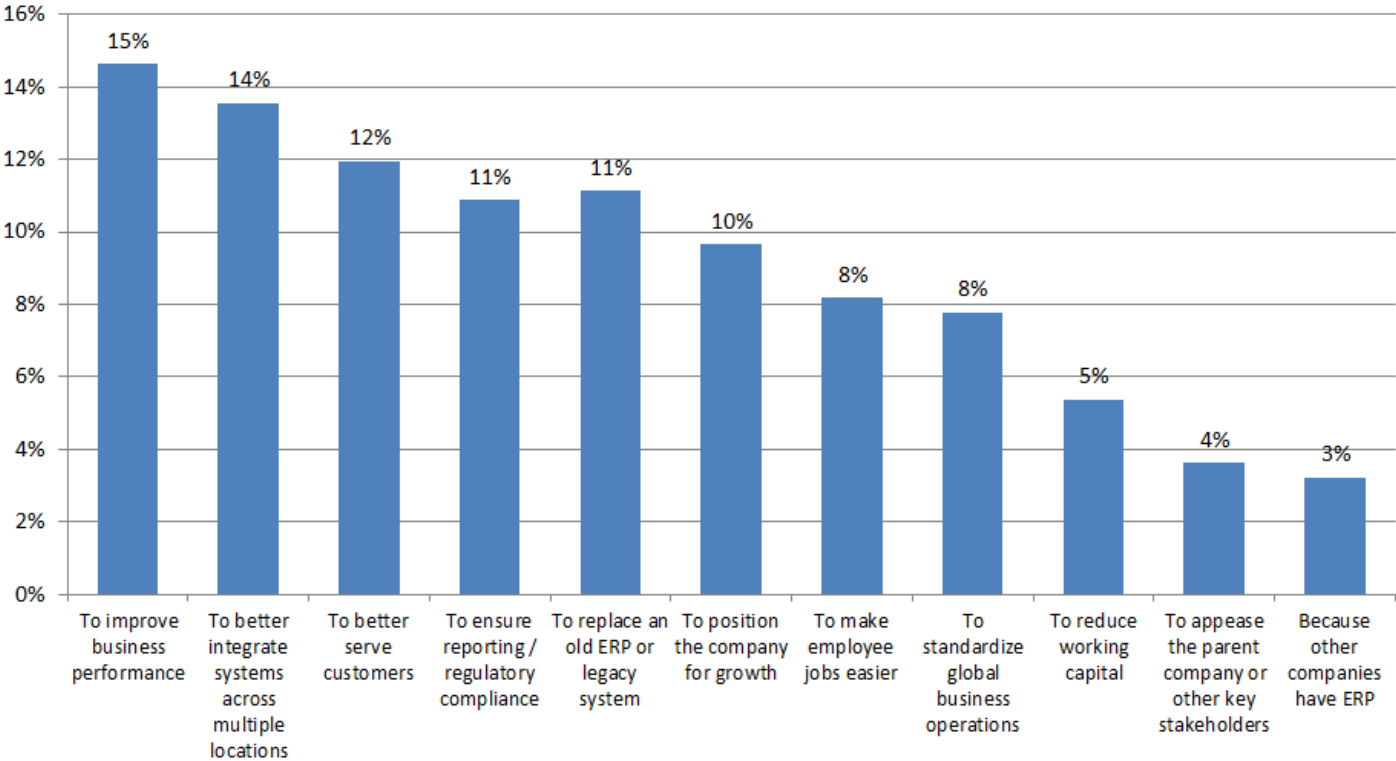
While costs, durations and benefits received fluctuate year to year due to economic conditions, implementation trends and data set make-up, the facts remain: organizations that do not allocate enough of their budget to organizational change and business process management are more likely to face organizational issues, such as low buy-in, often leading to extended durations.

Respondent Overview

Although the organizations represented by survey respondents vary in industry, location, size, goals and needs, all respondents have had recent ERP project experience. Two out of five respondents (39-percent) have completed their ERP implementation while 35-percent are in the process of implementing and 19-percent are in the planning phase.

The majority of organizations appear to understand the benefits that can be realized from a new ERP system. The top reasons cited for implementing ERP were to improve business performance (15-percent), to better integrate systems across multiple locations (14-percent), to better serve customers (12-percent) and to ensure reporting and regulatory compliance (11-percent). Only a small percentage of organizations reported that the reasons they implemented ERP software was “to appease the parent company or other key stakeholders” or “because other companies have ERP.”

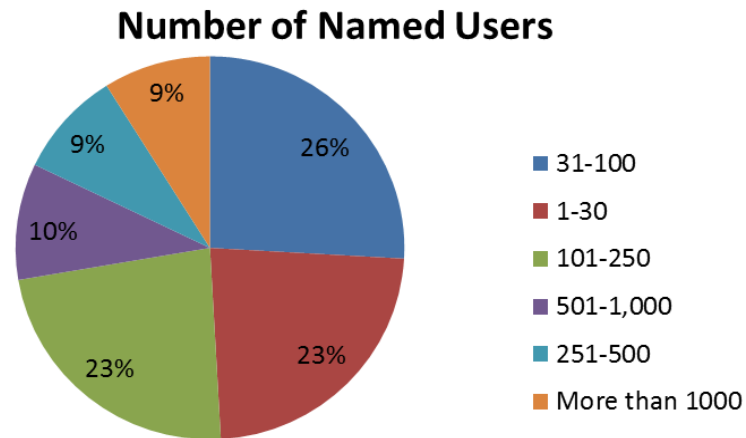
Reasons For Implementing ERP



Source: Panorama Consulting's 2014 ERP Report
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More than three out of four respondents (77-percent) indicated that their companies were implementing or had implemented ERP software at two or more locations. The ERP systems were purchased to replace out-of-date, existing ERP software (43-percent), a non-ERP system or systems (20-percent) or homegrown systems (17-percent). Three-percent of respondents indicated that they had no “true system” and were paper-based prior to the ERP implementation.

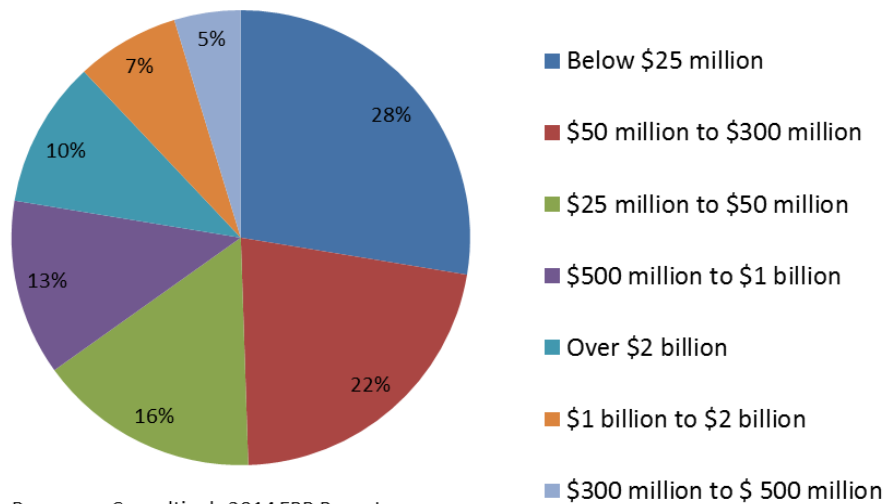
The number of named users of the ERP system identified by respondent organizations varied greatly. As the graph on the below shows, nearly half of the companies represented (49-percent) had between one and 100 named users and 51-percent had between 101 and 1,000 named users.



Source: Panorama Consulting's 2014 ERP Report
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Manufacturing firms made up 27-percent of respondents. In years past, manufacturing organizations accounted for a lower percentage of companies implementing ERP software. This two-percent increase from 25-percent in 2013 to 27-percent in 2014 may be due to the recent increase in domestic manufacturing and decrease in outsourcing; this may lead to new business processes that require more complex software functionality.

Total Annual Revenue



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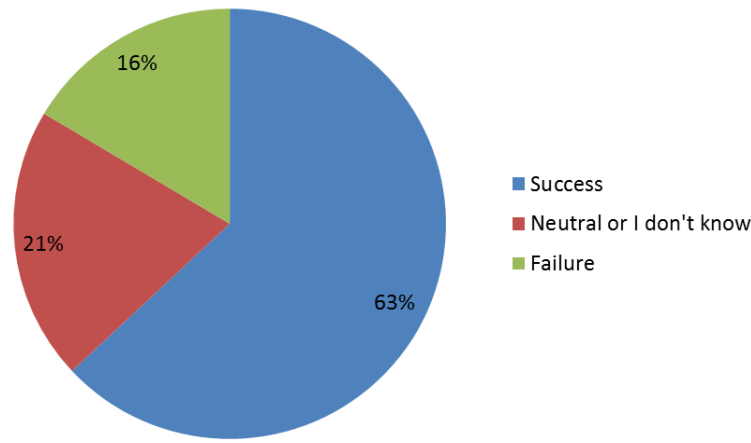
More than half of respondent companies (56-percent) are multinational and, as shown in the chart on above, and total annual revenues reported ran the gamut from less than \$25 million (28-percent) to \$1 billion or more (17-percent).

ERP Software Satisfaction Levels

General satisfaction levels for ERP software remain high, though significantly lower than last year. The majority of respondents (70-percent) are satisfied with their ERP software (as compared to 86-percent in our previous report) and 76-percent would select their chosen software again.

Despite the high levels of overall satisfaction, it is interesting that only 63-percent of respondents consider their ERP project a “success.” Nearly one quarter of respondents (21-percent) are “neutral” or “don’t know” if their project was a success, indicating that organizations might not have created a business case, conducted a post-implementation audit or communicated about project results. Nearly one in five respondents (16-percent) indicate that their organization’s ERP project was a failure.

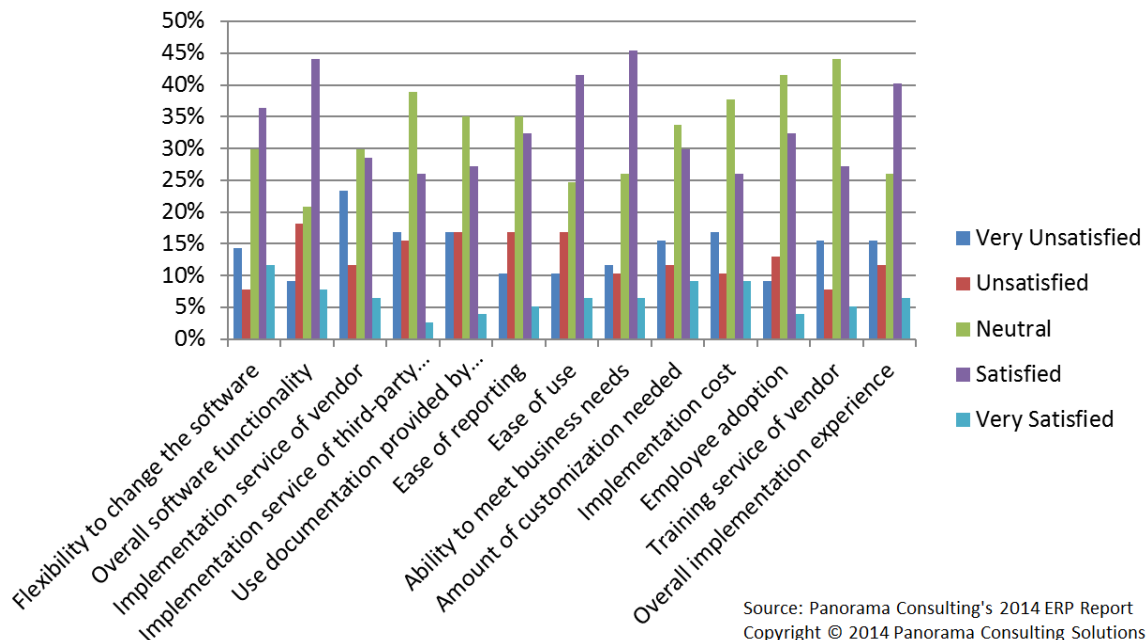
Implementation Outcome



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The highest satisfaction rates emerged from overall software functionality (52-percent “satisfied” or “very satisfied”) and the software’s ability to meet business needs (51-percent “satisfied” or “very satisfied”) while the lowest satisfaction rates were found in the implementation service of the vendor (35-percent “unsatisfied” or “very unsatisfied”) and the documentation provided by vendor (34-percent “unsatisfied” or “very unsatisfied”). Interestingly, 33-percent of respondents indicated that they were “unsatisfied” or “very unsatisfied” with the implementation service provided by the third-party assisting their organization.

Overall Satisfaction Levels



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Although the majority of respondents self-described as “satisfied” with their ERP software selection, this does not appear to translate into satisfaction with individual components. This points to a cloudy definition of “satisfaction” and “success.” Organizations that do not develop a business case and do not measure project results against expected benefits likely have a more difficult time defining success or failure. Working with end-users and stakeholders to define project goals and expected benefits can create more realistic satisfaction and success measures.

“Go-live satisfaction” is another reason that reported satisfaction levels appear so high compared to reported success rates. As soon as an ERP system goes live, project fatigue diminishes and executives, implementation teams and end-users consider the project “complete.” Organizations must ensure that end-users and executives know that results will be measured against key performance indicators and that go-live is just one of many project goals.

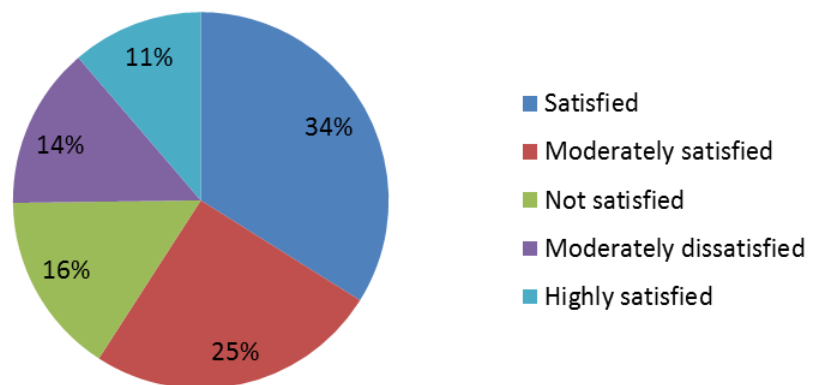
ERP Vendors

- Sample ERP Vendors Included in Data Set
- Abacus
 - Clarizen
 - ECi Solutions
 - Epicor
 - EZware
 - IFS
 - Infor
 - Jobscope
 - Lawson
 - Microsoft Dynamics
 - NetSuite
 - Oracle
 - Plex Systems
 - Sage
 - SAP

As displayed in the table on the left, survey respondents’ choice of ERP vendors is varied and shows the vast amount of enterprise solutions available in the marketplace at large.

The graphic below shows that the majority of respondents (70-percent) reported at least some level of satisfaction with their chosen ERP vendor:

Overall Experience with ERP Vendors



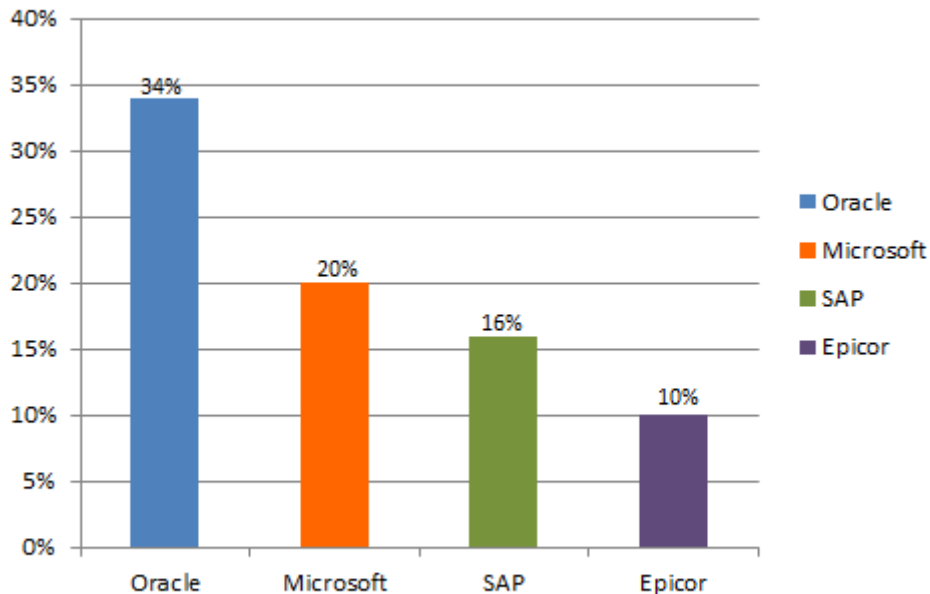
Source: Panorama Consulting's 2014 ERP Report
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Nearly one out of three respondents (30-percent), however, reported being “moderately dissatisfied” or “not satisfied” with their overall experience with their ERP vendor. In Panorama’s experience, dissatisfaction can result from a disparity between promises made in the sales cycle

and actual results. Organizations that don't clearly define requirements will often feel that their ERP vendor has betrayed them with false promises.

In terms of specific vendors chosen, SAP was the vendor most frequently shortlisted by respondent organizations, followed by Oracle and Microsoft Dynamics. In terms of percentage of times the vendor was chosen after they had been shortlisted, Oracle was the vendor most frequently selected (34-percent of the time), followed by Microsoft Dynamics (20-percent of the time), SAP (16-percent of the time) and Epicor (10-percent of the time).

Top Selected ERP Vendors



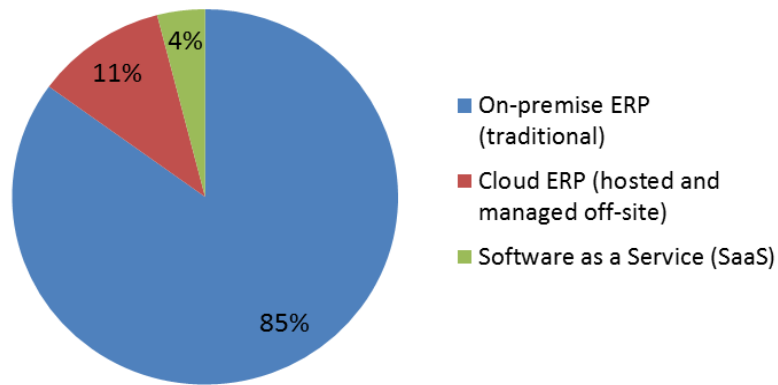
Source: Panorama Consulting's 2014 ERP Report
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Please note that additional vendor-specific research and analysis is available in Panorama's **2014 Clash of the Titans Report**.

Deployment and Customization

As we have seen in previous years, the majority of respondents (85-percent) has implemented or is in the process of implementing on-premise ERP software. This is a significant increase over last year where only 61-percent implemented on-premise. Together, 15-percent of respondents selected software as a service (SaaS) and cloud ERP.

Type of ERP Software



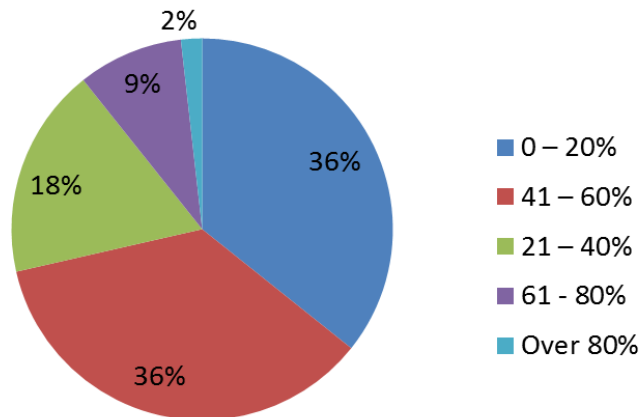
Source: Panorama Consulting's 2014 ERP Report
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The findings above indicate that the large majority of organizations are not implementing cloud or SaaS ERP systems (85-percent). In comparison to last year's report, there has been a significant decrease in the adoption of cloud ERP software. Last year, 26-percent of organizations implemented cloud or SaaS ERP software compared to 15-percent this year. The top two reasons respondents did not implement cloud technology include a "lack of knowledge about cloud offerings" (45-percent) and "risk/fear of security breach" (30-percent).

While the market for cloud ERP is growing, organizations still worry about the risk of security breaches. This risk is a misconception, however. Panorama's experience has shown that cloud ERP vendors typically provide secure and reliable solutions, which is important for executives to consider during the software selection process.

The low cost of cloud ERP solutions is a common selling point for cloud providers. According to respondents' experiences, however, it is evident that this is not necessarily the case.

Cost Savings From Cloud Usage

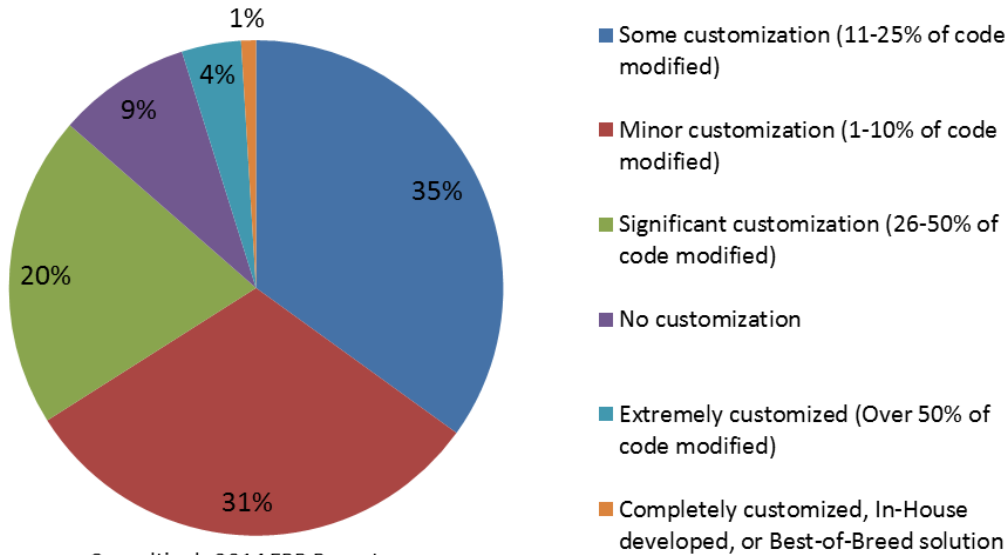


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When asked what percentage of cost savings their organization realized or expected to realize from cloud usage, more than half of respondents who had deployed cloud technology (54-percent) indicated that they had recognized between zero-percent and 40-percent cost savings. Organizations that implement cloud technology in order to save money should consider the true cost of ownership over time.

The costs of customization often come as a shock to implementing companies. Those who perform their due diligence of blueprinting and requirements gathering on the front end, will frequently find that the software chosen is a much better fit and requires less customization. As shown in the graph below, only nine-percent of respondents did not customize any of their ERP system. Exactly one quarter of respondents (25-percent) implemented with significant, extreme or complete customization.

Level of Customization



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Organizations that do not clearly define their business processes before software selection will most likely find that their chosen ERP system requires heavy customization to meet business requirements. While some level of customization is inevitable in most ERP implementations, avoiding unnecessary customization can significantly reduce customization and associated costs.

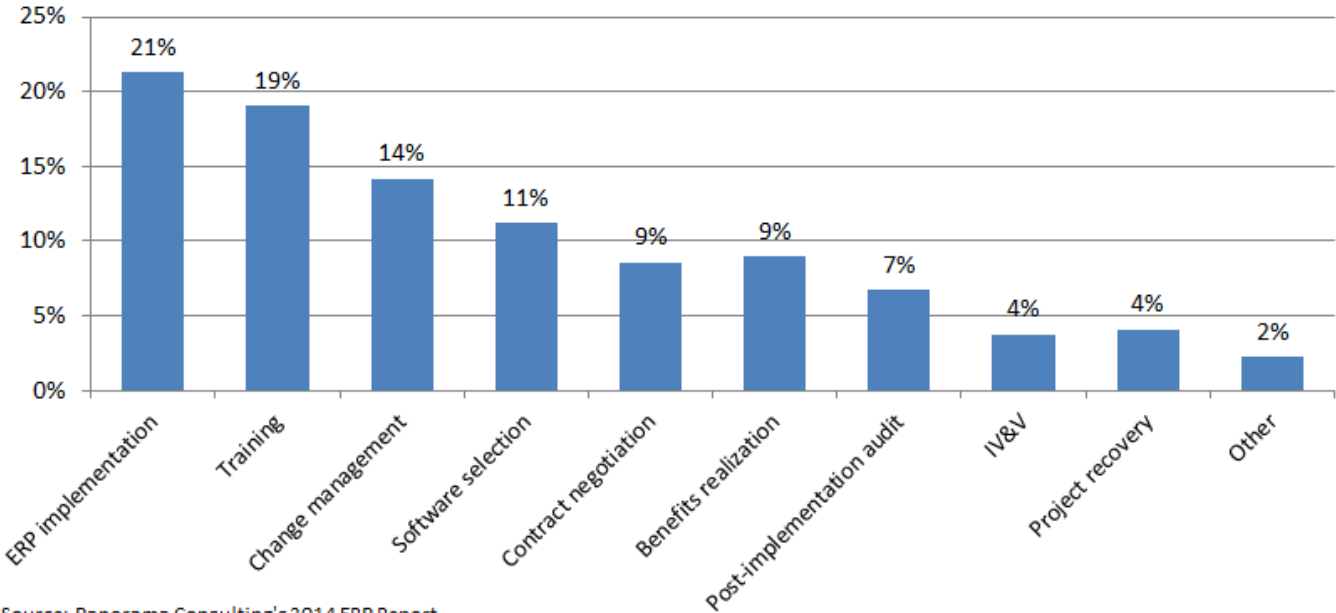
ERP Consultants

The majority of respondents (83-percent) employed the services of an ERP consulting firm. This is an increase of 23-percent over last year where only 60-percent of respondents used ERP

consultants. It seems that more and more organizations are coming to understand that hiring an ERP consulting firm benefits project teams, project managers and overall project results.

The data also indicate that organizations understand the importance of leveraging ERP consultants throughout the entire lifecycle of an ERP implementation. Many respondents brought in consultants during the selection and purchasing phase (39-percent) and an equal amount of respondents brought in consultants during the planning phase (29-percent) and the implementation phase (29-percent). Only three-percent of respondents used consultants post-implementation, which may indicate unfamiliarity with how consultants can help organizations achieve expected benefits.

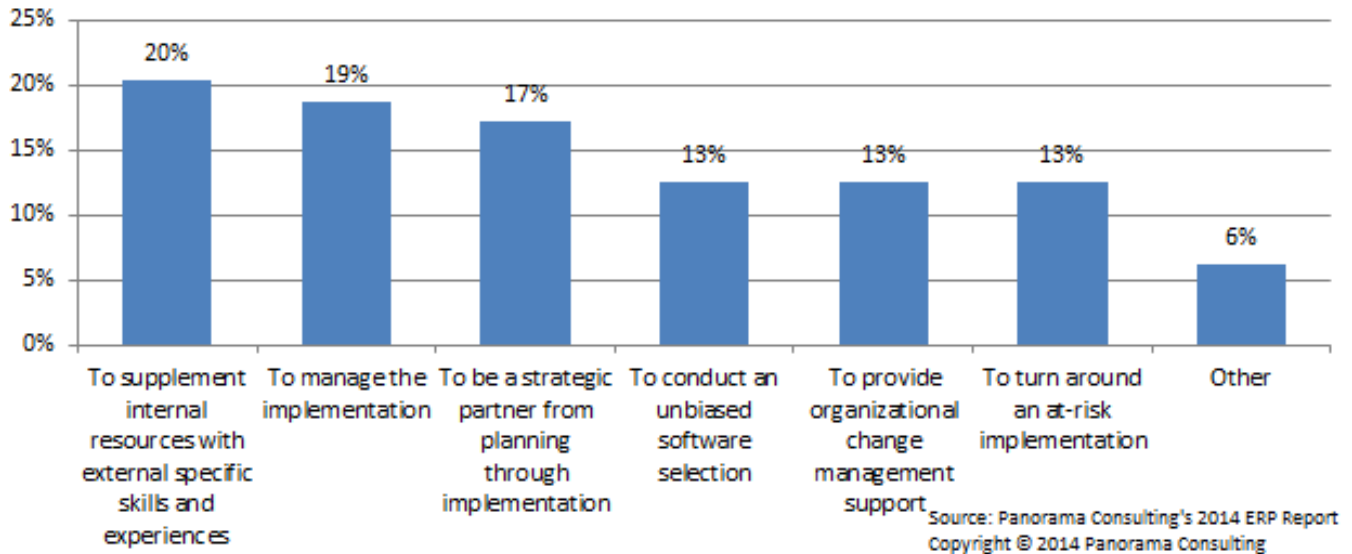
Areas in Which Consulting Firms Provided Guidance



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The key aspects in which consultants provided guidance include ERP implementation (21-percent), training (19-percent), organizational change management (14-percent) and software selection (11-percent). Only nine-percent reported that consultants provided guidance in contract negotiation and only nine-percent of respondents leveraged ERP consultants for benefits realization services. The low amount of companies incorporating independent verification and validation (IV&V) services (four-percent) into their consulting also stands out as it indicates that organizations may not recognize the value of neutral, third-party oversight. While some project teams are completely equipped to implement an ERP system, they frequently lose the drive to measure business benefits. Third-party assistance can be valuable for assessing project goals, determining KPIs and ensuring a high return on investment.

Why Organizations Used ERP Consultants



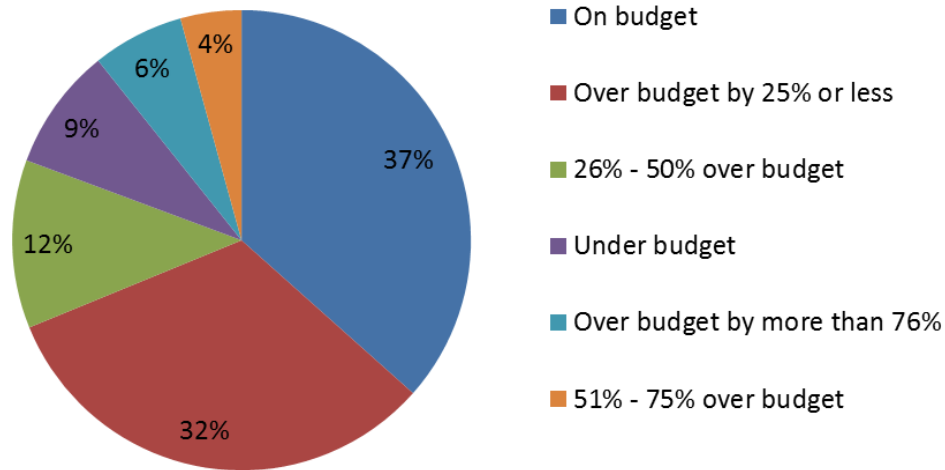
When asked why organizations chose to bring ERP consultants onto their teams, 20-percent of respondents indicated that consultants were hired to “supplement internal resources with specific skills and experience”. Almost one out of five respondents (19-percent) indicated that consultants were hired to manage the implementations and 17-percent of respondents hired them “to be a strategic partner from planning through implementation.”

While consultants can sometimes be seen as one of the most expensive components of an ERP implementation, respondents’ experiences proved otherwise. Slightly more than one out of three of respondents who used consultants (24-percent) spent between zero and 25-percent of their entire ERP budget on those services while 31-percent spent between 26-percent and 50-percent on third-party assistance. Consultant costs vary greatly and depend on the level of involvement the consultants have with the project. If an organization wants to achieve all of benefits outlined in their business case, it will need the assistance of third-party guidance from start to finish.

Project Budgets

In terms of overall costs, the data show that the majority of ERP projects (54-percent) exceed their project budgets.

Implementation Costs



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When asked why the projects went over budget, 17-percent of respondents indicated that project scope was expanded and 15-percent of respondents noted that “unanticipated technical or organizational issues created additional costs.” Only 5-percent of respondents indicated that the project did not go over budget.

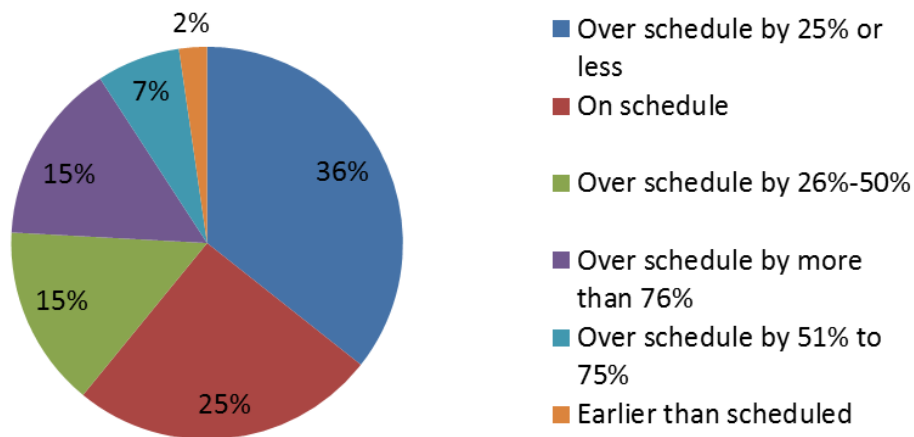
While there is no denying that the investment remains a significant one, survey respondents in this data set spent an average of \$2.8 million on their ERP initiatives. Data presented last year found that the average cost was about \$7.1 million. This may indicate that organizations are getting wiser about investing in important project components – such as organizational change management – upfront so they do not encounter higher costs down the road when investing in last-minute training and communication.

In terms of cost as a percent of organizations’ annual revenue, our data show that this number is down from 5.5-percent last year to 4.6-percent this year. The main driver of smaller costs is that more small- to mid-size companies are implementing ERP software compared to years past, which is evident when you look at the cost as a percent of revenue numbers.

Project Durations

In addition to budget overages, ERP projects are often affected by extended durations. As shown in the graphic on the following page, one quarter of respondents (25-percent) reported that their projects were on schedule and only two-percent reported that their projects came in earlier than scheduled. The remaining respondents (73-percent) experienced duration overages.

ERP Project Duration



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When compared to last year's data, which showed that 34-percent of projects ran on schedule and 61-percent of projects ran over schedule, this shows that more organizations are struggling to estimate the amount of time necessary to successfully complete an ERP implementation.

Respondents also reported that their ERP projects typically exceeded planned durations by more than 3.5 months. In terms of actual duration, respondents indicated, on average, that they had planned for a 12.6-month long project but the initiative actually took 16.3 months. Results from our **2013 ERP Report** indicated that projects lasted, on average, about 17.8 months.

This year, when asked to detail why the project had exceeded its timeline, 14-percent of respondents noted organizational issues, 13-percent of respondents indicated scope expansion and 12-percent called out data issues. Issues with project scope, data migration, unrealistic initial timelines and technical integration were responsible for schedule overages to a strong degree as well.

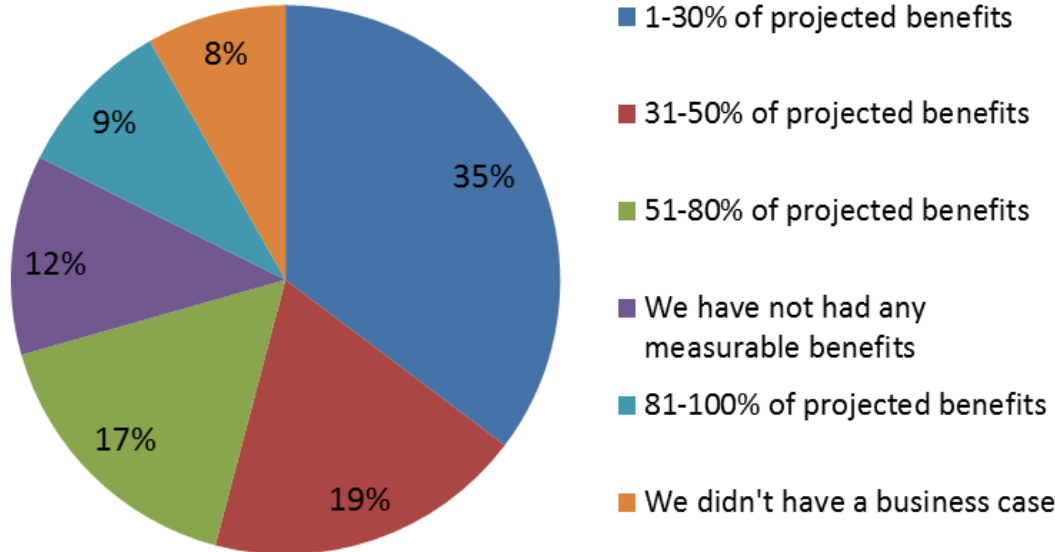
In Panorama's experience, extended durations can also be caused by a lack of third-party guidance, implementation planning, organizational change management and business process improvements, among other reasons.

Benefits Realization

Organizations would not embark on expensive, lengthy and stressful projects if they did not expect to receive substantial business benefits. Creating a strong business case, agreeing on key performance indicators and conducting post-implementation audits is essential to achieving all expected business benefits.

While, only 80-percent of respondents realized some measurable business benefits, this shows an increase of five-percent from last year's data. Of those, 66-percent realized less than half of the benefits (between zero- and 50-percent) that they anticipated. Only 26-percent realized between 51-percent and 100-percent of anticipated benefits.

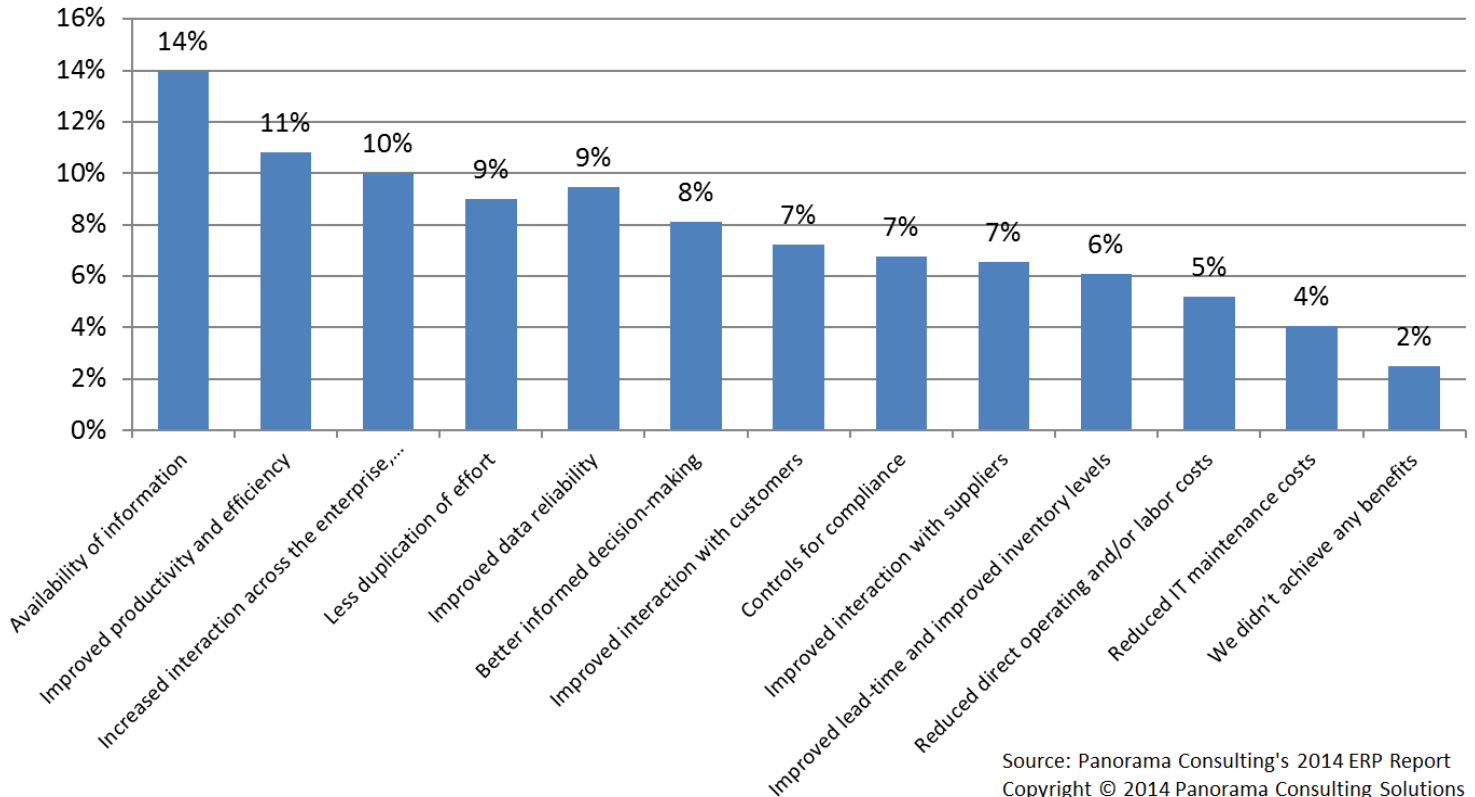
Percent of Benefits Realized



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This is in line with last year's findings, which showed that 26-percent of respondents realized greater than 50-percent of their anticipated benefits and 11-percent of respondents received no benefits. A full 14-percent didn't have a business case. The percent of respondents realizing less than half of anticipated benefits (66-percent) has slightly increased since last year where 60-percent of respondents received less than half of the benefits they expected.

Type of Benefits Realized

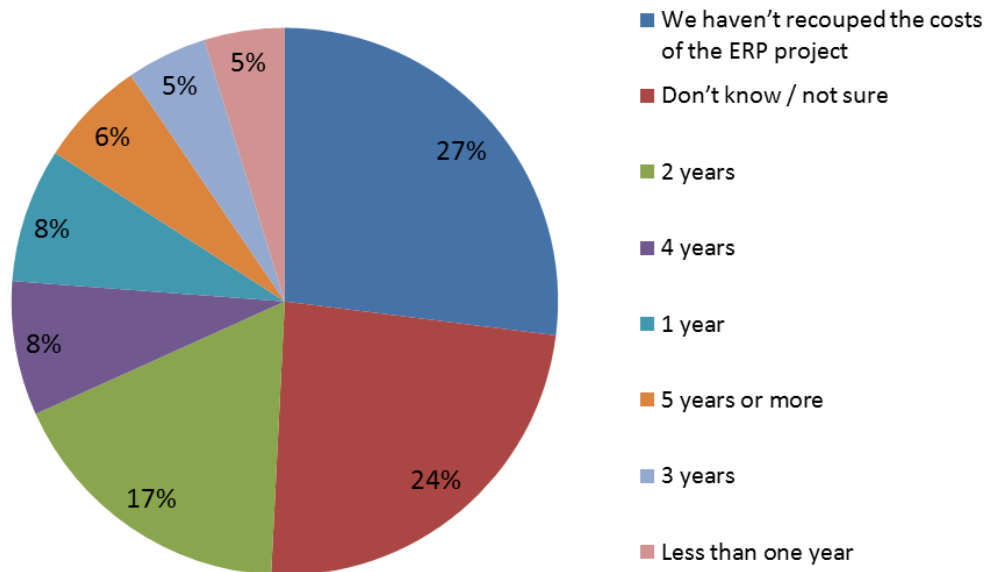


In terms of specific benefits realized, responses line up with previous years' findings. As shown above, the top five benefits noted by organizations included availability of information, improved productivity, increased interaction, less duplication of effort and improved data reliability. ERP implementations seemed to have little positive effect on IT costs, operating expenses or lead-time and improved inventory.

Timeline to Recoup Costs

Increased efficiency and improved customer service are two ways organizations can recoup the costs of an ERP implementation. Over one quarter of respondents (27-percent), however, have not recouped their project costs. Less than one quarter of respondents (17-percent) report that they recouped costs in two years, which is a realistic timeframe and slightly less than Panorama's previous findings that costs are typically recouped within three years of go-live. An additional 24-percent are unsure, pointing again to a lack of communication and a lack of a business case to measure against. The average payback period reported by survey respondents was 30 months, which shows a five-month increase over last year's average of 25 months.

Timeline to Recoup Costs



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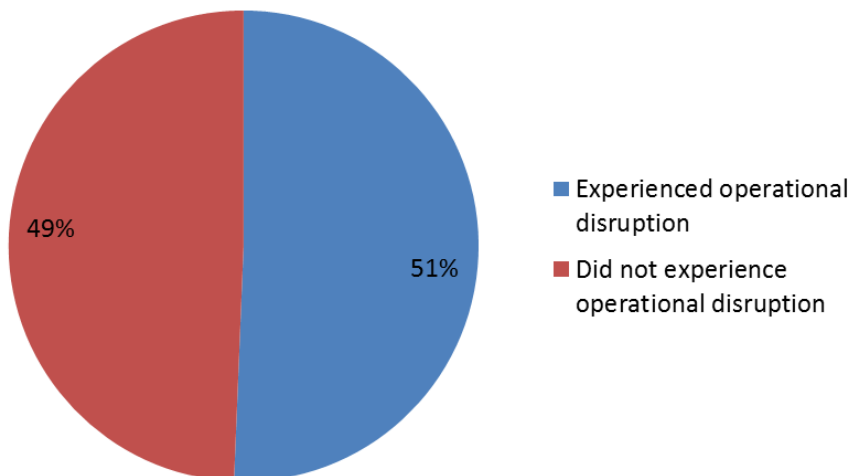
When compared to responses analyzed in our **2013 ERP Report**, the complete lack of project cost recoupment has not changed but the amount of companies that have taken four years or more to recoup costs has increased from 5-percent to 14-percent.

While it's important to set realistic expectations with regard to project budget and time to recoup costs, some organizations are so overwhelmed by the task of implementation that they overlook the importance of achieving returns in the short- and long-term. Third-party assistance can greatly improve an organization's return on investment and the time it takes to achieve that return.

Operational Disruption

Considering the metrics throughout this report, it is not surprising that over half (51-percent) of ERP implementations experience some type of material operational disruption at "go-live." Despite all their efforts to increase efficiency and streamline business processes, many organizations find that they are not able to do something as simple as ship products or close the books when they finally flip the switch on their ERP system.

Operational Disruption



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ERP implementations are all too often plagued by technical, process and organizational issues – all or any of which can cause an operational disruption. According to Panorama's research and experience, it is the process and organizational issues that pose the most risk. Technical issues do exist, and are likely responsible for short-term disruptions, but they are typically more quickly and more easily resolved than organizational issues.

Conclusion

Not unlike years past, Panorama's research has found that the majority of organizations experience extended implementation durations and came in over-budget. The most common reasons for extended durations, however, are not the same as previous findings. While data from our **2013 ERP Report** pointed to scope increase as the main reason behind extended durations, findings from this year's report highlight "organizational issues" as the main culprit. Now, more than ever, our findings are emphasizing the importance of organizational change and business process management and their impact on implementation duration.

Another interesting data point this year is the amount of respondents who employed the services of an ERP consulting firm. The fact that this number showed a significant increase from last year is encouraging. What is troubling, however, is why this third-party guidance did not seem to have an impact on project results, specifically the amount of respondents experiencing "organizational issues" and extended durations. While third-party guidance is essential, finding the right consulting firm can be difficult. The ideal consulting firm is one that can come alongside

your organization and ensure that every dollar spent on an ERP project contributes to who your organization already is and what it hopes to become. Organizations with strong third-party guidance understand that a significant amount of their implementation budgets should be allocated toward organizational change management, business process management and every project activity that can help maximize benefits realization.

As reflected in the data, organizations without third-party guidance still appear to be satisfied with their ERP implementations. Satisfaction, however, does not always indicate that a project achieved a high ROI. True ERP success is measured in benefits realization, efficiency gains and anything your organizations deemed important back when the implementation began, back when hopes were high. As organizations lower their expectations, satisfaction is understandably easy to achieve. Organizations that take the time to create a business case and define their goals and objectives are well on their way to achieving everything they hope for.

About Panorama Consulting Solutions

Panorama Consulting Solutions is an IT consulting firm specializing in the enterprise resource planning (ERP) market for mid- to large-sized organizations around the world. Independent of affiliation, Panorama facilitates the evaluation and selection of ERP software, manages ERP implementation, and expedites all related organizational change to ensure that each of its clients realize the full business benefits of their ERP systems. Panorama maintains a global presence with current offices in Denver, Chicago, Boston, San Francisco, Lima and Dubai.

More information can be found on its website, Panorama-Consulting.com and Twitter feed, [Twitter.com/PanoramaERP](https://twitter.com/PanoramaERP).