

To ERP or Not to ERP in the Midmarket

Simplifying an Important Decision

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Aberdeen's 2012 ERP Benchmark survey found that the top strategies of Best-in-Class midmarket organizations include streamlining (57%) and standardizing (41%) business processes while optimizing the use of current capacity (37%). These are strategies that can be greatly facilitated by the implementation of Enterprise Resource Planning (ERP) software.

But implementing ERP is not simply a "no brainer." There are many factors that must be considered, particularly cost, support, and functional needs. Additionally, there are perceptions that come along with ERP that could cause an organization or executive that has never used ERP to avoid implementing it. For example:

- 17% of midmarket organizations without ERP feel that they are too small for it.
- 39% feel that they cannot afford the software and services.

Perception is not always reality. There are many ERP solutions (and deployment models) available that can address these concerns. Further, there are difficulties associated with utilizing technology instead of ERP that may be overlooked because these organizations do not know any better. This report will explore the difficulties of midmarket organizations that have not implemented ERP, as well as illustrate the adoption rates of ERP in the midmarket and the capabilities and business benefits that adopters have received from an ERP implementation.

Business Systems in the Midmarket

Aberdeen defines ERP as an integrated suite of modules that forms the operational and transactional system of record upon which any business is based. It can be a significant source of standardization, efficiency, collaboration, and visibility. As such, ERP has gained a strong foothold in midmarket organizations, which can become increasingly complex as they grow in revenue and expand geographically. Further, top performing midmarket organizations are even more likely than All Others to have already implemented ERP (Figure 1). In fact, ERP adoption is almost universal in leading companies.

Analyst Insight

Aberdeen's Insights provide the analyst's perspective on the research as drawn from an aggregated view of research surveys, interviews, and data analysis

Company Size Definition

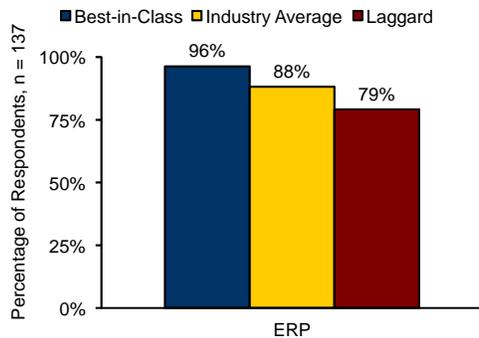
In this report, Aberdeen defines the midmarket as organizations with \$50 million to \$500 million in annual revenue.

Aberdeen Methodology

The Aberdeen maturity class is comprised of three groups of survey respondents. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories:

- ✓ **Best-in-Class:** Top 20% of respondents based on performance
- ✓ **Industry Average:** Middle 50% of respondents based on performance
- ✓ **Laggard:** Bottom 30% of respondents based on performance
- ✓ **All Others:** Industry Average and Laggard combined

Figure 1: More Best-in-Class Midmarket Orgs Have ERP

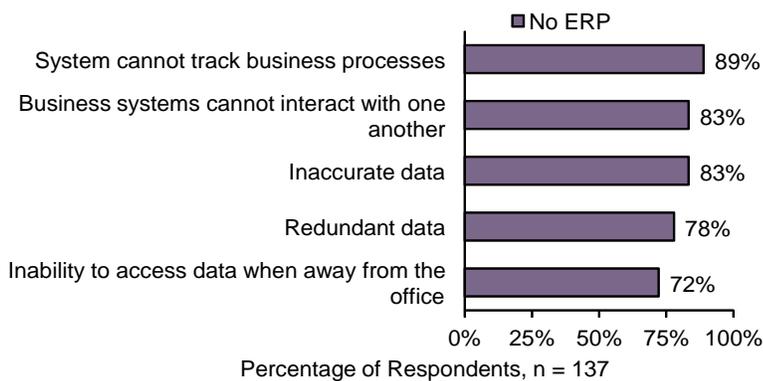


Source: Aberdeen Group, September 2012

But just because ERP is used by the majority of midmarket organizations does not mean that there are not midmarket organizations that have yet to take the plunge into ERP. These organizations use other systems to run their business including spreadsheets, accounting applications, homegrown applications, multiple disparate systems, and, in some cases, paper-based manual processes (see sidebar).

There are inherent problems that can come with all of these types of solutions. For example, spreadsheets are not easily shared and updated or dynamic. They can also be susceptible to mistakes and broken formulas. Accounting solutions do not contain the functionality to effectively manage customers and respond to business change. Using multiple applications means that all data is not contained in one repository and easily connected. Lastly, home grown applications are not easily customized or supported by a vendor with expertise in keeping them running. Although ERP can be expensive, the cost of not using it because of the above problems may be more than these organizations think. Aberdeen polled organizations without ERP about the challenges that they have faced as a result of their current business systems (Figure 2).

Figure 2: Insufficient Systems Cause Problems



Source: Aberdeen Group, September 2012

Best-in-Class in the Midmarket

Midmarket respondents to the [2012 ERP Benchmark survey](#) were ranked on the following criteria:

- ✓ **Days to close a month:**
Best-in-Class – 3.4,
Industry Average – 6.2,
Laggard – 10.4
- ✓ **Days sales outstanding:**
Best-in-Class – 34.1,
Industry Average – 44.1,
Laggard – 55.4
- ✓ **Complete and on-time delivery:**
Best-in-Class – 95%,
Industry Average – 92%,
Laggard – 73%
- ✓ **Increase in profitability over the past two years:**
Best-in-Class – 19%,
Industry Average – 7%,
Laggard – 0%

What Instead?

Midmarket organizations without ERP use the following systems to run their businesses:

- ✓ 83% – Spreadsheets
- ✓ 78% – Accounting applications
- ✓ 78% – Multiple disparate applications
- ✓ 56% – Home grown applications

In contrast to the benefits of ERP, these organizations have had difficulty with visibility, collaboration, and efficiency. Eighty-nine percent (89%) of midmarket organizations without ERP indicate that they cannot track business processes. A significant amount also report inaccurate or redundant data. As a result of these challenges, decision-makers, who may be removed geographically from day-to-day operations, are impeded in finding the information they need to guide the company. This can cause the organization to be slow moving when dealing with customers or in combating competitors.

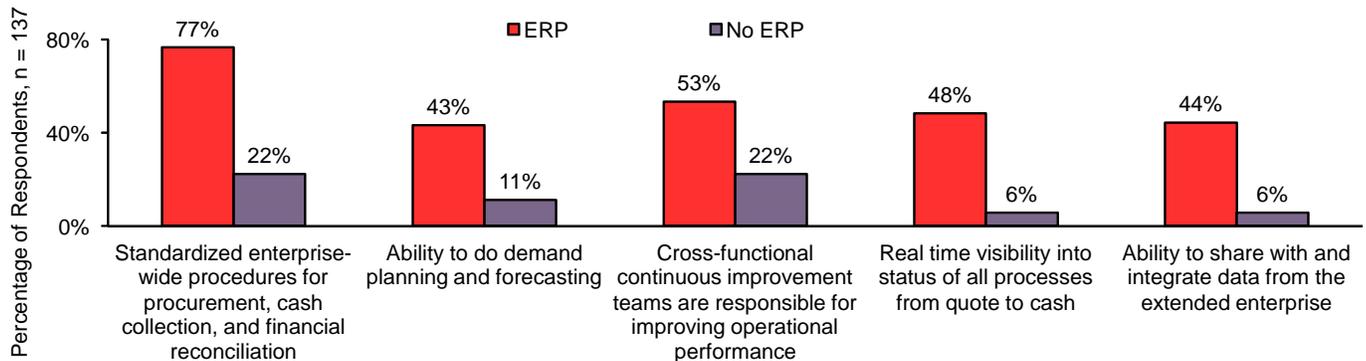
Additionally, systems other than ERP can hinder collaboration. Eighty-three percent (83%) state that business systems cannot interact with one another. Internally, this means that functions and departments may be utilizing systems that cannot easily share data, causing there to be a disconnect that could result in silos. Externally, organizations could have trouble sharing data with the extended enterprise. This can hinder demand planning and the organization’s ability to secure favorable prices for materials. Twenty-three percent (23%) of midmarket organizations cited a need to become easier to do business with as a business driver impacting ERP strategies. Business partners may not take organizations without ERP seriously when working together if they feel that the organization without ERP is unorganized. This can cause embarrassment to the organization.

When examining the challenges of organizations without ERP it is revealed that the pros of implementing an ERP system could outweigh the cons. The next section will reveal the adoption rates of capabilities that organizations with ERP have implemented in comparison to the capabilities of organizations that are using other systems to run their businesses.

Increased Business Capability through ERP

Midmarket organizations with ERP are more likely than those without to have a variety of key business capabilities (Figure 3).

Figure 3: ERP Impacts Key Business Capabilities



Source: Aberdeen Group, September 2012

For example, midmarket organizations with ERP are three and a half times as likely as those without to be able to standardize procedures enterprise-wide for procurement, cash collection, and financial reconciliation. These specific processes are just an example of processes that could be standardized; standardization capabilities can be extended to back office and customer-facing processes. This means that these organizations can establish best practices and communicate them to employees no matter where those employees are located. This helps to ensure consistency in services and products and efficiency when completing processes because best practices are communicated using ERP as their delivery method.

Not only does ERP impact the standardization of processes but it also impacts processes themselves. For example, midmarket organizations with ERP are almost four times as likely as those without to have the ability to do demand planning and forecasting. This is essential for maintaining inventory levels and will help a growing organization to best utilize the resources, cash or otherwise, that they have on hand.

But just because processes have been integrated into ERP it does not mean that ERP cannot aid in improving those processes. ERP enables continuous improvement because of its status as a communication portal. As a result of ERP, these organizations are 141% more likely than those without ERP to have cross-functional continuous improvement teams. This can aid in innovation and process improvements by involving more people from the organization.

Beyond process improvements, one of the major reasons that organizations implement ERP is because of the visibility that it helps to provide to decision-makers. This is evidenced by the fact that 48% of midmarket organizations with ERP have real-time visibility into the status of all processes in comparison to only 6% of those without ERP. This data is absolutely essential for guiding an organization. A lack of visibility could cause difficulty in creating efficiency. When employees cannot access data remotely, they will be slower to make decisions or input data that will affect the organization. Data silos will impede collaboration and continuous improvement. And inaccurate or redundant data will cause employees to spend valuable time looking for data.

Lastly, midmarket organizations with ERP are over seven times as likely as those without to have the ability to share data with the extended enterprise. As mentioned above, this capability enables organizations to collaborate with suppliers, customers, distributors, resellers, and regulators to become easier to do business with.

Performance Improvements

Beyond the capabilities that come along with an ERP solution, midmarket organizations with ERP perform better, on average, in a variety of performance metrics (Table I). These metrics are evidence of increased efficiency such as the amount of time it takes to close a month, complete and on-time delivery, or internal schedule compliance. They can indicate

ERP versus No ERP in Standardization

- √ Standardized procedures for order management and delivery / fulfillment: 75% versus 33%
- √ Standardized procedures for production planning and execution: 52% versus 18%

visibility such as inventory accuracy or accuracy of financial reports. They can illustrate decision-making such as the amount of time data is received within decision-windows resulting in decreased time-to-decision. And ultimately, ERP can impact profitability, as evidenced in the 10% increase in profitability over the past two years cited by midmarket organizations with ERP. How do these organizations achieve these metrics? Perhaps it could be through the direct benefits they have reported experiencing as a direct result of their ERP solution (see sidebar)?

Table 1: Midmarket Organizations with ERP Perform Better

Performance	ERP	No ERP
Days-to-close a month	6.2	10.3
Days sales outstanding	41.4	42.8
Complete and on-time delivery	91%	89%
Increase in profitability over the past two years	10%	None
Decrease in time to decision over the past year	21%	4% (increase)
Internal schedule compliance	90%	84%
Inventory accuracy	94%	87%
Percentage of accurate financial reports	95%	89%
Percentage of time that data is received within decision window	75%	68%

Source: Aberdeen Group, September 2012

Direct Benefits of ERP

Midmarket organizations in all maturity classes average significant benefits received as a direct result of their ERP solution, Industry Average organizations average the following:

- √ 40% – Improvement in inventory turns
- √ 8% – Reduction in operational costs
- √ 6% – Reduction in administrative costs
- √ 10% – Reduction in inventory
- √ 12% – Improvement in complete and on-time shipments

Key Takeaways

Today’s midmarket organizations expect a lot from their business systems. No longer is it acceptable to have data that is inaccurate, incapable of being shared, insecure, and difficult to access. In order to effectively and efficiently serve customers, make informed decisions, and collaborate with the extended enterprise, organizations must choose a business solution that can support business processes and facilitate data usage. Aberdeen’s research has found that most midmarket organizations are looking to ERP to fit these needs. Of course, this is not a decision to be made lightly. ERP can be an expensive undertaking and implementation processes can disrupt the business. That is not to mention the requirements when it comes to IT resources to effectively support an ERP solution. And of course, not all ERP solutions end up being a good fit. Organizations that are interested in implementing ERP should consider the following questions:

- Can our organization’s processes be supported by the business systems we are currently using? Will they continue to be able to service us in the future as we grow?
- Can we afford the investment that ERP requires? Are there solutions that will minimize the impact of our investment?

- Is the line of business asking for a solution that will make their job easier? Will there be an impact on operational efficiency?
- How will this impact IT?
- Are there regulations in our industry that require us to implement a solution?
- Are our current solutions compromising our ability to collaborate externally? Do our business partners take us seriously?
- Does the reward outweigh the risk?

And these questions are just the tip of the iceberg. It is an important decision, but the data in this report illustrates the ways in which ERP can transform a midmarket organization to compete on a greater stage. Ultimately, the answer to the ERP question comes down to the answer to the question “will it make our business better?”

For more information on this or other research topics, please visit www.aberdeen.com

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