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## Next generation ERP – time to change your perception?

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Many firms are missing out on the benefits that ERP systems can bring because of perceptions that it is difficult and expensive to implement. This need not be the case

**computing**

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## Executive summary

According to a *Computing* of more than 120 business decision makers those organisations that have implemented an ERP system report less duplication and time wasting across the board, improved financial reporting, and better availability of information across the organisation as a whole rather than having to contend with “multiple versions of the truth”.

As such, ERP systems can greatly improve operational efficiency and the management of the extended enterprise, so why would any such organisation neglect to deploy such an application?

The answer lies in outdated perceptions. Enterprise Resource Planning (ERP) has long been perceived by many IT decision makers as expensive, resource intensive and error prone. The often held view is that ERP tends to be typical of the “Big IT” project which fails expensively due to inadequate project specification and management.

The objective of the survey was to understand whether negative perceptions of ERP are based on legacy deployments, and to establish the challenges that these legacy ERP systems are presenting.

This paper features a detailed discussion of the survey findings which point to a common perception of ERP rooted in the past. We discuss some of the benefits that those who have successfully deployed ERP are realising and how the next generation of ERP has evolved to be available via more flexible delivery platforms and to a wider market place. We establish how the perception of ERP projects as costly and prone to failure belongs firmly in the past.

## Perceptions of ERP

Properly implemented, ERP solutions can help to alleviate many of the IT problems that plague the modern enterprise, by pulling together data from disparate sources, facilitating better communication between departments, and providing for improved strategic decision making and organisational agility.

This much is widely understood. However, many IT professionals view ERP with, at best, a degree of scepticism. It is easy to understand why this is the case. ERP implementation projects have a colourful history. Most IT managers, when asked, can probably recall several high profile examples of multi-million pound ERP projects which have not met expectations. More than one ERP vendor has found themselves in court, defending themselves against charges of miss-selling, intellectual property breach or missing budget and time critical deadlines.

These well publicised failures have fuelled a common perception that ERP projects are exactly the type of big IT project likely to suffer from scope creep and to spiral out of control, resulting in a massive overspend. IT professionals often view ERP projects as likely candidates to be delivered late or abandoned mid-stage because of

escalating costs. More than one organisation has implemented ERP technology which has been obsolete by the time it actually went live.

## Big IT: a history of failure

In order to understand why ERP projects have historically had such a high failure rate it is necessary to take a step back and look at large scale IT projects as a whole. Research published by Oxford University in 2011<sup>1</sup> found that IT projects are 20 times more likely to fail to be delivered on time and on budget than other business projects. Why?

*Computing* spoke to 120 business and IT decision makers in order to establish their opinions as to why big IT projects such as ERP seem riskier than any other. We asked respondents to state the outcome of the most recent large scale IT project that they had been involved with.

The good news was that a clear majority of those responding to the question (53%) had seen projects completed on time and on budget. A further 12 percent stated that the projects were still ongoing as planned.

However, for a number of respondents the picture was not quite so positive. Fifteen percent stated that the project had been delivered late and over budget. A further nine percent were involved in projects that were still ongoing but already late and over budget. Perhaps most worrying is the fact that five percent stated that projects had been abandoned with only the initial stages or *nothing at all* delivered.

*Computing* asked those who had seen an outcome short of the ideal to rank the reasons that they believed these projects had not succeeded. The results can be seen in Figure 1 (next page).

By far the most important business/financial reason for failure given was that business requirements and objectives were not adequately specified at the outset. Sixty-eight percent of respondents stated that that this was either the most or second most important reason for failure. The next biggest business related problem was unrealistic timescales with 47 percent ranking it first or second on the list. Unsurprisingly, over a third of respondents (37%) also stated that budgets were not sufficient to cope with contingencies.

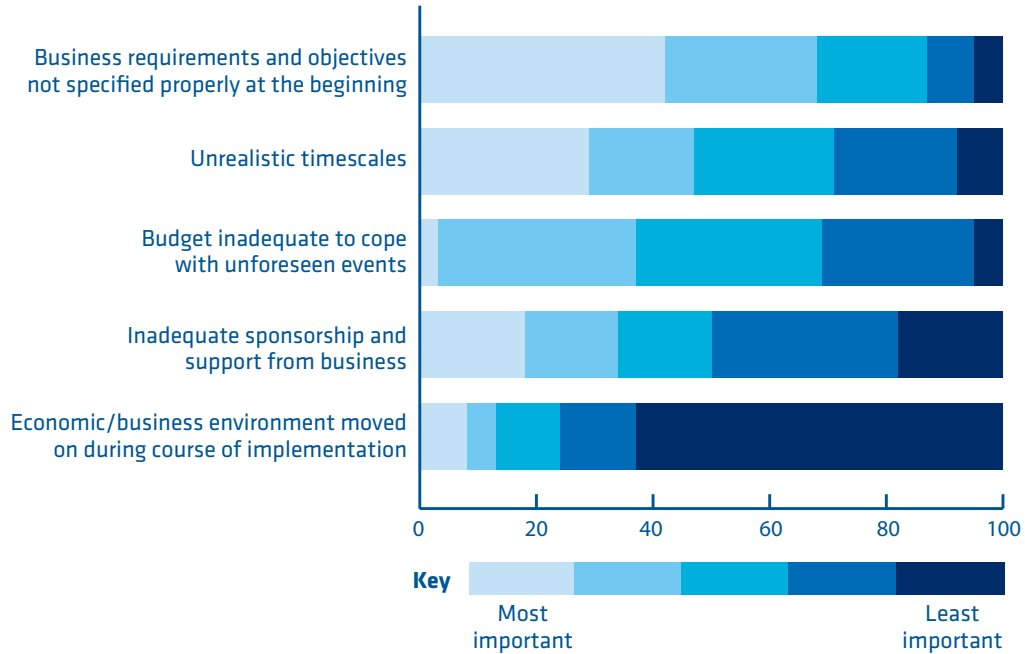
The reasons for failure depicted in the lower chart in Figure 1 relate more to individuals. A massive 69 percent of respondents stated that scope creep was instrumental in their particular projects failure. Fifty-five percent said that the day-to-day burdens on IT staff meant that the time for this particular project simply could not be found. Forty-five percent found that specific individuals frustrated progress.

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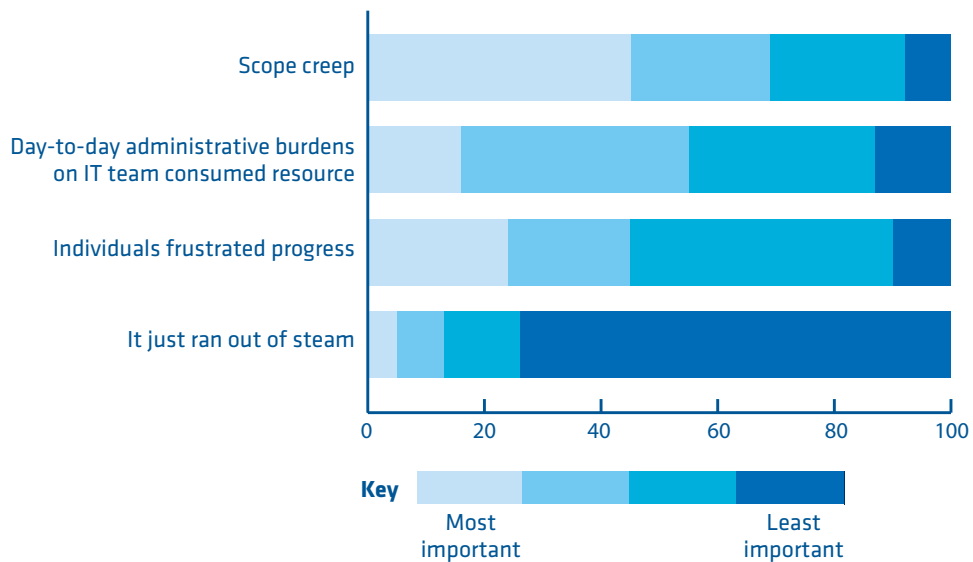
<sup>1</sup> <http://hbr.org/2011/09/why-your-it-project-may-be-riskier-than-you-think/ar/1>

**Fig. 1: Reasons for large IT project failure**

**Business and financial reasons**



**Personal and managerial reasons**



The most frequently given reasons for failure – inadequate specification of project objectives, scope creep, unrealistic budgets and timescales are all directly related. The poor project planning at the outset leads directly to a lack of realism when budgets and timescales are being discussed. Why does this happen so frequently?

Perhaps the answer lies in the structure of businesses themselves. Projects may start out being well scoped for contingency and sensibly costed. However, the process of getting these projects signed off by budget holders invariably mean that these costings have to be cut and cut again. By the time a figure is agreed on unrealistic expectations have been set all around by third parties and individual stake holders. At this point the combination of unrealistic expectations and budgets and timescales containing no contingency means that failure becomes all but inevitable.

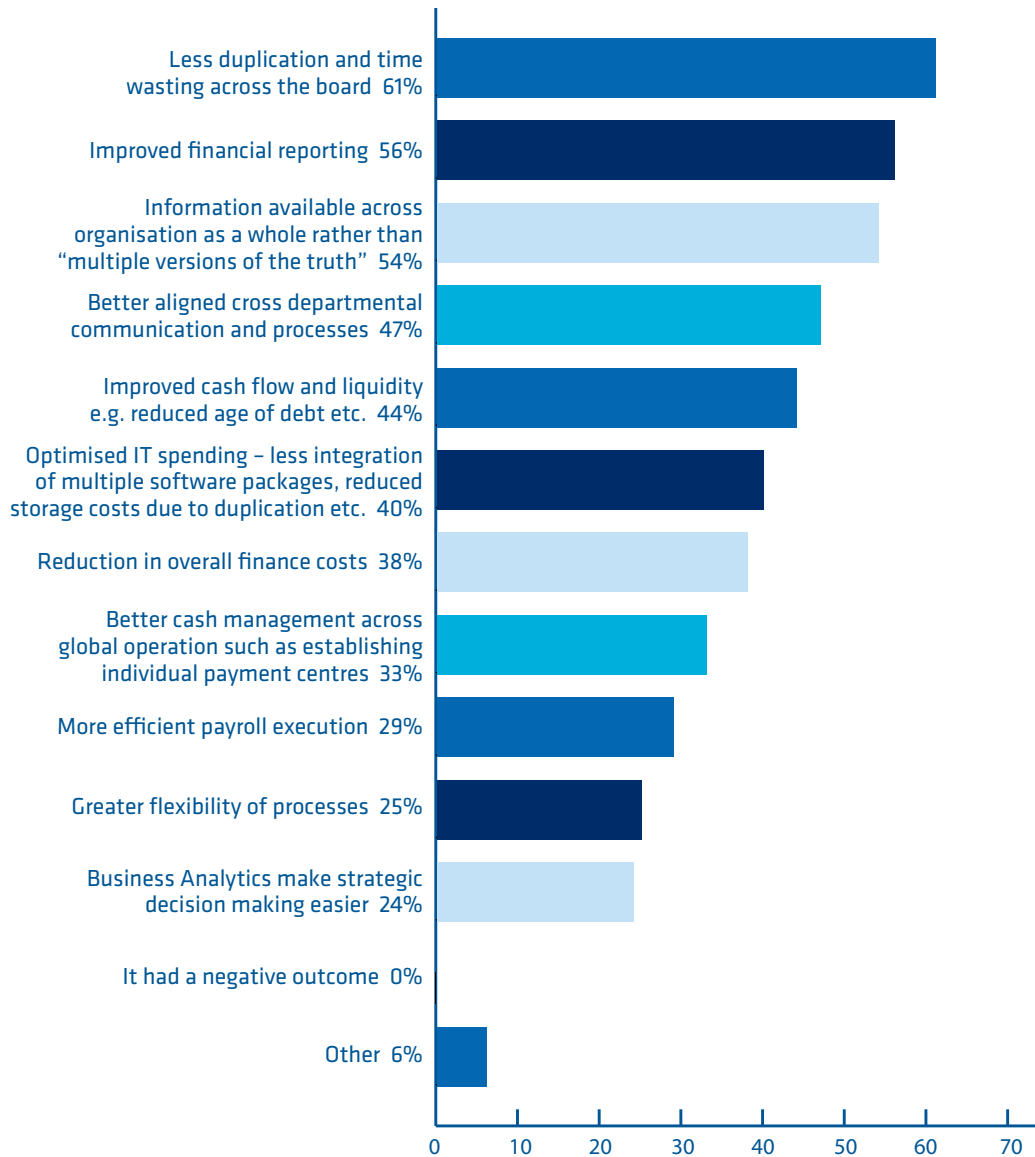
The assertion above is given further weight by the answers given to another question. *Computing* asked all respondents who had been involved with a large scale IT project – successful or otherwise – to rank how much of the success of the project had been attributable to the software and how much was attributable to implementation methodology. Fifty-six percent of those responding gave implementation methodology more credit than the actual software for the outcome of the project. Only 44 percent stated that software was of greater importance than the process itself. In total, 94 percent of respondents stated that decisions made at the beginning of the implementation process were either “key to the outcome of the project”, or “quite important”.

Whilst the product and the process cannot be completely separated (vendors after all do play a significant role in specifying a project and setting expectations, budgets etc.) it is interesting to note the significance that our respondents attribute to their own processes and people. None of the respondents who stated that their project had failed specifically blamed the vendor for the outcome.

## ERP revisited

The findings above explain a large part of why ERP projects, typical of “Big IT,” have a troubled reputation. Fortunately, however, not all ERP projects are dogged by failure. *Computing* asked whether our respondents had taken the plunge of deploying ERP. Fifty-nine percent had done so successfully and were enjoying some very real benefits (Fig. 2, next page).

**Fig. 2 : “Please tell us how ERP system has impacted your business”**



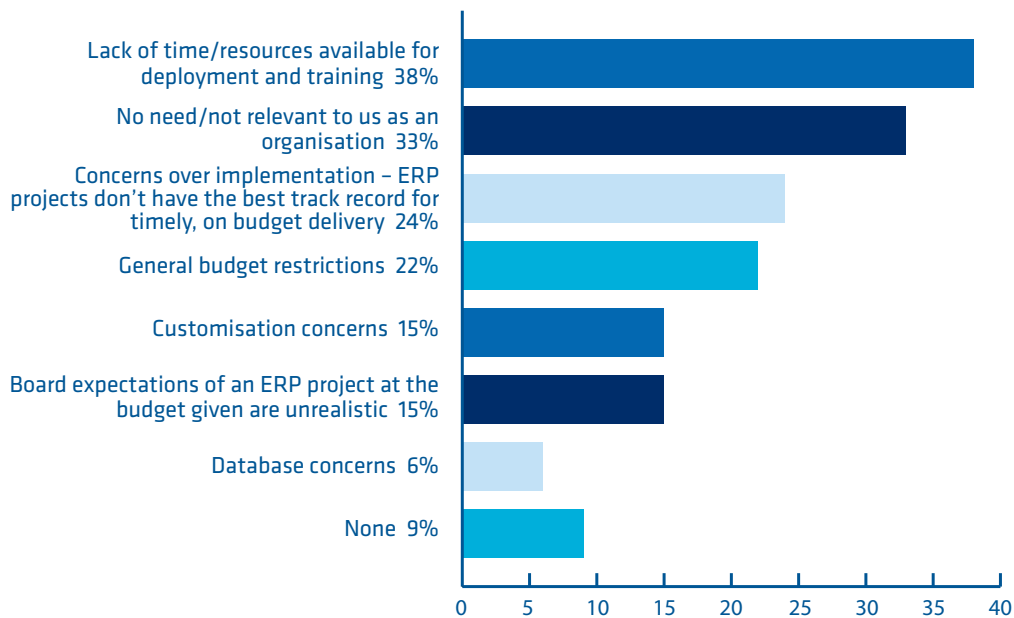
\*Respondents could select more than one answer.

The most frequently realised benefits included reduced duplication and time wasting across the board (61%), improved financial reporting (56%) and an improvement in the visibility of information across organisations as whole, rather than “multiple versions of the truth”, (54%). A significant number of respondents were also enjoying better cross-departmental communications and processes (47%) and the very tangible benefits of improved cash flow and liquidity (44%), optimised IT spending due to factors such as reduced storage costs (40%) and a reduction in

overall finance costs (38%). Despite being given the chance to say so, not one of our respondents stated that ERP had had a negative impact on their business.

Despite the fact that large numbers of business organisations are saving money with ERP, a significant number of businesses remain unconvinced of its merits. *Computing* asked those who had not yet gone down the ERP route what was putting them off. The results are shown in Figure 3. Big IT project failure clearly looms large in the minds of these respondents because 38 percent stated that they lacked time and resources for deployment and/or training. A further 24 percent stated that they had general concerns over implementation. Thirty-three percent simply did not see the need for ERP for their particular organisation.

**Fig. 3 : “What are the main barriers to ERP within your organisation?”**



\*Respondents to this question had no ERP system in place; respondents could select more than one answer

It is clear from the objections given by our respondents that the perception of ERP as an expensive, all consuming, quite possibly never ending project prone to failure is one that is very much alive and kicking. However, perhaps this perception is a little outdated given that well over half of our respondents had implemented ERP successfully and are enjoying the benefits.



## First generation ERP

It is likely that the respondents who view ERP as a disaster waiting to happen have been influenced by the highly publicised failures of the first generation of ERP. The majority of our respondents who have ERP in place and have a positive view of it have implemented ERP relatively recently. 46 percent deployed ERP less than three years ago, with 38 percent stating that their ERP was between 3 and 5 years old. In these cases, whilst the ERP was still performing reasonably well it was starting to show its age a little. Sixteen percent had a deployment that was over five years old and struggling to keep pace with current business requirements.

*Computing* asked those with legacy deployments of ERP to list some of the challenges that they were facing. Top of the list was the difficulty of managing and scaling the custom code that was typically required in early ERP installations. Thirty-two percent stated that their business had moved on and the ERP simply had not been able to keep pace. Others were frustrated to be missing out on newer features and functionality, while 22 percent had an operating platform or database underpinning their ERP that is no longer supported, meaning that an upgrade will be required. Similar numbers were struggling to manage and scale third party applications, or were facing a shortage of skilled personnel skills to maintain their ERP system. An inability to adapt to the requirements of a more mobile workforce was cited by 20 percent respondents.

It is clear that a lot of first generation implementations of ERP are struggling to keep pace with a rapidly evolving business environment and trends such as the consumerisation of IT. Subsequently there is a strong case to be made for upgrading legacy ERP systems.

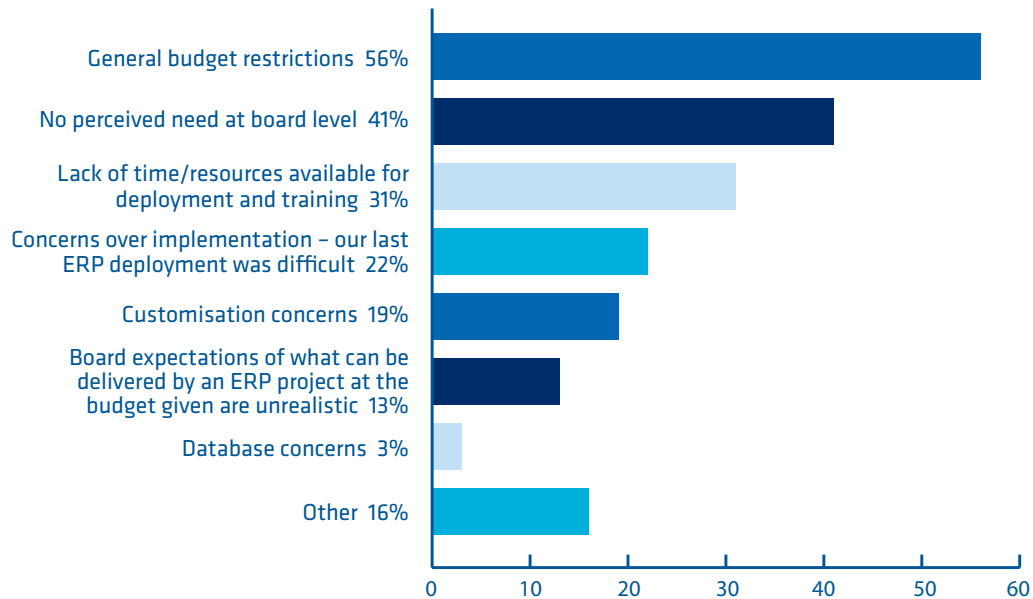
If the ERP can no longer perform the tasks required of it the effect on morale for employees struggling to get their job done can be significant. Staff could quite feasibly be lost as could customers suffering from reduced service levels. In addition to the costs of replacing lost customers and employees, organisations with a creaking ERP system also face increased costs of maintenance and customising code to the degree necessary to keep up with new business processes. At some point the cost and risk of maintaining the old system become greater than the cost and risk of upgrading.

Perhaps this is why, when asked by *Computing* whether they planned to upgrade their ERP this year, 22 percent of respondents stated that they were. When you consider that only 54 percent of respondents with ERP had a deployment over 3 years old and that the 22 percent upgrading in total would have been drawn from this group of respondents, the proportion upgrading is actually higher than it first appears.

## Old perceptions die hard

Computing asked respondents who had no plans to upgrade their legacy ERP systems what the barriers to upgrade were (Fig. 4).

**Fig. 4 : “What are the main barriers to upgrade within your organisation?”**



\*Respondents to this question had ERP systems in place that were more than 3 years old, but had no plans to upgrade them; respondents could select more than one answer

The answers given illustrate that the perception of ERP as expensive and resource intensive to deploy remains very much in place. The largest proportion (56%) stated that budget restrictions made upgrading impossible and 41 percent stated that there was no perceived need at board level for an upgrade. Thirty-one percent pointed to a lack of time and resources for implementation and training, and 22 percent were still dogged by memories of their last ERP deployment. Nineteen percent also had concerns over customisation.

## ERP – the next generation

In order to address the commonly held perception of ERP as “the project most likely to fail,” some ERP vendors have raised their game. Selection of vendor remains as crucial to the success of any ERP project as it ever did. Any prospective ERP vendor should be able to offer more than one ERP product, with different solutions that fit the needs of the customer rather than the customer having to change to accommodate the ERP. Emphasis should be on ease of deployment and flexibility throughout the life of the ERP.

In addition to more traditional ERP products, creative ERP vendors are combining forces to create appliances that allow organisations to deploy ERP on top of an enterprise class database in one, easy to manage unit. This means there is a single point of contact for support purposes – a key factor in reducing the risk of ERP deployments. A single ERP appliance is also significantly less expensive than a more traditional ERP architecture both in terms of initial payments and longer term total cost of ownership.

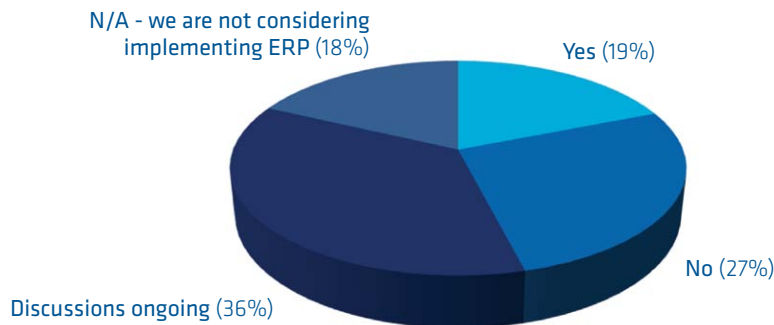
It is clear that with the right partners in place, ERP can be a significantly less costly and less risky undertaking than those of five or more years ago. In addition to being easier to deploy, ERP has evolved in other ways. More often than not, software procurement forms part of a wider Information Systems (IS) strategy.

Asked about their IS strategy, 38 percent wanted to enable the use of the most up-to-date software and hardware. A similar proportion (36%) stated that their strategy was risk management against the obsolescence of underlying databases and operating systems. Thirty-one percent had an overall strategy of enabling a mobile workforce. The latter is an interesting point, as the same proportion of ERP systems could be accessed via smart phones and tablets, according to the survey. Given the current trends, both of these figures are certain to increase.

Strongly linked to the growth in mobile devices is the explosion in the use of social media for business purposes. Only 10 percent of respondents with ERP in place said that their system could integrate with social media. The growth in the number of personally owned mobile devices and in the use of social media are two related trends that are allowing business organisations to realise significant enhancements in productivity and customer service. The next generation of ERP is allowing customers to integrate these trends and realise the benefits.

ERP has also evolved in terms of the way it can be delivered to business organisations. More and more businesses, when looking at ways to deliver applications at a predictable cost and with less risk to themselves are turning to the cloud. *Computing* asked “Does the cloud have a place in your plans for the deployment of ERP or its ongoing development?” The answers can be viewed in Figure 5.

**Fig. 5 : “Does the cloud have a place in your plans for the deployment of an ERP system or for its ongoing development?”**



Over half of all respondents (55%) stated either that yes, the cloud already featured in their plans or that discussion on the subject was still ongoing. This is a significant number and it is easy to see why the cloud is proving an attractive way of delivering ERP.

Cloud ERP can remove much of the up-front expense traditionally associated with such solutions as the architecture is simply not something that the customer has to provide. Deployment becomes vastly easier and the risks of the project spiralling out of control are much reduced. Service Level Agreements (SLAs) transfer the risk of non-delivery from the customer to the vendor. Given the benefits that cloud ERP can bring to business organisations, if your ERP is not available through a cloud model, it may be time to evaluate one that is.

## Conclusion

*Computing* set out to understand why “Big IT” projects and ERP in particular have sometimes failed to deliver – on time or at all. Our respondents told us that inadequate specification of project objectives, scope creep, unrealistic budgets and timescales have all contributed to the failure of certain projects. However, a majority of our respondents had delivered ERP successfully and have been enjoying some tangible benefits such as enhanced cash flow and reduced IT expenditure as a result.

*Computing* found that the older a deployment of ERP, the more likely the perception of ERP was to be negative. These first generation deployments of ERP were the projects that sometimes failed so spectacularly.

However, the new generation of ERP has evolved. New versions of ERP can be delivered on integrated appliances or through the cloud to reduce the risks and the costs inherent in older versions which usually relied on multiple vendors and delivery partners. Next generation ERP can form part of a wider IS strategy to enable more

flexible working practices through mobile *Computing*, for example, and hence enable productivity gains. Social media can be integrated into ERP giving a 360 degree view of customers that simply has not been possible before.

Quite simply, ERP has moved on. If you are one of the organisations that still views ERP as a potential disaster, it may be time to look again.

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