

## **ERP in SMB**

Exploring Growth Strategies

December 2007



## Executive Summary

Small to Mid-size Businesses (SMBs) face a dichotomy of business drivers impacting Enterprise Resource Planning (ERP) strategies. Aberdeen finds SMB companies focusing on growth strategies (49%) and customer service (48%), sometimes balancing between the two, but more often focusing exclusively on one or the other. As companies grow in size and improve performance, they are 37% more likely to have invested in an ERP system that will grow with them. This report is a road map for SMBs seeking to meet each of these corporate goals through Best-in-Class (BIC) ERP implementation.

### Best-in-Class Performance

Based on the input from over 1,140 SMBs, Aberdeen used five key performance criteria to distinguish Best-in-Class companies. These companies achieved significantly better results in the following metrics:

- 24% reduction in inventory level and 97% inventory accuracy
- 3.1 days to close a month
- 96% schedule compliance and 97% current complete and on-time delivery

### Competitive Maturity Assessment

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

- **80%** of Best-in-Class manufacturers have standardized enterprise wide processes to support the order to cash cycle
- Best-in-Class make use of **45%** more weighted average functionality and are **44%** more likely to take a completely integrated end-to-end approach to ERP implementation than Laggards
- Best-in-Class are far more likely to use advanced technologies such as event management (**16-times** more likely) and embedded workflow management (**240%** more likely) than Laggards

### Required Actions

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

- Assign ownership of the ERP implementation to the line of business executive who stands to gain the most benefits
- Measure cost reductions and schedule improvements
- Use ERP as a vehicle to standardize business processes, including embedded workflow technologies to improve visibility, streamline, and automate processes

#### 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

"The markets we serve are growing and therefore our company is growing. ERP helps us standardize our business processes. Our previous DOS-based legacy system prevented us from growing in a smart way. ERP has reduced our reliance on spreadsheets and data is now efficient and accurate and our customer service is responsive and personalized."

~ Director of IT, Crane and Equipment Manufacturer

#### Aberdeen's Definition of SMB

Aberdeen's definition of small companies includes those with annual revenues less than \$50 million. For the purposes of this study we venture into the low end of mid-size companies and define SMB to be those companies with annual revenues less than \$250 million.

*Send to a Friend* 

## Table of Contents

---

Executive Summary.....	2
Best-in-Class Performance.....	2
Competitive Maturity Assessment.....	2
Required Actions.....	2
Chapter One: Benchmarking the Best-in-Class.....	4
Business Context.....	4
The Maturity Class Framework.....	5
The Best-in-Class PACE Model.....	6
Best-in-Class Strategies.....	6
Chapter Two: Benchmarking Requirements for Success.....	9
Competitive Assessment.....	10
Capabilities and Enablers.....	11
Process.....	11
Organization.....	11
Knowledge Management.....	12
Technology.....	12
Performance Management.....	12
Chapter Three: Required Actions.....	14
Laggard Steps to Success.....	14
Industry Average Steps to Success.....	14
Best-in-Class Steps to Success.....	15
Appendix A: Research Methodology.....	16
Appendix B: Related Aberdeen Research.....	18

## Figures

---

Figure 1: Growth Creates Subtle Shifts in Pressures.....	4
Figure 2: Operations Become More Distributed with Growth.....	5
Figure 3: The Strategic Actions of Best-in-Class.....	7
Figure 4: Self-Described Growth Rates.....	8
Figure 5: Companies That Expect to Outgrow Their ERP.....	13

## Tables

---

Table 1: Companies with Top Performance Earn Best-in-Class Status.....	5
Table 2: The Best-in-Class PACE Framework.....	6
Table 3: The Competitive Framework.....	10
Table 4: The PACE Framework Key.....	17
Table 5: The Competitive Framework Key.....	17
Table 6: The Relationship Between PACE and the Competitive Framework.....	17

## Chapter One: Benchmarking the Best-in-Class

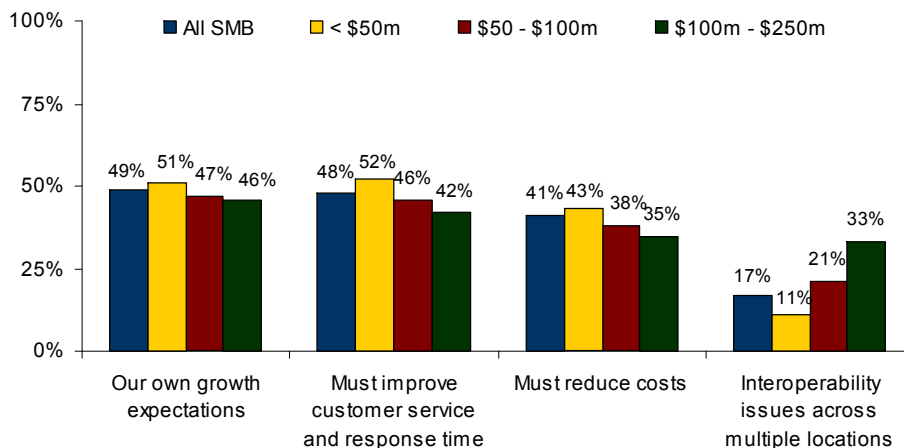
### Business Context

Small to Mid-sized Businesses (SMBs) face a dichotomy of business drivers impacting Enterprise Resource Planning (ERP) strategies. While Aberdeen's survey of over 1,700 companies found mid-size to large companies tend to balance growth expectations against the pressures to improve customer service and response times, the 1,140 SMBs surveyed are predisposed to concentrate on one or the other. Aberdeen's July [2007 ERP in Manufacturing](#) benchmark found that SMB companies are evenly split between focusing on growth strategies (49%) and customer service (48%), but these top pressures were mutually exclusive in more than two thirds of the combined total. Despite this disparity of market pressures, the standardization and acceleration of business processes is a common goal of ERP implementations. The integration of functional departments across the small enterprise and the clear ownership of ERP implementations combine with the broad and deep use of feature functionality to produce demonstrable business benefits.

#### Fast Facts

- ✓ SMBs are **twice as likely** as larger companies to anticipate outgrowing their ERP system
- ✓ As companies grow from \$50 to \$100 million in annual revenues, interoperability issues are **three-times more likely** to impact ERP implementations
- ✓ Growth oriented Best-in-Class companies are **60%** more likely to centralize selected functions using shared services

**Figure 1: Growth Creates Subtle Shifts in Pressures**



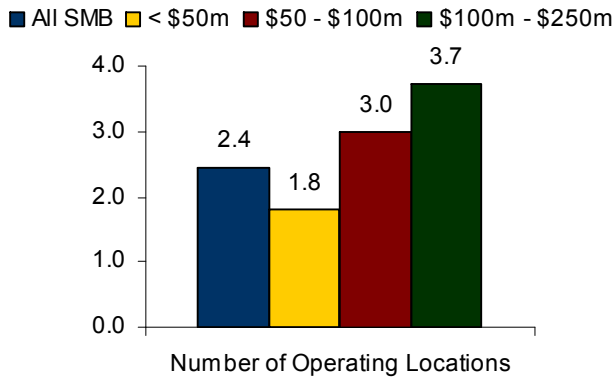
Source: Aberdeen Group, December 2007

Business drivers impacting ERP strategies do change as companies grow, but for the most part these shifts are subtle (Figure 1). Each of the top three pressures (growth factors, customer service, and cost reductions) declines slightly as a driver while the need for interoperability across operating locations increases. This need arises as operations become more distributed (Figure 2).

#### Aberdeen's Definition of SMB

Aberdeen's definition of small companies includes those with annual revenues less than \$50 million. For the purposes of this study we venture into the low end of mid-size companies and define SMB to be those companies with annual revenues less than \$250 million.

**Figure 2: Operations Become More Distributed with Growth**



Source: Aberdeen Group, December 2007

“We work with several small family-owned businesses where the owners have passed ownership to the next generation. The original owners may not have been terribly interested in expanding – the business was quite sufficient to support their lifestyle. However, the following new generation wants growth. They understand that if you are not growing, you put yourself at risk for business decline. This generation also grew up with technology. They understand it better and see the advantages of IT as a tool that allows them to grow and accomplish more with the same pool of resources and it potentially gives them an edge over competitors within the same class.”

~ Ed Monacelli, EMCS,  
Technology Consultant

### The Maturity Class Framework

Aberdeen used five Key Performance Indicators (KPIs) to distinguish the Best-in-Class (BIC) companies from the Industry Average and Laggard (Table I).

**Table I: Companies with Top Performance Earn Best-in-Class Status**

Definition of Maturity Class	Mean Class Performance
<b>Best-in-Class:</b> Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 24% reduction in inventory level</li> <li>▪ 97% inventory accuracy</li> <li>▪ 3.1 days to close a month</li> <li>▪ 96% schedule compliance</li> <li>▪ 97% current complete and on-time delivery</li> </ul>
<b>Industry Average:</b> Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 12% reduction in inventory level</li> <li>▪ 91% inventory accuracy</li> <li>▪ 5.1 days to close a month</li> <li>▪ 89% schedule compliance</li> <li>▪ 91% current complete and on-time delivery</li> </ul>
<b>Laggard:</b> Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> <li>▪ 5% reduction in inventory level</li> <li>▪ 81% inventory accuracy</li> <li>▪ 7.2 days to close a month</li> <li>▪ 76% schedule compliance</li> <li>▪ 83% current complete and on-time delivery</li> </ul>

Source: Aberdeen Group, December 2007

## The Best-in-Class PACE Model

In using ERP to achieve a high degree of growth, customer responsiveness, or both, companies must blend a combination of strategic actions and technologies to:

- Standardize and accelerate business processes
- Provide visibility to these processes in real-time to support effective decision-making

**Table 2: The Best-in-Class PACE Framework**

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> <li>▪ Growth driven</li> <li>▪ Improve customer satisfaction and response times</li> </ul>	<ul style="list-style-type: none"> <li>▪ Standardize and accelerate manufacturing and non-manufacturing processes (order management, finance, administrative functions)</li> <li>▪ Provide visibility into business processes across functions and departments</li> </ul>	<ul style="list-style-type: none"> <li>▪ Enterprise-wide procedures are standardized for order management, production planning and execution, followed by cash collection, automated financial reconciliation, and performance analytics</li> <li>▪ Implementation of ERP is standardized across the (possibly distributed) enterprise</li> <li>▪ Operations are integrated and coordinated with customer service, logistics, and delivery organizations</li> <li>▪ From summary data, decision-makers can drill down to transactions that form the fiscal and operational audit trail</li> </ul>	<ul style="list-style-type: none"> <li>▪ Integrated ERP: Integrated order entry, procurement, production, and financial management applications</li> <li>▪ Customer Relationship Management (CRM)</li> <li>▪ Business intelligence / analytic tools</li> <li>▪ Corporate management applications (business / enterprise)</li> <li>▪ Financial planning / budgeting</li> <li>▪ Corporate performance management applications</li> <li>▪ Alerts and triggers (event management)</li> <li>▪ Workflow automation tools</li> </ul>

Source: Aberdeen Group, December 2007

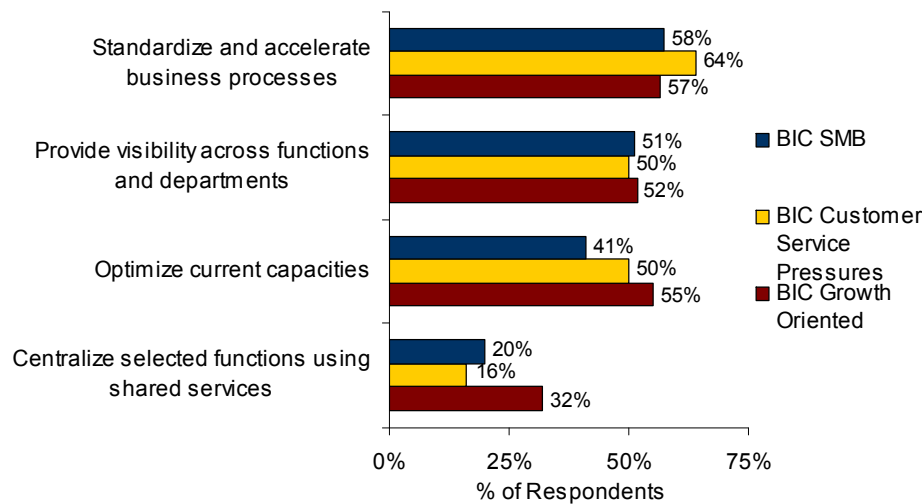
## Best-in-Class Strategies

For SMBs with expectations of growth, the objective of implementing ERP is to lay a solid foundation from which processes may be standardized, in order to avoid growing pains. The ultimate measure of success will be actual growth performance as compared against budgeted growth while containing or reducing inventory, operational, and administrative costs through expansion.

For those focused more intently on customer service and response times, the objective will be to provide a measure of visibility and control to customer facing metrics such as complete and on-time delivery as well as customer retention and growth.

While the strategic actions of Best-in-Class provide guidance to those seeking to achieve this level of performance, these actions can and do vary based on business drivers and overall objectives.

**Figure 3: The Strategic Actions of Best-in-Class**



Source: Aberdeen Group, December 2007

Figure 3 shows three different categories of Best-in-Class reflecting the dichotomy of business pressures introduced earlier:

- **Best-in-Class SMB** includes all SMBs in the top 20% of aggregate performance scorers in terms of the KPIs shown in Table I. These companies may be driven by the need to balance growth and improved customer service, or may be driven by other business pressures such as globalization of markets, ERP industry consolidation, or regulatory compliance.
- **Best-in-Class customer service pressures** include companies which achieved Best-in-Class levels of performance, and **did** select the need to *improve customer service*, yet **did not** select *growth* as a top business driver.
- **Best-in-Class growth oriented** also achieved Best-in-Class levels of performance, **did** select *growth* and **did not** select the need to *improve customer service* as a top business driver.

Those companies focusing primarily on growth objectives are twice as likely to *centralize selected functions using shared services*, a clear sign they are positioning themselves to scale existing functions without duplicating efforts and redundant costs. They also focus more prominently on *optimizing current capacities* in order to prevent them from constraining growth.

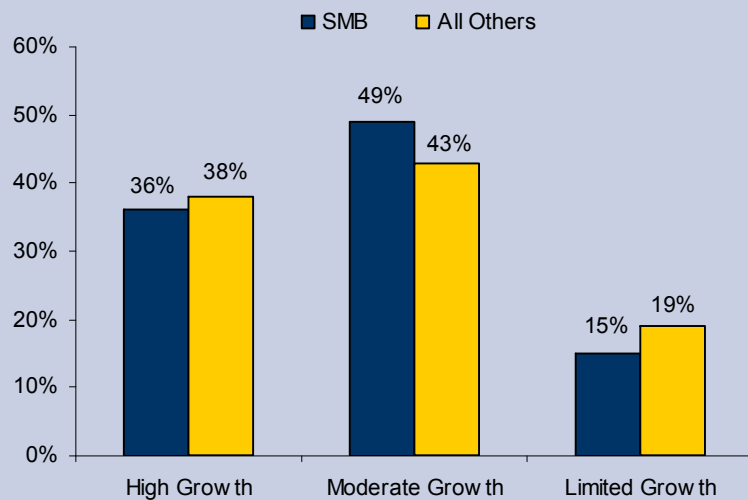
Those pressured more by increasingly demanding customers are slightly (12%) more likely to concentrate on standardizing and accelerating business processes in order to streamline delivery of products and services with a consistent level of service. All categories of Best-in-Class place significant emphasis on providing visibility across functions, departments, and locations throughout a potentially distributed environment.

### Aberdeen Insights - Strategy

Growth itself as a key business driver impacting ERP strategies declines ever so slightly as companies increase in size (Figure 1), but this decline was observed to continue beyond the SMB upper boundary of \$250 million. At the \$1 billion threshold the percentage of companies selecting *growth expectations* as one of their top two pressures driving ERP decisions dropped to 35%. This does not imply that companies stop growing; indeed relatively small growth percentages year over year can still represent large jumps in revenue. Larger companies (those with revenues greater than \$250 million, were in fact slightly (6%) more likely to be in a high growth phase than SMBs (Figure 4). While Aberdeen discovered only 1% of survey-respondents limited company growth by design, other factors limiting growth included the emergence of low cost competition as well as small (niche) markets.

However as companies grow, they are more likely to have invested in an ERP system that will grow with them. We found SMBs were 21% more likely to anticipate outgrowing their ERP within five years and 160% more likely to predict they will outgrow it eventually.

**Figure 4: Self-Described Growth Rates**



Source: Aberdeen Group, December 2007

"We recently (May 2007) implemented a new ERP system. We migrated from QuickBooks and our first priority was to implement an accounting package. We anticipated our needs for the next five years, but we hope to eventually outgrow the system we selected."

~ IT Manager, Small Manufacturer and Distributor of Non-invasive Healthcare Devices

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. The level of standardization of business processes, as well as the integration of people, processes, and technology can have a significant impact on the benefits achieved for these efforts.

### Case Study – Bamboo Pipeline

Bamboo Pipeline is one of the largest suppliers of plants to landscape professionals in the western United States and the largest seller of plants on-line to these professionals. Its revenues have doubled on average every two years, making it one of the fastest growing suppliers of landscape materials in the U.S. Annual revenues have increased from \$5.7 million in 2004 to \$11 million in 2006 with revenues in excess of \$15 million projected for 2007 as the company is poised for national expansion.

The business was co-founded by Matthew Fay and Mike Cornell in 2000. Day one the company had an IT infrastructure borrowed from another business owned by one of the founders, but it was what Mike Cornell, Executive Vice President described as a “blue screen” legacy system more suitable to hard goods than to the environmental horticulture industry, also known as the “Green Industry.” The system was a square peg in a round hole.

“We use two metaphors to describe our business. On the one hand we are like a Wall Street trading floor and on the other hand, we are the ‘FedEx’ of plants. While other companies are satisfied with inventory turns of eight to ten a year, ours are closer to 50. We are not brokers. We actually take ownership of the plant materials we source for landscapers, but we typically own the inventory for hours,” according to Cornell.

In order to take the company to its next level of growth, Bamboo Pipeline selected an ERP replacement system. “We went through the usual beauty contest. We looked for the typical horizontal functionality, but also a technology that allowed us to develop our own ‘Buyer’s Workbench’ to manage the trading aspect. Now it all looks the same. The user interface is quite intuitive and familiar particularly to our younger employees as it has a Windows look and feel. It was an added benefit we had not anticipated. Whereas it used to take new employees three to four weeks to come up to speed, today they are productive in two to three days.”

While the company selected a new ERP designed specifically for companies with less than 100 employees, the company anticipates their implementation growing with them. Mike Cornell said, “I have neither the money nor the patience to migrate to another system when we hire employee number 101. We intend to be on this system for a very long time.”

### Fast Facts

- √ **80%** of Best-in-Class manufacturers have standardized enterprise wide processes to support the order to cash cycle
- √ Best-in-Class make use of **28%** more modules of ERP than Laggards, **45%** more weighted average functionality and are **44%** more likely to take a completely integrated end-to-end approach to ERP implementation
- √ Best-in-Class are far more likely to use advanced technologies such as event management (**16-times** more likely) and embedded workflow management (**240%** more likely) than Laggards

## Competitive Assessment

The aggregated performance of surveyed companies determined whether they 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 ability to detect and respond to changing conditions without placing additional burdens on the organization); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (the selection of appropriate tools and intelligent deployment of those tools); and (5) **performance management** (the ability of the organization to measure the benefits of technology deployment and use the results to improve key processes further). 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: The Competitive Framework**

	Best-in-Class	Average	Laggards
<b>Process</b>	Standardized enterprise-wide procedures for order management, procurement, production planning and execution, cash collection, and financial reconciliation:		
	80%	80%	80%
<b>Organization</b>	Operations are integrated and coordinated with service, logistics, and delivery organizations:		
	62%	55%	44%
	Line of business ultimately owns the success of the implementation:		
	61%	48%	32%
<b>Knowledge</b>	Decision makers are notified in anticipation of exceptions and respond proactively:		
	52%	29%	26%
	Decision makers are notified in real time as exceptions occur and can react immediately:		
	43%	28%	23%
<b>Technology</b>	ERP usage:		
	<ul style="list-style-type: none"> <li>▪ Average of 11.4 modules implemented <sup>1</sup></li> <li>▪ 78% of available functionality deployed</li> <li>▪ 37.2% weighted average usage of ERP <sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Average of 11.4 modules implemented <sup>1</sup></li> <li>▪ 78% of available functionality deployed</li> <li>▪ 37.2% weighted average usage of ERP <sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Average of 11.4 modules implemented <sup>1</sup></li> <li>▪ 78% of available functionality deployed</li> <li>▪ 37.2% weighted average usage of ERP <sup>2</sup></li> </ul>

	Best-in-Class	Average	Laggards
<b>Performance</b>	Percentage of respondents that measure reductions in costs achieved through ERP implementation:		
	<ul style="list-style-type: none"> <li>▪ 98% inventory levels</li> <li>▪ 95% administrative costs</li> <li>▪ 93% operational costs</li> </ul>	<ul style="list-style-type: none"> <li>▪ 98% inventory levels</li> <li>▪ 95% administrative costs</li> <li>▪ 93% operational costs</li> </ul>	<ul style="list-style-type: none"> <li>▪ 98% inventory levels</li> <li>▪ 95% administrative costs</li> <li>▪ 93% operational costs</li> </ul>
	Percentage of respondents that measure schedule improvements achieved through ERP implementation:		
	<ul style="list-style-type: none"> <li>▪ 94% schedule compliance</li> <li>▪ 97% complete and on-time delivery</li> </ul>	<ul style="list-style-type: none"> <li>▪ 94% schedule compliance</li> <li>▪ 97% complete and on-time delivery</li> </ul>	<ul style="list-style-type: none"> <li>▪ 94% schedule compliance</li> <li>▪ 97% complete and on-time delivery</li> </ul>

“Implementing ERP in our core business is an opportunity to revisit our processes, but we are battling the pressure to get it up and running quickly. We need to weigh the alternatives of re-engineering our processes against the urgency of going live.”

~ Michael Dailey, Ellison Group, Manufacturer of Surface Coatings

1. The number of modules is based on a set of 24 generic ERP modules
  2. Calculated as average number of modules / 24 multiplied by the percent of functionality used
- Source: Aberdeen Group, December 2007

## 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 ERP is a mission critical component in the pursuit of corporate goals. It provides the necessary technology infrastructure and functionality required to standardize, streamline, and automate business processes, both in planning and execution as well as in the back and front office functions of order management, procurement, cash collection, and financial reconciliation.

### Process

Eighty percent (80%) of Best-in-Class SMB companies have standardized enterprise-wide procedures. This is an important step to take before automating these processes with established ERP work flows. Standardization means fewer exceptions and a cleaner implementation.

However, standardization becomes more of a challenge as companies grow. Even within the SMB range of \$0 to \$250 million in annual revenues, the percentage of companies with standardized procedures across the enterprise declined as companies reached the tipping point of \$100 million. At this point we found them more likely to have grown through merger and acquisition, thereby inheriting non-standard business processes, and in many cases inheriting ERP implementations. The average number of ERP systems implemented grew from 1.2 in companies under \$50 million to 1.6 in SMB companies over \$100 million and they were almost 20% less likely to have standardized ERP implementations world-wide.

### Organization

Two main-stays of organizational capabilities significantly affect the success of ERP implementations. The first is the destruction of functional silos in

### Aberdeen Measures ERP Usage

Our surveys quantify ERP usage by capturing which modules were used and the extent to which the functionality within those modules was utilized.

Aberdeen list 24 generic modules of ERP, spanning all functional areas within a company. Survey respondents check off those, which have been implemented, and the number of modules is divided by 24 to get a simple un-weighted measure.

Participants were then asked to estimate what percentage of the functionality available in those modules was used. This percentage was applied to our simple un-weighted average to produce a weighted average of ERP functionality used.

favor of tight integration and coordination between operations and front and back office organizations. The second is ownership of ERP. While management commitment to ERP has long been recognized as a prerequisite of successful implementations, the marriage of technology solutions to real business problems has become the new mantra. CIOs today must blend an understanding of business processes with technical expertise, but Best-in-Class companies are 45% more likely to ultimately assign ownership of the success of the ERP implementation to line of business professionals and not IT. By making those who stand to gain the most from ERP responsible for its implementation, greater business benefits are achieved.

### **Knowledge Management**

Enterprises of all shapes and sizes today are sitting on mountains of data resident in their ERP. Effective data-based decisions require the mining of huge volumes of ERP data, integrated with data from other sources. The ability to anticipate exceptions regarding quality, delivery, price or corporate performance is the ultimate goal, in order to respond proactively, possibly diverting or mitigating disaster. Where proactive measures are not possible speed is of the essence. Real-time or near real-time exception reporting, while still reactive, can mean the difference between a well aimed decision and shooting from the hip. These two approaches are not mutually exclusive.

Aberdeen observed about half of its Best-in-Class (52%) with the ability to notify decision-makers to respond proactively in anticipation of exceptions and 43% able to report exceptions in real-time in order to react immediately. While almost twice as likely as those not Best-in-Class, this still leaves almost half of our top performers lacking in this decision-making capability.

### **Technology**

While ERP can be viewed as a single technology enabler, the depth and breadth of implementations can vary dramatically. This study used Aberdeen's standard methodology of measuring ERP usage and found Best-in-Class make use of 28% more modules of ERP than Laggards, 45% more weighted average functionality and are 44% more likely to take a completely integrated end-to-end approach to ERP implementation. Clearly, the broader and deeper ERP reaches into an organization, the more business benefits can be gained. In addition, Best-in-Class SMBs are far more likely to use advanced technologies such as event management (16 times more likely) and embedded workflow management (240% more likely) than Laggards. These technologies are the key to providing improved levels of visibility and decision-making throughout the organization.

### **Performance Management**

Anecdotal evidence indicates that the success of ERP implementation is often measured in terms of cost and speed of implementation. However, Aberdeen measures the success of ERP by the business benefits brought to the organization. In order to measure this success, the business benefits must be measured. While this seems to be an intuitive and obvious need, measurement is not universal.

"We are hoping our ERP implementation will help us sustain the benefits we obtained by brute force. In order to improve delivery time to our customer we originally increased work in process inventory, although we reduced finished goods inventory. We are now working on reducing all inventory levels."

~ Manufacturing Project Manager, Mid-Size Division of a Multi-billion Dollar Industrial Equipment Manufacturer

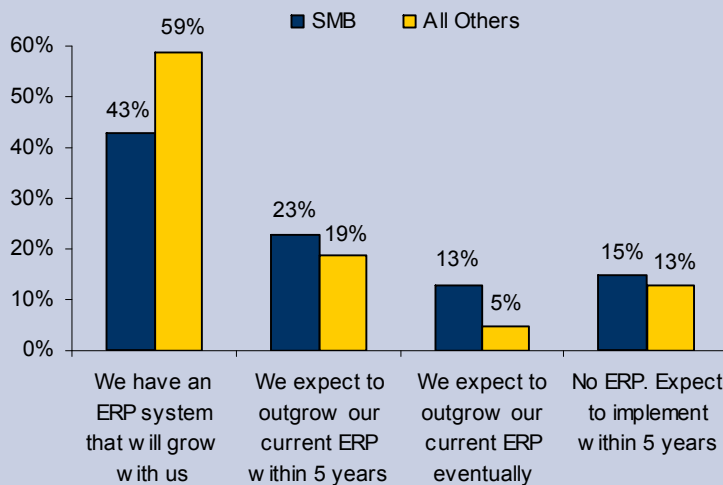
The metrics we capture are chosen carefully as those deemed necessary for any business. Whether an enterprise delivers a physical product or a service, it should strive for complete and on-time delivery. Administrative, operational, and inventory costs can and should be measured and in fact, we find 93% to 98% of our Best-in-Class measuring cost reductions and schedule improvements generated by the implementation of ERP. However, only 73% to 79% of Laggards capture these metrics.

### Aberdeen Insights - Technology

The selection of an ERP system has traditionally been viewed as a five to eight year decision. However, Aberdeen finds few ERP installations being replaced within this timeframe unless the choice of systems was limited by budget or foresight and resulted in limited functionality. The average age of ERP implementations in companies under \$50 million is just short of eight years. By the time a company reaches \$100 million in annual revenues, the average age plateaus at 10 years.

Given the maturity of ERP products today and the level of investments being made by leading solution providers, requiring your ERP solution to grow with you is not an unreasonable expectation. Yet SMB companies are 27% less likely to have implemented an ERP system they expect will grow with them than larger companies. More than a third (36%) of SMBs expect to outgrow their current ERP solution in either the short term or long term.

**Figure 5: Companies That Expect to Outgrow Their ERP**



Source: Aberdeen Group, December 2007

Planet Inc. ([www.planetshoes.com](http://www.planetshoes.com)) is an example of a company that had previously made a decision its Director of IT, Scott LaPointe described as the low cost, low risk option. "At the time we could not project our growth. We looked to minimize risk. We took the approach of purchasing the functionality we needed at the time for the lowest price. In replacing that system, this time around we made a decision for what we will need in

"We replaced our prior solution about a year ago. We were running two separate on-demand, hosted applications - one for ERP and one for e-commerce. We not only had outgrown the capabilities, we also felt we needed to take more control over the day to day operation. I now have confidence that as our business grows, our ERP solution will grow with us. This is based on product innovation by our ERP vendor as well as our ability to tailor the solution without customizations. I just upgraded two nights ago and everything works."

~ Scott LaPointe, Director of IT, Planet Inc.

## Chapter Three: Required Actions

Whether a company is trying to move its performance in ERP usage 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

- **Use ERP as a vehicle to standardize and automate business processes.** For companies yet to implement ERP, this will be an important step in providing an automated system of record from which to produce operational and financial audit trails and an enterprise wide system of record. Make sure you have the most basic functionality implemented including general ledger, accounts payable, accounts receivable, order management, purchasing, and inventory control.
- **Assign ownership of your ERP implementation to the line of business executive, who stands to gain the most benefits from implementation.** ERP implementation is a team effort, with participation from all functional departments. Often the people you can least afford to remove from their daily functions are those best qualified to lead the charge. CIOs today must blend an understanding of business processes with technical expertise, but Best-in-Class companies are 45% more likely to assign ownership of the success of the ERP implementation to line of business professionals and not IT.
- **Measure costs and schedule compliance.** Before embarking on an ERP implementation, measure all relevant costs and performance in terms of schedule compliance and complete and on-time delivery of both goods and services. This provides a base level against which improvements can be measured. If you have already implemented ERP it is never too late to begin measuring performance both periodically and as a result of milestone completion.

### Industry Average Steps to Success

- **Support all critical stakeholders' visibility into current and accurate data.** Broaden and deepen ERP's reach across your organization with additional users in order to provide visibility into financial, operational, and administrative functions.
- **Provide reporting to decision-makers to support critical business decisions.** Evaluate reporting needs of decision-makers. Ultimately decision-makers should be able to drill down from summary data, to transactions that form the fiscal and operational audit trail. Currently only 41% of Industry Average SMBs have this ability. To fill this gap, start by mapping the reporting needs against reports and inquiries currently available from your ERP deployment.

### Fast Facts

- √ Best-in-Class companies are 45% more likely to ultimately assign ownership of the success of the ERP implementation to line of business professionals and not IT
- √ 93% to 98% of the Best-in-Class measure cost reductions and schedule improvements generated by the implementation of ERP

Where these do not fully meet your real-time decision-making needs work with your ERP solution provider to more fully implement available functionality or supplement this reporting with real-time inquiries, portals or executive dashboards.

## Best-in-Class Steps to Success

- **Take advantage of workflow technologies to streamline business flows.** Only 25% of Best-in-Class SMBs currently utilize workflow technology embedded within ERP. Workflow automation is particularly effective in helping to streamline and automate business processes (particularly those which span multiple departments or divisions) and detect when exceptions occur. As the amount of data collected continues to expand, it becomes increasingly important to prioritize and present critical data on a “need-to-know” basis.
- **Deploy event management tools to triggers alerts and notify key decision-makers for proactive and responsive decision-making:** Again while Best-in-Class are significantly more likely to currently employ event management, (16-times more than Laggards) only a very small percentage (17%) have done so. As a result less than half (45%) have real time visibility into all processes from quote to cash. Visibility is a priority across more than half (51%) of our Best-in-Class. The exception management delivered by event management can play a significant role in not only providing visibility but also accelerating business processes.

“ERP is like financial leverage; when it is good, it is really good; when it is bad, it is really bad; it is highly people dependent. The gatekeepers of the data are people in order entry and purchasing. If they make a mistake, the problem appears someplace else. At the very end it will be accounting that catches the mistake.”

~ Stephen Rehnberg,  
Controller, Companion  
Systems, Manufacturer of ATM  
Enclosures

### Aberdeen Insights - Summary

ERP can play an important role in supporting growth strategies and in improving customer service and response times. Measuring ERP's impact on both is a critical success factor in reaping significant business benefits from a successful deployment. While revenue growth month over month, quarter over quarter, and year over year is a metric scrutinized by any business, it is also important to measure planned versus actual growth and indeed 85% of SMBs surveyed were able to report on this metric. It is also important to develop both near and long term growth strategies and factor these plans into any ERP decision. Look beyond immediate needs and make software selection and deployment decisions that will carry you through the next five years.

Customer service performance is less clear cut. However, the following are metrics that are easily quantified. Your ERP system should be able to report these. Percentages noted are those of SMBs that selected them as the most important customer service metrics:

- Complete and on-time delivery measured as a percentage of total customer orders (45%)
- Customer retention in terms of contract renewal or percent of repeat customers and customer (44%)
- Customer growth measured in total order/contract value year over year (36%).

Send to a Friend 

## Appendix A: Research Methodology

Between May and June 2007, Aberdeen surveyed 1,700 companies benchmarking their use of ERP. Over 1,140 of these survey respondents were from companies with annual revenues less than \$250 million. In October 2007 conducted a re-survey of these companies to determine Growth Strategies.

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

Responding enterprises included the following:

- *Job function:* The research sample included respondents with the following job functions: procurement, supply chain, or logistics manager (14%); manufacturing (13%); IT manager or staff (35%); finance (13%); business process management (10%), and other (9%).
- *Job title:* The research sample included respondents with the following job titles: C-level (26%); vice president (8%); director (13%); manager (32%); staff, consultants, and other (21%).
- *Industry:* The research sample included respondents from the following industries: aerospace and defense (13%), automotive (15%), high-tech (25%), consumer packaged goods including food and beverage (16%), process related industries (16%), and industrial equipment manufacturing (27%). Respondents were allowed to select more than one industry. Other industries represented included service related sectors, wholesale and retail.
- *Geography:* The majority of respondents (78%) were from North America. Remaining respondents were from the Asia-Pacific region (9%) and Europe, Middle East and Africa (13%).
- *Company size:* Eighteen percent (18%) of respondents were from larger SMBs (annual revenues between \$100 and \$250 million); 20% were from midsize SMBs (annual revenues between \$50 and \$100 million); and 50% of respondents were from small businesses (annual revenues of \$50 million or less).

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

### Study Focus

Responding executives completed an online survey that included questions designed to determine how integrated ERP could be used to gain the following benefits:

- √ Standardize, streamline, and automate manual processes
- √ Provide visibility to data and business process status
- √ Better control inventory and operating schedules

A follow up survey was conducted with those who completed the original survey to determine:

- √ Actual and projected growth
- √ How ERP implementations were positioned to support these growth strategies
- √ Metrics used to measure customer service

**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><b>Pressures</b> — 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><b>Actions</b> — 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><b>Capabilities</b> — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p><b>Enablers</b> — 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, December 2007

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

Source: Aberdeen Group, December 2007

**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 impactful 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, December 2007

## Appendix B: Related Aberdeen Research

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

- [\*The 2007 ERP in Manufacturing Benchmark Report\*](#), July 2007
- [\*ERP: The Last Bastion of Resistance to Software as a Service\*](#), June 2007
- [\*When Replacing ERP – Size Matters\*](#), July 2007
- [\*Taking the ERP Plunge for the First Time\*](#), July 2007
- [\*The Total Cost of ERP Ownership\*](#), August 2007
- [\*The Total Cost of ERP Ownership in Small Companies\*](#), August 2007
- [\*The Total Cost of ERP Ownership in Mid-Size Companies\*](#), August 2007
- [\*The Total Cost of ERP Ownership in Large Companies\*](#), August 2007
- [\*Two Worlds Converge: Enterprise Applications Meet the Desktop\*](#), September 2007
- [\*ERP in the Mid-Market: Serving the Needs of 1.2 Million Businesses\*](#), September 2007
- [\*The Role of Enterprise Project Management in Productivity\*](#), October 2007

Information on these and any other Aberdeen publications can be found at [www.Aberdeen.com](http://www.Aberdeen.com).

Author: Cindy Jutras, Vice President and Group Director  
[cindy.jutras@aberdeen.com](mailto:cindy.jutras@aberdeen.com)

Founded in 1988, Aberdeen Group is the technology- driven research destination of choice for the global business executive. Aberdeen Group has 400,000 research members in over 36 countries around the world that both participate in and direct the most comprehensive technology-driven value chain research in the market. Through its continued fact-based research, benchmarking, and actionable analysis, Aberdeen Group offers global business and technology executives a unique mix of actionable research, KPIs, tools, and services. This document is the result of primary research performed by Aberdeen Group. Aberdeen Group's methodologies provides for objective fact based research and represent the best analysis available at the time of publication. Unless otherwise noted, the entire contents of this publication are copyrighted by Aberdeen Group, Inc. and may not be reproduced, distributed, archived, or transmitted in any form or by any means without prior written consent by Aberdeen Group, Inc.

As a Harte-Hanks Company, Aberdeen plays a key role of putting content in context for the global direct and targeted marketing company. Aberdeen's analytical and independent view of the "customer optimization" process of Harte-Hanks (Information – Opportunity – Insight – Engagement – Interaction) extends the client value and accentuates the strategic role Harte-Hanks brings to the market. For additional information, visit Aberdeen <http://www.aberdeen.com> or call (617) 723-7890, or to learn more about Harte-Hanks, call (800) 456-9748 or go to <http://www.harte-hanks.com>