

June 2010

Think Your Organization Is Too Small for ERP? Think Again

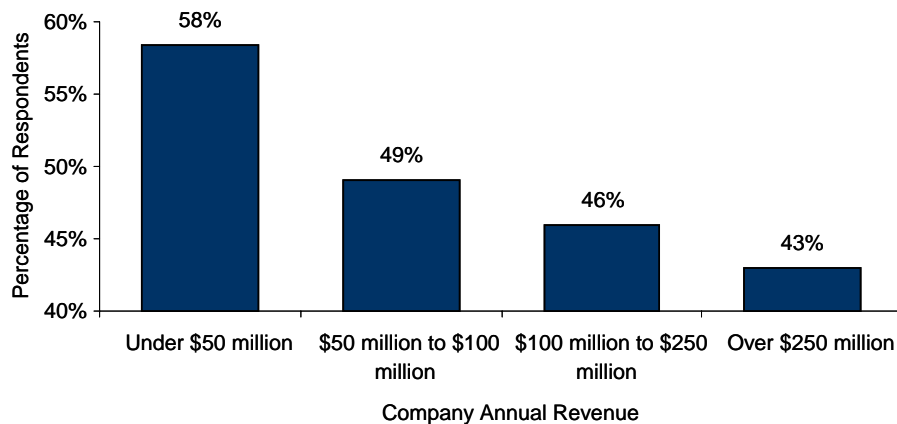
Even today the myth persists that only large businesses should consider implementing Enterprise Resource Planning (ERP). The truth of the matter paints a far different picture: Successful small businesses have been able to realize the benefits of ERP. Even the organizations with the least effective implementations outperform those without it in terms of process, organizational, and knowledge management capabilities.

Business Goals and ERP Strategies

Aberdeen recently surveyed over 1,100 small to midsize businesses (SMBs) for its quarterly Aberdeen Business Review, an in-depth analysis of the business goals, challenges, and strategies of a broad spectrum of companies of all sizes and industries. Data was collected in the fourth quarter (Q4) of 2009 and then again in the first quarter (Q1) of 2010 and focused on the impact of the economy on businesses and predictions of survey respondents for its recovery.

While much of the focus throughout 2009 was on preserving cash flow and sustaining business through the downturn in the economy, early 2010 is marked with optimism and plans for growth. Indeed, the smaller the company, the more likely revenue growth is one of the top two business goals for 2010 (Figure 1).

Figure 1: Revenue Growth is Top Goal for SMBs



Source: Aberdeen Group, April 2010

The Q4 Aberdeen Business Review survey created a baseline against which we can benchmark progress. Part of that baseline was in determining

Sector Insight

Aberdeen's Sector Insights provide strategic perspective and analysis of primary research results by industry, market segment, or geography.

Expected Revenue Growth

SMBs were optimistic about plans for revenue growth in 2010, with the following average growth projections:

- ✓ Under \$50 million: +13.0%
- ✓ \$50 million to \$100 million: +9.6%
- ✓ \$100 million to \$250 million: +7.6%
- ✓ Over \$250 million: +7.3%

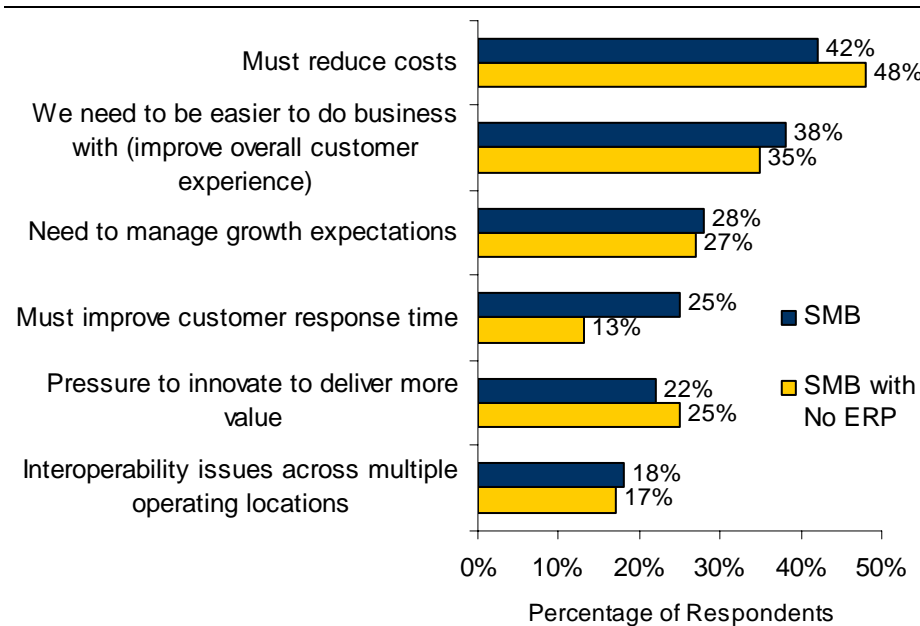
Sector Definition

The sector highlighted in this report is comprised of small to medium size businesses (SMBs). Company size is defined by annual revenues. SMBs are those companies with revenue less than \$250 million.

adoption rates of enterprise applications, including ERP. While many believe ERP implementation to be relatively pervasive throughout certain sectors, of the 783 SMBs surveyed in Q4, Aberdeen found ERP implemented in only 27%. This percentage varied significantly across different industry sectors, led by manufacturers (63%) and distributors (72%), with service providers (20%) trailing significantly.

Additional insight can be gained from Aberdeen's annual [ERP survey](#). Our fifth annual survey is currently underway and we have collected over 350 responses to date from SMBs. While we found growth a business focus for 2010, the need or desire to reduce costs was at the top of the list in terms of business drivers impacting ERP strategies, even for those yet to implement ERP (Figure 2). While ERP can indirectly support growth efforts through efficiencies, the impact of ERP on the bottom line is more direct.

Figure 2: Business Drivers Impacting ERP Strategies



Source: Aberdeen Group, June 2010

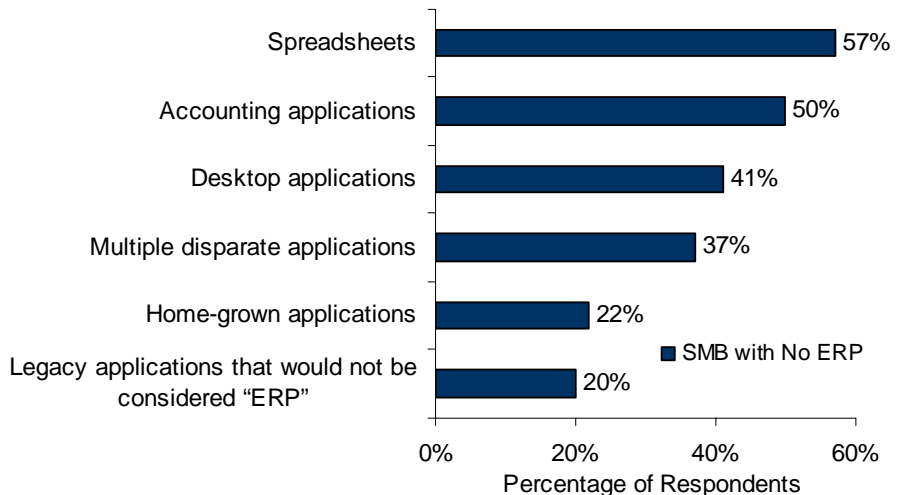
In addition to cost reduction, customer service and growth expectations have traditionally been the key business drivers behind ERP strategies and this year is no different. Properly implemented, ERP can provide the visibility needed to better service the customer, manage inventory of goods and services to respond faster to demand, and be the vehicle by which business processes can be standardized and streamlined to support growth.

If Not ERP, Then What?

Aberdeen's ERP survey obviously attracts more participation from those that have invested in ERP and are seeking to improve performance or gain additional benefits. However this year, as in years past, a certain percentage

of respondents have yet to embark on this undertaking. This year 17% of responding SMBs had yet to take the plunge. The majority of these companies (68%) were small (58% have annual revenues under \$25 million and another 10% have revenues between \$25 million and \$50 million). What do these companies use to run their businesses? Not surprisingly, the ubiquitous spreadsheet tops the list (Figure 3).

Figure 3: What do you use to run your business?*



* Participants were asked to select all that apply

Source: Aberdeen Group, June 2010

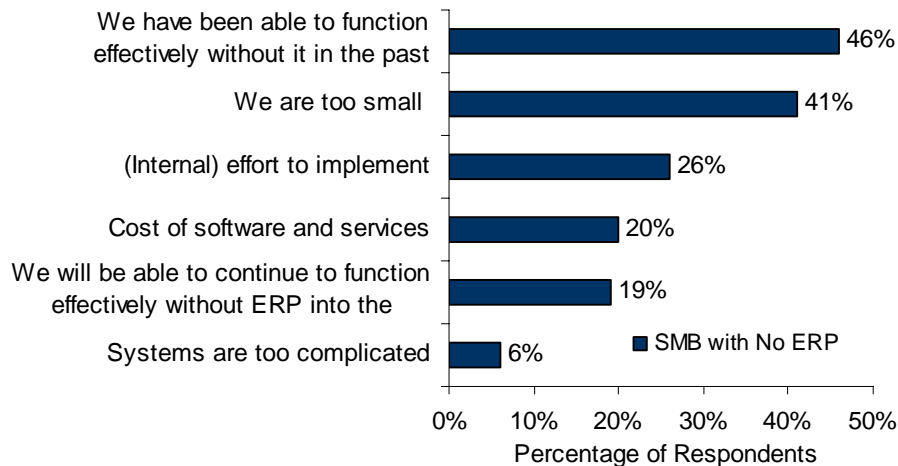
While many find spreadsheets familiar, and with familiarity comes comfort, there is a certain element of danger inherent in using them to run a business. It is virtually impossible for spreadsheets, by themselves, to offer a complete and auditable system of record. However, among the 17% of SMB, most (92%) use spreadsheets in conjunction with one or more of the other tools listed, most likely stand-alone accounting or desktop applications. While these may provide an added level of discipline, they do not provide the same efficiencies or control afforded by an integrated suite of modules comprising an ERP solution. As a result, we find integrated business applications serve as a complete and auditable system of record in only 8% of SMBs with no ERP.

Why Not ERP?

The reasons for not having invested in ERP vary, but two reasons take precedence over all others (Figure 4). Almost half of SMBs with no ERP (46%) feel that they have been able to function effectively without it in the past, although almost half (19%) doubt they will be able to continue to function effectively into the foreseeable future. At number two, 41% feel they are too small. Indeed, 92% of those that feel they are too small for ERP have annual revenue under \$25 million. Given the focus on growth in 2010 in this segment, there is the distinct possibility that these companies will

outgrow this sentiment as they outgrow desktop applications and disparate solutions residing either on the desktop or at the enterprise level.

Figure 4: Factors Preventing Implementation of ERP*

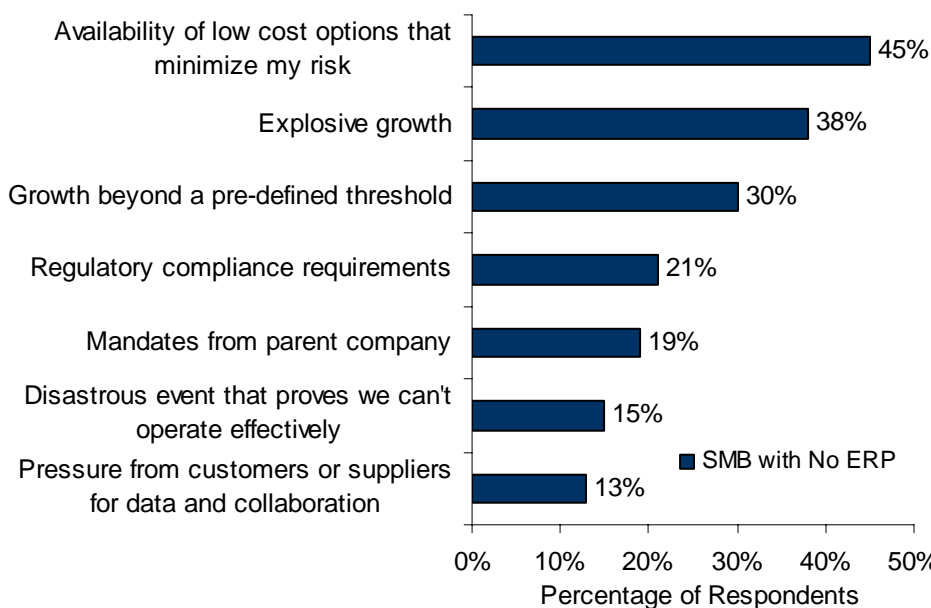


* Participants were asked to select all that apply

Source: Aberdeen Group, June 2010

Cost, complexity, and effort of implementation are also contributing factors. Therefore it is not surprising to find the availability of low cost options being one of the triggers for investing in ERP (Figure 5).

Figure 5: What Would Force You to Implement ERP?*



* Participants were asked to select all that apply

Source: Aberdeen Group, June 2010

Both explosive growth and planned growth beyond a pre-defined threshold may also be the catalyst needed to take the plunge. The optimistic growth objectives of SMBs, combined with specific programs offered by ERP solution providers to reach down market could very well result in significant activity in the coming year, leaving those who choose not to invest trailing with a significant competitive disadvantage. Indeed, Aberdeen research indicates that SMBs that have implemented ERP outperform those that have not in terms of process and organizational capabilities, as well as knowledge and data management.

Defining Best-in-Class Performance

Aberdeen defines Best-in-Class as the top 20% of aggregate performance scoring, Industry Average as the middle 50% and Laggards as the bottom 30%. For purposes here we selected several Key Performance Indicators (KPIs) that could be used to measure the performance of any company (Table 1). In addition, we also measured the business benefits derived directly from ERP implementations.

Table 1: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 17% Growth in operating margin ▪ 95% Complete and on-time shipments ▪ Average Days Sales Outstanding (DSO): 35 ▪ Average days to close a month: 2.8
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 4% Growth in operating margin ▪ 91% Complete and on-time shipments ▪ Average Days Sales Outstanding (DSO): 43 ▪ Average days to close a month: 5.5
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 2% Decline in operating margin ▪ 85% Complete and on-time shipments ▪ Average Days Sales Outstanding (DSO): 63 ▪ Average days to close a month: 8.8

Source: Aberdeen Group, June 2010

Although our Best-in-Class criteria did not require the implementation of ERP, in capturing the data presented in Table 2, we asked specifically for the cost savings or schedule improvements obtained **as a result of implementing ERP**. Indeed, our top performers demonstrated significant gains that can contribute directly to the cost justification and the subsequent Return on Investment (ROI) of ERP.

Table 2: Sample Business Benefits Derived from ERP

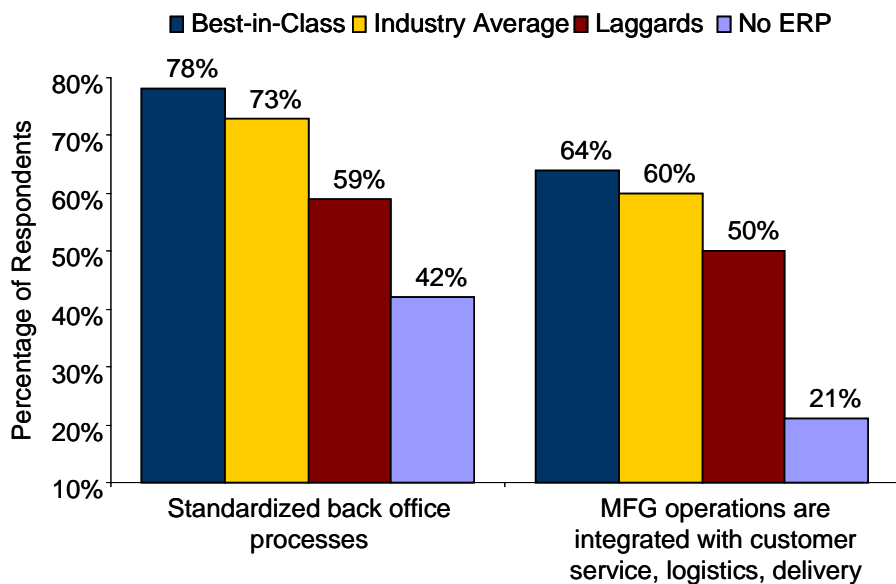
Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 21% reduction in operating costs ▪ 19% reduction in administrative costs ▪ 17% reduction in inventory* ▪ 16% improvement in schedule compliance* ▪ 17% improvement in complete & on-time delivery
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 14% reduction in operating costs ▪ 10% reduction in administrative costs ▪ 11% reduction in inventory* ▪ 14% improvement in schedule compliance* ▪ 14% improvement in complete & on-time delivery
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 9% reduction in operating costs ▪ 5% reduction in administrative costs ▪ 11% reduction in inventory* ▪ 13% improvement in schedule compliance* ▪ 7% improvement in complete & on-time delivery

Source: Aberdeen Group, June 2010

* Manufacturing and distribution companies only

Other benefits measured include process and organization capabilities. Figure 6 provides confirmation that even the Laggard SMBs outperform those who have not yet invested in ERP.

Figure 6: Process and Organizational Capabilities



Source: Aberdeen Group, June 2010

While very small companies may be able to function effectively without formalizing and standardizing back office processes, as they grow, efficiency and control suffers. Indeed, the top two strategic actions of SMBs responding to our 2010 ERP survey are to standardize as well as streamline and accelerate business processes. These two go hand-in-hand. The more standard the process, the more easily it is automated, adding speed and efficiency. Conversely, work flows and best practices associated with ERP itself can be used as a vehicle for both standardization and streamlining. Those with no ERP also appear to struggle with this capability.

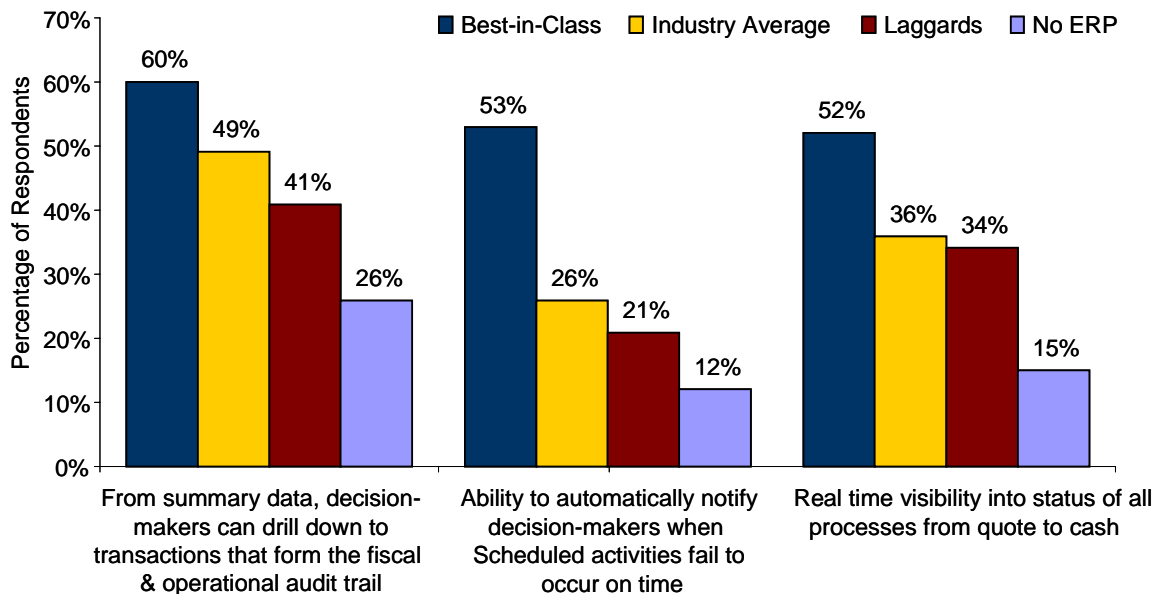
For manufacturers in particular, the coordination of disparate functional departments within the organization also has a greater impact as companies grow. While there is certainly a cultural element to this organizational capability, shared data and visibility to that data can foster both coordination and collaboration. An integrated suite of modules that provide a transactional and operational system of record for the business supports both. This is the very definition of ERP.

The level of visibility achieved by our Best-in-Class (Figure 7) is virtually impossible to reach without an element of automation provided by business applications. The better integrated these applications are, the better the visibility.

"We looked for an ERP solution that would grow with us. While we selected SAP Business One, specifically designed for companies with fewer than 100 employees, 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."

~ Mike Connell, Executive Vice President and co-founder, Bamboo Pipeline

Figure 7: Knowledge Management Capabilities



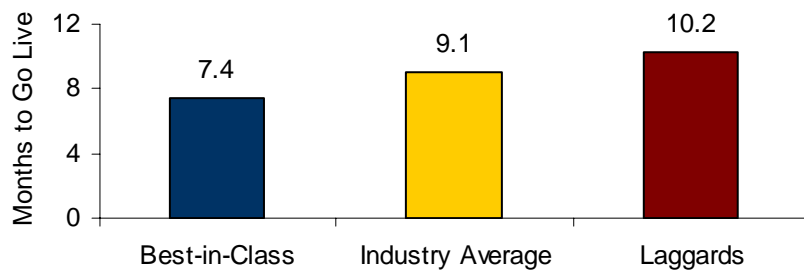
Source: Aberdeen Group, June 2010

How Long Does it Take to Achieve These Benefits?

Certainly one of the fears preventing some SMBs from investing in ERP implementation is the belief that implementation must be long and drawn out. Indeed no company should embark on an ERP implementation without

committing the appropriate resources. Aberdeen research consistently finds Best-in-Class ERP implementations not only have the up-front buy-in across departments, but also have the long term commitment of management even after the initial selection and installation. However, we find top performing ERP implementations follow a more aggressive implementation schedule (Figure 7) and indeed we have anecdotal evidence of implementations that have spanned weeks, not months and years. Allowing too much time for the ERP implementation and risking a loss of focus on the task at hand, can be just as damaging as not allowing enough time.

Figure 8: Time from Initial Installation to "Go Live"



Source: Aberdeen Group, June 2010

Case in Point

Winner of the U.S. Department of Energy 2007 and 2008 Renewable Energy Marketer of the Year award, Sterling Planet is a sustainability pioneer and innovative supplier of renewable energy, energy efficiency, and low-carbon solutions. Sterling Planet offers comprehensive carbon neutral solutions for businesses, universities, utilities and organizations of all types, bringing together supply and demand side solutions in a rapidly emerging environmental market. The company currently is developing next-generation solar and bioenergy projects to produce 'green power' and verified carbon offsets and is a U.S. Environmental Protection Agency Climate Leaders partner, committed to net zero greenhouse gas emissions from its business operations.

Since 2001, Sterling Planet has had sales of renewable energy to 2,014 business clients, 68 colleges and universities, 283 government agencies, and 137 utilities, and thousands of residential customers have avoided 48.5 billion pounds of carbon dioxide emissions, which compares to taking 4.2 million cars off the road for a year.

"As you grow, systems can become a hindrance rather than an enabler. I had the advantage of having developed and implemented software in the past," said Mel Jones, President and CEO of Sterling Planet. "I used the philosophy that we would build a solution before we needed it. Otherwise, we were growing so fast that we would have had data spread all over the place. By taking this approach we will grow into the system rather than outgrow it and we will achieve a competitive advantage over others that are not as well equipped to manage their businesses.

"We're a small company but part of the selection criteria was that we did not want to outgrow the system – we wanted a system that would grow with us. Scalability was very important. We wanted to start out today looking like the big guys. We began the project with a lot of exuberance followed by total fear. Once we got moving the fear went away.

"The biggest surprise of our implementation? We never expected to be involved with an SAP implementation. According to the myths, I am not supposed to be here.

"Among the lessons learned - plan up front and lean on SAP for best practices. We also didn't do everything in phase one. We focused on things most important to our business."

~ Eric Brown, CEO, Johnson Products

“When we began our evaluation we did not have an ERP solution. We were running our accounting on QuickBooks. It was inexpensive and provided just the basics for accounting. We want to go public and feel we would not appear credible to the investment bankers without the proper support for our business. We were way behind in terms of infrastructure.” In addition to QuickBooks for accounting, various individuals and departments were using different contact management systems for anything from individual contacts to customer contacts to supplier contacts. Each was used differently.

“We considered purchasing separate accounting and CRM solutions, but felt we would have spent too much time and money integrating them and keeping them connected. So we sought out a full enterprise solution. We considered a mid-tier package, but quickly ruled it out. It would have been OK to start but we would have eventually outgrown the system. Ultimately we looked at SAP. Our first perception was SAP software would be too expensive and out of our reach. What we found was that we simply pay by the seat (per user) and that it was far more affordable than we had envisioned. We also thought SAP software to be ‘large and complex’ but we realized that our business had become complex and we didn’t want to implement a solution only to quickly outgrow it.”

Sterling Planet implemented SAP Business All-in-One utilizing the Fast Start program for financials and CRM. They implemented the solution in six to seven weeks – not months.

What is the biggest benefit from the ERP solution? According to Jones, “[We have a] much better historical view of the customer – not just the last contact, but historically how much have they spent. What have they bought? Have they paid on time? We are growing very fast and new sales people can come up to speed much more quickly. Customer service also has a better view of the customer. This is what a complete system is for.”

Required Actions

While many believe ERP to be out of reach for SMBs, Aberdeen research shows a well-managed ERP implementation can be a continuing source of cost savings and operational improvements which help companies grow and thrive. Even small companies have been able to document the business benefits of ERP, not only in terms of quantifiable cost savings and schedule improvements, but also in terms of standardizing, streamlining, and accelerating business processes. Those without ERP are faced with limited visibility and all but a mere 8% lack integrated business applications that serve as a complete and auditable system of record.

Those companies that have postponed, delayed, or decided against taking the plunge into ERP often underperform even the worst performers of those with ERP in terms of process, organizational, and knowledge management capabilities. ERP has become much more affordable in recent years. Those concerned with long and costly implementations should look for options where best practices and standardized implementation

templates are available. When approaching an ERP implementation, set goals for the project, set aggressive but achievable timetables and, most importantly, measure the results.

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

Related Research

[*SAP ERP for SME: Not Just For the SME;*](#)
September 2009
[*SAP Business ByDesign: Alive and Well;*](#)
May 2009

[*SaaS ERP: Trends and Observations;*](#)
December 2009 Year
[*ERP 2010;*](#) May 2009

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