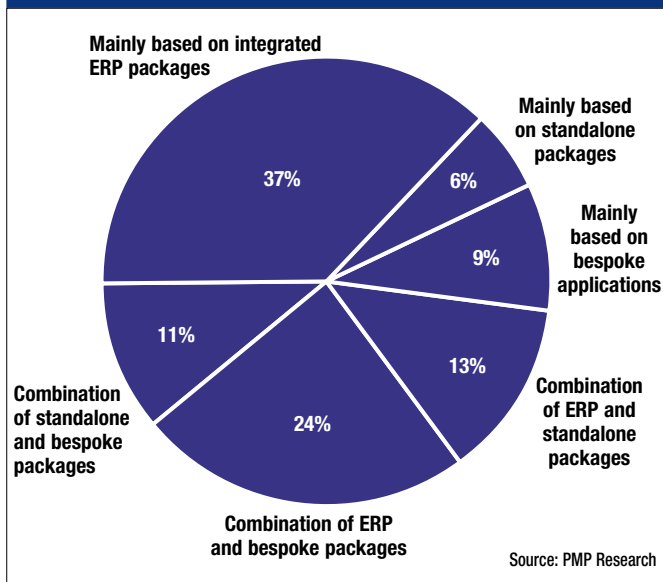


# ERP AT THE CROSSROADS

Companies are torn between pushing ahead with service oriented architecture (SOA)-based enterprise software systems and digesting what they already have. Pat Sweet digs into our latest research findings.

FIGURE 1: Current enterprise applications environment



The ERP market has been through plenty of peaks and troughs over the past couple of decades. Sales soared in the run-up to the millennium, only to slump dramatically in the immediate aftermath as organisations struggled to get the most out of their expensive investments.

The prevailing economic uncertainty has continued to dampen corporate spending in this area in recent years, but now that budgetary constraints are easing, would-be purchasers face a new dilemma. The past two years have seen a dizzying round of mergers and acquisitions throughout the sector, as ERP vendors seek to find the partners they need to complete their offerings – or risk being left on the sidelines.

The present bout of supplier consolidation is a particular issue because the majority of user organisations have settled on ERP packages as the basic foundation for their operational systems. This year's Conspectus survey, for example, reveals that more than a third (37%) of respondents have an

enterprise applications environment which is mainly based on integrated ERP packages (see Figure 1).

This compares with just 9% who rely largely on specially written applications and only 6% who have opted exclusively for standalone packages. Of the rest, most choose to mix ERP solutions with either bespoke applications (24%) or niche products (13%). The remainder have plumped for a combination of standalone and bespoke software (11%)

This reliance on ERP solutions arises from a number of different causes. Although half the sample maintain that corporate strategy (50%) or the need to improve business processes (50%) has driven their decision making, a third concede that standardisation on ERP systems is something which 'just happened' as an historical accident. For one in five (21%), the millennium/Y2K frenzy has left a legacy of ERP applications, while e-business initiatives during the early days of the dotcom boom have also had a lasting impact (24%).

The key driver behind investment in ERP solutions is the desire to improve operational effectiveness and efficiency, which is cited by a vast majority (85%). Companies are also looking to improve management information (74%) and to enhance internal integration (63%).

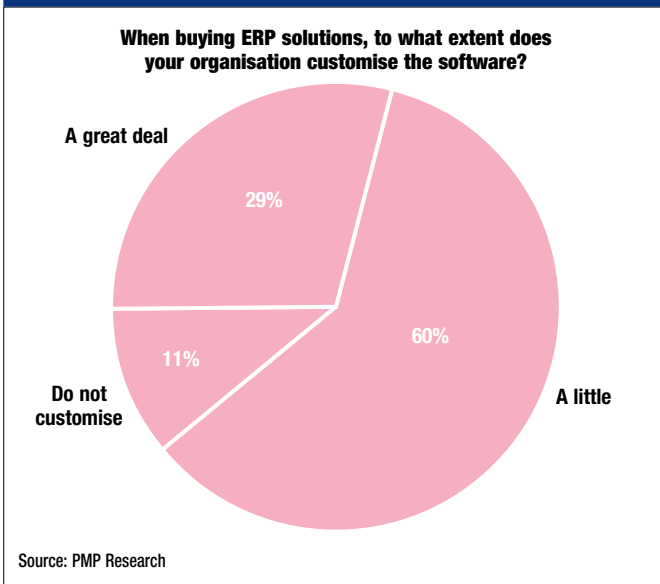
For some, the reasons are more pragmatic – half of the sample (50%) report that their legacy systems were either no longer appropriate or were not supported, so they switched to an ERP platform. A similar proportion (58%) believe that standardising

## SURVEY STATISTICS

We spoke to a broad sweep of companies for this year's ERP survey. A substantial proportion (41%) are drawn from the manufacturing sector, which is the traditional heartland of ERP solutions and has a long history of using such packages; along with the engineering industry (9%) and chemical & pharmaceutical companies (4%). But we also consulted public sector organisations (9%), retailers (6%), media companies (4%), and transport operations (2%) among others.

The respondents also represent the increased reach of ERP solutions. While 9% report turnovers in excess of £5 billion and 4% are in the £1 billion to £5 billion bracket, a quarter (23%) are in the £5 million to £10 million turnover range, and a third have a turnover of £10 million to £50 million. One in five (20%) have a turnover of between £150 million and £1 billion.

FIGURE 2: ERP software customisation



on ERP solutions will lead to improved cost savings, while one respondent picks out the elimination of the costs associated with supporting bespoke applications.

However, the survey results indicate that some organisations may be finding it difficult to achieve these goals. For a start, only 11% of the sample use the software just as it comes, straight out-of-the-box. The majority (60%) make some attempts to customise their ERP solutions; and a further third (29%) say they end up customising the software 'a great deal' in order to end up with a system which matches their needs (see Figure 2).

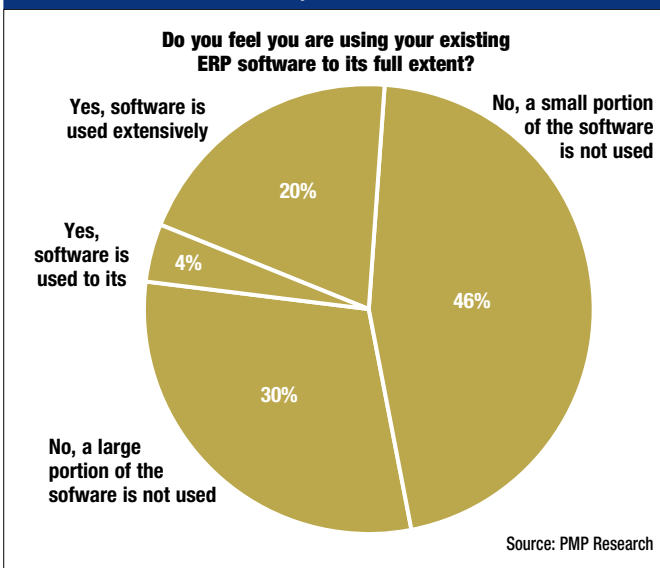
Such customisation is, of course, adding to the costs of any implementation, not only in the first instance but also subsequently because of the increased support costs of maintaining a non-standard system.

There is also evidence that customisation itself is not necessarily an easy process. A third (35%) claim that it is 'hard' for their organisation to make changes to their enterprise or ERP software in order to respond to changes in business processes or requirements, and another 11% describe this as 'very hard'.

Of the remainder, 32% reckon making changes is 'easy' and for 9% this process is 'very easy'. However, only 13% of the sample maintain that they have no need to make such alterations, suggesting that customisation is a very common feature of ERP and enterprise application implementations.

Perhaps as a result of these attempts to mould packages into a more appropriate shape for their business, most organisations (61%) feel that their enterprise applications support their business processes: that is, they first determine the process and then find the application to support it, rather than have to change their processes to match their choice of application.

FIGURE 3: Over-featured ERP systems



But the really surprising finding is that many companies are failing to exploit all the potential of their ERP solutions and admit to leaving many features and facilities untouched. As Figure 3 shows, three-quarters concede that either some of the software (46%) or a large element of it (30%) is not used at all.

Of the remaining quarter, 20% reckon the software is used extensively, but only 4% say their solution is used to its full extent. The possible ramifications of this are discussed in more detail in the Expert Opinion article on page 5; but clearly many companies are paying a high price for software which is never put to good use.

Despite this, most organisations intend to go on making investments in ERP and enterprise applications, with their money going into a variety of options. While one in five (19%) say they have no investment planned, 30% intend to buy new ERP packages, while 37% are planning to make enhancements or upgrades to existing ERP or standalone packages. Another 17% are looking to add third-party products to their existing ERP or standalone packages. The least popular choices are those that fall outside the ERP fold: only 15% of respondents are contemplating a bespoke development project over the next 12 months

and just 2% are considering buying new standalone packages.

Given this heavy reliance on ERP systems, the recent frenzied round of mergers and acquisitions in this sector is an obvious source of concern. What started some time ago as a consolidation between the traditional high-end ERP vendors – with Oracle in particular making a series of raids on its competitors – has now moved down to the mid-market range.

Here, there has been a whirl of activity in the past 12 months as scores of niche suppliers have been subsumed into much bigger groupings, several of them controlled by the major suppliers, including both Oracle and Microsoft.

Until recently, many ERP implementations were so expensive and so complex that only the largest organisations could contemplate taking the plunge. But as the multinational and large corporate market started to saturate, so the vendors began to produce 'lite' versions of their packages, aimed at smaller operations.

At the same time, those smaller companies started to think globally. Even quite a tiny UK enterprise which designs locally, for instance, can be linked to a manufacturing resource in the Far East and distribute worldwide. As such companies reach beyond the traditional geographical boundaries, so they are more ready to consider a global supplier rather than a local specialist.

This offers good opportunities for the long-standing ERP suppliers. However, they may well lack the kind of specialist enterprise application which such operations seek. This is another powerful reason why the largest vendors are trying to snap up the niche specialists, so that they can offer depth as well as breadth of coverage.

In the longer term, these changes are likely to benefit would-be ERP customers. But in the short term there are obvious concerns about backing a solution which is then merged into another supplier's portfolio, since this raises questions about future support and product viability.

Nevertheless, this year's survey strongly suggests that most companies are weathering the storm. Three-quarters (73%) report that recent market upheavals have had no effects on their ERP plans (see Figure 4). Of the remainder, 11% say they have some worries about the issues, while 7% propose delaying any investments until the situation is clearer, with the same proportion (7%) looking to choose vendors who are not involved in merger and acquisition activities.

A bigger concern is money, with 60% citing cost constraints as the biggest threat to any current ERP initiative. This far outweighs any concerns about the technical difficulties of working with vendors or third parties (8%) or the problems of mapping business processes onto applications (23%).

FIGURE 4: Market consolidation

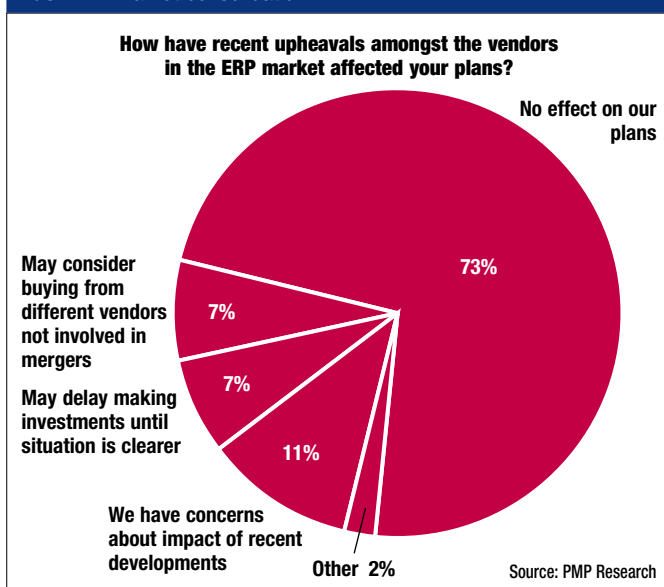


FIGURE 5: Return on investment

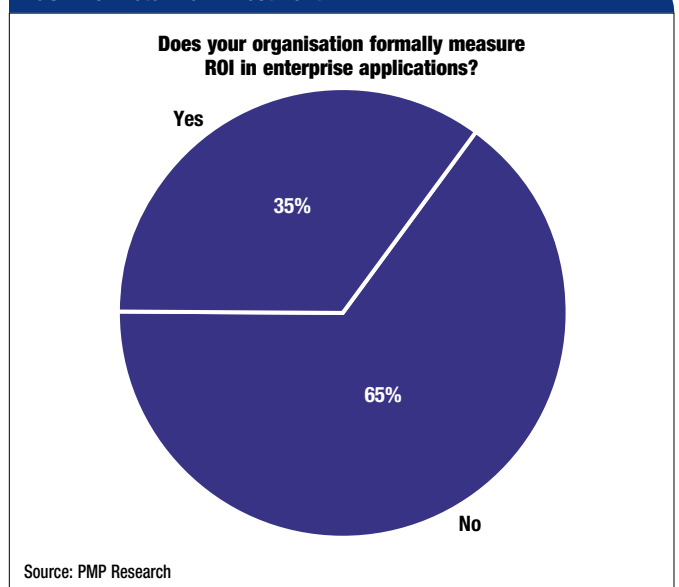
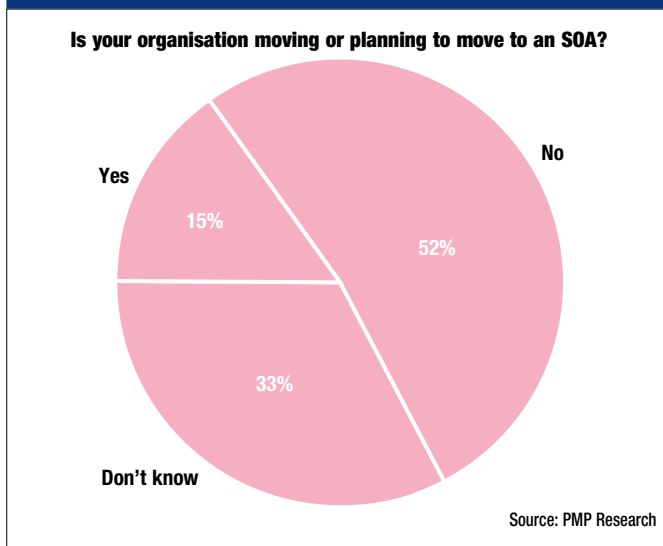


FIGURE 6: Service oriented architecture



While 60% have not changed their IT investment plans for the coming year, 18% report a reduction in their IT budget and 13% have reallocated money between projects. Just 4% have seen their budgets increase.

Yet despite the fact that money is tight, and therefore needs to be well spent, the majority (65%) do not formally measure ROI from enterprise applications (see Figure 5, previous page). Of those who do, the sample are evenly divided between companies who only use financial metrics (42%) and those who adopt other forms of measurement (47%). These other metrics can include a range of 'soft' targets, such as improved customer satisfaction, higher-quality products, better business intelligence and improved decision making.

Interestingly, and perhaps as a reflection of this, only a very small proportion now feel that enterprise systems are

delivering an 'information overload' which swamps managers with details and makes it hard for them to pick out the bigger picture (7%).

In contrast, 31% now offer targeted information which can be personalised for specific functions or managers, and the majority (59%) reckon that the right information is generally available, provided managers have the ability to identify those elements that are relevant. This improved flexibility is warmly welcomed by most organisations, with three-quarters (76%) believing their organisation's enterprise software needs to become more 'agile' in the future.

One way to do this is to adopt a services oriented architecture (SOA) which offers a way of transcending traditional application boundaries by creating a series of services which can be used whenever they are needed. However, only 22% of the sample are convinced that such an approach would create a more agile organisation, compared to 50% who just do not know. An even smaller proportion (15%) plan to move to an SOA, with half (52%) ruling out such an option and 33% unsure (see Figure 6).

Indeed, when asked which areas of functionality they plan to invest in, 30% opt for additional ERP modules while only 6% mention moving to a more services-based approach. This is despite the fact that 45% plan to implement more B2B e-business applications, where an SOA approach can make integration a much easier task.

This may explain why companies have a mixed view as to how useful their current enterprise systems are to the business. While half (53%) feel that such systems are an enabler of business change, 39% see them as a barrier to change.

This sense of companies being in two minds is evident throughout this year's survey, and suggests many organisations are at a crossroads with their ERP implementations. Having failed to get as much as they hoped out of their initial purchases, they are continuing to invest in order to improve performance and, most especially, to improve their efficiency and effectiveness.

Yet just as they start to get on top of the ERP mountain, another peak is in sight. For many organisations, SOA will become the route to follow. But the majority are clearly daunted by the path ahead and few have taken more than a few steps along this road, even though this is surely the way to go.

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