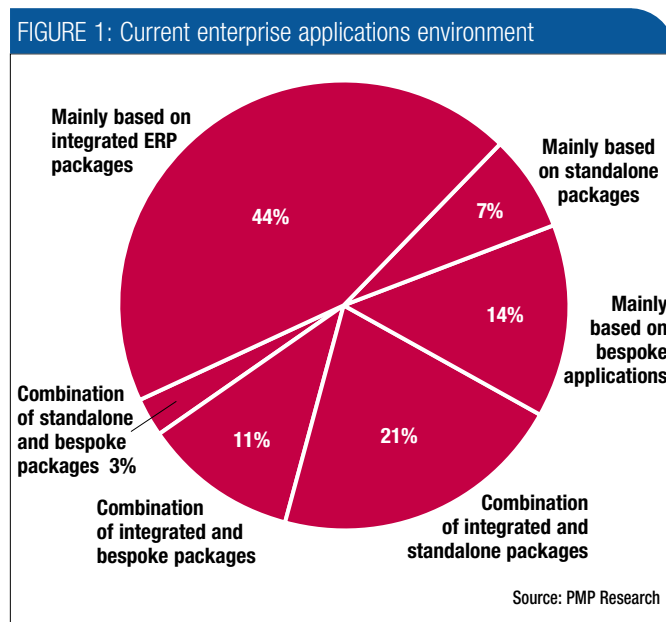


GLORY DAYS

Pummelled after the Y2K furore, ERP solutions are now back in business. Pat Sweet reports on our latest research.

ERP solutions had their moment of glory back in the lead-up to the millennium, when companies were worried their old systems would not be able to keep up with new requirements and made the switch to an integrated suite of modules. Since then, many ERP systems have lived a life in the shadows as organisations struggle to get their laborious – and expensive – enterprise-wide implementations to work as they wished. But now ERP systems are back in the spotlight, as vendors bring out additional modules to tackle niche requirements for veteran users and provide ‘lite’ versions for smaller organisations who choked on the cost and complexity of the original offerings.



Recent analyst reports suggest software sales are increasing, albeit not at the giddy rates common at the end of the last century, and ERP applications are once more centre-stage. This year’s PMP survey confirms that companies of all shapes and sizes are more likely to build an enterprise strategy based around an ERP core rather than any other option.

Getting on for half (44%) of our sample say their current enterprise applications environment is mainly based on integrated ERP packages (see Figure 1). A further 21% supplement this by using a combination of ERP application and standalone choices, while another 11% mix ERP and bespoke packages. In contrast, only 14% reckon to exclude ERP solutions completely in favour of bespoke enterprise applications, and only half that proportion (7%) trust their enterprise environment to standalone packages.

This enthusiasm for ERP systems is now only very loosely connected to the scramble that took place at the end of the 20th century when companies sought to revise their key operational systems so they were millennium compliant. Just 9% of respondents reckon that the Y2K issue had any influence on their current enterprise applications environment. Individual responses highlight several typical reasons for plumping for an integrated suite, including the desire to have one source of data, the cost of continuing with legacy mainframe applications and the difficulties of maintaining customised systems.

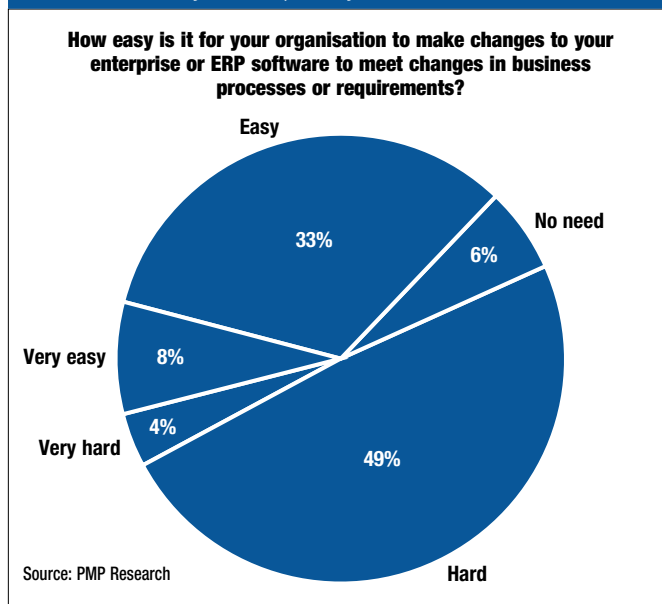
But while these traditional arguments in favour of an ERP solution still hold some sway, there is evidence of a change in thinking about enterprise systems, with 57% of respondents citing the need to improve business processes as the main factor shaping the way they built their core applications. Organisations are also more likely to be thinking strategically about their technology decisions (51%), rather than simply ‘going with the flow’ (32%). As a sign of this, switching to online working is viewed as much less significant than was the case previously, with only one in five (21%) stressing the requirement to develop e-business initiatives (21%).

Above all else, the companies who took part in our survey want to streamline business processes so that they offer a seamless interaction between users, customers and partners and the organisation’s core applications.

Weak delivery

However, while the organisational spirit may be willing to do this, the enterprise or ERP solution may be weak at delivering exactly what is required. For a start, few seem able to install enterprise or ERP packages straight out-of-the-box, while the majority of companies customise the software either ‘a great deal’ (29%) or ‘a little’ (59%).

FIGURE 2: Flexibility of enterprise systems environment



Just 12% install any enterprise solution as it comes.

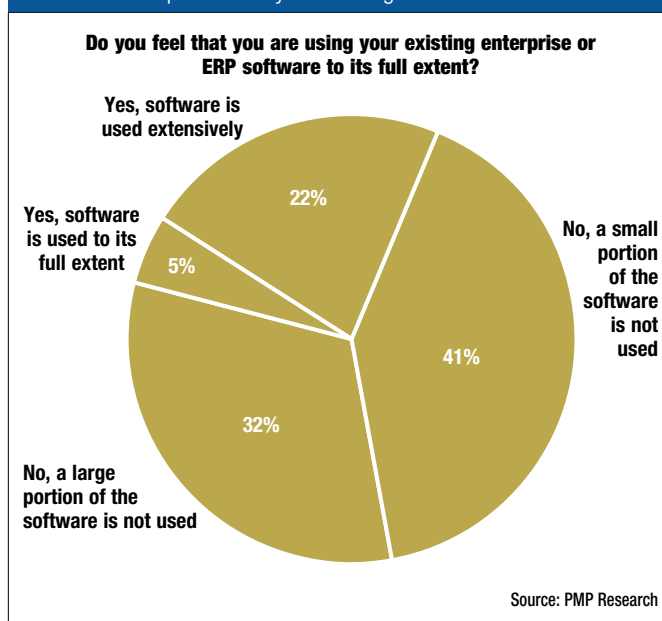
Moreover, once installed, over half the sample find it either 'hard' (49%) or 'very hard' (4%) to make changes to enterprise or ERP software in order to meet any changes in business processes or requirements (see Figure 2). Against this, a third (33%) feel that making any necessary changes is 'easy' and a fortunate 8% describe it as 'very easy'. Significantly, only 6% claim never to need to make such alterations.

One of the more surprising findings in this area is that despite the high cost of enterprise software and the lengths to which organisations must go to ensure a successful implementation, many features and facilities go untouched. Just 5% of our sample are using their enterprise or ERP software to its full extent, with another 22% estimating that they make extensive use of all features and facilities (see Figure 3).

In contrast, a third (32%) concede that large portions of their enterprise software are not used at all, while 41% admit that a small portion of the software's functionality is not deployed.

It is no doubt the difficulty of getting enterprise software to do what is required that prompted one respondent to comment: "I would rather use a Biro and paper than put any further investment into this bottomless pit." Fortunately for vendors, such views are well in the minority. Although one in five (20%) have no plans for any investment in new enterprise applications over the coming 12 months, the remainder expect to be opening the corporate purse.

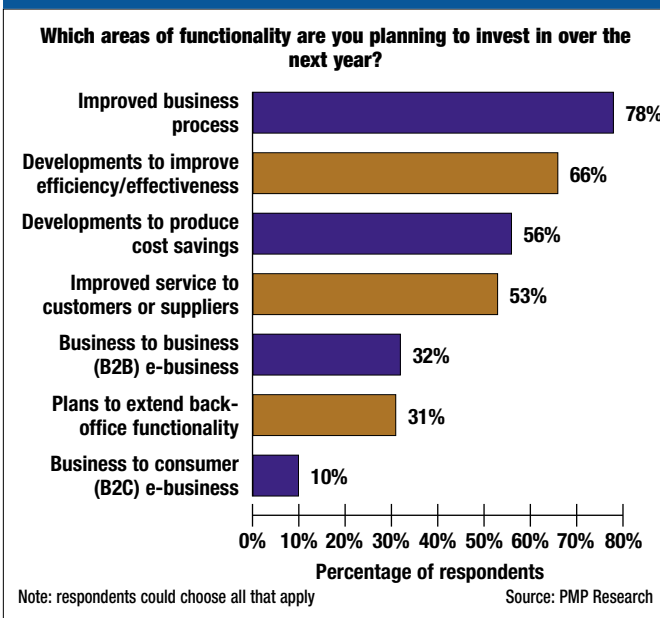
FIGURE 3: Enterprise/ERP systems usage



When it comes to buying new packages, ERP solutions are the firm favourite, with 19% saying they would put investment in this area rather than funding bespoke development work (6%) or standalone packages (2%). But in the light of the problems many have in utilising their existing systems to the maximum, the most popular option is to spend money enhancing or updating existing ERP or standalone packages (41%). In addition, a few (5%) are looking to buy third-party add-ons for their current systems.

Once again, it is the challenge of improving business processes which dominates when companies start to plan any future investment. As Figure 4 (next page) shows, over three-quarters (78%) cite this as the area they will be putting money into, along with initiatives to improve efficiency and effectiveness (66%). In contrast, the sorts of developments which attracted substantial funding just a few years back are now well down the list – whereas a third (32%) say they will be investing in business to business (B2B) developments, just 10% intend to plough any money into business to consumer (B2C) projects.

FIGURE 4: Future investment

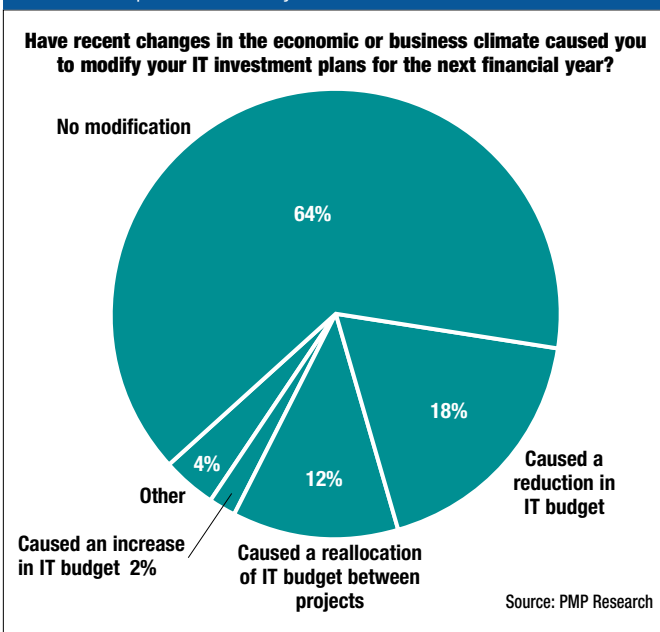


The recent upheavals amongst the main players in the enterprise applications market, such as Oracle's bids for PeopleSoft and Siebel, have done very little to dent companies' enthusiasm for buying enterprise applications – though it has meant, as one respondent observed, "the potential shortlist is getting shorter" as a result of such manoeuvrings.

Three-quarters of respondents (74%) say the current round of mergers and acquisitions will have no effect on their plans, and although 14% admit to concerns about the impact of recent developments, only 6% may go on to consider buying from different vendors not involved in takeover activities. Only 3% say their worries are sufficient for them to consider delaying making an investment until the situation is clearer.

Overall, companies' future plans have been more severely tested by the continuing uncertainty in the economic and business climate. Although two-thirds (64%) reckon they will be carrying on as anticipated, 18% have been forced to trim their IT budget and 12% have seen a reallocation of IT budget between projects (see Figure 5). For just a lucky 2% has there been an adjustment upwards in planned spending.

FIGURE 5: Impact of economy on investment



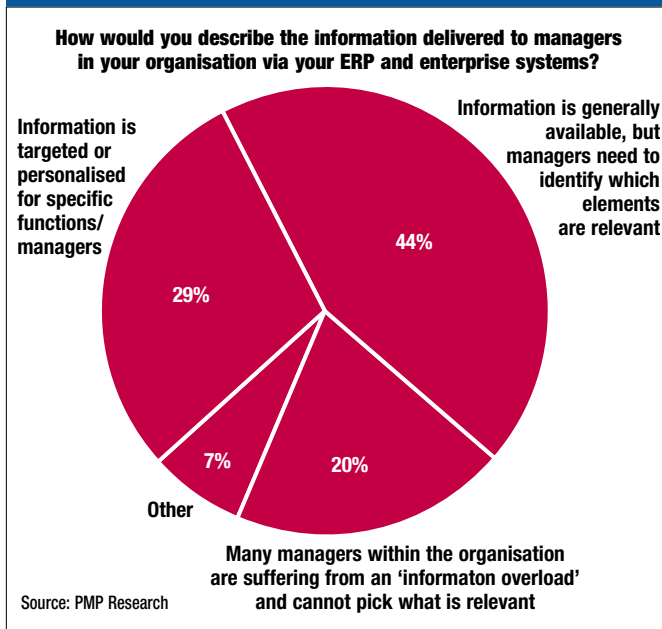
Surprisingly, given the difficulty many face in prising money out of corporate coffers without a convincing business case, organisations are evenly split over the question of formally measuring the ROI from enterprise applications. While 43% do so, the larger proportion (55%) do not, with the remaining 2% unsure of their position. Of those who do calculate ROI, 45% claim their approach has become more rigorous during the past 12 months, while 3% say their organisation expects ROI to be delivered in a shorter timeframe than before.

As to who is responsible for developing those enterprise or ERP initiatives that do attract funding, in most cases the answer is the company's own staff

(61%), sometimes with the help of third-party consultants (17%). For additional support, organisations are more likely to opt for help and resources from the software vendor (12%) rather than from freelance contractors (2%). And in a couple of cases, respondents will be using offshore or outsourcing partners. However, there are signs that these plans may come under strain over the next few months. When asked to assess the most serious threats to the success of any enterprise software initiative, the majority (50%) plumped for problems getting hold of the right skills. That shortage may drive them to consider bringing in more external resource.

Getting the functional specification right is another major hurdle (44%), as are problems in mapping business processes onto applications (39%), and the inevitable twin bugbears of cost constraints on the one hand (38%) and keeping user outcomes and expectations in line with each other on the other hand (32%).

FIGURE 6: Information quality



One of the main expectations is that enterprise systems will be delivering up-to-the-minute information so that managers can make decisions about the direction the business should take. Yet, as one respondent points out, many “are not sufficiently IT literate to make informed choices as to the information required”, while a second believes that “managers are unaware of potentially available information”. In response to this, organisations have been trying to refine the data on offer, with 29% of the sample claiming that information is now targeted or personalised for specific functions or managers (see Figure 6).

However, it is still the case that the biggest proportion (44%) accept that managers themselves will have to work out what is relevant and what is not, while one in five (20%) admit that many managers within their organisation are suffering from an ‘information overload’. Picking through all the reports and output to identify the real nuggets of gold from the dross is

becoming harder and harder for a significant proportion of respondents. Yet finding that brilliant insight, or the best way to interact with a particular customer, is the goal for most companies. In this respect, ERP software is part of the solution and also another twist to the problem.

With ERP software now a dominant force in enterprise applications, and with fewer vendors to choose from, how can a company improve its processes and stand out from the crowd if all implementations use the same base? The answer is to look at developing an enterprise services architecture (ESA) approach. This is not so much a product as a way of life, for those companies who want to use technology to create genuine differentiation in the way they work. As this year’s survey outlines, most are only on the bottom rung of the ESA ladder; there is a long way to go, but some are preparing to scale the heights.

● *Pat Sweet is the research analyst on Conspectus. If you are interested in this study, please contact Cliff Mills at PMP Research. Email: cliffm@pmpresearch.co.uk.*

● *If you would like more information about this article or any of the products or companies mentioned in the article, please contact us at info@evaluationcentre.com.*

SURVEY STATISTICS

We spoke to a broad sweep of companies for this year’s survey into ERP market trends. Getting on for a third (32%) of our sample are from the manufacturing industry, which is the traditional heartland of ERP implementations. The engineering sector (9%) and the chemical & pharmaceutical industries (6%) are also represented. But ERP packages have a much wider appeal these days, as new modules have been added to the original manufacturing and operational planning core. Our respondents include public sector organisations (7%), whose complex online requirements sometimes demand an ERP-style backbone, and companies in sectors as varied as retail (5%), distribution & logistics (3%), energy & utilities (3%) and education (3%).

While ERP solutions have usually been the preserve of the multinational or large conglomerate, many vendors are now offering cut-down versions of their software aimed at the medium-sized and even small enterprise. Accordingly, our survey covers a wide spread of company sizes. At the top end, one in five exceed the £1 billion turnover mark, with 11% recording a turnover of between £1 billion and £5 billion, and 9% reporting a turnover of more than £5 billion. The majority (29%) fall into the £150 million to £1 billion bracket, but further down the scale 20% are in the £10 million to £50 million range and 13% post annual turnovers of between £5 million and £10 million.