ERP in SME 2011

Setting the Stage for Growth

September 2011

Nick Castellina

Aberdeen *Group*
A Harte-Hanks Company

Executive Summary

While Enterprise Resource Planning (ERP) was once looked upon as a business solution that was only for large enterprises, Aberdeen's recent research has found that this in no longer the case. In a survey conducted between May and August 2011 with over 300 respondents in Small and Medium-sized Enterprises (SMEs), or organizations with less than $500 million in annual revenue, it was found that 77% of SMEs have already implemented an ERP solution. Indeed, for those SMEs that have not yet implemented ERP, the top reason that would justify the investment is explosive growth (46%). Additional reasons include regulatory compliance requirements (39%) and the availability of low cost options (39%). As the economy starts to recover, businesses are anticipating a period of growth. The potential to become a larger organization looms and SMEs have realized lower-cost ERP solutions are becoming an option that will help them realize their full potential. For the fourth year in a row, Aberdeen turns its eyes towards the tangible performance enhancements that SMEs are achieving through ERP deployment, as well as the capabilities that are having a major effect on the way that these organizations perform in relation to their larger peers.

Best-in-Class Performance

Aberdeen used the following four key performance criteria to distinguish Best-in-Class companies:

- Average 2.69 days to close a month (including financial statements)
- Average of 33.11 Days Sales Outstanding (DSO)
- 96% complete and on-time delivery of products and services
- 21% growth in operating profit margins over the past two years

Competitive Maturity Assessment

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

- 93% more likely than all others to provide decision makers with automatic alerts when certain defined conditions occur
- 2.61 times as likely as all others to provide a fully integrated view of all customer information to sales and marketing employees

Required Actions

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

- Provide decision makers with information as it becomes available
- Standardize procedures, ERP strategy, and ERP selection criteria

How Does Your Performance Compare to the Best-in-Class?

- Compare your processes
- Receive a free, personal PDF scorecard
- Benefit from custom recommendations to improve your performance, based on the research

Take the Assessment

Receive Your Free Scorecard

Aberdeen *Group*
A Harte-Hanks Company

Table of Contents

Figures

Tables

Aberdeen *Group*
A Harte-Hanks Company

Chapter One:
Benchmarking the Best-in-Class

In the wake of economic uncertainty, Aberdeen's *Q1 2011 Business Review* found that many businesses are opening up their wallets and increasing spending. This is especially true in the case of SMEs when compared to larger organizations. SMEs are anticipating growth in 2011 in revenue, operating profits, headcount, overall budget, IT budgets, and marketing budgets (Figure 1). This increased spending will lead to a larger, more complicated, and often, more distributed organization. In these situations, it becomes easier for an organization to lose sight of its goals. It also can lead an organization losing track of what is really going on in day to day operations. There are opportunities for growth that SMEs may be missing without the visibility that ERP provides. Part of managing this growth is evidenced in the fact that, on average, SMEs are increasing their IT budgets by 6%. While implementing an ERP solution has in the past been seen as a significant investment, this is no longer always the case. Solutions aimed at smaller organizations, and more cost effective options such as Software as a Service (SaaS) have made the benefits of an ERP solution available to growing businesses of all sizes. An ERP solution will help SMEs manage the greater cash flow, track increased spending, and stay effectively organized as they grow. The stability that ERP provides is helping Best-in-Class SMEs to better prepare for growth.
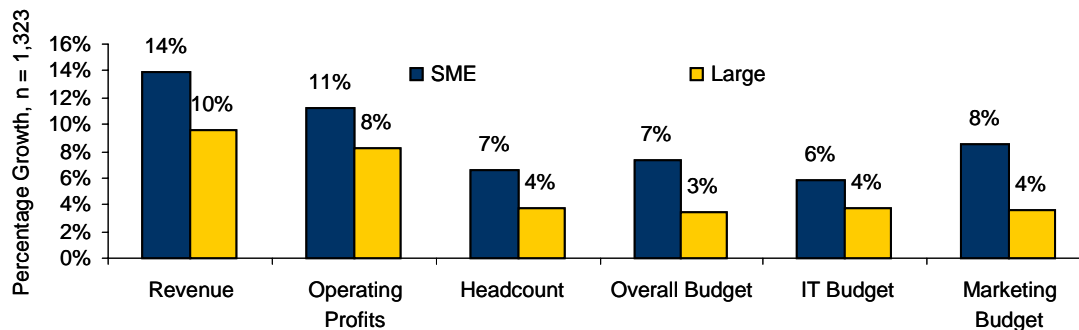
Figure 1: Anticipated Growth Rates for 2011

Source: Aberdeen Group, *Q1 2011 Business Review,* June 2011

The top goals that SMEs are setting differ significantly from the goals of larger organizations (Figure 2). Improving business execution, a major benefit of ERP, remains the top goal for organizations of all sizes, however, other goals become more important for SMEs. Thirty-eight percent (38%) of SMEs have chosen improving brand visibility and perception as a top goal for 2011. Improving this visibility and perception involves reaching more customers with increased outreach and production. ERP allows organizations to better track current customers (to better focus on servicing and growing them) and measure marketing influence to make adjustments. By improving visibility of the brand and customer service, SMEs are striving towards future profits. Additionally, SMEs are developing

---

Fast Facts

√ The Best-in-Class are 103% more likely than all others to be able to automatically generate emails from enterprise applications

√ The Best-in-Class are 129% more likely than all others to be able to import data securely, using logic and editing, into ERP from spreadsheets

Company Size Definition

This benchmark report highlights the performance and capabilities of companies with annual revenues under $500 million, referred to as Small to Medium-size Enterprises (SMEs). Other larger companies referenced are those with revenues over $500 million.

Aberdeen *Group*
A Harte-Hanks Company

strategic partnerships in order to assist in their growth. ERP allows SMEs to keep track of these partnerships and collaborate effectively. A properly implemented ERP strategy allows SMEs to run as the smaller company they are, while competing on the same stage as the larger ones. The goals of SMEs are tightly aligned with the uses for, and benefits of ERP, which helps them to grow and face new challenges.

Figure 2: "Top Two" Goals for 2011
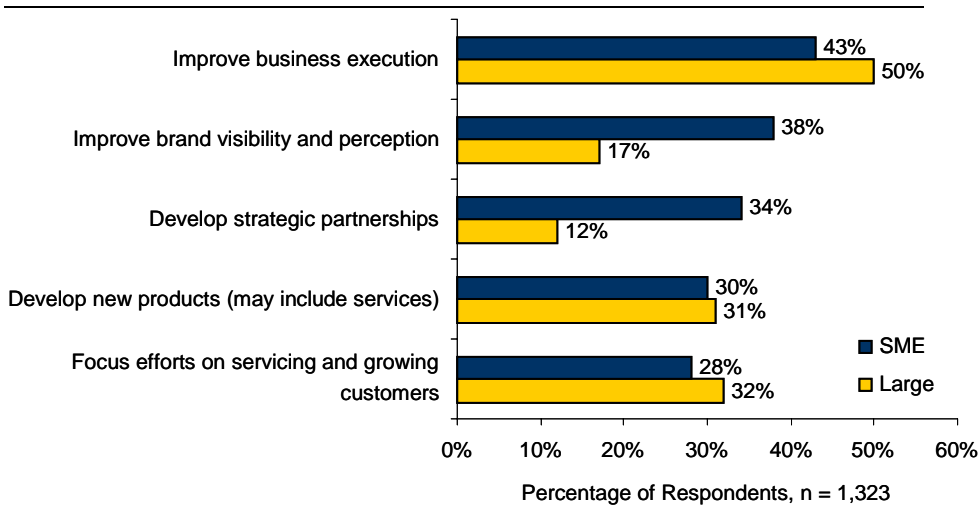
Source: Aberdeen Group, *Q1 2011 Business Review,* June 2011

SMEs rank their challenges differently from larger enterprises, according to our study of over 300 respondents conducted in May through August 2011. Economic conditions will always be the top goal, but SMEs are more challenged by things such as a lack of brand equity. While markets are less volatile than they have been in recent years, it is still a top five challenge. Other top challenges that SMEs are facing include increased competition, the ability to execute strategy, improving employee engagement, and rising operational costs. As will be seen in this report, ERP can help the SME effectively deal with these challenges. ERP can help a company assess demand, react to changes more quickly, provide accurate and consistent data, and engage customers and employees.

"ERP has allowed us to achieve 100% accuracy in everything that we do."

~ Garrett Grunewald, CFO, LightRiver Technologies

Table 1: Challenges in 2011 (Ranks 1-5, with 1 as the least)

Business Challenge	SME	Large
Economic conditions	3.16	3.21
Lack of brand equity / awareness	3.04	2.22
Increased competition	2.99	3.09
Ability to execute strategy	2.92	3.11
Market volatility	2.89	2.95
Improving employee engagement	2.63	2.98
Rising operational costs	2.63	2.98

Source: Aberdeen Group, August 2011

Aberdeen *Group*
A Harte-Hanks Company

Business Drivers Impacting ERP Strategies

Aberdeen's research has shown that top performing SMEs understand that the best way to lay the groundwork for future growth is to make a commitment to a standardized ERP implementation. SMEs are doing this in the face of several of the following top pressures (Figure 3).

Figure 3: Top Business Drivers Impacting ERP Strategies

Percentage of Respondents, n = 304

Source: Aberdeen Group, August 2011

Forty percent (40%) of SMEs chose the need to manage growth expectations as a leading business driver impacting their ERP strategy. ERP is a source of cost savings (the second leading pressure) and operational improvements. These improvements help smaller organizations operate on the same stage as larger organizations. As SMEs grow, they often add additional operating locations. ERP allows these organizations to communicate effectively and gives business leaders visibility into the day-to-day operations of these geographically distributed locations.

In order for an organization to grow, it needs to go face to face with its competition and establish itself as an industry leader among its target markets. One way to do this is to improve its standings among customers. SMEs are feeling the pressure to become easier to do business with and improve the overall customer experience. ERP helps SMEs run their organizations more tightly in order to provide their customers with timely information and effective customer service. Effective ERP can also lead to improved customer response times. Seventy-seven percent (77%) of customers of Best-in-Class companies report "better than average" customer satisfaction. An ERP implementation can have a huge effect on the way that SMEs are able to service their customers. Additionally, becoming easier to do business with includes saving on the cost and effort of doing business together. ERP assists in self-service for customers saving the company on those costs. Order tracking and service scheduling become streamlined. These operational efficiencies impact both the organizations standing with customers and its ability to cut costs.

"Information flow has increased as well as the ability to mine data for spend analysis and budget forecasting."

~ Don Miller, Director, Dutchess

Aberdeen *Group*
A Harte-Hanks Company

ERP helps to streamline processes, reduce costs, and improve response time. It helps to give visibility into business processes, helping to manage growth and communication across multiple locations. While implementing an ERP solution is important, Best-in-Class companies are careful to align their software with a comprehensive ERP strategy, whether it is a multi-tiered ERP strategy or based on one corporate standard. As SMEs fight to improve their visibility and standing within their individual industries, ERP is the tool that guides their business.

The Maturity Class Framework

Aberdeen used four key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations. In this study, the Best-in-Class refers to a top performing ERP implementation and therefore only those SMEs with ERP are included in the three maturity classes. These Key Performance Indicators (KPIs) are metrics that are multi-dimensional and common across industries meaning they reflect both effectiveness and efficiency in both back-office and customer facing metrics, as well as the organization's financial health over the past two years.

Table 2: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	▪ 2.69 Days to close a month ▪ 33.11 Days Sales Outstanding (DSO) ▪ 96% Complete and on-time delivery ▪ 21% Growth in operating margins over past two years
Industry Average: Middle 50% of aggregate performance scorers	▪ 5.18 Days to close a month ▪ 44.19 DSO ▪ 88% Complete and on-time delivery ▪ 11% Growth in operating margins over past two years
Laggard: Bottom 30% of aggregate performance scorers	▪ 8.5 Days to close a month ▪ 66.57 DSO ▪ 79% Complete and on-time delivery ▪ No growth in operating margins over past two years

Source: Aberdeen Group, August 2011

The Best-in-Class PACE Model

The key benefits of a successful ERP implementation from the perspective of SMEs are:

- Lower administrative and operational costs
- Improve on-time delivery

- Increase the speed of decision making

- Increased customer satisfaction as well as new sales pipeline

- Gain better knowledge of the day to day operations of the business and encourage collaboration

In order to achieve these benefits, Best-in-Class companies blend a combination of strategic actions, organizational capabilities, and enabling technologies to:

- Streamline and accelerate processes to improve efficiency and productivity

- Standardize business processes in the face of rapid growth

- Provide visibility into business processes across units in order to maintain consistency

- Optimize the use of current capacity

Table 3: The Best-in-Class PACE Framework

Pressures	Actions	Capabilities	Enablers
▪ Need to manage growth expectations	▪ Standardize business processes ▪ Streamline and accelerate processes to improve efficiency and productivity	▪ Standardized enterprise-wide procedures for procurement, cash collection, and financial reconciliation ▪ Real time visibility into status of all processes from quote to cash ▪ Ability to do demand planning and forecasting ▪ Active participation in ERP vendor's users group ▪ A fully integrated view of all customer information available to any sales and marketing person	▪ Integrated ERP modules: General Ledger, Accounts Payable, Accounts Receivable, Fixed Asset Management, MRP, Shop Floor Control, Purchasing, Inventory Control, After Market Service, ECM, CRP, DRP, MPS, Forecasting / Demand Planning, Human Resources, Order Management, Project Management, EAM, Supplier collaboration / scheduling, Sales and marketing, product configurator, Payroll; Job Costing, Workforce scheduling ▪ Integrated business applications serve as a complete and auditable system of record ▪ Users have access to ERP from mobile devices (other than laptops connected to the Internet) ▪ Event Management (Triggers & Alerts) ▪ Role based homepages ▪ Pre-configured dashboards for users

Source: Aberdeen Group, August 2011

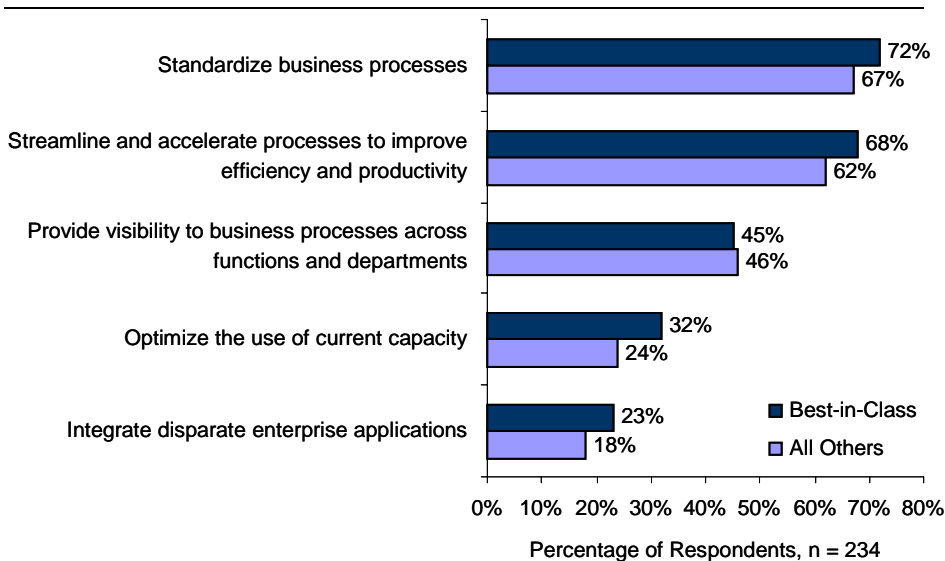## Best-in-Class Strategies

There is little difference between the strategic actions that Best-in-Class companies are performing and those of all others (the Industry Average and Laggards combined) when it comes to ERP strategies (Figure 4). What truly has the most impact on performance is the ability to execute on these strategies and the capabilities that are paired with them. The top action

among all maturity classes is to standardize business processes. This ensures that all employees, regardless of location, are acting in ways that account for the processes that the organization has identified as best practices. Once these processes have been standardized, the organization can streamline and accelerate process which will improve efficiency and productivity. An organization in a rapid growth stage will need to get the absolute most out of its employees and equipment until more resources can be obtained. This is the connection between optimizing current capacity and streamlining processes.

Figure 4: Top Strategies to Support Effective ERP

Standardize business processes — Best-in-Class: 72%, All Others: 67%

Streamline and accelerate processes to improve efficiency and productivity — Best-in-Class: 68%, All Others: 62%

Provide visibility to business processes across functions and departments — Best-in-Class: 45%, All Others: 46%

Optimize the use of current capacity — Best-in-Class: 32%, All Others: 24%

Integrate disparate enterprise applications — Best-in-Class: 23%, All Others: 18%

■ Best-in-Class
□ All Others

Percentage of Respondents, n = 234

Source: Aberdeen Group, August 2011

"ERP is a foundation for our operation."

~ Ron Rzepczynski, Director, Sennheiser

As businesses grow, it becomes increasingly harder for managers to truly know what is going on in the business. Forty-five percent (45%) of SMEs are providing visibility into business processes across functions and departments. Adverse events are discovered more quickly allowing the organization to mitigate the negative impact of unforeseen events. Conversely, managers are better able to see opportunities present themselves, allowing the organization to get ahead of its competitors.

Lastly, 23% of SMEs are integrating disparate enterprise applications. This ensures that the organization has a complete system of record that is capable of giving managers full visibility into the business.

Aberdeen Insights — Strategy

ERP implementations can be an expensive undertaking for any business, but the impact of these expenditures becomes magnified in smaller organizations that may have limited access to capital. While the potential benefits of the ERP implementation are great, it is still extremely important to carefully consider all options. SMEs should know exactly what the most important factors are when considering their solutions. Fortunately, there are many lower cost ERP options that SMEs are using to receive the full benefits of ERP. One option that organizations need to consider is the manner in which there ERP is deployed. In this year's upcoming *SaaS Trends and Observations* report, which is slated to publish on December 1, 2011, Aberdeen will analyze the willingness of organizations to consider SaaS as a deployment method for their ERP. Figure 5 references the options that SMEs are considering today.

Figure 5: Top ERP Delivery Options under Consideration

Percentage of Respondents, n = 304
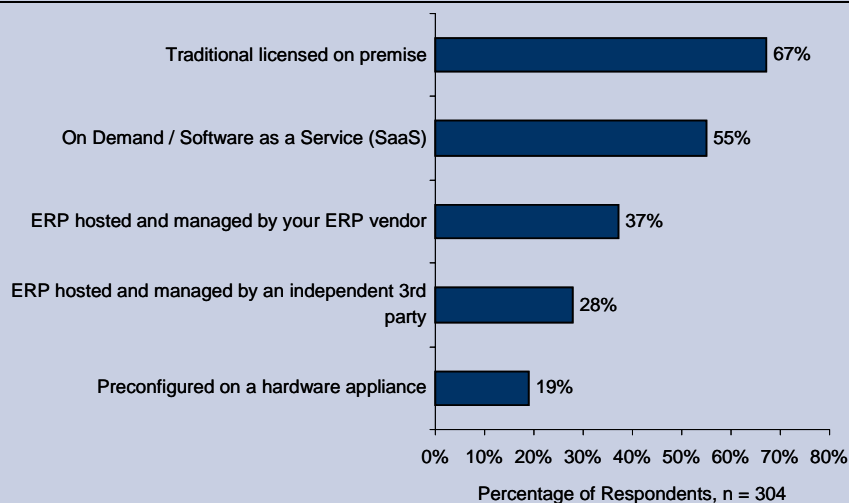
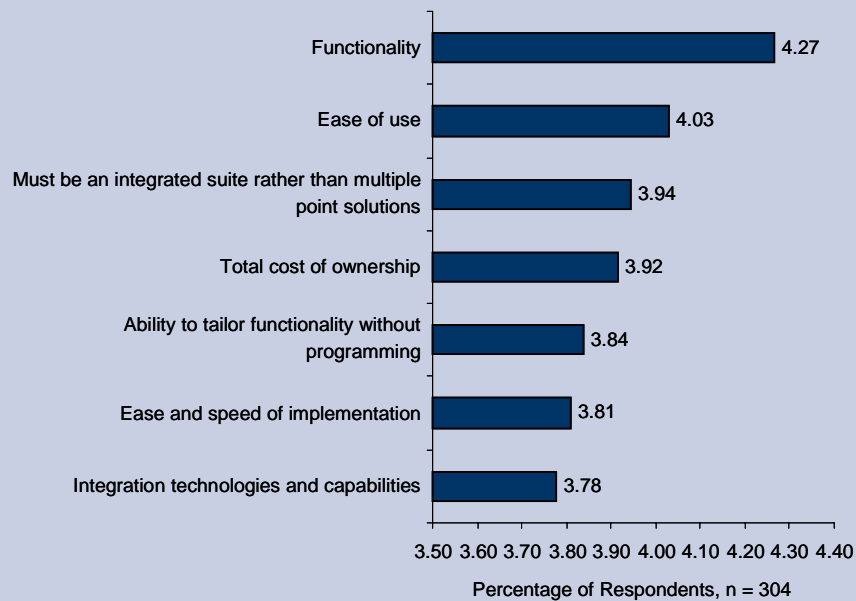Source: Aberdeen Group, August 2011

Aberdeen's research is finding that delivery method is becoming less of a dominating factor when choosing an ERP solution. In fact, it does not even show up as one of the top 15 selection criteria for those choosing an ERP (Figure 6). It may be a surprise to some that total cost of ownership is not the most important criteria for SMEs when selecting an ERP. Functionality is overwhelmingly the top thing that SMEs are looking for. If the ERP system does not have the functions and features that the organization needs to successfully run, then it is useless. It is increasingly important for organizations to be able to tailor this functionality without additional programming to better suit the needs of their business. Of course, this functionality is useless if employees can not figure out how to use it. This is why ease of use is the second leading selection criteria for SMEs.

continued

Aberdeen Insights — Strategy

Further, since ERP is meant to be an organizational system of record, it is important for many SMEs that it is an integrated suite rather than multiple point solutions, though still it is important to be able to integrate with other technologies (i.e. Business Intelligence). Rounding out the top criteria is the ease and speed of implementation. Growing businesses need to get the systems in place quickly but heed caution not to cut corners. Since an ERP solution is the foundation on which the organization will be built, that ground needs to be stable. These considerations extend beyond mere total cost of ownership and should be carefully considered when selecting an ERP.

Figure 6: Top Selection Criteria for ERP (1 - 5 scale)

Source: Aberdeen Group, August 2011

In the next chapter, we will see what the top performers are doing to achieve these gains.

Aberdeen *Group*
A Harte-Hanks Company

Chapter Two:
Benchmarking Requirements for Success

The proper selection and implementation of ERP is a major undertaking for any company of any size. By using ERP as a template for standardization of business processes, as well as the integration and coordination of people, processes, and technology, top performing SMEs are seeing increased benefits from their ERP implementations and improved business performance.

Case Study — Water Gremlin

Founded in 1949, Water Gremlin is a manufacturer of fishing equipment. The White Bear Lake, MN company has been providing innovative sinkers for over 60 years. Since then, the company has expanded to include terminals for lead-acid batteries. Today the company has over 160,000 square feet of manufacturing and warehousing space and is the leading supplier of battery terminals to the North and South American battery markets.

When Scott Schulz, Vice President of Finance, joined Water Gremlin in 2006, the president of the company immediately asked that he make an assessment of the company's core business system. There were several reasons that this was a necessity. First, the system that Water Gremlin had previously run on was extremely antiquated. The system was home grown, written by two employees of the company. One of those employees had since departed, and the other was often traveling. This system required the company to still be extremely paper based. Transactions were happening on the factory floor, translated to paper, and then keyed into the computer back in the office. This led to mistakes and rework. There were many mistakes in inventory so the company had to do a time-consuming physical inventory every month. At this time, 50% of the lines in perpetual inventory had to be adjusted every month. The company was forced to carry more inventory than it actually needed in order to allow for slack. The system had very little functionality. The company was running payroll on the system, but there was no way to give users partial access meaning that this data was available to everybody. The system had no security governors on it.

According to Schulz, "Data was suspect, at best." It provided no information to front line managers in terms of what had been done during the last two shifts, so the beginning of every day was spent playing catch up. Schulz says, "It was all about the time we wasted. We spent so much time fixing the system, it was very inefficient. We knew that we wanted to expand globally, so this is something that we had to fix."

continued

Fast Facts

How distributed a company is geographically has a significant impact on ERP strategy. For this report, the following shows how distributed the respondents were:

√ **35%** operate in a single location

√ **18%** operate in two locations

√ **25%** operate in three to five locations

√ **22%** operate in six or more

Aberdeen *Group*
A Harte-Hanks Company

Case Study — Water Gremlin

Clearly, an upgrade was needed. Schulz formed an ERP selection committee in order to properly define exactly what they were looking for. Water Gremlin also involved some outside consultants. According to Schulz, "The single biggest thing we looked for was ease of use. What does it take to just crank out a sales order?" They wanted something with a strong manufacturing background that could handle shop floor control, lot traceability, and more. Once software was selected, the company set out to implement. They formed a cross functional team to take part in the development and they quickly determined the best approach was to implement in two separate phases. First was the order to cash cycle that took from February to July. Concurrently, the manufacturing phase took place from March to November of 2006. During those times, the company had a lot of data cleansing to do and learning to be completed. The company felt training employees on ERP was very important. A core team went to almost all training sessions with the ERP vendor. Schulz adds, "A key element of ERP is that there are up-stream and down-stream consequences for everything. We made sure to have employees trained on the processes that their own job roles coincided with." The company understood that to get the most out of an ERP solution, the organization must be actively invested in its implementation.

The benefits of Water Gremlin's ERP materialized quickly. The elimination of monthly physical inventory happened within six months. The company saw sales increase dramatically without additional inventory required. User acceptance has been extremely high. Schulz says "We didn't manage with information before, now people are using it on a day to day basis." The enhanced visibility has led to many process improvements. Implementing ERP has had a significant impact on Water Gremlin's operations. The company has been able to run more efficiently, cut costs, and grow on a pace above its competitors.

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance 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 standardization of business processes and ERP implementations); (2) **organization** (continued commitment across functions and departments); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (scope of ERP deployment and accessibility); and (5) **performance management** (the ability of the organization to measure its results to improve its business). These characteristics (identified in Table 4) serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 4: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Standardized enterprise-wide procedures for procurement, cash collection, and financial reconciliation		
	87%	84%	70%
	Standardized selection criteria for ERP implementation across the enterprise		
	63%	63%	49%
	Ability to do demand planning and forecasting		
	53%	31%	26%
Organization	Cross-functional continuous improvement teams are responsible for improving operational performance		
	67%	38%	39%
	ERP onboarding process to train new users efficiently		
	57%	38%	37%
	ERP strategy is tied to talent plan and strategy		
	41%	37%	20%
Knowledge	From summary data, decision-makers can drill down to transactions that form the fiscal and operational audit trail		
	78%	56%	46%
	Real time visibility into status of all processes from quote to cash		
	73%	47%	28%
	Ability to automatically and immediately notify decision makers when certain conditions occur		
	56%	32%	25%
	A fully integrated view of all customer information available to any sales and marketing person		
	60%	29%	14%
Technology	Integrated business applications serve as a complete and auditable system of record		
	86%	68%	48%
	Users have access to ERP from mobile devices (other than laptops connected to the Internet)		
	34%	15%	18%
	Event Management (Triggers & Alerts)		
	57%	45%	31%
Performance	Quantifiable business benefits resulting from overall implementation of ERP are measured		
	61%	31%	26%
	Ability to measure marketing influence on closed sales and pipeline		
	24%	15%	14%

Source: Aberdeen Group, August 2011

Aberdeen *Group*
A Harte-Hanks Company

Capabilities and Enablers

Based on the findings of the Competitive Framework and interviews with end users, Aberdeen's analysis demonstrates that significant benefits can be gained from an integrated ERP solution. The following quantifiable business benefits can be gained through the implementation of this unique group of capabilities (Table 5). Even Laggard companies are seeing significant benefits from their ERP solution.

"Traceability is helpful, it's nice to be able to know what changes have happened, who made them, and why."

~ Steve Spanjers, Director of Engineering, Marwood Metal

**Table 5: Performance Improvements as a Result of ERP**

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	• 55% Improvement in inventory turns • 23% Reduction in operational costs • 22% Reduction in administrative costs • 24% Improvement in complete and on-time delivery • 20% Reduction in inventory
Industry Average: Middle 50% of aggregate performance scorers	• 34% Improvement in inventory turns • 16% Reduction in operational costs • 15% Reduction in administrative costs • 15% Improvement in complete and on-time delivery • 10% Reduction in inventory
Laggard: Bottom 30% of aggregate performance scorers	• 16% Improvement in inventory turns • 6% Reduction in operational costs • 8% Reduction in administrative costs • 8% Improvement in complete and on-time delivery • 11% Reduction in inventory

Source: Aberdeen Group, August 2011

Process

As organizations grow, it becomes increasingly important to standardize processes in order to ensure that employees are on the same page and increase efficiency. Eighty-seven percent (87%) of Best-in-Class SMEs are standardizing enterprise-wide procedures for procurement, cash collection, and financial reconciliation (Figure 7). The accuracy of these back office procedures are essential for small businesses as they prepare to either be bought by larger organizations, prepare to issue stock, or prepare for increased regulatory scrutiny. An ERP solution facilitates these processes, making sure that data is accurate and up to date while avoiding time consuming consolidation and duplication that can come with disparate systems. Additionally, Best-in-Class SMEs are standardizing other procedure such as order management and delivery (85%) and production planning and execution (74%). Standardizing these procedures helps the organization to run more professionally and compete on the same stage as its larger competitors.

Figure 7: Process Capabilities
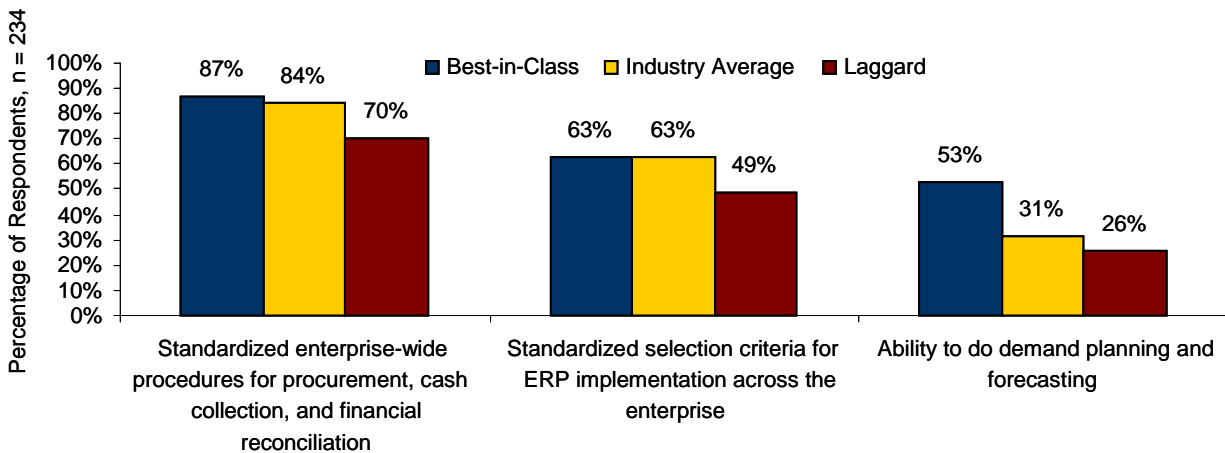
Source: Aberdeen Group, August 2011

One of the themes of Aberdeen's ERP research for 2011 has been developing ERP implementation strategies, whether they be based on one corporate standard or multi-tiered, implementation starts with the selection of an ERP solution. To this end, standardized selection criteria for ERP implementation across the enterprise is an important capability for all maturity classes. By having these standards, the organization can identify exactly what it wants to get out of its ERP, and target the modules and features that will best enable the organization to reach its objectives.

Lastly, the Best-in-Class are 83% more likely than all others to be able to do demand planning and forecasting. This allows them to be able to make strategic investments and provide customers with the products that they need when they need them. An organization may miss a big opportunity for growth by inaccurately forecasting demand and being under stocked or underemployed, depending on the industry. By the time a new product is ready or employee levels are ramped up, a competitor may have stepped in or irrevocable damage may have been done to its customer service rating. At the same time, being overstocked could severely limit the organization's ability to grow and cause it to incur huge losses.

Organization

A major part of the growth of any company is the continual refinement of its processes in order to become more streamlined and professional. To that end, the Best-in-Class are 72% more likely than all others to have cross-functional continuous improvement teams responsible for improving operational performance (Figure 8). This goes beyond the continuous improvement of everyday processes and leads to a better understanding of how to get the most out of ERP. Promoting best practices for how the system is to be used as well as promoting its utilizations by more employees and units in the organization leads to greater benefits.
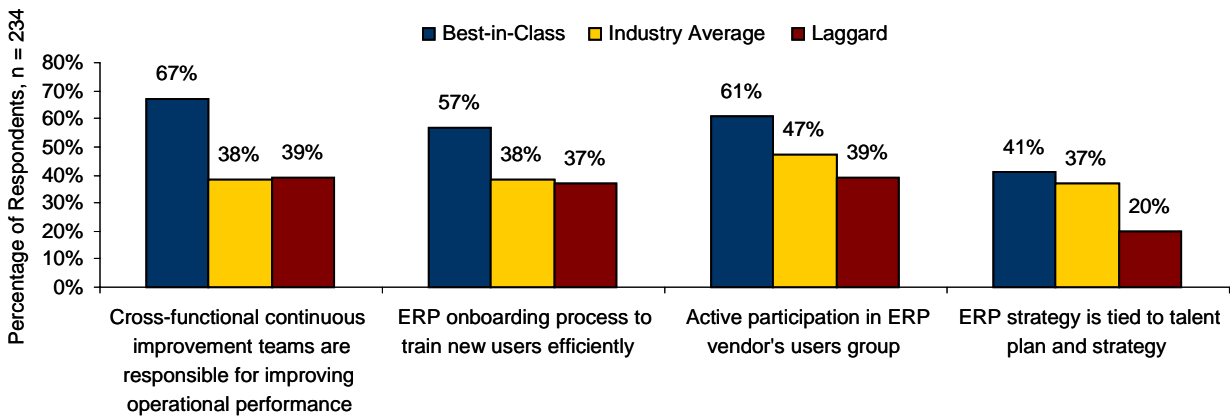
"ERP has brought discipline to the shop floor. It improved planning and inventory visibility. Delivery / customer satisfaction has improved."

~ Darrell Schwartz, Manager, HHI FormTech

Aberdeen *Group*
A Harte-Hanks Company

Figure 8: Organizational Capabilities

Source: Aberdeen Group, August 2011

As an extension of the promotion of ERP within the organization, it is important to continuously train new employees on ERP usage after the initial stages of implementation. ERP is not a magic bullet; an organization will not receive its full benefits unless employees are actively using it, so it should not be purely implemented and never spoken about again. Sixty-three percent (63%) of Best-in-Class companies properly train new employees in using ERP after the initial stages of implementation compared to 51% of all others. Additionally, the Best-in-Class are 54% more likely than all others to have an ERP onboarding process to train new users efficiently. This strategy of actively involving employees with ERP usage is evidenced in the fact that 41% of the Best-in-Class are tying their ERP strategy to their talent plan and strategies. Hiring people with an eye towards their experience with ERP leads to a faster onboarding process for new employees and the assurance that people will be able to step in when employees leave. There should always be a succession plan in place that keeps ERP in mind.

Lastly, SMEs should be aware that they are not on their own when it comes to implementing ERP and taking a step onto the stage of bigger competition. Sixty-one percent (61%) of the Best-in-Class report active participation in their ERP vendor's users group compared to 44% of all others. Here they can learn best practices, meet peers, and take a step towards getting the full use out of their ERP solution.

Knowledge Management

ERP is all about giving decision makers the visibility they need in order to track their businesses and make informed decisions. As SMEs grow, this becomes increasingly difficult. A properly tuned ERP implementation enables decision makers to view there business holistically or drill down further to get a better view of smaller pieces of the business that may have previously escaped their view. Seventy-eight percent (78%) of the Best-in-Class can drill down from summary data to transactions that form the fiscal and operational audit trail (Figure 9).

"ERP has integrated our operations, purchasing and accounting effectively, including job costing and tracking. Notably our new (2011) system is faster, easier to maintain and more accessible than our prior (2002) system."

~ Jim Kneece, Vice President, GTC

Figure 9: Knowledge Management Capabilities
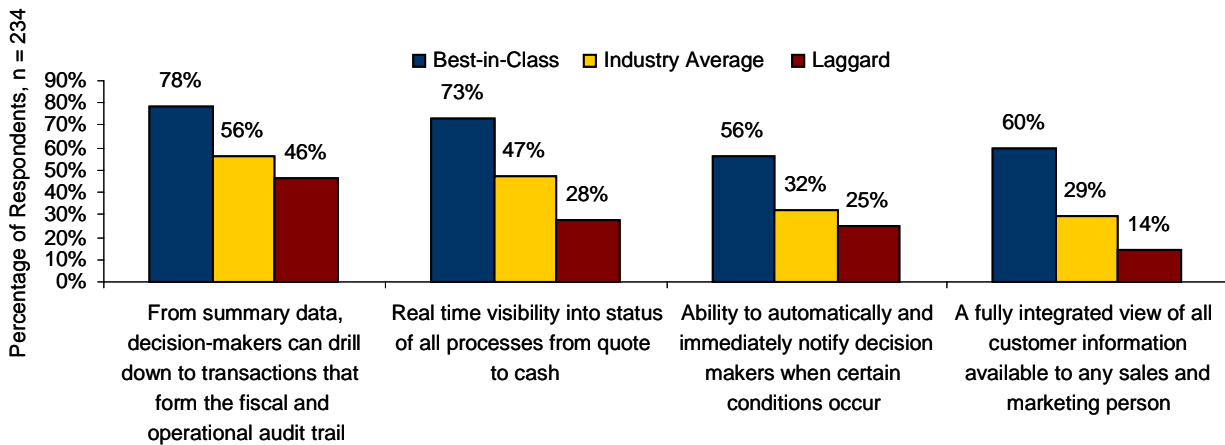
Source: Aberdeen Group, August 2011

Of course, the visibility provided by ERP is useless if data is old or inaccurate. Decisions based on old data can have a hugely negative impact on the business. For example, an organization could invest in resources that are no longer needed, leading to excess unused stock. The Best-in-Class are 83% more likely than all others to have real time visibility into the status of all processes from quote to cash. Additionally, it is important for decision makers to know when events happen that will affect the business as soon as they happen in order to address the situation. Damages can then be minimized. The Best-in-Class are almost twice as likely as all others to have the ability to automatically and immediately notify decision makers when certain conditions occur.

One area where increased visibility can really affect the organization is in its interactions with customers. The Best-in-Class are 161% more likely than all others to have a fully integrated view of all customer information available to any sales and marketing person. By having this information, employees can have better interactions with their customers leading to better customer service. This is a contributing factor to the fact that Best-in-Class SMEs are reporting 91% customer retention rates and helps them attain their top goal of being easier to do business with.

Technology

Having a complete and auditable system of record, which consists of ERP and its modules (built with the same development tools on the same architecture as core ERP) and extensions (enterprise applications that extend the functionality of ERP, but are separate), allows executives to get a complete view of the business, with assurance that nothing is missed. Eighty-six percent (86%) of the Best-in-Class have integrated these business applications to create this system of record (Figure 10). Decisions become more informed, plans are more realistic, and investments are more tactical. Again, it is extremely important for this data to be accurate so that decision makers are not making decisions based on bad data. Sixty-four percent

Aberdeen *Group*
A Harte-Hanks Company

(64%) of the Best-in-Class have Master Data Management (MDM) integrated into ERP in comparison to 37% of all others.

Figure 10: Technology
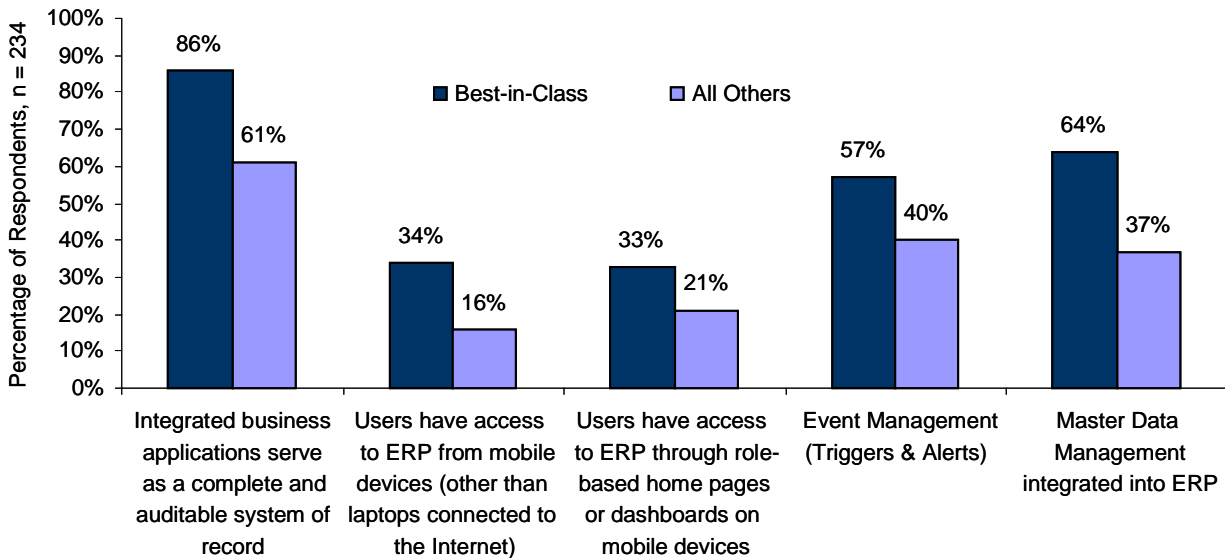
Source: Aberdeen Group, August 2011

Part of having real-time data is the ability to access it wherever and whenever it is needed. Best-in-Class SMEs are 2.13 times as likely as all others to have access to ERP from mobile devices. In what is now a 24x7 business world, it has become increasingly important for employees to become untethered to their desks. Mobile devices mean that managers can do their jobs while traveling. Additionally, the Best-in-Class are 57% more likely than all others to have access to ERP through role-based home pages or dashboards on mobile devices. Since every employee has a need for different types of data, this makes it easier for them to find exactly what they need and do their job more efficiently. As an extension of this need to know what is going on exactly when it happens, 57% of the Best-in-Class have event management. This means that they are receiving triggers and alerts to know about events that are affecting the business as soon as they happen. This increases reaction times and enables agile decision making.

Performance Management

It is often said that "you can't manage what you don't measure." In the case of SMEs this concept is especially important because without the visibility to understand what impact the organizations actions have on the business, it is impossible to correct course or identify the places where the organization is underperforming. Again, growth stages are so critical because they set the organization up for the future. To that end, Best-in-Class SMEs are 2.1 times as likely as all others to have the ability to measure quantifiable business benefits resulting from the overall implementation of ERP (Figure 11). From here, SMEs are able to see where they are getting the most out of their ERP

"ERP has allowed centralization of supply which has significantly reduced costs."

~ Andrew Lord, CFO, FlexLink

Aberdeen *Group*
A Harte-Hanks Company

solution and which areas a lacking. Then they can put a greater focus on improving the usage of the modules and features that would impact the metrics that the organization could stand to improve.

Figure 11: Performance Management Capabilities
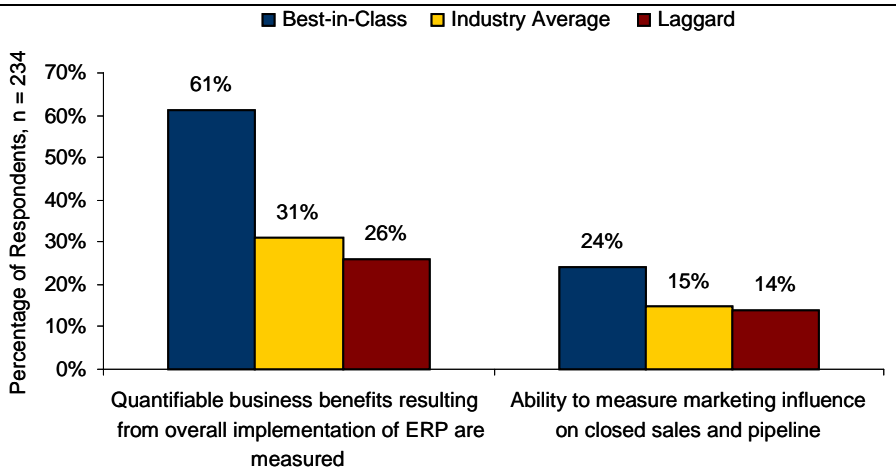
Source: Aberdeen Group, August 2011

Lastly, Best-in-Class SMEs are 60% more likely than all others to have the ability to measure marketing influence on closed sales and pipeline. To some small businesses, marketing is a luxury, but to all SMEs every marketing dollar spent needs to have an impact. While only 24% of the Best-in-Class currently have this ability, they are much more prepared to handle this than the other maturity classes. This allows the top performers to assess what is working for them and either change plans or increase spend on what works. Improving brand image and perception is a top goal for SMEs in 2011 and effective marketing has a huge effect on the achievement of that goal.


Aberdeen Insights — Technology

Aberdeen's May 2011 report, *Mobility in ERP 2011* explored the benefits that organizations are receiving from providing their employees with mobile access to ERP. This survey found that currently 35% of SMEs are providing employees with this access, with an additional 33% planning to be doing this in the future (Figure 10). By giving employees this access, organizations are able to become more agile and can operate around the clock. Truly, quantifiable business benefits were reported by SMEs taking the survey. Those with mobile access have seen an 18% improvement in time to decision over the past year in comparison to a 12% improvement for those without mobile access. The average customer response times for mobile organizations is 986 minutes compared to 1,379 minutes for those that are immobile. Those with mobile access are notified of business events in, on average, 225 minutes compared to 684 minutes for those without. This increased knowledge and decision making agility is leading to cost savings, better customer relationships, and more accurate planning.

continued

**Aberdeen Insights — Technology**

Figure 12: SMEs with Mobile Access to ERP
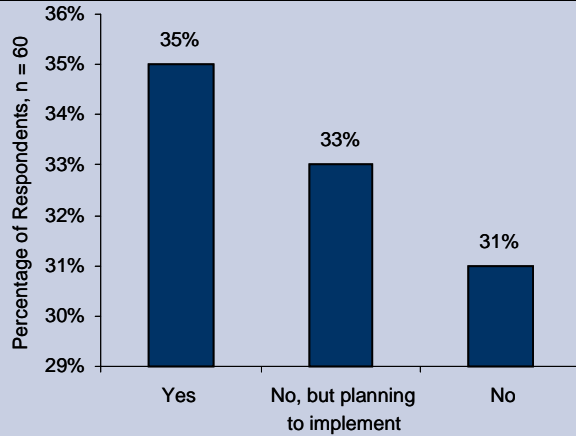
Source: Aberdeen Group, May 2011

Even if an organization cannot afford to supply all employees with mobile access to ERP, there are benefits to be gained from providing it to a selected group. Those with decision making power really need to be constantly connected, so that they know what is going on in the business wherever and whenever they are and can lead effectively. Sixty-percent (60%) of SMEs with mobile access to ERP are providing it to management (Figure 13). Also important, is providing access to sales. This allows them to better serve customers and interact with the home office while out on the road. While some roles, such of those in the plant, have the need for rugged devices that are less likely to break, there are many consumer devices that can be used by other employees to gain the benefits that access to mobile ERP provides.

Figure 13: Who Has Mobile Access?

Source: Aberdeen Group, May 2011
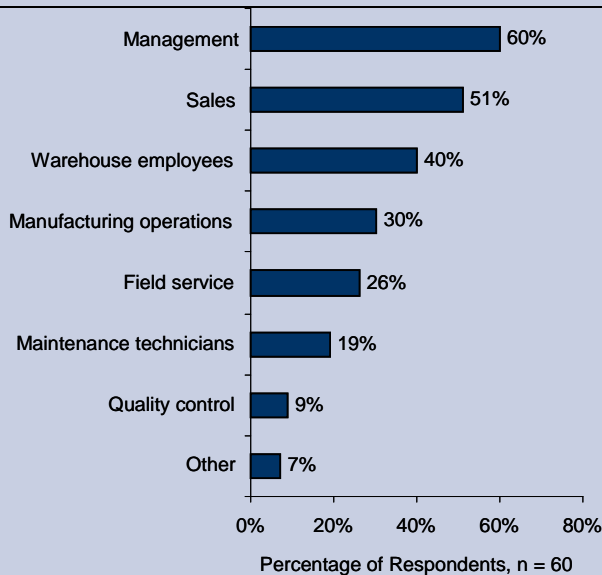
Aberdeen *Group*
A Harte-Hanks Company

Chapter Three:
Required Actions

Whether a company is trying to move its performance of its ERP implementation 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

- **Set organizational, process, and technology standards.** ERP helps to enforce standards that ensure that everyone in the organization is using best practices and that the organization is running as efficiently as possible. There is a an average gap of 23% between Laggards and the Best-in-Class for those that have standardized procedures for procurement, cash collection, financial reconciliation, order management, delivery, fulfillment, and production planning. These standards should be extended to ERP. Leading SMEs are more likely to standardize ERP selection criteria and, ultimately, ERP strategies across the organization. Not having this strategy leaves Laggards unprepared to gain the full benefits of their ERP implementation.

- **Properly train new employees on ERP after the initial stages of implementation.** ERP should not just be implemented and never discussed again. It is important to make sure that new employees are brought up to speed and are able to use ERP as well as employees that were around during the initial implementation. Without doing this, organizations will not get the full benefits of their ERP, and usage and buy-in will fall by the wayside as employees depart. Less than half of Laggards are doing this in comparison to 63% of the Best-in-Class.

- **Provide all customer information to sales and marketing employees.** Only 14% of Laggards are supplying the employees with the most direct contact with customers with the information needed to serve these customers effectively. The Best-in-Class are over 2.5 times as likely to be doing this, which is one of the reasons that 76% of their customers report "better than average" customer satisfaction in comparison to 65% for the Laggards.

Industry Average Steps to Success

- **Form cross-functional improvement teams.** Only 38% of the Industry Average are currently receiving the benefits of continual process refinement. If more were doing this, it would extend beyond mere process improvements and include promoting a better understanding of how to use ERP as well as promoting its utilizations by more employees and units. This can include sharing best ERP practices from one unit or job role to another. By sharing

best practices across units that normally don't communicate as often, the organization is able to streamline operations and run more efficiently.

- **Provide decision makers with automated alerts when certain company defined conditions occur.** ERP allows managers to find out about events that affect the business as soon as they happen. This allows them to correct course and make more agile decisions. If a decision maker is acting on information that does not take into account current events, the plans they make can be wildly inappropriate for the situation. Only 32% of the Industry Average are alerting these decision makers in comparison to 56% of the Best-in-Class.

- **Measure the benefits from ERP implementations.** Best-in-Class SMEs are almost twice as likely as the Industry Average to properly measure the ongoing performance affected by ERP. By neglecting to do this, Industry Average SMEs are unable to truly optimize their systems to fit their business needs. Areas that could be improved are ignored and the organization does not get the full benefits of its ERP implementation.

Best-in-Class Steps to Success

- **Assign a job role or group dedicated to data management.** Data is only as useful as it is accurate. Inaccurate, outdated and incomplete information leads to process inefficiencies, poor performance, and low productivity. Fortunately, 64% of the Best-in-Class have integrated MDM with ERP. Still, ensuring accurate data does not end with this integration. Thirty-eight percent (38%) of the Best-in-Class have a job role or group dedicated to data management. This needs to improve for Best-in-Class SMEs to truly receive the visibility that ERP provides.

- **Allow employees to access ERP from mobile devices.** While the Best-in-Class are 113% more likely than all others to provide employees with this access, only 34% of them are actually doing this. By freeing employees from their workstations it allows them to be constantly tuned in with the goings on in the business. The organization becomes an around the clock operation and allows it to gain a competitive advantage during times when other organizations are inactive.

- **Measure marketing's influence on closed sales and pipeline.** ERP can help SMEs to find the true value of their marketing related investments. This is important for smaller companies because any marketing spending, regardless of how small it is, can be a substantial part of the budget. The organization needs to know if the investments they are making are even affecting the bottom line. If they aren't, those with purchasing power can decide on a different route to take in order to reach their target markets. While the

"ERP made the organization more efficient and flexible."

~ Ton Mens, CFO, Royal Agio Cigars

Best-in-Class have differentiated themselves in this capacity by being 1.6 times as likely as all others to have this capability, the 24% of the Best-in-Class that are doing this is not nearly enough.

Aberdeen Insights — Summary

As the economy turns around, SMEs are looking to increase spending in order to help them grow in comparison to other similar emerging competitors. In this period of growth, it is very easy to lose track of what has made the organization successful in the first place. Best-in-Class companies are looking to ERP to help them run more effectively, collaborate more frequently, and service customers better. The cost savings, increased customer satisfaction, visibility, and potential agility that ERP provides is helping these organizations grow and setting the stage for a prosperous future.

Aberdeen *Group*
A Harte-Hanks Company

Appendix A:
Research Methodology

Between April and August 2011, Aberdeen examined the use, the experiences, and the intentions of 304 enterprises using ERP in a diverse set of small and mid-sized enterprises. These enterprises are defined as businesses accumulating $500 million in annual revenue or less.

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

Responding enterprises included the following:

- *Job title:* The research sample included respondents with the following job titles: CEO / President / CFO / CIO (29%); EVP / SVP / VP / GM (12%); Director (18%); Manager (24%); and other (17%).

- *Department / function:* The research sample included respondents from the following departments or functions: corporate management (14%); information technology (27%); logistics / supply chain (7%); manufacturing & operations (14%); finance / administration (6%); and other (32%).

- *Industry:* The research sample included respondents from a wide range of industries. The most prevalent industries were manufacturing (34%); Technology (21%); professional services (15%); logistics (6%); and retail (6%).

- *Geography:* The majority of respondents (58%) were from North America. Remaining respondents were from Latin America (3%); the Asia / Pacific region (13%); the Middle East and Africa (4%); and Europe (22%).

- *Company size:* Fifty-seven percent (57%) of respondents were from enterprises with under $50 million in annual revenue; 16 % were from enterprises with between $50 and $100 million in annual revenue; 15% were from enterprises with between $100 and $250 million in annual revenue; and 12% were from enterprises with between $250 and $500 million in annual revenue.

- *Headcount:* Seventy-six percent (76%) of respondents had less than 500 employees; 8% had between 500 and 1,000 employees; 9% had between 1,000 and 2,500 employees; and 7% had more than 2,500 employees.

Study Focus

Responding executives completed an online survey that included questions designed to determine the following:

√ The degree to which ERP is deployed in their organizations

√ The structure and effectiveness of existing ERP implementations

√ Current and planned use of ERP

√ The business benefits that have been derived from ERP initiatives

The study aimed to identify emerging best practices for ERP usage in small and medium-sized enterprises, and to provide a framework by which readers could assess their own management capabilities.

Table 6: The PACE Framework Key

Overview
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: **Pressures —** external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive) **Actions —** 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) **Capabilities —** the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing) **Enablers —** 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)

Source: Aberdeen Group, August 2011

Table 7: The Competitive Framework Key

Overview	
The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance: **Best-in-Class (20%) —** Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance. **Industry Average (50%) —** Practices that represent the average or norm, and result in average industry performance. **Laggards (30%) —** Practices that are significantly behind the average of the industry, and result in below average performance.	In the following categories: **Process —** What is the scope of process standardization? What is the efficiency and effectiveness of this process? **Organization —** How is your company currently organized to manage and optimize this particular process? **Knowledge —** What visibility do you have into key data and intelligence required to manage this process? **Technology —** What level of automation have you used to support this process? How is this automation integrated and aligned? **Performance —** What do you measure? How frequently? What's your actual performance?

Source: Aberdeen Group, August 2011

Table 8: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
Aberdeen research indicates that companies that identify the most influential 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.

Source: Aberdeen Group, August 2011

Appendix B:
Related Aberdeen Research

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

- *Aging ERP: When Old ERP is Too Old*; June 2011
- *ERP in Manufacturing 2011: Defining the ERP Strategy*; July 2011
- *Changing Perceptions on ERP Strategy*; July 2011
- *Case Study: ERP and BI Put Business Problems to Bed*; June 2011
- *Mobility in ERP 2011*; May 2011
- *To ERP or Not to ERP: In Manufacturing, It Isn't Even a Question*; April 2011
- *ERP: Much Better Off With than Without*; February 2011
- *ERP: Is High ROI with Low TCO Possible?*; January 2011
- *SaaS ERP: Trends & Observations 2010*; October 2010
- *ERP in SME: Fueling Growth and Profits*; August 2010

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

Author: Nick Castellina, Research Associate, Enterprise Applications and Business Intelligence, (nick.castellina@aberdeen.com)