

WORLD CLASS ERP FOR SMALL BUSINESS?

YOU CAN'T AFFORD NOT TO!

Data Source

In late 2012 and early 2013 Mint Jutras collected more than 475 qualified responses to an electronic survey for its ERP Solution Study. These were qualified by the participant's knowledge of and involvement in ERP implementations and responses were used to investigate ERP goals, challenges and status and also to benchmark performance of ERP implementations.

Survey respondents represented companies of all sizes. However for purposes of this report we selected a subset of small and medium size businesses (SMBs), defined as those companies with 100 or fewer employees. This resulted in a sample size of 175 responses.

Two years ago Mint Jutras posed the question, "[Can your small business afford ERP?](#)" We then countered with an alternative question: Can you afford to operate without it? Since then we have observed an increased level of activity in terms of new implementations, replacing existing Enterprise Resource Planning (ERP) solutions, as well as manual processes, spreadsheets, home-grown and other commercially available business applications. That means the bar has been raised, with more companies achieving the cost savings and other improvements a successful ERP implementation can produce. Yet we also see evidence that many are still limping along with systems that fall far short of a modern, technology-enabled, integrated ERP solution. These companies might appear to be standing still, but in fact they could be slipping further behind. If your small business is one of them, perhaps the real question is: What is it costing you?

A RECAP

The [paper](#) that explored the two questions posed above was a deep dive into the downside of not having Enterprise Resource Planning (ERP). It was designed to help small businesses identify a need and justify the investment. It pointed to more flexible and configurable functionality, more innovation, more advanced, built-in technology at prices more affordable than ever before. It theorized a wide array of tangible and intangible benefits that could potentially be gained from an effective implementation and posited that without ERP a small company would be operating at a severe competitive disadvantage, restricting growth and profitability.

Since we first posed these questions we have collected two waves of data benchmarking the results measured since companies implemented ERP. Small companies participated in the surveys in a big way, providing a wealth of data. Our hypothesis was well proven. On average, the cost savings produced 100% return on investment (ROI) in one to three years, and continued to pay dividends long after the initial cost was recouped. Of course not all these results can be directly attributed to ERP. Cost savings and other improvements are typically achieved through a combination of people, processes and technology. Yet ERP can be an effective catalyst, particularly in a small business. ERP, when combined with the implementation of best practices,

Progress measured against possible goals:

Survey respondents were asked to rate progress (on a scale from No Progress to Fully Achieved) for each of the following possible goals:

- ✓ Better visibility from quote to cash
- ✓ Sustained growth without additional headcount
- ✓ Reduction or redeployment of headcount
- ✓ Reduction in operating cost
- ✓ Reduction in administrative cost
- ✓ Reduction in inventory cost
- ✓ Reduction in obsolete inventory
- ✓ Better utilization of resources
- ✓ Reduce time-to-decision (better decision-making)
- ✓ Positively impacted bottom line profits
- ✓ Reduction of waste
- ✓ Increased value delivered to customers
- ✓ Increased production

standardization and disciplined measurement, can produce cost savings and other operational improvements that are indeed quite impressive.

So why haven't more small companies availed themselves of these benefits? While only the smallest of small companies rely exclusively on spreadsheets and manual processes, we see evidence that many are still limping along with systems that fall far short of a modern, technology-enabled, integrated ERP solution. They might think what they have is "good enough." Perhaps they don't want to spend the money, time or effort. Perhaps they still think they can't afford it.

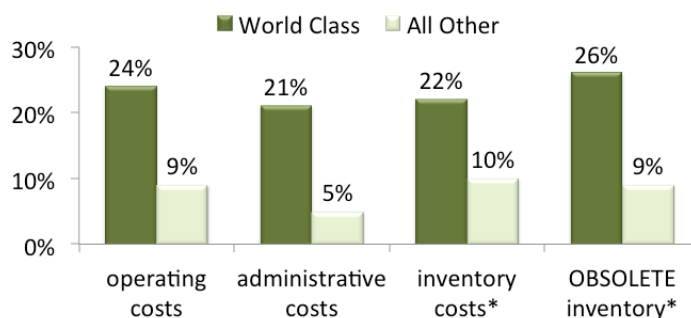
Our goal in this paper is to demonstrate not only the "average" cost savings and improvements small companies have achieved, but to also highlight the results of those enjoying what we categorize as "World Class" ERP implementations. Yes, ERP costs money. Yes, it takes effort. But it should also provide a return on investment that can not only cover initial costs, but continue to realize cost savings long after you go live.

"WORLD CLASS" ERP IN SMBS

For purposes here, when we refer to "World Class," we refer to the ERP implementation. We capture cost savings and other improvements measured since the current ERP solution was installed and combine those results with progress measured against a set of possible goals. Of course not all companies have the same specific goals for ERP, but the more goals that are set and the more progress that is achieved against those objectives, the higher the probability the implementation will achieve "World Class" status. And finally, we temper those results with some universal measures of current performance. Each company receives an aggregate "score" based on all three, and the top 20% are categorized as "World Class."

We begin by contrasting cost savings recorded by World Class ERP implementations to those achieved by all others in Figure 1.

Figure 1: Cost Savings Measured Since Implementing ERP



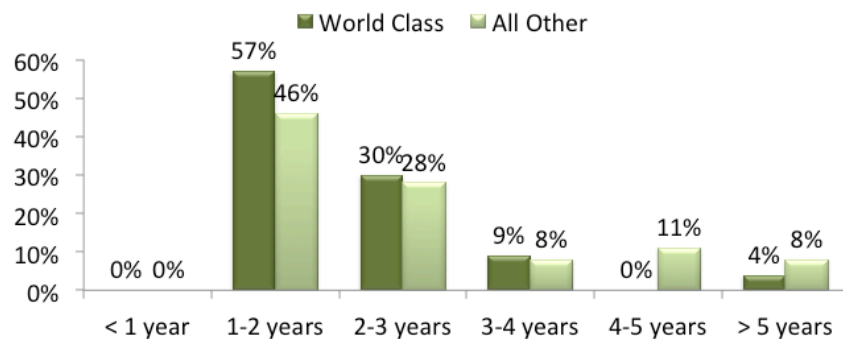
* manufacturers and distributors only

Source: Mint Jutras 2013 ERP Solution Study

Of course the categories of operating and administrative costs are quite broad and can represent different resources and functions depending on the type of organization. A precise definition is less important when we measure cost savings as a percentage of total costs. Think about your own operating costs, administrative costs, and if you are a manufacturer or distributor, your inventory costs. Take 5%, 9% or 10% and do the math. You might have your return on investment right there. These are the average savings produced by implementations that are not World Class.

Then take 5% to 10% and multiply by two or three or four, and you have savings realized by World Class implementations. If 5% is significant, 21% is extraordinary. It's no wonder that 57% of World Class ERP implementations in SMBs achieve 100% payback on their investment in one to two years (Figure 2).

Figure 2: Actual ROI Achieved (100% return on investment)



Source: Mint Jutras 2013 ERP Solution Study

Even though none of our respondents reported 100% ROI in less than one year, we include it in Figure 2 because of the substantial percentage of survey participants (30%) that anticipated it within a year. Projecting a complete return on an investment in ERP in less than a year is unrealistic. Given the average mean time to the first "go live" milestone is 6.33 months, this doesn't leave quite enough time to fully recoup costs. That's not to say you will not be realizing benefits within that first year though. And setting your sights on payback in one to three years is a very good bet.

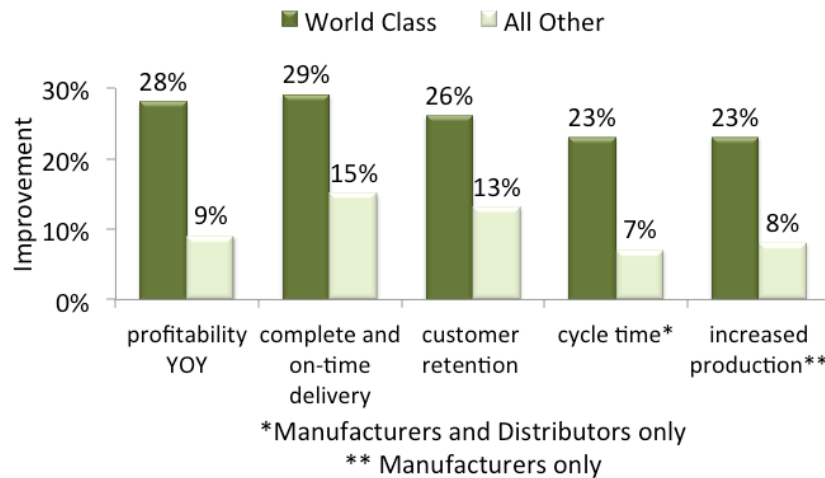
Cost savings, while very important in terms of cost justification and profitability, are both very internally focused results from ERP. In order to stay competitive and achieve a competitive advantage, you also need to produce results that are more focused on your customer (and service). In order to measure this type of success, we use a variety of metrics, which are shown in Figure 3.

As in measuring cost savings, with the exception of profitability, we measure the improvements since implementing ERP.

Metrics Defined

- ✓ *Complete and on-time delivery are delivered 100% complete, on or before the promised delivery date*
- ✓ *Customer retention is the percentage of customers retained from the previous year*
- ✓ *Cycle time for **distributors**: receipt of order to fulfillment
manufacturers: start of plant production to completion of primary product*
- ✓ *Production measures total output or unit volume*

Figure 3: Other Improvements Measured Since Implementing ERP



Source: Mint Jutras 2013 ERP Solution Study

Profitability is the exception primarily because of the wide range of maturity of ERP implementations. While 29% of respondents implemented their current ERP solution within the past two years, 12% are operating with ERP implementations that are more than 10 years old. While profitability is certainly a valid means of measuring performance, it can also be adversely affected by external factors such as economic and market conditions. For those who implemented ERP right before the most recent recession, profitability may have taken a hit, from which they needed to recover. New implementations might have been undertaken when profitability was already on the upswing. And yet improving profitability should be a sustainable goal. So we use the improvement in profitability over the two most recent fiscal years as a way of normalizing it.

The remaining metrics are intimately dependent on one another. Complete and on-time delivery is a critical metric whether you are delivering a physical product or a service and can directly impact customer retention. For those moving physical products (either as a manufacturer or a distributor), cycle times can directly impact your ability to deliver, not only as promised, but as customer requested. And of course, a manufacturer's ability to increase production is key to growth. As we noted in our previous report, one symptom that indicates you need (a new) ERP is not being able to meet customer demand, even as your inventory or staffing levels rise.

While return on investment can come from any number of different sources, and may vary from business to business, these metrics are not only good indicators of performance, but all can be directly impacted by a well-executed ERP implementation. Indeed, without a good, solid ERP solution, it is very difficult, if not impossible to achieve the kind of sustained performance that is

the hallmark of a well-run business. This is one of the key reasons why even the average ERP implementation achieves very notable levels of improvement. Results from World Class implementations are nothing short of spectacular.

NOT GETTING THESE KIND OF RESULTS?

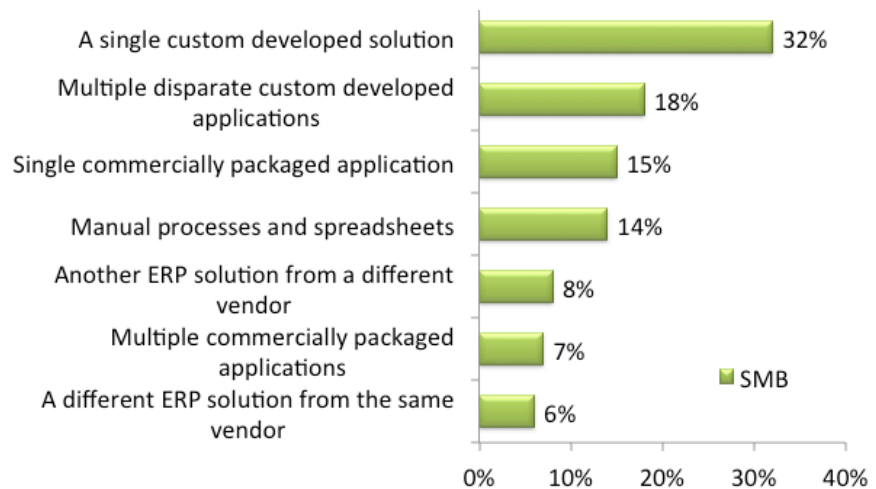
If you are not able to boast the kind of results shown above, then you may be suffering from a poorly performing ERP implementation, or maybe you aren't really running ERP at all. Data collected from Mint Jutras research would indicate the overall adoption rate of ERP to be approximately 66%, although a bit higher (76%) in the manufacturing sector. But we believe this overestimates actual adoption simply because some call their current solutions "ERP" when in fact they are running something that is less than ERP.

Part of the problem is in defining ERP. The acronym is used rather loosely by solution providers, industry observers and consumers of the software alike. Mint Jutras defines ERP as an integrated suite of modules that provides the operational and transactional system of record for your business. However most real ERP solutions today do much more and therefore those that do less don't really qualify as ERP.

Still, this definition allows for a lot of variability in the scope of solutions. All companies, large and small, and even non-profits and government agencies have basic accounting needs. But if your solution is just an accounting solution, it is not ERP. All make purchases, often controlled by purchase orders. Most have sales orders or contracts against which they deliver goods or services. ERP must be able to manage the basic business processes of procure-to-pay and order-to-cash and record all transactions in a general ledger in an integrated fashion. For those that deal with physical goods, this also means managing inventory and for manufacturers it means managing production.

It may be possible to address the basics (albeit inefficiently) without a fully integrated ERP. But you might also be calling your solution "ERP" when in fact you are running disparate commercial or home-grown applications with batch or real-time interfaces. Figure 4 is an indication of what ERP solutions in place today replaced. Note: only a small minority replaced another ERP but also very few had nothing except manual processes and spreadsheets before implementing their current solution. The most popular were "custom developed" solutions which were often home-grown and fell far short of the feature-rich ERP solutions available today.

Figure 4: What Did Your Current ERP Replace?



Source: Mint Jutras 2013 ERP Solution Study

Whether home-grown or purchased as commercial applications, if you are running multiple, disconnected business applications that are held together with the software equivalent of duct tape and baling wire, then no wonder you aren't getting results similar to those described earlier. You probably aren't even running ERP.

READY FOR A CHANGE? CHOOSE WISELY

Volumes have been written on ERP selection and there is no shortage of independent consultants that can help you with the process. Understand that the software itself, while very important, is not the only deciding factor in terms of success or failure. The support available from your ERP solution provider and its partners is important, as is the support within your own organization. And that support needs to come from the very top of your organization. Make no mistake; a new ERP implementation is a major undertaking. After all, you will use it to run your business. So choose carefully.

Selecting the software with the best fit and functionality has always been the top priority of selection committees, but ease of use has become more and more important as users of ERP have become accustomed to intuitive interfaces and easy-to-use consumer applications. While "consumer grade" used to be a lower standard than "enterprise level," with the predominance of consumer applications available today on mobile devices, the reverse is now true. Nobody expects to have to read a manual in order to navigate the screens. But there is more to ease of use than just screen navigation. Processes must effectively model your business and hopefully streamline them for efficiencies. Make sure the workflows can be configured to meet your

needs and don't neglect training. Otherwise you will almost certainly under-utilize any solution you implement.

Table 1 displays the relative priorities of our survey respondents across a variety of important selection criteria to consider. The table is sorted from most important to less important based on the aggregate responses from all SMBs. But we can also learn from the difference in priorities for those that went on to produce World Class implementations.

Table 1: Selection Criteria Prioritized

Selection Criteria Priorities

Respondents were asked to rate the priority of each on a scale of 0 to 4:

- ✓ 4 *Must Have/Most Important*
- ✓ 3 *Important*
- ✓ 2 *Somewhat Important*
- ✓ 1 *Nice to Have*
- ✓ 0 *Not a consideration*

	Total	World Class	All Other
Ease of use	3.48	3.26	3.54
Fit and Functionality	3.30	2.97	3.38
Quality and availability of vendor support services	3.21	3.15	3.23
Ease and speed of implementation	3.20	3.06	3.24
Flexibility to address changing business needs	3.15	3.12	3.16
Integration technologies and capabilities	3.09	3.32	3.03
Ability to tailor functionality without programming	3.08	3.21	3.05
Must be an integrated end-to-end solution (preferred over multiple point solutions)	3.04	3.03	3.04
Total cost of ownership	3.03	3.03	3.04
Software Cost	3.01	3.00	3.01
Level of industry-specific expertise available	2.99	3.15	2.96
Availability of your single preferred deployment	2.80	2.91	2.77
Having a choice of different deployment options	2.65	2.97	2.56
The ability to access ERP data and functions through a mobile device	2.63	3.03	2.53

Source: Mint Jutras 2013 ERP Solution Study

The first difference we notice is that the traditional ease of use and fit and functionality are not the highest priority of World Class. In fact fit and functionality drops to #11 for World Class SMBs. Does that mean it isn't important? Not necessarily. Much of the core functionality of ERP has evolved over time and a comprehensive solution based on modern technology should meet the needs of the vast majority of SMBs right out of the box. In fact 43% of SMBs agree that 80-85% of their basic needs are likely to be met by most any solution and they would consider buying this as a monthly utility in order to focus more resources on ways to differentiate themselves. This percentage jumps to 74% for World Class implementations.

As a result, World Class put more emphasis on some other criteria. The top criteria for World Class are integration technologies and capabilities. While ERP should provide a complete end-to-end solution to run your business, it is extremely unlikely it will be your only business application. Even if you don't have to integrate with other business applications you have purchased, it is very likely you will be required to interoperate with either customers or suppliers, or both. And this interoperability is dependent upon these integration capabilities.

World Class also place more emphasis on the ability to tailor functionality without programming. Customizations have traditionally been implemented down in the depths of the source code and often had the unintended consequence of building in barriers to moving forward with new releases. A modern, technology-enabled ERP solution today should be able to provide most, if not all “customizations” through tailoring and configuration options. Whether you are looking to customize the look and feel or the business process flows, seek out a solution that allows this level of tailoring without touching the underlying code. This may mean modifying a presentation layer, constructing work flows or defining business rules, or all of the above.

Also note that World Class put more emphasis on industry-specific expertise. While all ERP solutions today should cover the basics, certain industries do require specialty functions. Knowledge of your industry can be reflected in the solution itself, as well as in the team available to you for help in implementation and training.

CONCLUSION AND RECOMMENDATIONS

What are you using to run your business today? Is it really ERP or something that falls short? Either way, is it producing the kind of results we've outlined in terms of cost savings and other improvements that help you better serve your customers? Are profitability improvements sustainable year over year? Are you retaining customers and acquiring new ones?

Many SMBs think ERP is just for the big guys. Many stumble along with some combination of spreadsheets and disparate applications. Others struggle with old and outdated systems that can never meet their needs. Or they think what they have is “good enough” or that it really won't make a difference to their business. But what if you could take a giant step forward and have it pay for itself in one to three years?

Deciding to purchase a new ERP solution is indeed a big decision. It can and should have a serious impact on your business, but hopefully in a positive way. Instead of thinking only about what ERP will cost you, think instead about what not having a World Class ERP solution is costing you. Can you point to cost savings of 5% to 10%? Can you effectively compete against those that are leveraging ERP for 23% to 29% improvements? If the answer to either of these questions is, “No” then it is costing you more than you think.

About the author: *Cindy Jutras is a widely recognized expert in analyzing the impact of enterprise applications on business performance. Utilizing over 35 years of corporate experience and specific expertise in manufacturing, supply chain, customer service and business performance management, Cindy has spent the past 7 years benchmarking the performance of software solutions in the context of the business benefits of technology. In 2011 Cindy founded Mint Jutras LLC (www.mintjutras.com), specializing in analyzing and communicating the business value enterprise applications bring to the enterprise.*