Net@Work | White Paper

Tips for Maximizing the Return on Your ERP Investment

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Executive Summary

As the economy picks up steam, organizations are increasing their investments in enterprise resource planning (ERP) technology as a way to help grow their business. Yet because the recovery remains uncertain, organizations remain concerned with squeezing the most from their IT investment dollars.

This white paper describes two strategies organizations can employ to maximize the returns from their ERP investments: Use a proven methodology to speed implementation and achieve ROI faster, and define and track metrics to measure progress in meeting business objectives.

Why Optimize an ERP Investment

In the face of the current uncertain economic growth, many organizations are increasing their investments in ERP technology to grow their business while increasing efficiency and reducing costs. Yet even as they make new ERP investments, organizations remain concerned with squeezing the most from these investment dollars.

Organizations recognize that the best way to maximize the return on their investment is to align the technology with their business objectives. Most organizations will have defined their business goals for their ERP projects when they developed the business case for the ERP implementation. However, even after organizations have selected and purchased the ERP they believe delivers the right features and functionality, they can take additional proactive steps to ensure that the implementation maximizes their returns from their ERP solution.

Delivering on Business Objectives

Organizations that wish to optimize their benefits from their ERP system must do two things: Implement the solution in an efficient and effective manner to deliver ROI as quickly as possible; and develop metrics to determine how well the system delivers on its objectives.

Implementation

An ERP solution generates no return until it is implemented and the system is in use. Therefore, organizations need to use a proven methodology to reduce implementation risks and enable the ERP solution to be put into operation as quickly as possible. The right implementation methodology will also help ensure that the ERP implementation fully addresses the organization's business objectives.

Metrics

As the saying goes, "You can't improve what you can't measure." Organizations that wish to maximize the returns on their ERP solution both initially and over time must develop metrics that correspond to their business objectives, and use those metrics to measure progress in meeting these objectives.

Indeed, Aberdeen Research[1] reports the most successful ERP projects include aggressive, clearly quantified business goals, well-established timelines and an ongoing commitment to measure ROI, including a clear baseline for measuring performance improvements.

The same Aberdeen report also found a clear and persuasive correlation between ROI measurement and overall company performance. One hundred percent of best-in-class companies estimated ROI in the planning phase of ERP projects while only 71 percent of the laggards in the bottom 30 percent in terms of aggregate performance did the same.

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[1]"Measuring the ROI of ERP in SMB" by Cindy Jutras, Aberdeen Group, March 2009

Optimize the ERP Implementation

Following a proven implementation methodology helps to ensure that an ERP implementation is on time, within budget, and meets its objectives. An implementation methodology should include the following 6 steps:

1. Establish the right teams

Start by setting up implementation teams that include people with the knowledge and the authority to keep the implementation moving forward. These teams should include:

- **An executive committee**—to sponsor and oversee the project. It's impossible to move forward productively without executive direction, decisions and buy-in. Implementation partners who have performed hundreds of ERP implementations say that establishing an executive committee responsible for steering the project is the number one critical success factor.
- **A core project team**—to take ownership of the implementation, drive the project, and train end users. One of the key benefits of an ERP solution is to automate and improve the efficiency of business processes. Line-of-business managers have the best knowledge of their functional area and business processes and have the best understanding of how the software should be configured and implemented to meet their needs. This project team should include managers for all the business units that will be impacted by the implementation, such as customer service, logistics, finance, and manufacturing as well as an overall project manager.

2. Review business goals

Organizations typically define business goals for the ERP implementation during the process of developing the business case for the ERP system. Common goals implementing ERP solutions include:

- **Empowerment and improved efficiencies** for end users as they perform transactions though the ERP solution's ability to offer automation, better access to information, and end-to-end integration of business processes.
- **Faster and higher-quality business decisions.** As end users enter data more efficiently, the summarized information needed by management and executives becomes more accessible, more timely, and more meaningful.
- **Greater employee engagement.** As employees become more productive due to the operational efficiencies from the implementation, employees can use their time performing more strategic and meaningful activities. This helps organizations retain employees.
- **Become closer with business partners, customers, suppliers** in order to be more proactive by optimizing and shortening business processes.

As the implementation begins, organizations should review these goals, incorporate any changes in thinking since the development of the business plan, and keep these goals in mind as they proceed with the implementation.

3. Understand what the software can do

The organization should have examined the features and functionality of the software when it created the business plan and selected the ERP solution. Now the implementation team needs to gain a more in-depth understanding of what the software can do by undergoing an introductory training. This helps the team better understand what is possible to accomplish using the software.

4. Define business processes to improve

The key benefit of an ERP system is automating and streamlining business processes. Processes tend to evolve over time, rather than from a conscious effort to constantly reexamine and improve them based on their strategic value. While an ERP solution in and of itself won't improve business processes, an ERP implementation is the perfect opportunity for functional implementation teams—often with the help of an implementation partner with experience in their industry—to carefully review how the organization currently performs business processes and then determine ways to use the functionality and best practices built into the ERP system to streamline and improve these processes.

Typically, organizations define the processes they wish to improve when they develop their business case. However, during the implementation process, they should confirm that the processes defined in the business case are the ones that need to be improved and make sure they don't miss any processes that should be improved. A systems implementation advisor may also be able to provide recommendations on improving business processes based on best practices from other customers. This analysis lays the foundations for how the ERP software will be configured and ultimately used.

In some cases, organizations will be able to streamline their processes by simply using ERP best practices out-of-the-box or by configuring it within parameters available in the software. Many software packages designed for SMBs are highly configurable. In other cases, when a business process is a competitive differentiator for the organization, the organization may need to customize the software to manage and automate these unique business processes. An ERP solution that comes with an integrated 4GL development environment can speed and simplify this customization process.

5. Consider implementation options

Organizations have two primary implementation choices. They can implement on-premise or on-demand.

On-premise

With an on-premise approach, organizations purchase a software license as well as the necessary hardware, and then implement and maintain the system in-house. Because on-premise solutions are installed on the customer's servers and customers actually own the software, customers can customize the software and integrate it with their other software. This provides organizations with greater control over their business processes as well as over their business data. Additionally, over a long period of time, the total costs will be cheaper than an on-demand solution.

When implementing an ERP system in-house, organizations can do so incrementally or using a big-bang approach where the entire system is implemented and rolled out at once. Larger enterprises often use a phased approach because they tend to have many stakeholders and many different subsidiaries and departments that need to implement the system. However, small- to mid-sized organizations that want to derive a rapid ROI for their ERP investment by implementing the system quickly typically prefer a one-phased approach. Because today's advanced systems are based on parameterization, systems designed for this market are highly configurable, facilitating faster, easier implementations.

On-demand

Another option for organizations desiring a rapid implementation is to subscribe to a cloud-based (Software as a Service—SaaS) ERP solution. With cloud-based ERP, customers do not need to purchase a software license up front, install the hardware infrastructure and application on site or maintain and upgrade the solution. Instead, the solution is hosted and available via the cloud on a pay-as-you-go basis. This model eliminates the need to purchase the hardware or own the software. The on-demand approach has an advantage in not requiring a large

up-front investment. However, because ongoing monthly costs are higher than an on-premise implementation, over a longer period, on-demand solutions will be more expensive than an on-premise solution.

Another advantage of a cloud-based implementation for SMBs is that these solutions can be implemented faster in weeks versus months with fewer IT staff and low hardware maintenance. This allows SMBs to start achieving the benefits from the ERP much sooner.

In addition, applications are delivered as needed. Cloud computing thus provides greater deployment flexibility, enabling organizations to tighten the alignment between business strategy and the technology needed to achieve it.

When choosing between an on-premise or an on-demand implementation, organizations should look at their particular requirements—including the complexity of their business and business processes, size of their company, number of employees, expected business growth, and the sophistication of their IT skills and infrastructure.

6. Train end users

An ERP solution will provide no return if users are unable to use it effectively—or don't use it at all. The functional teams will therefore need to train end-users on the new system. An ERP system that includes an intuitive, easy-to-use interface will allow organizations to get employees up to speed more quickly and cost effectively.

Define and Measure Key Performance Indicators

Organizations can't manage what they don't measure. And unless they measure the results from their ERP solution, they'll never know if their business processes are getting better or worse. Thus, during the implementation process, the functional teams will need to define which metrics (e.g., key performance indicators [KPIs]) they intend to measure to determine the success of their ERP project.

Define KPIs

An ERP implementation should help the organization improve performance as measured by KPIs. KPIs are quantifiable metrics that reflect the performance of an organization in achieving its goals and objectives. Organizations need to find KPIs that reflect strategic value drivers rather than just measuring non-critical business activities and processes. The right KPIs should align all business units, departments and individuals with clearly defined targets and benchmarks to create accountability and track progress.

While business units, departments and individuals must use KPIs that support overall business objectives, each will have its own KPIs that reflect its own performance. For example, sales might track things like average sale, average margin per sale, sales per sales rep, lost accounts while the Accounts Receivables department might track total receivables, receivables over 30, 60, or 90 days, average overdue receivable, average account aging, etc.

When determining which KPIs to use, organizations should measure both factors that are of particular interest to their business and adopt overall vertical industry metric so they can compare their performance to that of other companies in their industry. Trusted advisors with niche industry expertise can help organizations pick out the right industry-specific KPIs.

Track quantifiable results

Organizations will want to look at how ERP contributes to performance on its KPIs.

Don't forget qualitative benefits

At the same time, many benefits of ERP can be difficult to quantify. Organizations should also track qualitative improvements resulting from their ERP implementation, such as:

- o Error-free processes
- o Better decision making
- o Reduced inventory levels
- o Improved customer and partner satisfaction

Publish and communicate expectations

Once KPIs have been defined, identify leaders and champions to communicate expectations. In addition, organizations must be willing to adjust their assumptions when new information comes to light and communicate why a metric or benchmark changed.

Measure ROI after implementation

Determining ROI pre- and post-rollout is key to achieving success with ERP projects. According to the Aberdeen Group, 94 percent of best-in-class companies measure ROI after project completion, while only 55 percent of laggards do so.

However, don't expect benefits right away. In the first weeks of using a new system, users are still learning and making mistakes. Only after about two months can ROI and business benefits start to be measured.

Continually improve and measure

Organizations must constantly innovate with new processes to bring about effective cost reduction and productivity improvements. This means the ERP implementation will need to change over time. Since the ERP system needs to constantly evolve, ROI monitoring needs to occur on an ongoing basis. Only with continual improvement can an organization become a best-in-class operation. As Aberdeen has found, once ROI has been achieved, the divergence between best-in-class and laggard companies continues to grow: best-in-class companies are six times more likely (42%) to keep measuring ROI than laggards (7%).

Conclusion

By using a proven implementation methodology, organizations can implement their ERP solution more effectively and efficiently and thereby gain a faster return on their investment. By developing the right KPIs and tracking them on an ongoing basis, organizations have the information they need to whether their ERP solution is helping them meet business objectives and to make any necessary course corrections to keep their efforts on track.

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