

P A N O R A M A

CONSULTING GROUP

2008 ERP REPORT PART III

ERP Implementations at SMBs Versus Large Organizations



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Introduction

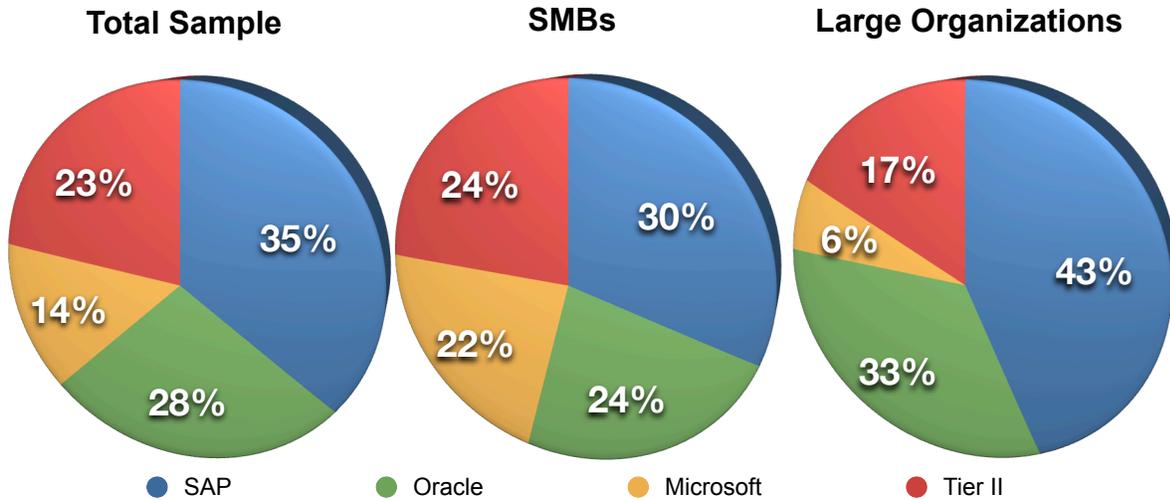
Our study of ERP implementations across the globe consist of a wide variety of leading ERP solutions, with 670 organizations in the US, Europe, Australia and Asia. In the previously published Part II of our 2008 ERP Report, we shared the implementation results of Tier I vendors and Tier II ERP software solutions. In this third installment of the report, we explore ERP implementation results of small to medium-size businesses (SMBs) compared to their larger counterparts. In this study, we consider SMBs to be organizations with less than 500 employees and less than \$500 million (USD) in annual revenue.

According to Gartner, SAP has the largest ERP software market share, followed by Oracle and Microsoft. Our study reveals market shares comparable to findings by Gartner, with 35% for SAP, 28% for Oracle, 14% for Microsoft, and 23% for Tier II vendors (Figure A).

The market shares of ERP software vendors differ between SMBs and large organizations. Microsoft has only a 6% share of large organizations, but a 22% share of SMBs. The market share of Tier II vendors is fairly comparable in both SMBs and large organizations -- 17% of large organizations compared to 24% of SMBs.

By contrast, SAP has a 43% share of large organizations, but only 30% of SMBs. However, SAP is still the largest vendor in the SMB market than any other ERP software vendors, followed by Oracle. SAP and Oracle possess over 75% of the market of the large organizations.

Figure A: ERP Market Share



Summary of ERP Implementations at SMBs

As outlined in Part II of our 2008 ERP Report, organizations of all sizes take an average of 19.8 months to fully implement their ERP solutions. However, the total sample size excludes some implementations of very large, multinational organizations, which may have skewed the averages. The average duration for these very large organizations is 37.2 months, with an average implementation cost of \$34,272,270.

Because average ERP implementation costs and durations vary based on the size and scope of the implementing organization, we segmented and analyzed results based on company size. Large organizations require an average of 25 months to complete their ERP projects (Figure B). The average duration for very large, multinational organizations is over 3 years, which is twice the duration of SMBs. Our study confirms a common hypothesis that larger and more complex organizations take longer to implement their ERP solutions.

Besides varying implementation durations of SMBs relative to large organizations, there are also significant differences in total implementation costs. The total average cost of implementation among all companies in our study is \$8.5 million, but the average for SMBs is \$3.1 million (Figure B). The average implementation cost increases to \$24.1 million for large organizations and to \$34.3 million for large, multinational organizations.

It is also useful to assess total ERP implementation costs as a percentage of sales. Our study reveals that average implementation costs equate to 9.0% of annual sales for the total sample, while the ratio is 10.5% for SMBs and 4.9% for large corporations. The average implementation cost to revenue ratio of SMBs is twice that of large organizations, partly because ERP projects require a minimum level of scope, effort, and investment regardless of company size.

Figure B: Implementation Duration and Cost

	Total Sample	SMBs	Large Orgs
Average Duration (Months)	19.8	18.8	25.2
Total Implementation Cost	\$8,470,707	\$3,073,232	\$24,069,582
Cost / Revenue	9.0%	10.5%	4.9%

Implementation Cost Detail

ERP implementation costs vary depending on issues such as customization levels, implementation size, scope, business process complexity, and other factors.

As mentioned above, the average implementation cost is \$3.1 million for SMBs and \$24.1 million for large companies. Along with total implementation costs, our study also explored the details of three major ERP cost categories, which are further outlined in Figure C:

- **Technical implementation:**
This category includes software licenses, technical installation, testing, integration, upgrades to hardware and servers, annual software maintenance and support, and software hosting.
- **Business Implementation:**
Includes activities such as organizational change management, business process improvements, training development and deployment, and staffing to augment company project team members.
- **Additional Costs:**
Data conversion, travel expenses, and miscellaneous.

SMBs and large corporations spend over 70% of their implementation budgets on the technical aspects of implementation (Figure C). This category consumes a significant part of most ERP budgets, especially when there is significant software customization involved.

In addition, SMBs spend nearly 16% of their total implementation budget on business implementation costs, including third-party business consulting fees. Our research finds that failed or troubled ERP implementations are most likely to under-spend in this category. In addition, the true costs may be understated because many companies in the study did not quantify internal resource costs.

Figure C: ERP Implementation Costs

	SMBs	Large Orgs
Technical Implementation	\$2,207,951	\$18,253,604
% of total cost	71.8%	75.8%
Business Implementation	\$485,515	\$4,449,200
% of total cost	15.8%	18.5%
Additional Costs	\$379,767	\$1,366,777
% of total cost	12.4%	5.7%
TOTAL COST	\$3,073,232	\$24,069,582

Implementation Budget Versus Actual Cost

It is widely believed that many ERP implementations cost more than planned; our report confirms this hypothesis. Only 5.4% of SMBs complete their implementations under budget, while none of the large organizations in our study did so (Figure D). Approximately 35% of SMBs and 36% of large organizations complete their implementations within 5% of their original budgets. These findings reveal that over half of ERP implementations go over budget by 5% or more.

However, there is more variance in the implementation cost versus budget of SMBs than of their larger counterparts. For example, nearly 7% of SMB implementations went over budget by 50% or more, com-

pared to just over 4% of large organizations. This is because SMBs often lack the internal capabilities to effectively manage ERP implementation scope and cost.

Figure D: Budgeted Versus Actual Implementation Cost

	Under Budget by 50%	Under Budget by 5-15%	On Budget/ Within 5%	Over Budget by 5-15%	Over Budget by 15-50%	Over Budget by 50-100%	Over Budget by 100%+
SMBs	1.4%	4.1%	35.1%	33.8%	18.9%	6.8%	0.0%
Large Orgs	0.0%	0.0%	35.9%	29.4%	30.4%	3.3%	1.1%

Although implementation cost overruns are troubling to companies of all sizes, overruns are more likely to materially impact a \$50 million SMB than a large company. As we outline in Part I of our 2008 ERP Report, there are several root causes for implementation cost overruns, including mismanaged expectations during the sales cycle, poor implementation planning, and poor management of software vendor scope and cost. Therefore, it is important for SMBs to properly plan and execute their ERP initiatives to minimize business risk and optimize ERP business benefits.

Other ERP Implementation Variables

We and other industry consultants often find that large organizations require more internal ERP implementation team members than SMBs because of more complex business processes and larger scope. However, how big is this difference?

On average, large organizations leverage 28 internal ERP implementation team members on their core project teams, plus an additional 15 internal ERP subject matter experts. In contrast, SMBs utilize 6 core team members and 3 subject matter experts (Figure E). The difference is even more significant when it comes to the number of external consulting ERP implementation team members; SMBs average 3 external team FTEs, while large corporations average 31.

These numbers reveal one of the common risks among SMB implementations: resource constraints. While it is difficult for most organizations to commit full-time resources to an ERP project, it is especially difficult for SMBs due to their smaller employee bases. Our study reveals that best-in-class implementations are more likely to commit adequate internal and external resources to the project.

Figure E: Number of Implementation FTE Resources

	Internal Core Project Team Members	Internal Subject Matter Experts	External Implementation Team Members
SMBs	6	3	5
Large Orgs	28	15	31

One of the key drivers of ERP cost, complexity, and implementation duration is the level of software customization. Our research shows that SMBs differ from their larger counterparts in their ability to adopt vanilla or out of the box ERP software rather than customize the software. Our research segmented the customization levels of ERP implementations into three categories:

1. “Vanilla,” out-of-the-box implementation with very limited or no customization
2. Mostly vanilla, with some customization as needed to support business requirements
3. Heavily customized to support business requirements / completely customized, in-house developed, or best-of breed solution

SMBs are more likely to adopt vanilla ERP software than large organizations (Figure F). In fact, 24% of SMBs reveal that they implemented ERP with very limited or no customization, compared to only 15% of large companies. In addition, 76% of SMBs perform either some or heavy customization of their ERP software, and 33% of these ERP projects are heavily or completely customized. Over 84% of large organizations customize their ERP software, with nearly 40% heavily customizing the systems.

Figure F: Software Customization Level

	Vanilla, Limited Customization	Mostly Vanilla, Some Customization	Heavily Customized
SMBs	24.5%	42.2%	33.3%
Large Corp.	15.2%	45.0%	39.7%

Conclusion

Over the past decade, the SMB market has become one of the highest-growth areas of the ERP industry. This is due to three key factors:

1. Large ERP vendors are moving downstream to the SMB business market by developing lower-cost solutions with more appropriate functionality for smaller businesses.

2. There are plenty of Tier II ERP software vendors that SMBs can choose from, such as Epicor, Infor, Sage and others. These Tier II vendors provide more options to SMBs beyond traditional Tier I providers.
3. The SMB sector has experienced more growth over the last several years than larger, more mature organizations, which has strained their legacy systems. This high level of growth, combined with a misalignment between their current systems and their business processes, make SMBs good candidates for ERP system replacements.

As outlined in previous installments of our 2008 ERP Report, ERP software can provide tremendous benefits to organizations of all sizes. However, implementations can be risky if not managed appropriately. Risks for larger organizations include employee resistance and global supply chain disruptions, but SMBs often have more limited IT budgets and are more adversely affected by cost overruns than large companies. Moreover, SMBs have only an average of 20% of the internal employee resources to draw from, which can increase ERP implementation risk. Companies such as Panorama Consulting Group offer independent ERP software selection and implementation expertise to SMBs and large organizations, which can help reduce implementation risk, cost, and duration.

Figure G: Summary Results

	SMBs	Large Orgs
Duration (Months)	18.8	25.2
Cost of Implementation	\$3,073,232	\$24,069,582
Cost / Revenue	10.5%	4.9%
Under budget / Within 5%	40.5%	35.9%
Over Budget by 5%~100%	59.5%	64.1%
# of Total FTEs	14	74
Customization Level	Low	High

About Panorama Consulting Group

Founded in 2005, Panorama Consulting Group is a niche consulting firm specializing in the enterprise resource planning (ERP) market for mid-sized companies in North America and Europe. Independent of affiliation, Panorama helps firms evaluate and select ERP software, manage the implementation of the software, and facilitates all related organizational changes to assure that each of its clients realizes the full business benefits of its ERP implementation. More information can be found on its web site, www.panorama-consulting.com. Contact Panorama Consulting at 303-256-6253 or info@panorama-consulting.com.