PANORAMA

CONSULTING GROUP

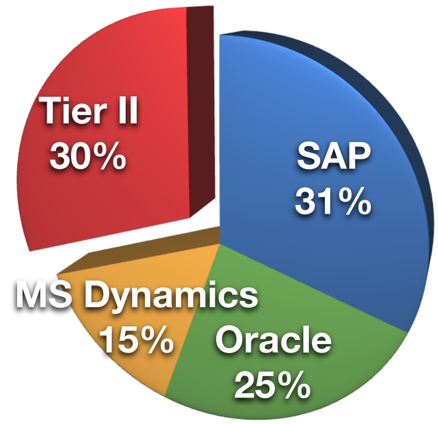
2010 ERP REPORT

ERP Vendor Analysis

Introduction and Summary

Panorama Consulting Group, an independent and vendor-neutral ERP consulting firm, developed the **2010 Enterprise Resource Planning (ERP) Vendor Analysis Report** based on survey results from 1,600 organizations that have selected or implemented ERP within the last four years. This report analyzes project benefits and drawbacks and summarizes implementation approach and satisfaction indicators segmented by major Tier I, Tier II, and Tier III vendor. Figure A indicates market share by major vendors in 2009. One point of note is that Tier II vendors have increased their market share from 23% in 2008 to 30% at the time of the survey.

Figure A: Major Vendors' Market Share in 2009



The **2010 ERP Vendor Analysis Report** provides findings on detailed project factors such as implementation costs, durations, and payback periods summarized by vendor. Metrics on selection satisfaction and benefits realization based on vendor interaction are also included to illustrate the market results by vendor.

This report summarizes data on over 20 ERP software solutions considered by surveyed organizations (Figure B). The research sample is categorized into Tier I, Tier II, and Tier III solutions.

Figure B: Sample Vendors		
Tier I	**Tier II**	**Tier III**
SAP Oracle Oracle eBusiness Suite Oracle JD Edwards Oracle Peoplesoft Microsoft Dynamics	Epicor Sage Infor IFS QAD Lawson CDC Software	ABAS Activant Solutions Inc. Bowen and Groves Compiere Exact NetsSuite Visibility CGS Exact HansaWorld Consona Syspro

Key Vendor Findings

Top 10 Short-listed Vendors

Participating companies in Panorama's 2009 survey were asked to identify four short-listed vendors under consideration for software selection (Figure C). Tier I vendors were listed most frequently, with one out of five companies (20.4%) considering SAP, 14.9% of companies considering Microsoft Dynamics, and 9.8% considering Oracle eBusiness Suite. The strong presence of Tier I vendors is most likely due to strong brand awareness and reputation as well as the variety of products offered by these vendors.

As might be expected, seven of the most frequently short-listed vendors were also the most frequently selected. The selection rate was based on the frequency of each vendor being selected over the frequency of each being considered in the selection phase (see Figure D). At 54%, Oracle eBusiness Suite and SAP had the highest selection rate. Each of the top seven selected vendors were Tier I or Tier II, which indicates that Tier I and Tier II vendors are more likely to be selected following the evaluation process.

Figure C: Top 10 short-listed Vendors

Vendor	Frequency
SAP	20.4%
Microsoft Dynamics	14.9%
Oracle eBusiness Suite	9.8%
Epicor	7.9%
Infor	4.1%
Oracle JDE	3.1%
Oracle PeopleSoft	2.6%
IFS	2.2%

Figure D: Top 7 Selected ERP Vendors

Selected Vendor	Selection Rate
Oracle eBusiness Suite	54.2%
SAP	54.1%
Infor	38.5%
Oracle JDE	37.5%
Epicor	33.3%

Tier I ERP Packages Have the Lengthiest Implementation Durations

According to the **2010 ERP Report** published by Panorama Consulting Group in February (available online at **www.panorama-consulting.com**), many companies have unrealistic expectations about the duration time of their ERP implementations. The implementation process involves numerous steps, including process design, requirements gathering, configuration, business and technical testing, and end-user training. Each step takes a significant amount of time to complete. The expected duration depends on realistic estimations for each step. The failure of any one step will result an underestimation of the duration.

Overall, 35.5% of organizations found their implementations took longer than expected, and 21.5% found their implementations were shorter than expected (Figure E). Less than half of the companies (43%) completed their implementation projects within the expected timeline. Tier I implementations have the highest likelihood of taking longer than expected (30%), while Tier II and III implementations have the lowest (18% and 5%), respectively (Figure F) .

The overall average duration is just over one year (12.3 months). The average actual duration of Tier I implementations was 13.2 months, which is approximately the same as Tier III implementations (Figure G). At 11.1 months, Tier II packages had the shortest duration times. Eighty percent of companies that selected Tier III vendors met expected duration time, and 15% experienced duration times shorter than expected.

Figure E: Duration Expectation

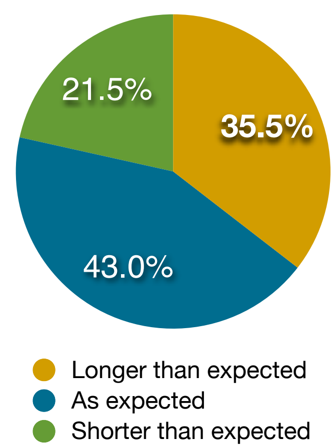


Figure F: Duration Expectation by Tier

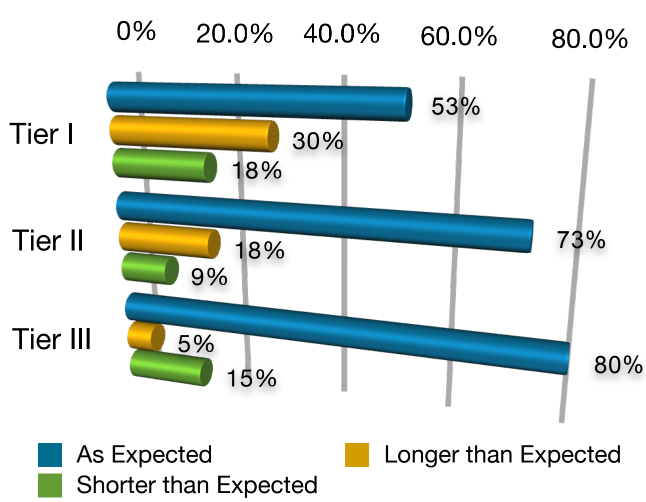
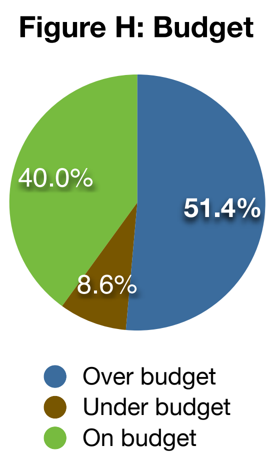
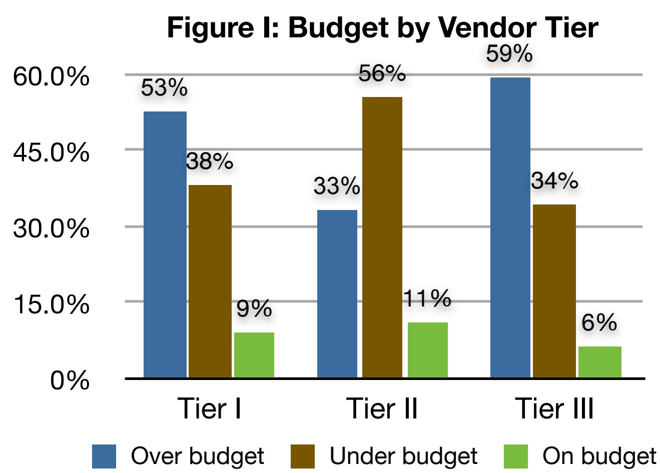


Figure G: Average Duration (Months)	
Vendor Tier	Duration
Tier I	13.2
Tier II	11.1
Tier III	13.1
Other	10.3
Overall Average	12.3

51% of Implementations Are At Risk of Going Over Budget

The difference between budgeted costs and actual costs is a major issue for most companies implementing ERP software packages. Over half (51.4%) of the total respondents indicated their actual costs were over budget, 40% were on budget, and only 8.6% came in under budget (Figure H). Compared with TIer I and Tier III software packages, Tier II clients have a better chance of limiting ERP spending and coming in under or on budget (Figure I). Over 50% of Tier II and Tier III clients had actual costs that exceeded budget.





The Most Common Payback Period Is Two to Three Years

Panorama's study shows that most companies that completed ERP implementations have a payback period (i.e., the length of time taken to recover the project investment) of two to three years. Tier I software packages were found to have the longest payback period (3 years), while Tier II payback averaged 2.2 years, and Tier III just 1.7 years (Figure J). This finding is consistent with Panorama's experience with its clients.

Figure J: Payback Period

Vendor Tier	Average Payback Period (Years)
Tier I	3.0
Tier II	2.2
Tier III	1.7

Because of its flexibility and niche functions, Tier III software is preferred by small companies, which usually have less than 30 users and less demanding needs. These companies often are looking to expand their capabilities and want to recoup their capital expenditures as quickly as possible. Mid-size companies (with less than 100 users) that have outgrown Tier III packages often become Tier II clients. They usually have just a few localized sites and prefer short-term investments. Tier I software vendors - who historically targeted large enterprises - have begun to woo potential Tier II clients with reduced costs, simplified transaction processes, and financial incentives. Tier I software packages, which take ten months longer than Tier II solutions to "payback," can be very attractive to large companies and fast growing small- and mid-size enterprises.

The study also provides a snapshot of major vendors' payback periods (Figure K). Microsoft Dynamics has the shortest payback period (2.6 years), and Oracle has the longest payback period (3.2 years).

The distribution of payback periods for each vendor tends to be normal, which gives a realistic expectation of an average payback period of 2.7 years. With the exclusion of the five major vendors, the remaining sampled vendors take an average of 1.8 years to recoup costs (almost one full year shorter than SAP's payback period).

Figure K: Payback Period - Major Vendor

Major Vendor	Average Payback Time (Years)
Microsoft Dynamics	2.6
Infor	2.7
Epicor	2.8
SAP	2.9
Oracle	3.2
Other	1.8
Sample Average	**2.7**

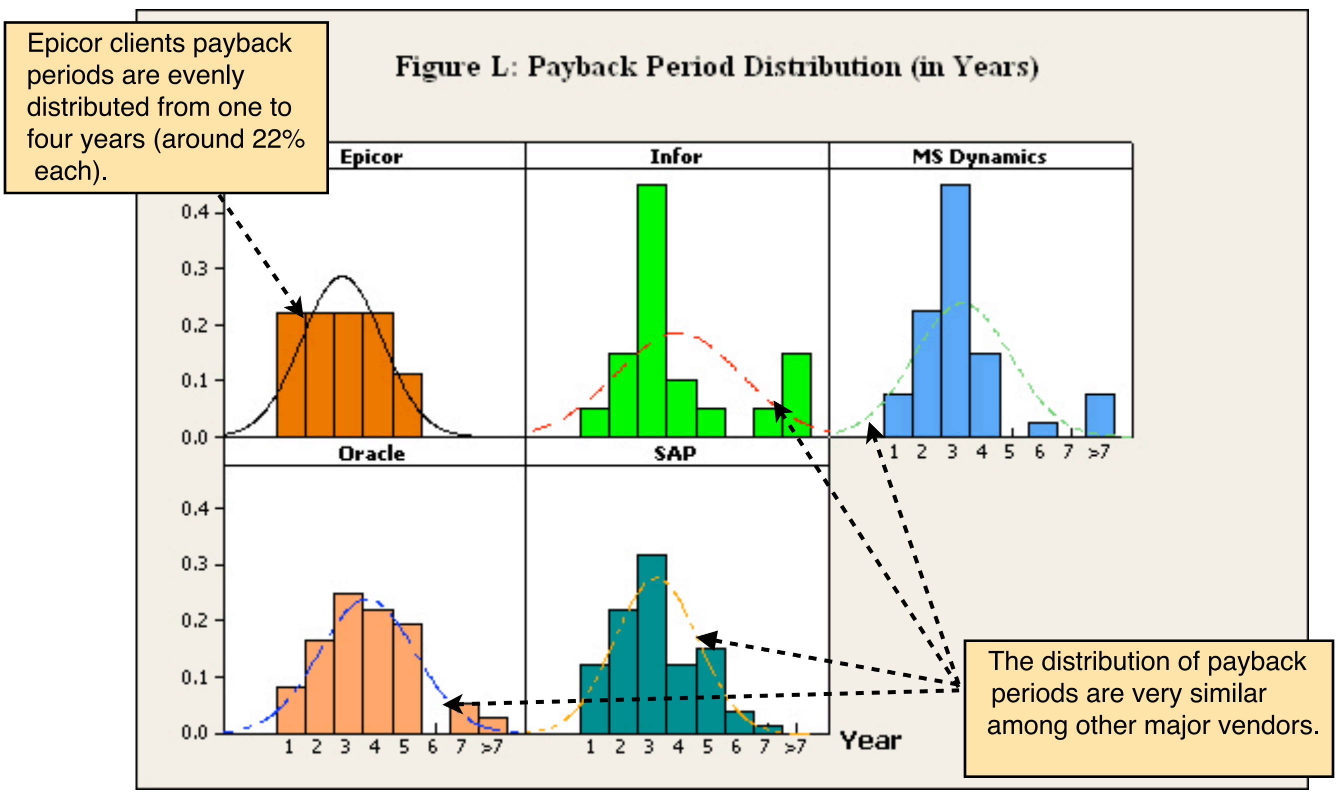


Figure L: Payback Period Distribution (in Years)

Companies Tend to Customize Their ERP Software

While Panorama's report found that only 25% of companies choose to heavily customize or completely customize their ERP software, the majority of companies tend to do at least some customization during implementation. Nearly half of the companies surveyed (47.8%) chose mostly vanilla customizations with at least some customization to the software. Only 28.3% implemented with no customization at all.

Since customizing an ERP package is inherently expensive, complicated, and tends to delay delivery of the obvious benefits of an integrated system, companies are not willing to take a lot of risk when customizing their ERP packages. However, most companies need to customize their ERP packages to suit their business's needs. No software package can meet 100% of a business specific requirements. The high rate of mostly vanilla customization projects (47.8%) indicates that limited customization is the choice for companies who understand the importance of the process but are trying to avoid the risks and delays resulting from heavy customization.

Figure M: Customization Level

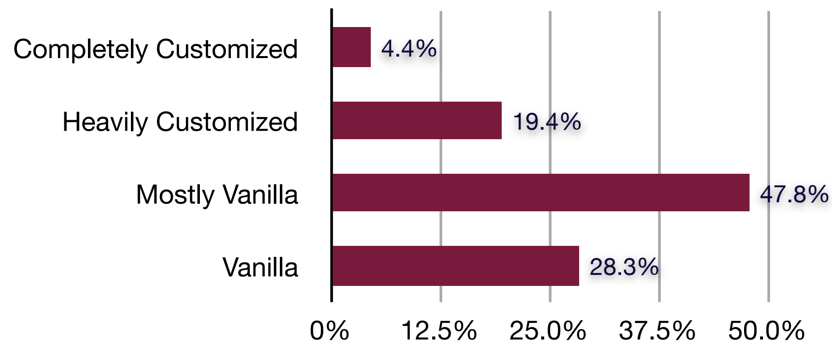
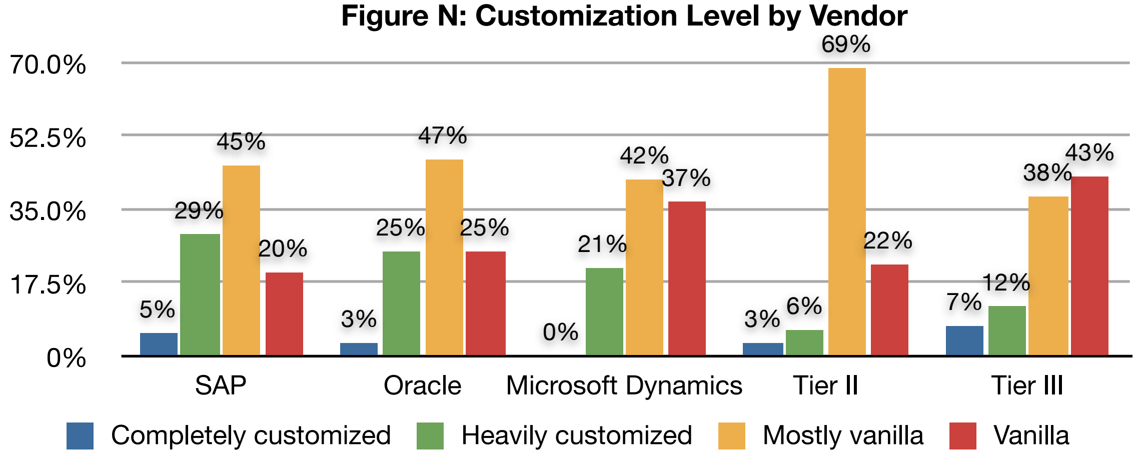


Figure N shows that the leading three Tier I vendors have fairly similar customization rates. These three vendors have small percentages of complete customization and higher percentages of mostly vanilla implementations. Although 22% of Tier II clients and 43% of Tier III clients chose vanilla customizations, 69% of Tier II clients and 38% of Tier III clients chose at least some customization. This indicates that small and mid-size enterprises that chose Tier II or Tier III software also required some customization to fit their business processes.

Figure N: Customization Level by Vendor



Most Are At Least Fairly Satisfied With Their Selected Software Vendors

The survey responses show that almost half of companies (49.8%) are "fairly satisfied" with their selected ERP software vendor (Figure O). The second highest response was "very satisfied" (18.9%) while just 3.5% are "satisfied." Therefore, 72% of companies are at least fairly satisfied with their selections. As noted in previous Panorama studies, satisfaction levels can be misleading. Some executives are just happy to complete projects, protect the company from risk and give little thought to whether or not the company is better off with the new software or whether or not they're getting as much out of the system as possible. In addition, post-implementation user satisfaction differs from initial selection satisfaction. ERP users achieve high satisfaction levels through advanced operational processes and robust functionality. A forthcoming Panorama study will research leading factors for higher employee satisfaction.

Figure O: Satisfaction Level

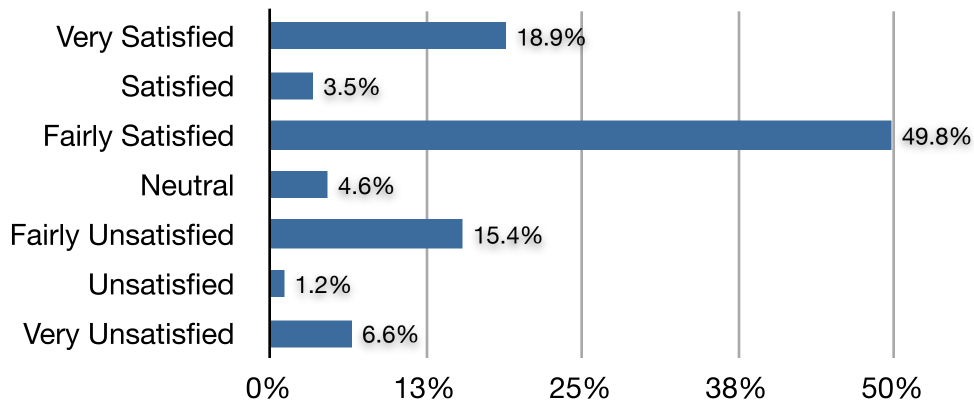
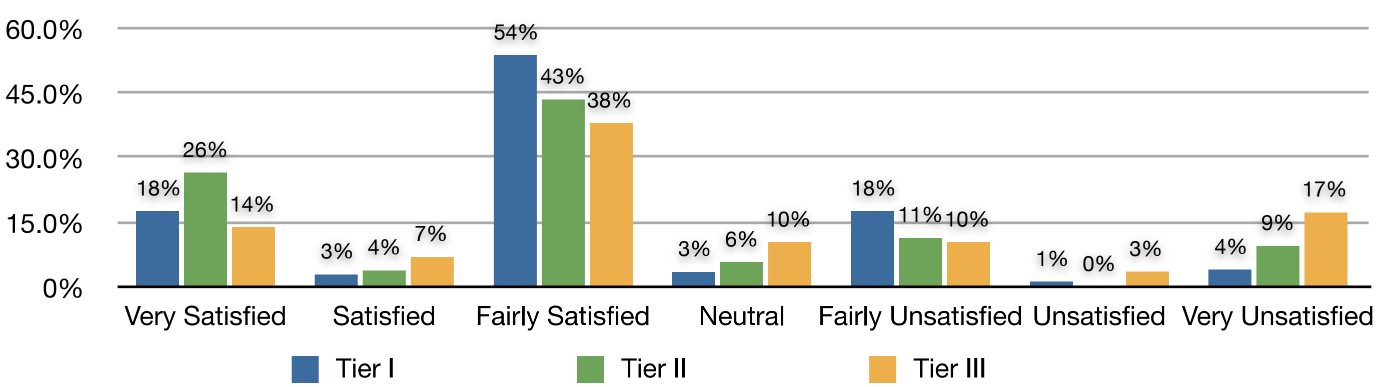


Figure P indicates selection satisfaction with respect to software vendor tiers. Most companies rate themselves as "fairly satisfied" within any of the three vendor tiers. Almost 75% of companies are at least "fairly satisfied" with Tier I software, 73% of Tier II clients are at least "fairly satisfied" with their selections, and almost 70% of Tier III clients are at least "fairly satisfied" with their software.

Figure P: Satisfaction by Vendor Tiers



Despite Vendor Selection Satisfaction, Overall Realized Benefits Are Low

Overall, most companies' realized benefits fall below 50% of what they expected to achieve. Notably, 55% of companies realized 30% or less of expected business benefits (Figure Q). These failures are especially evident with Tier I and Tier III clients. Nearly 70% of Tier I clients and 72% of Tier III clients fail to realize at least 50% of business benefits (Figure R).

Figure Q: Realized Benefits - Market Overall

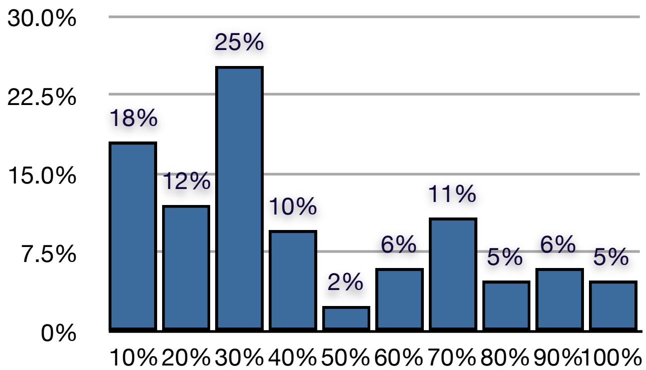


Figure R: Realized Benefits by Vendor Tiers

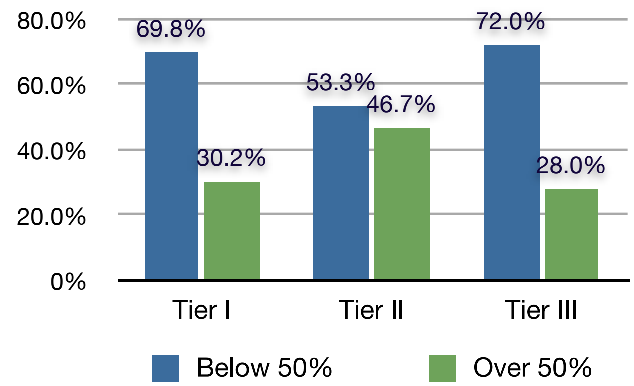
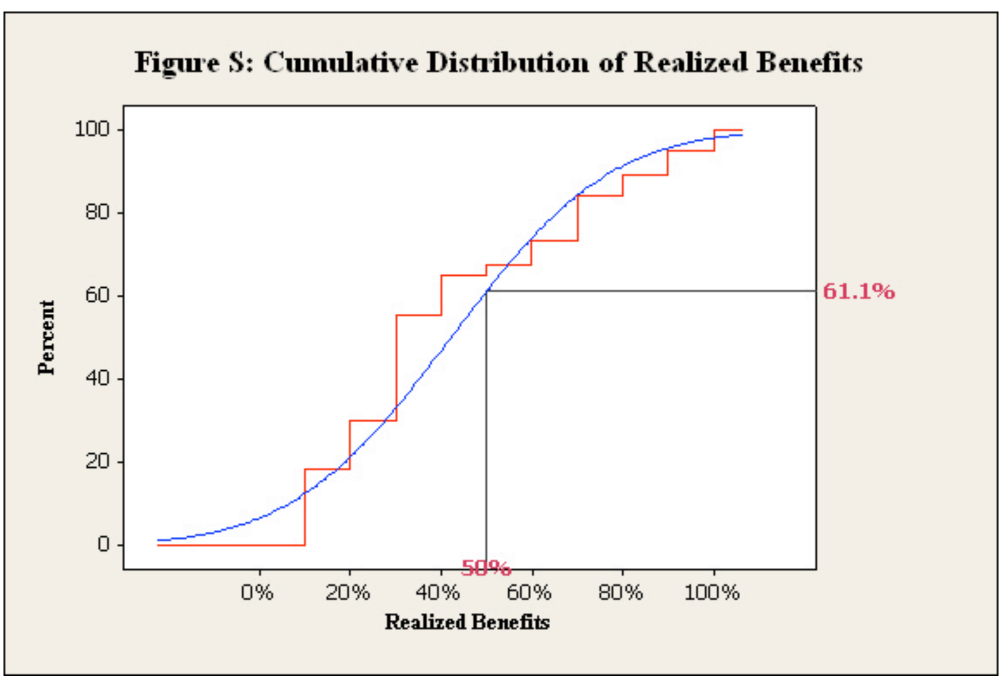


Figure S shows that once companies realize 20% of business benefits, the marginal utility of realized benefits begins to decrease. This means the chance of getting higher realized benefits becomes smaller. The red line shows actual realized business benefits, and the blue line shows expected realized benefits. The expected chance of failure to deliver 50% of business benefits is 61.1%, which provides for only a 38.9% probability of realizing over 50% of business benefits.



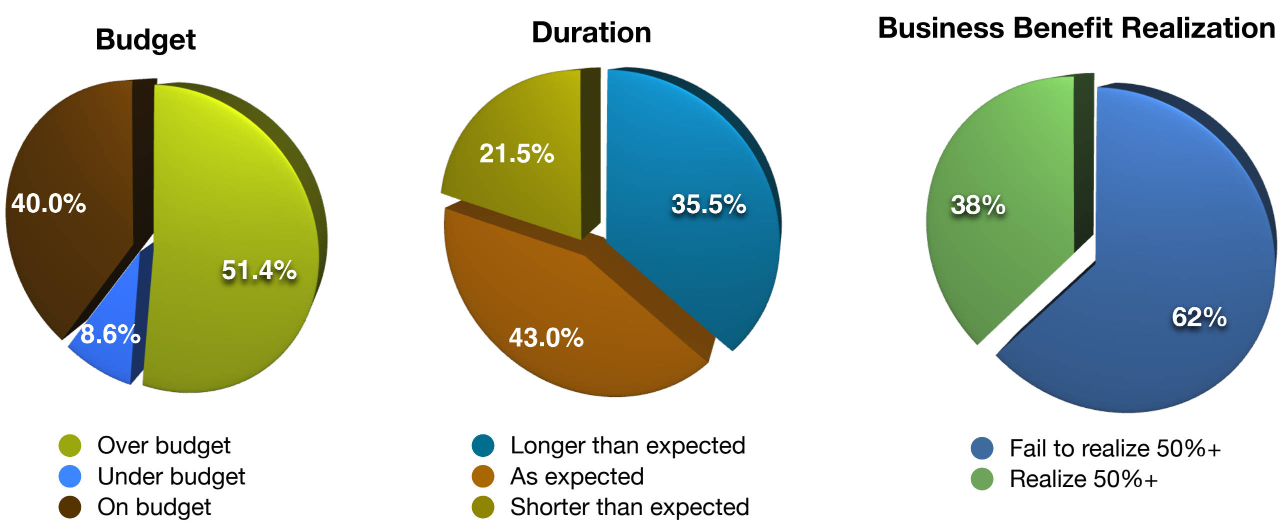
Panorama's findings show that realized business benefits are independent from selection satisfaction. The rationale behind this is most likely due to the fact that satisfaction with software selection is usually the result of a smooth evaluation process, while realized implementation benefits result from the success of various other factors. CIOs are usually happy with selection as long as the ERP package suits the needs of management.

Companies who don't have a business case to quantify realized benefits may be unable to accurately measure go-live results. The **2010 ERP Report** showed that 15% of companies don't have a business case. In such cases, the satisfaction levels may be over-estimated because executives don't have the proper models to quantify how much more they could achieve. Selection satisfaction is not enough, best-in-class enterprise software initiatives also include effective organizational change management activities to ensure employees are comfortable, efficient, and productive with the new system.

Risk Factors Most Likely to Occur During Implementation

Figure T shows the three risks identified in the survey responses: over-budget, over-time, and failure to deliver 50% of business benefits. Most implementations go over budget (51%) and fail to realize at least 50% expected business benefits (62%). In addition, a large proportion (36%) take longer than expected to complete.

Figure T: Risk Factor Likelihood



Given the high percentage of these unfavorable factors, there is a very high probability that one or more will happen during implementation. Based on the probability analysis of the entire sample, there is a nearly three out of four chance (72.4%) that at least one negative result will occur and a nearly one in three chance (31%) that two or more negative results occur in any given implementation.

Tips for Selecting the Right ERP Software Package

Panorama consultants lead clients through a complete evaluation to ensure that ERP software vendors are aligned with the company's individual business requirements. The following tips are based on our experience with dozens of client companies and over 150 software vendors:

1. Understand the total cost of ownership. Very little of a typical ERP project's total budget is spent on ERP software licenses. In fact, our research shows that the average percentage of cost is approximately 25%. The remaining 75% of the budget is typically devoted to implementation services, hardware upgrades, software maintenance, customization, backfilling internal project team resources, and so forth.

2. Understand the real implementation demands. Implementations rarely take as little time as software sales representatives will claim. Although efforts must be made to control extended timeframes, it's just a fact that successful ERP implementations take considerable time. A detailed implementation plan should be developed prior to the final decision, and this plan should include details on business process design, configuration, testing, conference room piloting, end-user training, data migration, and more.

3. Conduct an organizational readiness assessment. No ERP project succeeds without addressing the end-users of the software. Conducting an organizational readiness assessment prior to making the final ERP decision will help identify pockets of resistance within the company and determine the organizational change management needed to make the project successful.

4. Negotiate with your selected ERP vendor. Some companies spend a great deal of time and money analyzing and selecting a system and then forget to negotiate a fair deal with the vendor. There are several effective ways to negotiate a fair cost and contract terms that help optimize overall cost of ownership.

Conclusion

The current ERP market is experiencing both growth and challenges. The issues Panorama identified in this research have been experienced by the surveyed companies for various reasons, not least of which is due to their choice of vendor. Companies that select the right ERP software and address issues properly will improve their chances of completing a successful ERP project on time and on budget.

Panorama Consulting Group offers independent ERP software selection and implementation expertise and tools to reduce the total cost of ERP implementation and optimize measurable business benefits. On average, Panorama clients implement their ERP packages in 10% less time and at 50% less cost than they would without our guidance. For more information about our proprietary tools, industry expertise and ongoing analyses, please visit our web site at **www.panorama-consulting.com**.

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 across the globe. Independent of affiliation, Panorama helps firms evaluate and select ERP software, manages 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.

Panorama's expertise focuses on three service offerings:

- ERP software selection
- ERP implementation
- ERP organizational change management

More information can be found on its web site, **www.panorama-consulting.com**. Contact Panorama at 303-256-6253 or **info@panorama-consulting.com**.