PANORAMA
CONSULTING GROUP

2021 ERP REPORT

INTRODUCTION

Every year, Panorama analyzes industry trends to understand organizations' selection and implementation practices when it comes to enterprise software. This year's report provides data and insights on recently completed and ongoing projects. These trends are relevant across industries, organization sizes and geographic locations.

While the report contains data from 2020, Panorama believes that the positive correlation between a people and process focus and optimal benefits realization will hold true throughout 2021.

The findings from this year's report point to one important concept:

A STRONG FOCUS ON ORGANIZATIONAL CHANGE MANAGEMENT IS CRITICAL WHETHER AN ORGANIZATION IS PERFORMING AN ERP UPGRADE, AN ERP IMPLEMENTATION OR A DIGITAL TRANSFORMATION.

TABLE OF CONTENTS

RESPONDENT OVERVIEW

Jan 2020 - Nov 2020 Data Collection Timeframe	**246** Average Number of Software Licenses Purchased
112 Number of Respondents	**41%** Percentage of Multinational Organizations
$28.4 million Average Annual Revenue	**57%** Percentage of Organizations That Have Completed Implementation
4,466 Average Number of Employees	**6 Months** Average Months Since Go-live

Industry Breakdown

3.4%   3.4%   2.3%   1.1%   1.1%
30.7%
4.5%
8.0%
9.1%
10.2%
10.2%
11.4%

- ■ Manufacturing
- ■ Information Technology
- ■ Distribution and/or Wholesale
- ■ Public Sector
- ■ Professional Services
- ■ Retail
- ■ Other
- ■ Energy & Resources
- ■ Construction
- ■ Financial, Insurance, Real Estate
- ■ Agriculture
- ■ Healthcare
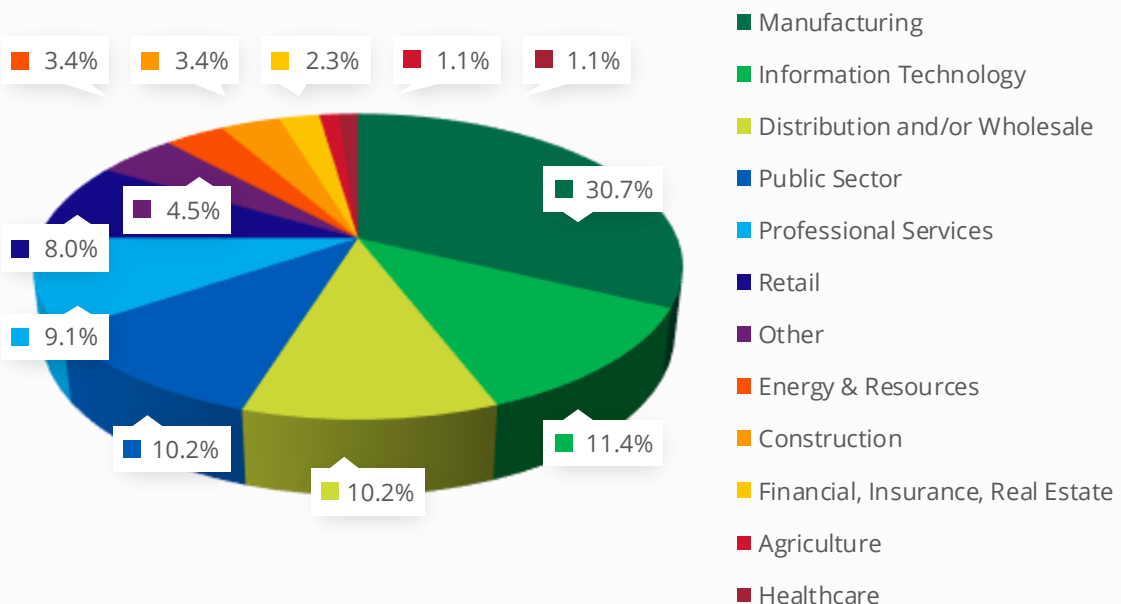
2020 LOOKBACK

01. In February, Koch Industries, a multinational corporation that already owned some of Infor, bought the remaining stake in Infor.

02. In February, Acumatica, an ERP vendor, acquired manufacturing software provider, JAAS Systems.

03. In February, SAP announced extended support for ERP 6.0 and Business Suite 7. The new deadline for mainstream maintenance is now the end of 2027, and the new deadline for extended maintenance is the end of 2030.

04. In February, Salesforce acquired industry-specific CRM provider, Vlocity.

05. In March, The World Health Organization (WHO) declared the COVID-19 outbreak a global pandemic.

06. In May, Microsoft acquired telecommunications software company, Metaswitch Networks.

07. In July, Aptean, a global provider of enterprise software acquired specialized food and beverage ERP provider, DIN Solutions.

08. In September, Oracle entered into a deal with Walmart to buy part of mobile app, TikTok.

09. In October, Clayton, Dubilier & Rice acquired Epicor Software.

10. In November, SAP acquired omnichannel customer engagement tool, Emarsys.

11. In November, IFS, an ERP vendor, acquired provider of field service technology, Clevest Solutions Inc.

ERP SELECTION & IMPLEMENTATION

This year has been unlike any other, especially from an economic perspective. One thing remains constant, however: Organizations still have an ever-increasing number of ERP systems to choose from. Many of these ERP systems provide a wide range of capabilities and have built-in industry best practices.

With so many functional products on the market, organizations often experience ERP selection challenges. This section of the report provides selection advice and analyzes the decisions of the organizations involved in our study.

Tier I

These systems are designed for enterprises with more than $750 million in annual revenue. Most enterprises of this size are complex, either due to complex operational processes or complexity in their entity structure and consolidation needs. Tier I applications address multiple industries and scalability.

EXAMPLES

SAP S/4HANA, Oracle ERP Cloud, the Infor CloudSuites

Upper Tier II

These systems typically serve small to midsized organizations with $250 million to $750 million in annual revenue. Organizations of this size may encompass multiple industries and multiple business units.

EXAMPLES

Microsoft Dynamics 365 Finance, IFS, Sage X3, Epicor E10

Lower Tier II

These systems typically serve small to midsized organizations with $10 million to $250 million in annual revenue. These organizations usually represent only one industry and have a single entity to manage.

EXAMPLES

NetSuite, abas, IQMS, Plex, Microsoft Dynamics 365 Business Central, SYSPRO, Acumatica

Tier III

There are hundreds of software providers in this tier serving mostly smaller organizations. However, there are also some very robust point solutions with niche functionality that are often used to supplement a larger ERP system.
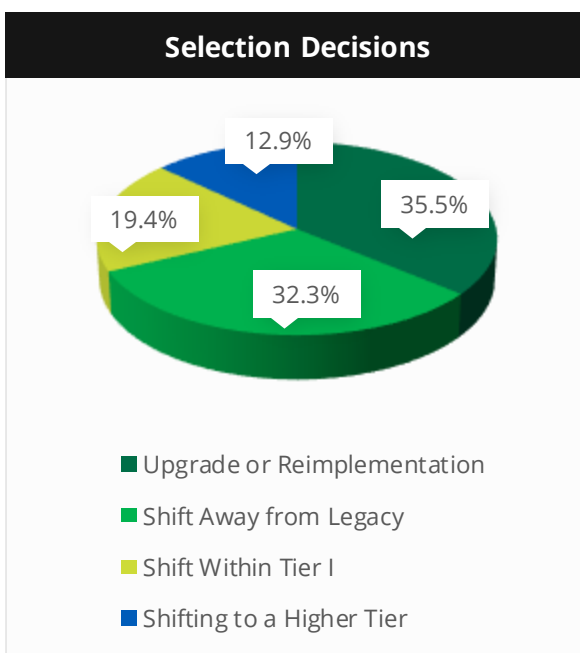
EXAMPLES

Sage ERP 100, Sage ERP 300, Aptean, ECI, ASC

ERP Selection Decisions

When selecting an ERP system for both current and future business goals, it is important for organizations to consider what functionality they will need within the next five years. Once an organization understands its goals, it can determine if a particular vendor would be a good fit in the long-term. choose large vendors

Organizations with a long-term strategy that involves rapid growth and innovation often look to large ERP vendors, like SAP, Oracle and other Tier I providers. An advantage that large vendors have over smaller vendors is additional applications in their portfolio to complement their main ERP system. This could be anything from an artificial intelligence (AI) solution to a business intelligence (BI) application to IoT technology.

However, Tier I is by no means the category to find the best ERP software for every organization. Below is an overview of the variety of selection decisions of organizations in our study:

Selection Decisions

- 12.9%
- 35.5%
- 32.3%
- 19.4%

- ■ Upgrade or Reimplementation
- ■ Shift Away from Legacy
- ■ Shift Within Tier I
- ■ Shifting to a Higher Tier

→ Upgrading or Reimplementing

Based on our data on organizations' original software and their future software, it appears that many organizations decided to keep their current ERP system and upgrade it or reimplement it. In other words, the system they indicated they were replacing was the same system they said they were selecting.

Compared to last year, there was a 14% increase in organizations that retained their existing system.

In our experience, many organizations that intend to upgrade their system end up reimplementing it instead. For example, if an organization has a heavily customized ERP system, an upgrade may essentially be a reimplementation.

Despite the challenges of upgrading, it appears that many organizations are deciding to keep their current software. Some of these organizations were likely unhindered by excessive customization because their original implementation involved strong project governance throughout the project and post-implementation.

However, this is usually not the case if the system is an on-premise legacy system because the years following implementation often involve a litany of change requests from employees frustrated by outdated functionality or a lack of scalability. If the organization lacks strong project governance, it will acquiesce to these change requests and over-customize the legacy system.

Sunsetting: A Sign You Shouldn't Stick with Your Current System

One of our nonprofit clients had been using Dynamic SL for about 20 years, and they wanted to expand their use of the system by integrating third-party software for warehousing and logistics. However, a product roadmap revealed the solution was going to be sunsetting (e.g., losing support). That is when the nonprofit organization started considering other products and hired us to provide ERP selection guidance.

→ Shifting Away from Legacy Software

In today's competitive business environment, many organizations are finding they have no choice but to implement a modern system if they want to keep pace with their competitors. This was the case for 32% of respondents who reported their recent technology initiative involved replacing their legacy system.

One of the areas where legacy systems fall short is advanced analytics. Legacy systems are unable to integrate and analyze large amounts of data or provide real-time data insights.

Real-time data is especially important when it comes to improving the customer experience or optimizing the supply chain.

For example, when inventory is managed through a modern ERP system with real-time data, inventory data is far more accurate than it would be in a legacy system. This is because modern ERP systems are fully integrated systems with strong connectivity. These systems have advanced capabilities that provide actionable analytics powered by artificial intelligence and machine learning, enabling organizations to make smart business decisions.

→ Shifting to Another Tier I

This was a relatively uncommon scenario among respondents, which is unsurprising as organizations would need a very compelling business reason to switch to a system that is fairly comparable to their existing system.

Tier I systems are comparable in that they are all highly scalable and well-suited for a variety of industries. While compelling reasons to switch often do exist, we have found that many organizations do not take the time to develop a business case, so if there was a reason to switch to another Tier I system, they would never know. Thus, they do not bother switching even when their current system is causing pain points.

Here are two questions we ask clients who are considering a move from one Tier I system to another:

| Is there another product from the same ERP vendor that can address your business needs?	Can your company handle the risk of another Tier I ERP implementation?
If an organization finds that most of its pain points can be traced back to its ERP system rather than its people or processes, then it may want to consider whether its current vendor has other viable solutions. Remaining with the same vendor can be a wise choice because the vendor may have incentives for organizations to stay in their family of products. Another advantage of this approach is that it can be less risky and time-consuming, especially in terms of data migration.	Tier I systems are complex and robust. If an organization already has a Tier I system, this is not news to them, but they may not be prepared for the complexity of a modern Tier I system because their frame of reference may be a system that is more than five years old. Considering the advances in technology over the last five years, a Tier I implementation today requires even more resources and expertise and even stronger organizational change management.

→ Shifting to a Higher Tier

our company is not huge company, maybe not ready for tier 1

Only 13% of organizations moved to a higher tier ERP system. This was the least common scenario, which could be due to the fact that the capabilities of Tier II and Tier III ERP systems are now more advanced than ever. This means that organizations have less reason to move to a Tier I system as they already have a system with the right depth of functionality and scalability. Even if they implemented these systems many years ago, these may be cloud ERP systems that the vendor has been automatically updating on a regular basis.
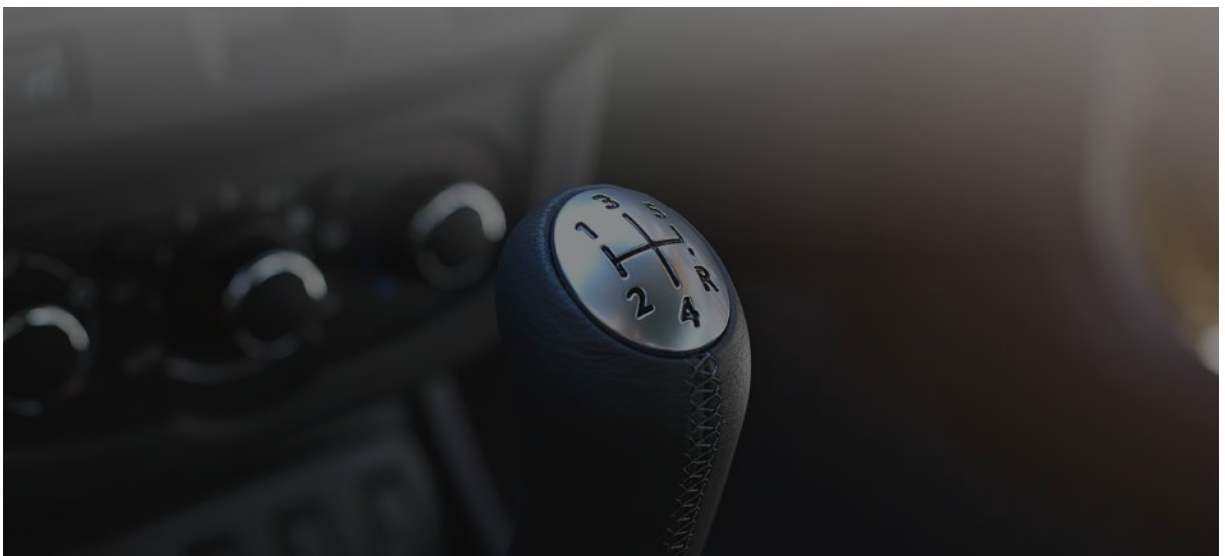
ERP System Satisfaction

In our experience, system dissatisfaction among employees is common, especially among organizations that neglected organizational change management. However, system dissatisfaction among decision-makers and project team members is more telling about the actual suitability of an ERP system.

Almost a quarter of organizations in our study were dissatisfied with the ERP system they selected and/or upgraded to. Compared to last year, this was a 13% increase in dissatisfaction.

System Satisfaction

13.2%   5.3%   15.8%   31.6%   34.2%

- Very Dissatisfied
- Dissatisfied
- Neutral
- Satisfied
- Very Satisfied
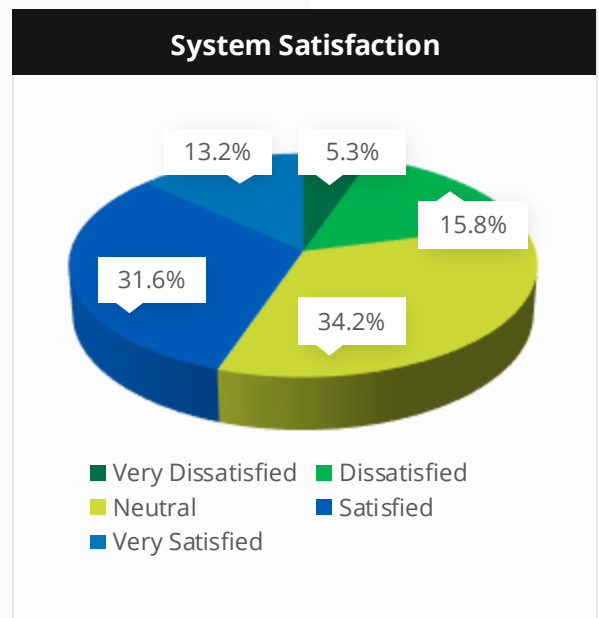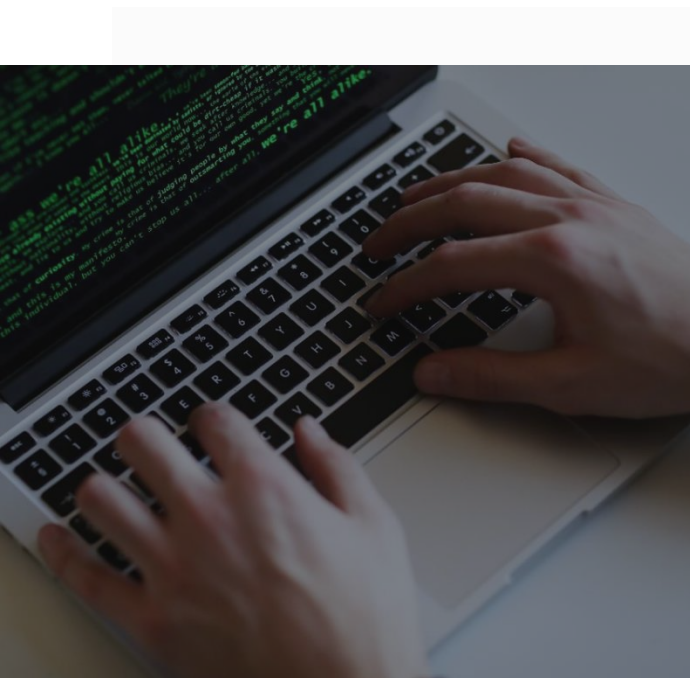
This increase in dissatisfaction is interesting considering the increase in the percentage of organizations that realized expected business benefits (discussed later in the report). While this may seem contradictory, one reason could be that organizations are comparing their systems to what they see in their personal life on their mobile phones.

company should use b2c and ease use system

In other words, their satisfaction often depends on the ERP system's ease of use when compared to phone interfaces and B2C applications. B2B systems typically lag behind the consumer-driven technology of companies like Amazon and Uber.

In terms of organizations that kept their current system instead of implementing a new system, these organizations likely had more realistic expectations when it came to user interface. Instead of being dissatisfied by the user interface, these organizations may have been dissatisfied when it came to the upgraded software's ability to meet all their business and technical requirements. This is why it's essential to seek selection guidance, which fewer organizations did this year (as discussed later).

We need to choose something more mature and versatile and fit businese requirement system

The Cloud

Cloud ERP software is that which is hosted in datacenters where providers manage the platform. This software is accessed over the Internet, instead of locally within a computer.

In our study, we asked organizations about the type of software they selected, the type of hosting they used and the deployment model they chose.

→ **Cloud vs. On-premise ERP Software**

More than half of organizations selected cloud software instead of on-premise software.

Type of Software

53.1%   46.9%

■ On-premise
■ Cloud

Advance cloud SAP
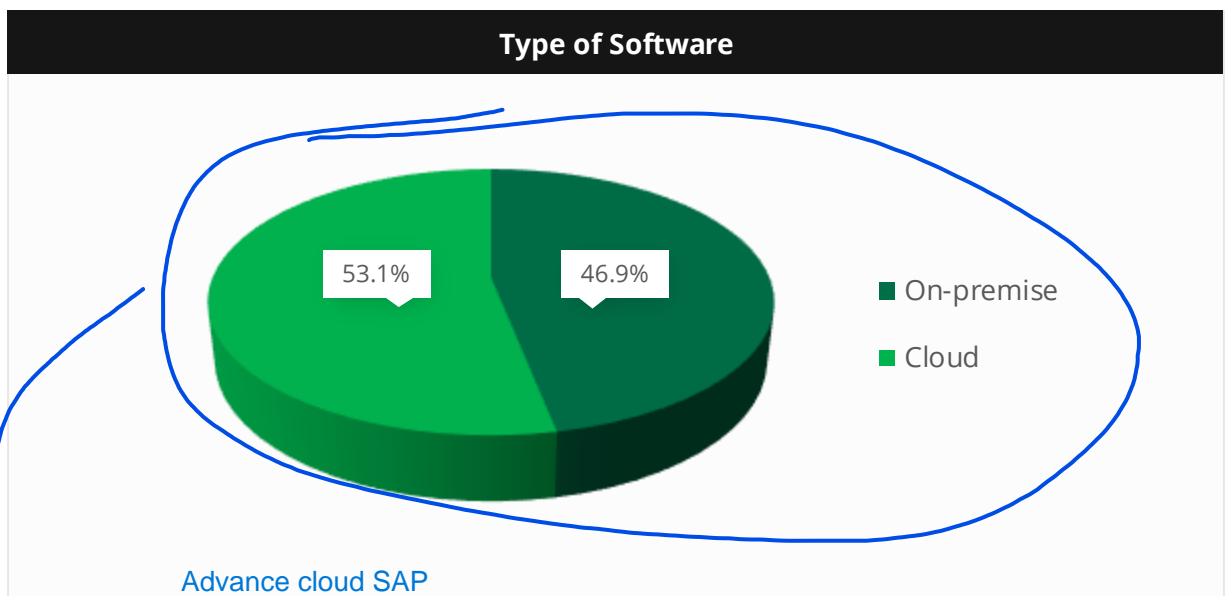
While on-premise ERP systems require manual upgrades, many cloud ERP solutions receive automatic updates from the vendor, and the organization usually has little choice in the matter. These updates or upgrades require minimal time and effort. In other words, the respondent organizations that said their project was an upgrade likely fall outside this category.

Some cloud ERP solutions, particularly SaaS-based ones, receive notifications when an update is available, allowing the organization to choose when or if they accept the update.

When they do accept the update, the process is significantly more time-intensive than an automatic update. This is because many organizations have cloud software that is integrated with on-premise systems or systems in separate clouds. These integrations must be retested in the new version.

→ Deployment Models

More than three-quarters of organizations that selected cloud ERP used a SaaS model as opposed to a hosted model.

Each of these models has benefits and drawbacks that may or may not align with an organization's digital strategy. One benefit that attracts organizations to the SaaS model is the relative ease of use. SaaS software is fully managed by the vendor, meaning updates are automatic.

However, one of the drawbacks of SaaS is that updates can change process flows, which means organizations need to invest in continual training and process documentation. Another disadvantage is that organizations have limited ability to enhance the software themselves.

Deployment Model

23.5%

76.5%

■ Hosted   ■ SaaS
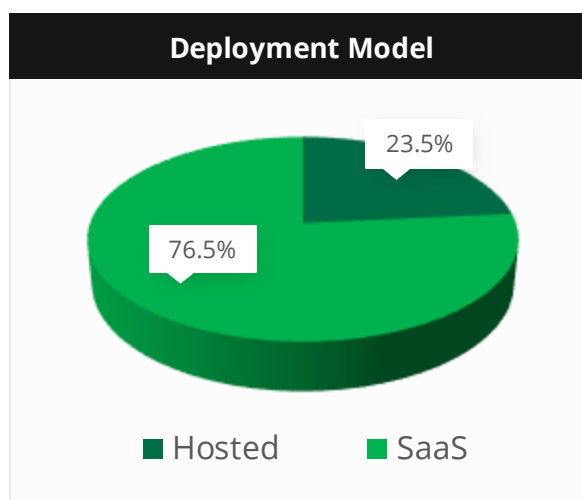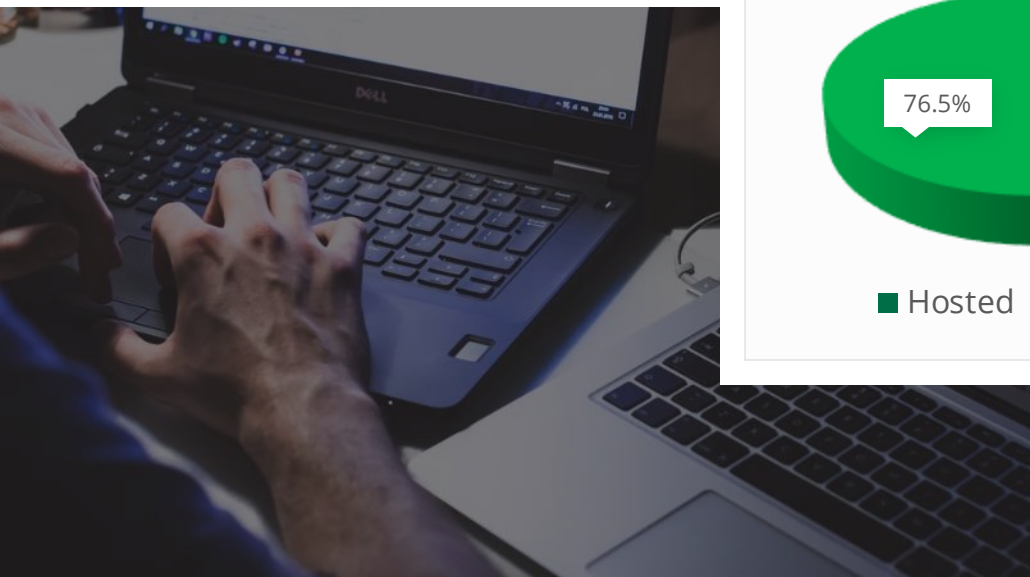
→ Hosting Options

Less than a quarter of organizations that selected on-premise ERP hosted their software externally.

As discussed in the following section, many of the organizations that selected on-premise software were concerned about the risk of data loss or a potential security breach. This explains why so many decided against external hosting of their on-premise software.

ERP Hosting Options

20.0%
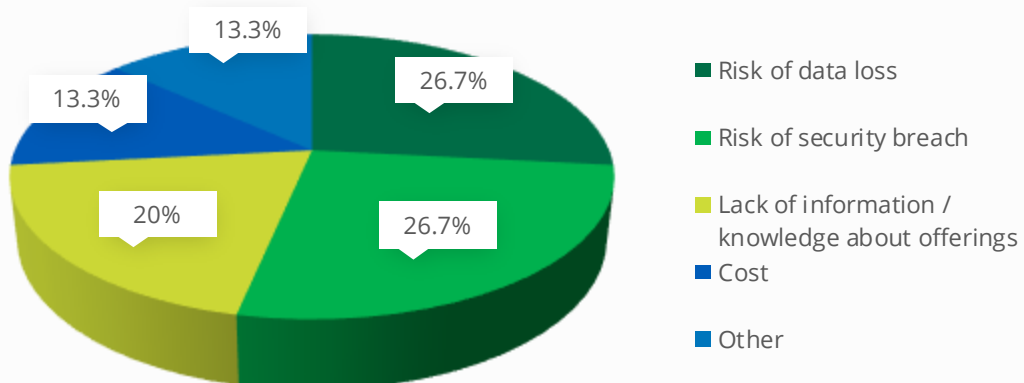
80.0%

■ Internally   ■ Externally
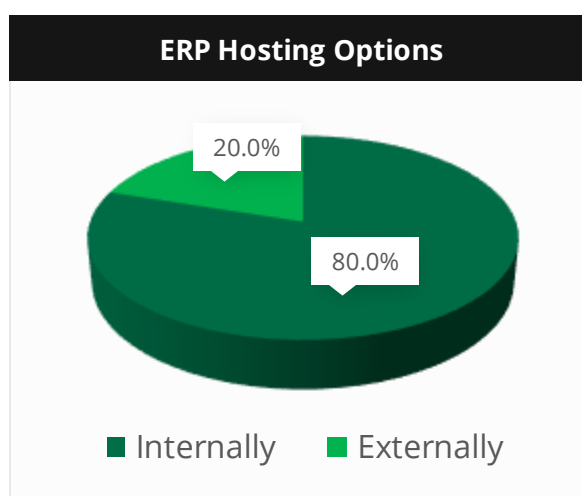
→ Reasons for not Choosing Cloud ERP

Among those organizations that did not choose cloud ERP, the most common reasons were "risk of data loss" and "risk of security breach." This is different than last year where the most common reason was "lack of information / knowledge about offerings."

As cloud ERP becomes more commonplace in the industry, organizations are no longer in the dark about cloud offerings; they are simply trying to fill in their knowledge gaps when it comes to data and security.

The least common reason for not choosing cloud ERP deployment or external hosting was cost. Last year, this was not among the reasons that organizations mentioned. It seems as organizations become more informed about cloud ERP, they are realizing the long-term cost of the cloud can actually exceed the cost of on-premise software.

Reasons For Not Choosing Cloud

- 13.3%
- 26.7%
- 13.3%
- 20%
- 26.7%

- ■ Risk of data loss
- ■ Risk of security breach
- ■ Lack of information / knowledge about offerings
- ■ Cost
- ■ Other

Digital Business Transformation vs. ERP Implementation

According to Gartner, digital business transformation is defined as "the process of exploiting digital technologies and supporting capabilities to create a robust new digital business model."

Less than half of organizations described their project as a digital business transformation.

In our experience, most projects fall somewhere in between an ERP implementation and a digital transformation. For example, large and complex organizations often take on digital transformation, while less complex organizations may opt for a business optimization project, which is a middle ground between the two extremes.

While digital transformation typically involves customer journey mapping and business process reengineering, an ERP implementation involves less significant organizational changes. In fact, in many ERP projects, organizations prioritize the adoption of ERP best practices. In other words, they improve most of their processes to fit the industry pre-configurations of their chosen ERP system.

We have found that digital business transformation is a buzzword that is frequently misused. A common confusion is referring to an ERP upgrade as a digital transformation. This is far from accurate because most upgrades do not even reach the low end of the spectrum (ERP implementation).

The two exceptions would be if an upgrade required a reimplementation due to technical challenges, such as excessive customizations, or if an organization

created a new digital business model but was satisfied with its current system other than the fact that it needed an upgrade.

Regardless of the type of project an organization is pursuing, it is important to define business goals and ensure the people, processes and technology components of the projects align with these strategic objectives.

Type of Project

53.0% 47.0%

■ ERP Implementation
■ Digital Business Transformation
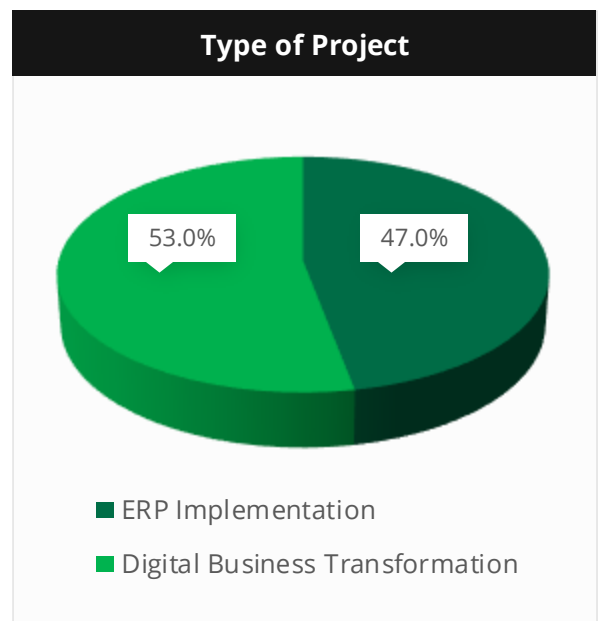
Implementation Approach

When deciding on an implementation approach, organizations should carefully weigh the options, as the ideal strategy depends on many factors.

For example, how long will it likely take for employees to adapt to the new ERP system? How much risk is the organization comfortable with? How much money is the organization willing to spend? These are just a few questions to ponder before choosing an implementation approach or upgrade strategy.
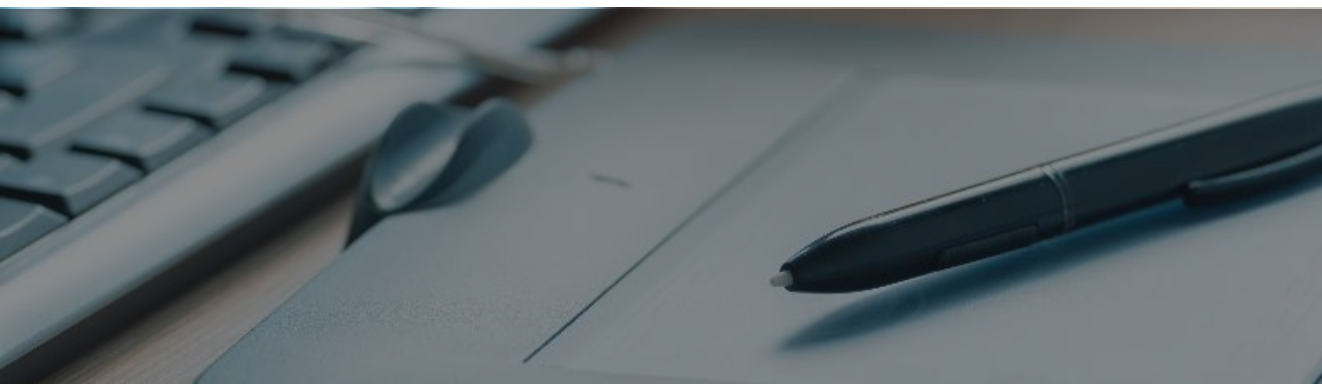
→ The Phased Approach

Like last year, this approach was the most common. This is likely because it is the lowest risk option for most organizations regardless of their size.

In a phased implementation, employees move to the new system in a set of predetermined steps. This is not only less risky from a technical perspective, but it is also less risky from an organizational perspective – users have more time to learn and adapt to the new system.

Unfortunately, this approach takes longer than the big bang approach, and adjustments may be necessary along the way to keep the old and new systems temporarily bridged. Bridging the two systems is essential during a phase-by-module implementation because the first modules to be implemented may not properly function without data from modules yet to be implemented.

Implementation Approach

7.1%

32.1%

10.7%

17.9%

32.1%
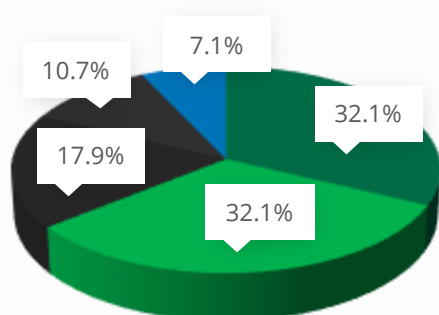
- ■ The big bang approach
- ■ Hybrid approach
- ■ Phased approach by module
- ■ Phased approach by location
- ■ Phased approach by business unit

Client Story:

One of our clients is in the paper & forest products industry. Before guiding them through an ERP selection, we developed a phased implementation plan for their future system. The plan spanned from 2019 until the end of 2023 and included an advanced human capital management implementation phase as well as a potential enterprise asset management implementation phase.

→ The Big Bang Approach

In this scenario, organizations go live with all modules and offices at the same time. This is a common approach for implementations involving only one or two business units.

For large implementations involving several business units, the big bang approach is very risky because there are multiple business units simultaneously going live on a new system.

Despite the risks, the big bang approach can work well for organizations that want a faster, less costly implementation. Organizations that do use the big bang approach should develop a contingency plan to account for the possibility of the new system crashing or unforeseen organizational issues.

Since last year, there has been a 7% increase in organizations using this approach. This makes sense considering that the average organization size was smaller this year.

→ The Hybrid Approach

This approach combines several different phasing approaches based on an organization's unique needs.

In a typical hybrid implementation, organizations may choose to use the big bang approach for smaller business units and a phased approach for larger business units.

There has been little change in the popularity of this approach year over year.

STRATEGIC ALIGNMENT

When upgrading a current system or implementing new software, organizational alignment is essential. Stakeholders should be aligned around organizational goals to ensure the three essential project components – people, processes and technology – all stay focused on achieving these goals.

People, Processes and Technology

In our experience, companies tend to focus most of their attention on the technical aspects of projects. However, to achieve expected business benefits, organizations must focus just as much, if not more, on the people and process aspects.

For example, before selecting ERP software, it is important to define a digital strategy and look for opportunities for improvement within current state processes. It also is essential to communicate with employees before selection so they feel involved in the project and can mentally prepare themselves to adopt new processes and technology.

→ Technical Aspects are Easier Than People and Process Aspects

Of those organizations that completed implementation, nearly three-quarters found the process change aspects of their projects difficult or very difficult. Even more found the organizational change aspects difficult or very difficult. In contrast, only 8% of organizations found the technical aspects of their project difficult or very difficult.

Difficulty of Different Aspects of Implementation
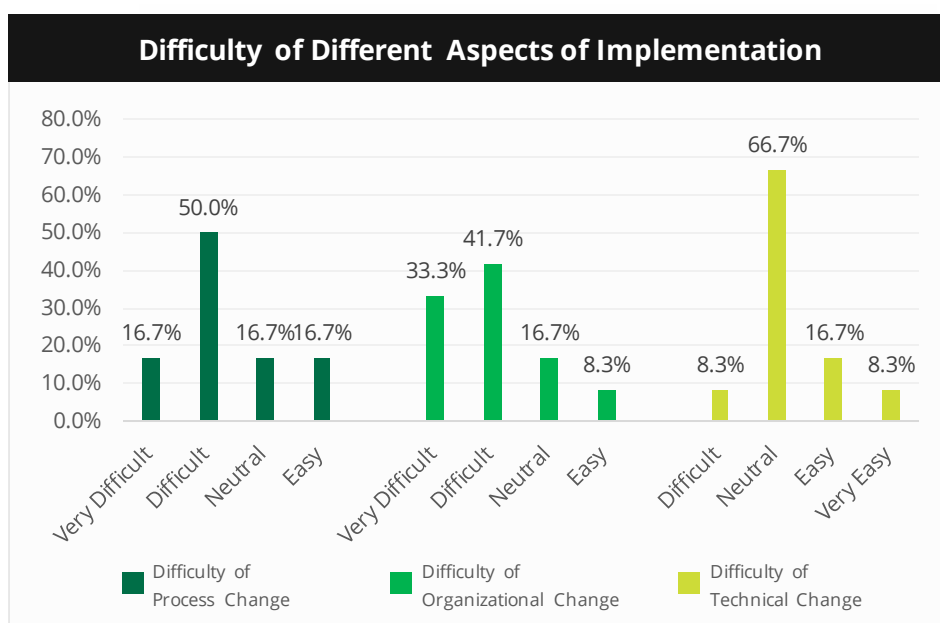
The most significant change from last year's report was a 26% decrease in the reported difficulty of technical aspects. This makes sense considering organizations were smaller than last year.

The difficulty of organizational change and process change was similar to last year, which isn't surprising considering what we've experienced with clients.

For example, in project recovery engagements, we often work with organizations that improved their business processes after selection and were forced to customize their software to meet their needs. Customization is one challenge that organizations often associate with the difficulty of process change.

In terms of the difficulty of organizational change, we have seen that most of our clients' leadership teams are indifferent toward organizational change management. In other words, project managers and senior leadership overlook the importance of a structured change management plan when it comes to mitigating the difficultly of organizational change.

→ **Consultants can Make Organizational Change Easier**

Later in the report, we analyze organizations' use of consultants. When that data is correlated with the above data, we find that of those that sought change management guidance from a consultant, only 33% found the organizational change aspects difficult or very difficult. Compare this to the 67% of organizations overall that found organizational change difficult.

One of the most difficult organizational change aspects of ERP projects is gaining employee buy-in. Change management consultants are valuable in this respect because they can help organizations understand the impacts of change for each employee group. Then, consultants can use this information to help organizations develop targeted communication plans.
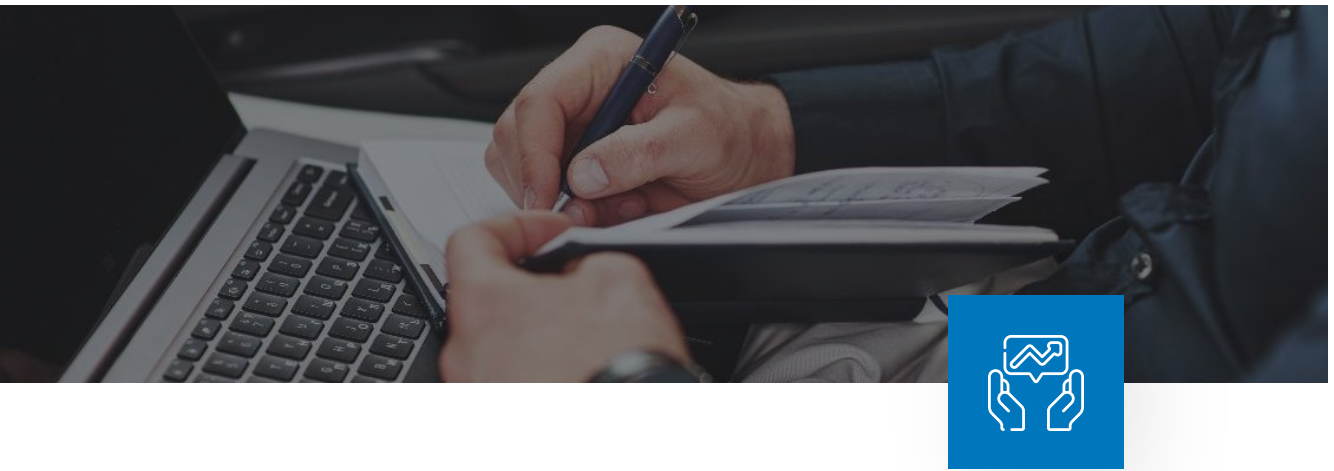
Expected vs. Actual Business Benefits

One of the top warning signs of ERP failure is the lack of a business case and benefits realization plan. When organizations quantify how they expect the new system will improve their business, they can refer to these key performance indicators (KPIs) throughout the project to ensure they are on track to realize benefits.

Almost three-quarters of organizations that completed implementation realized the full amount of each expected benefit outlined to the right. Last year, about 20% fewer organizations realized benefits in three of these categories.
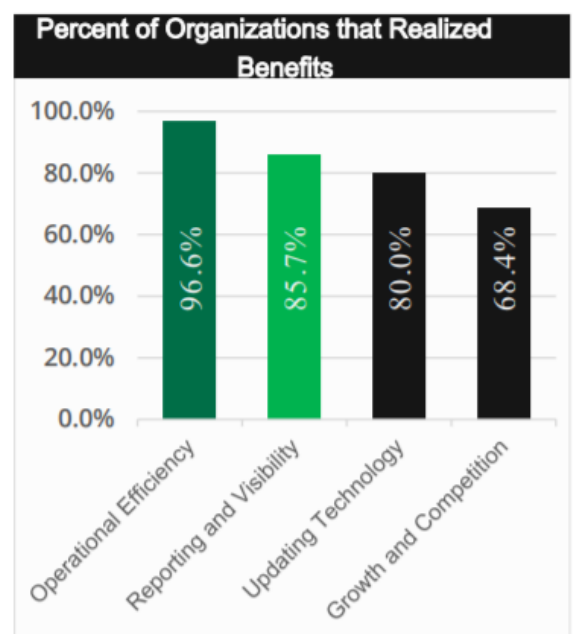
The increase in benefits realization could be due to the fact that smaller organizations participated in our study this year. Smaller organizations tend to complete projects faster than larger organizations, which often means faster benefits realization.

In addition, many of the respondents upgraded their current software instead of implementing a different system, and upgrades generally are faster than implementing a new system.

Finally, as discussed later, more organizations had a strong focus on business process management compared to last year. When organizations improve more of their processes, and the improvements are aligned with organizational goals, this often leads to increased business benefits.

However, the question still remains as to whether organizations in our study aimed very high when setting their benefits realization goals. If they were not ambitious in their goal-setting, then the strong benefits realization this year might not be closely related to business process management.

Percent of Organizations that Realized Benefits

Operational Efficiency	96.6%
Reporting and Visibility	85.7%
Updating Technology	80.0%
Growth and Competition	68.4%

→ Operational Efficiency Benefits

Among the different types of benefits, organizations are most likely to realize efficiency-related benefits. Following are some examples of the operational efficiency benefits we included in our survey:

- Improving productivity and efficiency
- Reducing operating and/or labor costs
- Optimizing inventory levels
- Removing silos
- Standardizing operations

In a world transformed by COVID-19, efficiency has never been more important. For example, the ability to quickly respond to supply chain disruptions allowed some manufacturers to meet customer expectations, while less agile manufacturers struggled to meet demand.

The organizations in our study were likely facing the challenges COVID wrought across industries, so they prioritized efficiency-related benefits when developing their ERP benefits realization plan and when implementing their new software.

→ Reporting and Visibility Benefits

Following are some examples of the reporting and visibility benefits we included in our survey:

- Gaining access to real-time data
- Gaining access to real-time data

With real-time data becoming increasingly important to maintaining competitive advantage, organizations in our study are likely dedicating more time, money and resources to ensuring their ERP project enables these capabilities.

While today's ERP software has more advanced business intelligence than in the past, this fact alone does not increase organizations' chances of achieving reporting-related benefits. In addition to technical capabilities, organizations need employees and processes that will support these capabilities. This is why we always recommend clients focus on change management and business process management as early as possible.

One of our clients lacked a manufacturing execution system (MES). While their current system tracked some data, other data had to be manually calculated. This caused discrepancies in production numbers and inventory data. We recommended the client implement an MES system that integrated with manufacturing equipment to capture data such as scrap, downtime, maintenance and labor. It is expected the organization will realize cost savings from these data insights. For example, the organization will be able to detect and fix quality issues during production runs.

→ **Growth and Competition Benefits**

Following are some examples of the growth-related benefits included in our survey:

▸ Improving the customer experience

▸ Improving interactions with suppliers

▸ Building new operating models

COVID has changed the competitive landscape, and many organizations have been fortunate to simply remain profitable. However, this did not prevent the organizations in our study from improving their customer service and their supplier relations.

Did this translate into revenue growth? We do not know, but many organizations in our study did achieve goals that generally would lead to growth in a typical year.

Most likely, organizations in most sectors did not have high aspirations for growth this year, so they pursued growth-related benefits with the intent to mitigate the new risks they were facing.

→ **Technology Benefits**

The technology-related benefit included in our survey was "Reducing IT maintenance costs."

As expensive as IT maintenance can be, it is surprising that so few organizations sought this benefit. Of those that did, though, almost all realized it.

Considering that so many organizations said their project was an upgrade or reimplementation and yet, so few anticipated IT maintenance cost savings is contradictory since upgrades are known for reducing maintenance costs. However, considering the monolithic task of creating a benefits realization plan, it is not surprising that organizations struggled to include each and every potential benefit.

Creating a thorough benefits realization plan is essential to measuring ROI and demonstrating to executives that the ERP investment had significant positive impacts. We recommend assembling a dedicated and knowledgeable team with stakeholders from across the organization as well as ERP consultants that can pull from their previous experience to ensure no potential benefit is left unturned.
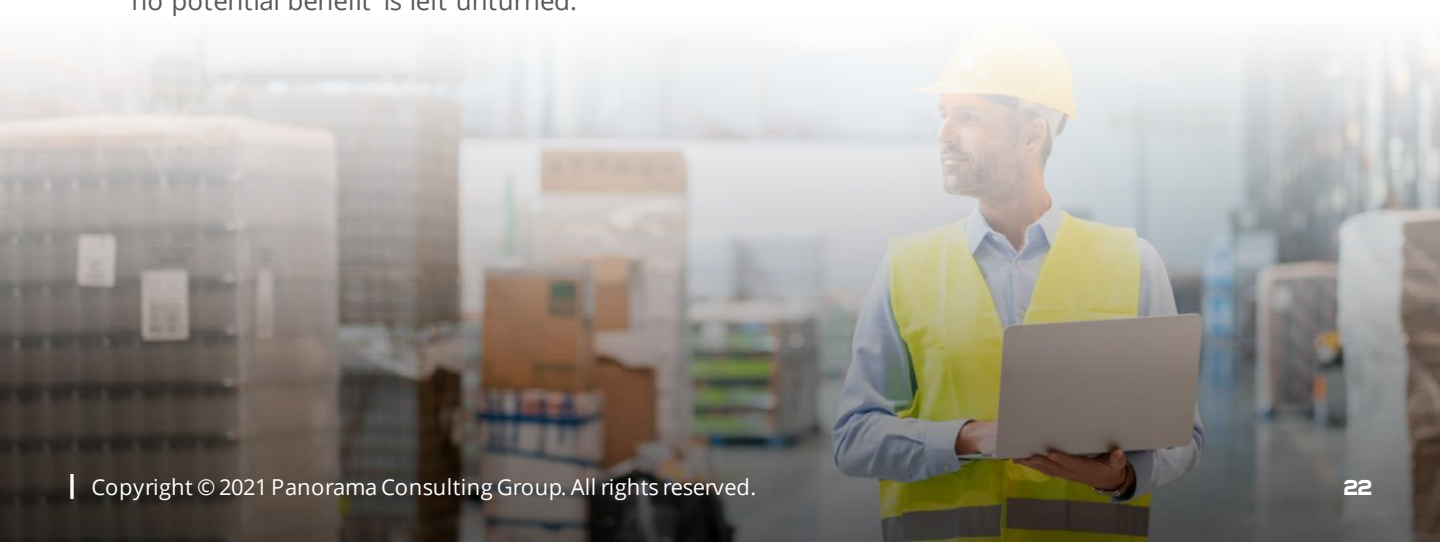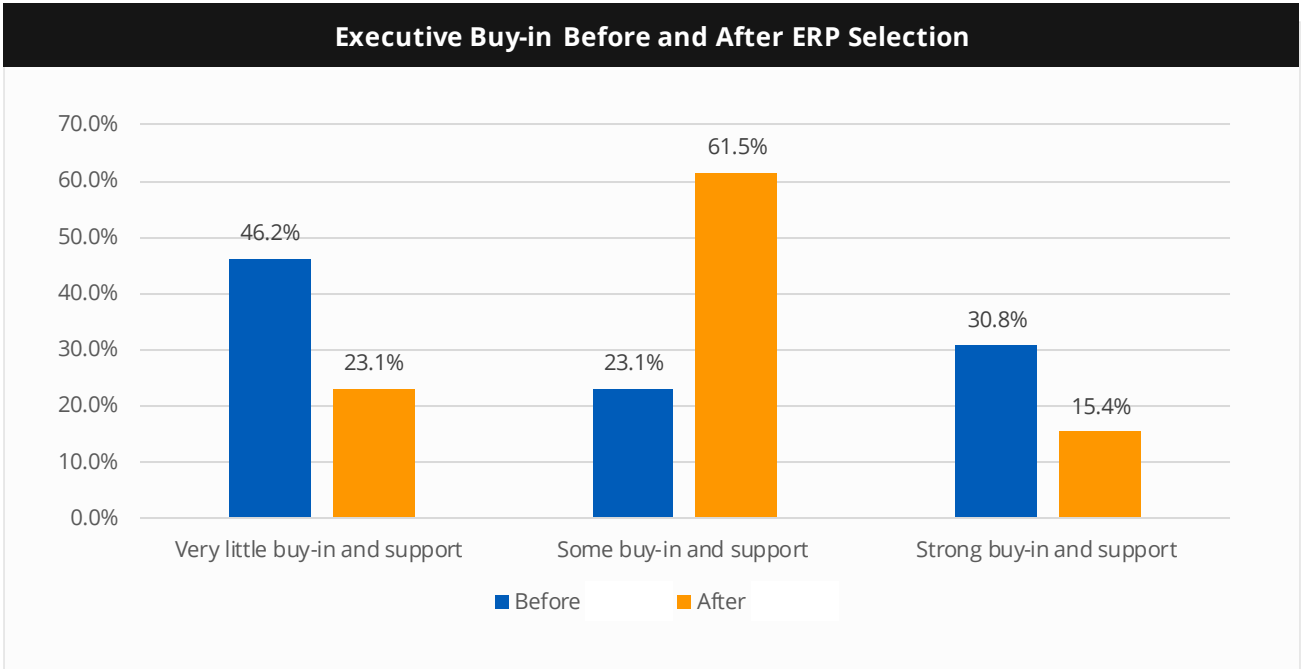
Executive Buy-in & Involvement

Executive buy-in ensures the ERP project aligns with an organization's business goals. It also ensures that decisions are made in a timely manner and resources are appropriately allocated.

→ **Executive Buy-in can Decrease Throughout the Project**

Among organizations that completed implementation, executive buy-in before selection was all over the board, but after selection, executives appear to have decided where they stand, and ultimately, it was somewhere in the middle.

Executive Buy-in Before and After ERP Selection

Bar chart titled "Executive Buy-in Before and After ERP Selection":

Category	Before	After
Very little buy-in and support	46.2%	23.1%
Some buy-in and support	23.1%	61.5%
Strong buy-in and support	30.8%	15.4%

Case in point:

Of those organizations that had little executive buy-in before selection, 67% had at least some buy-in after selection, and of these, 75% reported working with consultants.

It seems like it takes quite some time for executives to adjust to the idea of an ERP project. As with most new ideas, an ERP project receives strong, polarized reactions at first, but given time, the initial shock dissipates.

However, this does not happen on its own. To help executives reach a point where they truly understand the project and its benefits, we recommend working with an ERP consultant.

→ **How to Gain Executive Buy-in**

01. Understand What Executives Want from a New System

While this may sound simple, it is extremely powerful. It engages executives, and at the same time, it gives you the information you need to plan a project that executives will support.

02. Engage a Third Party

An ERP consultant can add credibility to your case for new ERP software or an ERP upgrade. Executives may be more likely to listen to an independent expert than their own staff.

03. Research Success Factors and Potential Risks

If executives are not grasping the importance of buy-in, then pull figures from our reports. These data points can help demonstrate the need for executive involvement.

04. Understand Current Pain Points

Ask employees about their pain points and communicate these to executives by showing how an ERP system can address them.

05. Develop a Business Case

Executives need to know the total cost of ownership of the new system over the next five years. They also want to know about business benefits and cost savings over time.

06. Provide Options

Executives typically like to see a variety of options. While it may seem like a new ERP system is the only viable option, it is important to show executives that other options have been carefully considered.

07. Develop a Risk Management Plan

Having a plan in place ensures that the organization can mitigate risks that the project team may not see. This will assuage executives' fears about potential cost overruns, timeline overruns and major operational disruption.

08. Seek Alliances from Other Functional Areas

Any given pain point is likely to be a pain point in other departments, as well, so be sure to recruit proponents of change from across the organization. The more people that support the business case, the more likely executives are to seriously consider it.

09. Learn from Previous Change Management Failures

Organizations should investigate previous change management initiatives conducted by the company. What worked? What did not? Share with executives how this next project will approach change management differently.

Consultants

ERP implementation expertise is critical when it comes to setting realistic expectations and following best practices based on previous experience. Often, the best way to find this expertise is by engaging a third-party, like an ERP consultant or business transformation consultant.
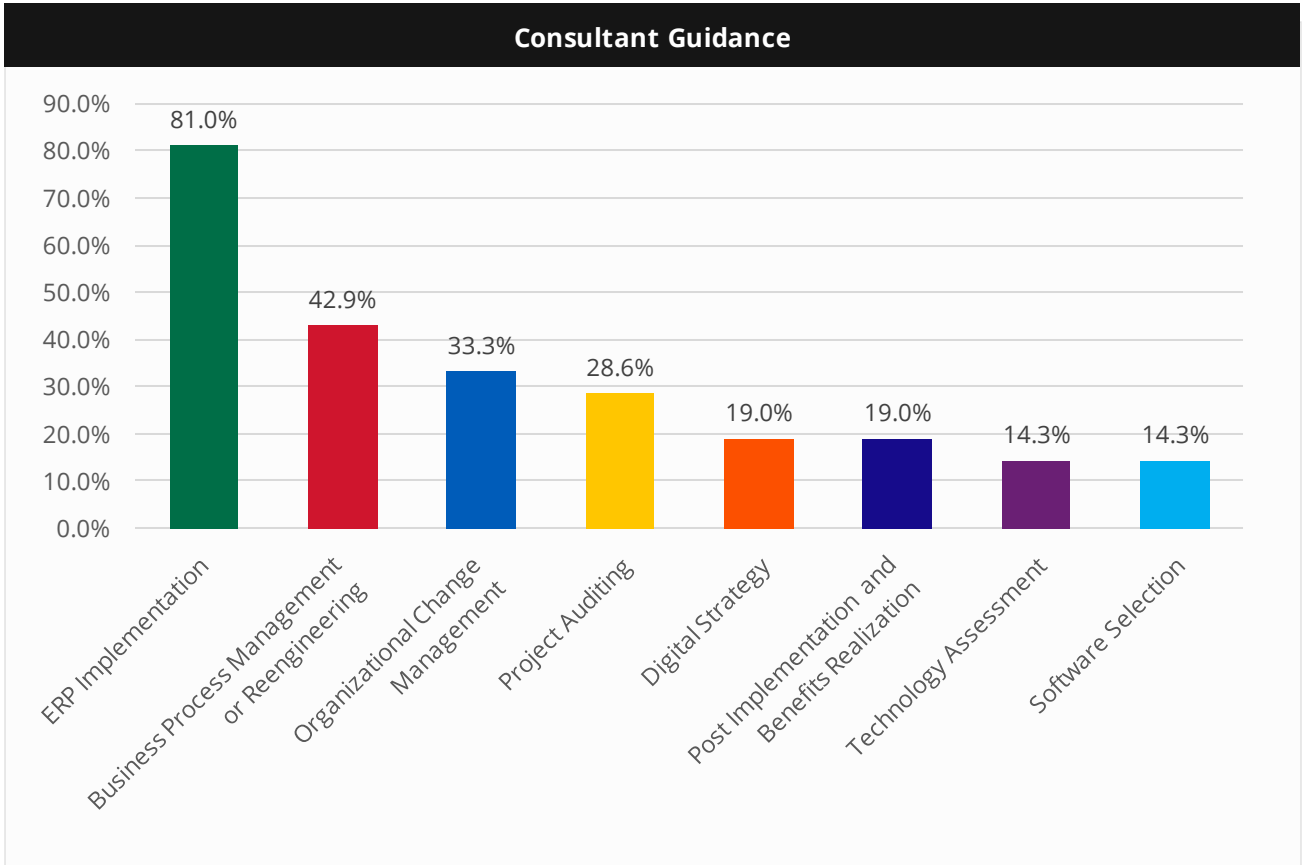
Three-quarters of organizations in our study used some type of consultant to assist with their project, and the most common guidance sought was ERP implementation guidance.

The need for implementation guidance among 81% of respondents and the fact that 35% of respondents said their project was an upgrade seems to indicate that 16% of respondents either reimplemented their current system or misunderstood the term "implementation" in our survey.

In terms of those organizations that truly sought implementation guidance, they likely did so because they lacked adequate in-house technical resources, either in terms of the number of resources or level of expertise.

In fact, many organizations, especially smaller organizations, have no experience implementing modern ERP software. Our clients often fall into this category. They seek guidance on all components of implementation, including the people, process and technology aspects.

Consultant Guidance

Category	Percentage
ERP Implementation	81.0%
Business Process Management or Reengineering	42.9%
Organizational Change Management	33.3%
Project Auditing	28.6%
Digital Strategy	19.0%
Post Implementation and Benefits Realization	19.0%
Technology Assessment	14.3%
Software Selection	14.3%

→ **Is Change Management Guidance Essential for Upgrades?**

One of the most important principles of technology projects and business transformations is this: **All technology initiatives that involve any amount of organizational change require at least some focus on change management.**

Although many of our respondent organizations were relatively small in size and/or organizations that kept their current system, this principle applies to them, as well. Unfortunately, only 33% of all respondents sought change management guidance.

This could indicate more resistance toward change management from executives of smaller companies who want to save money during challenging economic times.

It also is a reflection of the type of technology initiatives respondents undertook this year compared to previous years. Upgrades generally require less investment in change management because the change is relatively minor and usually contained to a few functional areas. This leads these organizations to believe they can succeed by simply focusing on employee communication.

In reality, even upgrades and smaller implementations require more than just employee communication. Hypothetically speaking, if a project actually did only require employee communication, the organization still would need to take a strategic approach that required expert guidance.

It appears that respondent organizations do not share this opinion, which is not surprising because change management awareness is generally strongest among organizations pursuing major technology projects and digital transformations.

→ **No Interest in Other Vendors**

Most of the organizations that held onto their existing software appeared to have arrived at this decision without external guidance. This is evidenced by the fact that, compared to last year, there was a 20% decrease in the percentage of organizations seeking software selection guidance and a 32% decrease in the percentage of organizations seeking technology assessment guidance.

If an organization is certain it wants to do an upgrade, it does not need selection guidance. However, if there is any doubt, we recommend at least conducting a technology assessment because it is important to have options and to weigh the costs and benefits of each.

Many ERP consultants provide technology assessment services where they examine the organization's current IT systems and assess whether these systems will support business requirements or if a new system is needed. This is helpful for organizations that need a stronger business case to present to executives. The C-suite likes to see that other options have been considered, even if an upgrade is the ultimate recommendation.

For organizations that are not upgrading, third-party selection guidance ensures that business needs are prioritized over technological "bells and whistles" when comparing vendors. It also gives organizations access to recent user experience insights from the consultant's other clients.

One of our wholesale supply clients hired us to assist in evaluating ERP vendors. However, after we mapped their processes, we concluded that the company was not ready for a new ERP solution, at least not without first conducting some process improvement.

PEOPLE & PROCESSES

Whether an organization is implementing new software or upgrading its existing software, it stands to realize a higher ROI if it approaches the project as a business initiative rather than an IT initiative (all other things being equal).

Shifting focus from IT strategy to business strategy is no small feat. Navigating the wide array of technology options is time-consuming, leaving little time to consider process improvement and employee enablement.

Business Process Management

Every technology initiative is an opportunity for business process management. This might mean simply documenting current processes, or it might mean going one step further and improving current processes.

The organizations in our study seem to understand that an opportunity to look at one's processes should not be wasted. Half of organizations improved most of their business processes as opposed to improving only key processes or not improving processes at all.

Last year, only 37% of organizations improved most of their business processes. One reason for the increase in this year's report could be ERP vendors including more industry pre-configurations in their systems. This requires organizations to change more of their company's existing processes to fit the system so they can avoid customization. This often includes processes that the organization did not find concerning during process mapping sessions. This is an opportunity to take excellent processes and make them even better.

The economic downturn has made organizations acutely aware that the status quo is no longer sufficient to gain or even maintain market share. Respondent organizations that had a strong focus on process improvement are in a good position to exceed the status quo and enable mobility, process performance control and pipeline management.

Another change from last year was the decrease in the percentage of organizations that did not improve any processes. This approach is often taken when organizations want to avoid change resistance among employees. However, it is not ideal when it comes to achieving measurable business benefits because the ERP system will simply automate existing inefficiencies.

It is encouraging to see that organizations in our study understand this concept and fewer are neglecting business process management. This could be one of the reasons for the increase in benefits realizations discussed earlier.

Focus on Business Process Management

- 50.0% Improved most business processes
- 43.8% Improved key business processes
- 6.3% We did not improve business processes
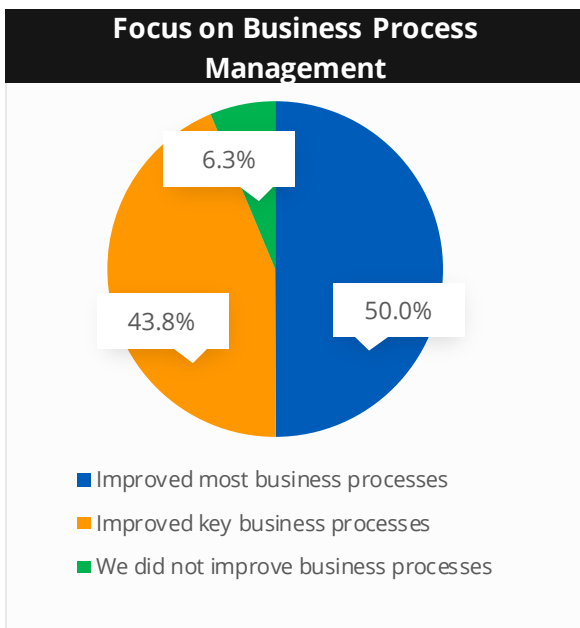
→ **Transforming the Customer Experience**

Our clients often focus their process improvement efforts on the customer experience. Following are some opportunities for customer experience transformation we have found throughout our engagements:

‣ Integrating CRM and ERP functionality to expedite and improve customer service

‣ Using advanced analytics capabilities to enhance customer intelligence

‣ Leveraging mobile and eCommerce technology to enhance the customer experience

‣ Augmenting physical products/services with digital products/services

One of our clients is in the occupational health & safety industry. In addition to providing selection guidance, we also took the opportunity to evaluate the company's business processes and identified where the company could improve and meet best practices.

Organizational Change Management

Organizations that dedicate the right amount of focus to change management typically see the following results:

▶ High system adoption

▶ Increased productivity

▶ High benefits realization

Of those organizations that completed implementation, most dedicated a moderate focus to change management.

We typically recommend that clients dedicate an intense focus to change management. We help these clients prepare employees for change well before implementation by conducting readiness assessments and developing a change management plan. We do this because we know that employee adoption directly impacts the effectiveness of technology. This is especially true when dealing with a distributed or remote workforce.

→ **Employee Communication is Essential**

One of the most important aspects of change management is communicating with employees by emphasizing the who, what, why and how of the change. More than half of respondents communicated with employees about change before selection.

In last year's report, we found that only 30% of respondents communicated before selection. While it is encouraging to see an increase this year, only 71% of these respondents indicated they developed a communication plan when asked what change management activities their organization performed.

Regardless of when communication occurs, it will be ineffective unless accompanied by a strategic plan. A communication plan ensures clear roles and responsibilities (change management lead, project sponsor, etc.), and it outlines the specific messages to be delivered to each type of stakeholder.
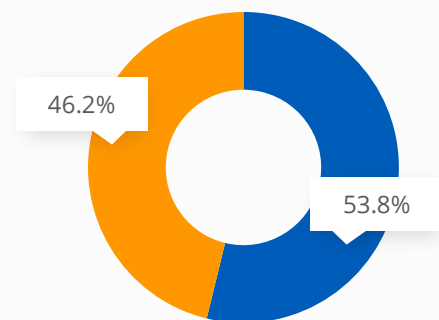
Focus on Change Management

23.1% 23.1% 53.8%
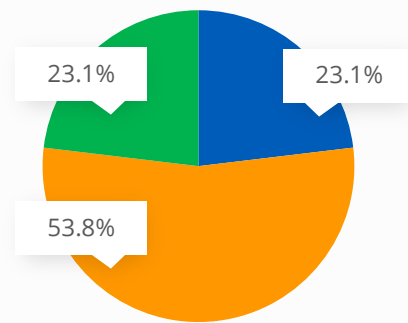
■ Very little or no focus on change management
■ Moderate focus on change management
■ Intense focus on change management

One of our clients is in the meat processing industry and was moving from manual processes and old systems to a modern system. However, their ERP vendor only provided a basic change management program. The organization recognized the need for more comprehensive change management, so they asked us to fill in the gaps. We developed a robust communication plan and change management plan to address the significant differences between the legacy systems and the new system. We ensured the plan accounted for the organization's multiple locations, each with unique requirements and different languages.

Timing of Employee Communication

46.2% 53.8%

■ Before selection
■ During selection/implementation

→ **Essential Change Management Activities**

The most common change management activities among organizations that completed implementation were conducting customized training and developing a communication plan. The least common change management activity was developing a coaching plan for leaders.

Only two of the twelve activities mentioned below were performed by at least half of organizations. Last year, six of these activities were performed by at least half of organizations. The decreased focus on change management activities in this year's report is likely a reflection of fewer organizations seeking change management guidance.

Among the activities the majority of organizations overlooked was a coaching plan for leaders. This refers to the plan that an organization might develop to guide change leaders in coaching employees.

Change Management Activities
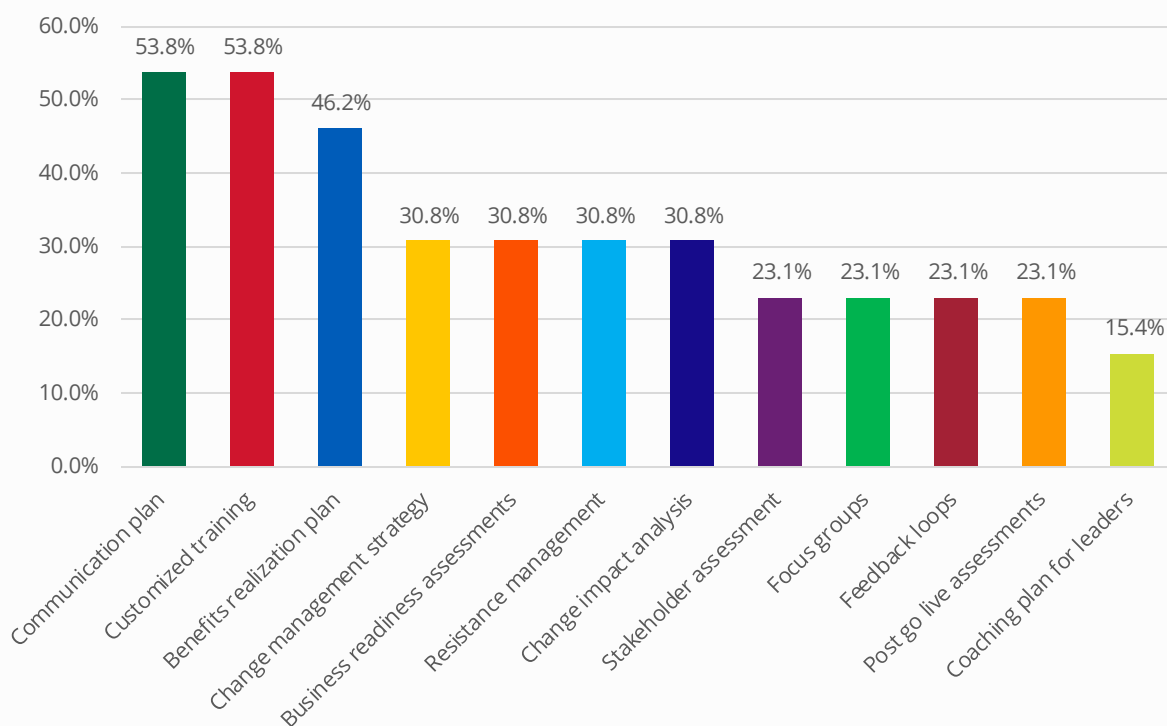
- ▶ Coaching Plan – A detailed outline of how change leaders should mentor employees to accept change.

- ▶ Feedback Loops – An outline of how end-users should share ideas and voice concerns, as well as how the project team should respond.

- ▶ Resistance Management – Any strategically planned activity aimed at reducing employees' aversion to change.

6 Tips for Coaching Employees

▶ Remove barriers – Seek to understand the individual situation of each employee to determine how to remove barriers.

▶ Build desire by providing choices – Explain in clear and simple terms what employees' choices are and what consequences they face for making a particular choice.

▶ Create hope – Create a desire for change among employees by expressing your own genuine excitement.

▶ Convert the strongest dissenters – Focus on the most vocal dissenters to reduce the spread of negativity and to potentially create very vocal advocates.

▶ Highlight the tangible benefits – Share case studies and testimonials to tangibly demonstrate the benefits of change.

▶ Use money or power – Use this tactic on mid-level and senior managers that are critical about the success of the ERP project. For example, you can offer higher pay in exchange for project support.

ERP IMPLEMENTATION RESULTS

A successful ERP implementation requires planning. Without a focus on pre-implementation activities, such as data migration and business process management, an ERP implementation may be delayed or over budget. Organizations in our study experienced such setbacks for a variety of reasons, but most of these reasons can be traced back to a lack of planning.

Project Cost

The cost of an ERP project can be difficult to estimate. There are many activities organizations overlook, which can lead to unexpected costs and budget overruns.

Following are some of the costs that many organizations overlook:

▸ Customizations and integrations

▸ Internal resources (core team, subject matter experts, etc.)

▸ Backfill

▸ Change management

▸ Pre-implementation

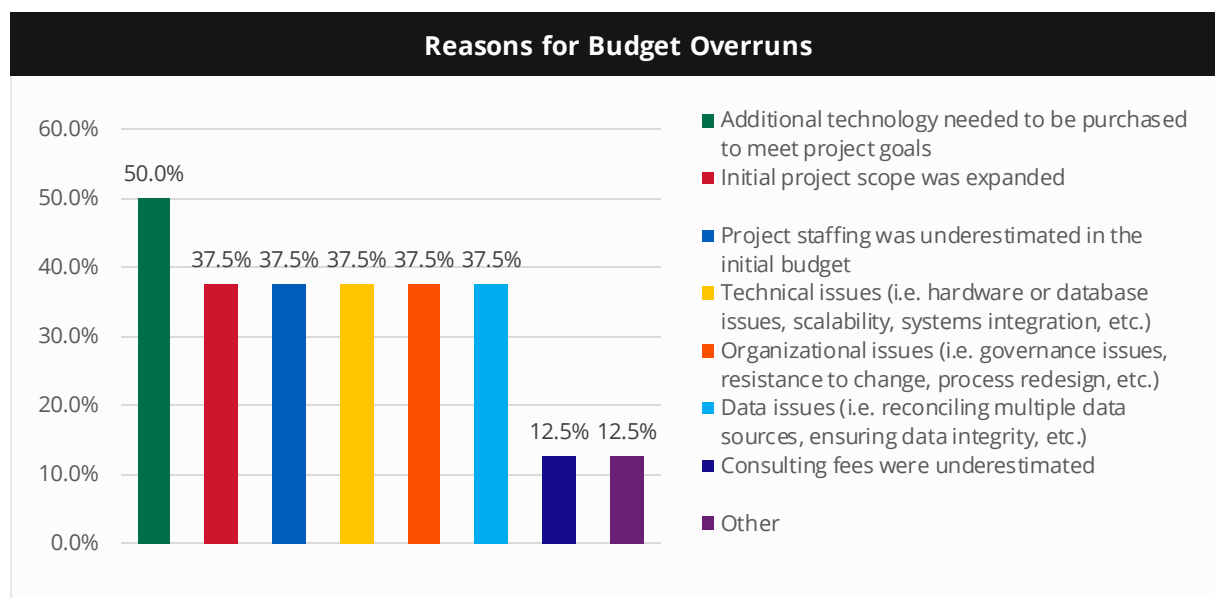▸ Project governance

→ Budget Adherence is Challenging

Of those organizations that completed implementation, less than half (40%) completed their projects at or under budget. This is a decrease of 22% compared to last year's report.

While more organizations were over budget, the overruns were less significant compared to last year. This year, organizations were an average of 33% over budget with $841,456 as their expected budget and $1,115,300 as their actual budget.

Last year, organizations were 66% over budget, which makes sense considering that more organizations in that report were doing full ERP implementations as opposed to upgrades, and ERP implementations are more costly.

→ The Need for Additional Technology was a Primary Cause of Budget Overruns

The most common reason for budget overruns was "Additional technology needed to be purchased to meet project goals."

Reasons for Budget Overruns

Legend:
- Additional technology needed to be purchased to meet project goals
- Initial project scope was expanded
- Project staffing was underestimated in the initial budget
- Technical issues (i.e. hardware or database issues, scalability, systems integration, etc.)
- Organizational issues (i.e. governance issues, resistance to change, process redesign, etc.)
- Data issues (i.e. reconciling multiple data sources, ensuring data integrity, etc.)
- Consulting fees were underestimated
- Other

Values: 50.0%, 37.5%, 37.5%, 37.5%, 37.5%, 37.5%, 12.5%, 12.5%

In last year's report, the need for additional technology was the least common reason cited by respondents. The cause of the increase this year could have been the increase in the percentage of organizations performing an upgrade. In our experience, an upgrade can leave an organization with functional gaps that can only be filled by purchasing additional technology.

Another reason for the increased need for additional technology could be the increasing popularity of best-of-breed and built-for-purpose systems. In other words, more vendors are developing these types of systems, and more organizations are implementing them to address a variety of business needs.

→ **Organizations Have Realistic Expectations About Consulting Fees**

The least common reason for budget overruns was underestimated consulting fees. We have found that organizations with a strong understanding of ERP success factors have more realistic expectations about consulting fees.

In fact, in the past year, we have seen more clients with realistic expectations about the need for success factors, like change management. These organizations are not surprised when we propose a significant focus on change management.

→ **How Many Internal Resources do Organizations Need?**

Resource constraints was another common reason for budget overruns.

Organizations reported they used an average of 27 full-time internal resources. This is similar to last year's report even though the average annual revenue of organizations was smaller this year.

The resource requirements did not decrease with the decreasing size of organizations because regardless of organization size, an organization still needs representation from every functional area and still needs certain subject matter experts.

One area where resource requirements typically increase along with organization size is training and certain other change management activities. However, fewer organizations focused on training this year because more organizations were upgrading, which requires less training.

→ **Negotiating with ERP Vendors**

Despite the budget overruns organizations experienced, many organizations – including those that did not yet complete implementation – saved a significant amount on their software purchase by negotiating with their ERP vendor.

Organizations saved an average of 28% from the vendor's initial cost estimate, which is similar to last year's report.

We recommend working with an ERP contract negotiation expert because they can provide in-depth, apples-to-apples price comparisons. Many experts, like Panorama, also provide a total cost of ownership analysis so organizations can make the right decision for their long-term needs.

34

Project Duration

A project timeline is influenced by many factors that are easy to overlook when developing a project plan. As a result, most organizations end up adjusting the timeline throughout the project. This can actually be a sign of strong project management because it prevents timeline overruns at the end of the project.

→ The Frequency of Timeline Overruns Remains the Same

More than half (54%) of organizations completed their project within their expected timeline. This is similar to last year.
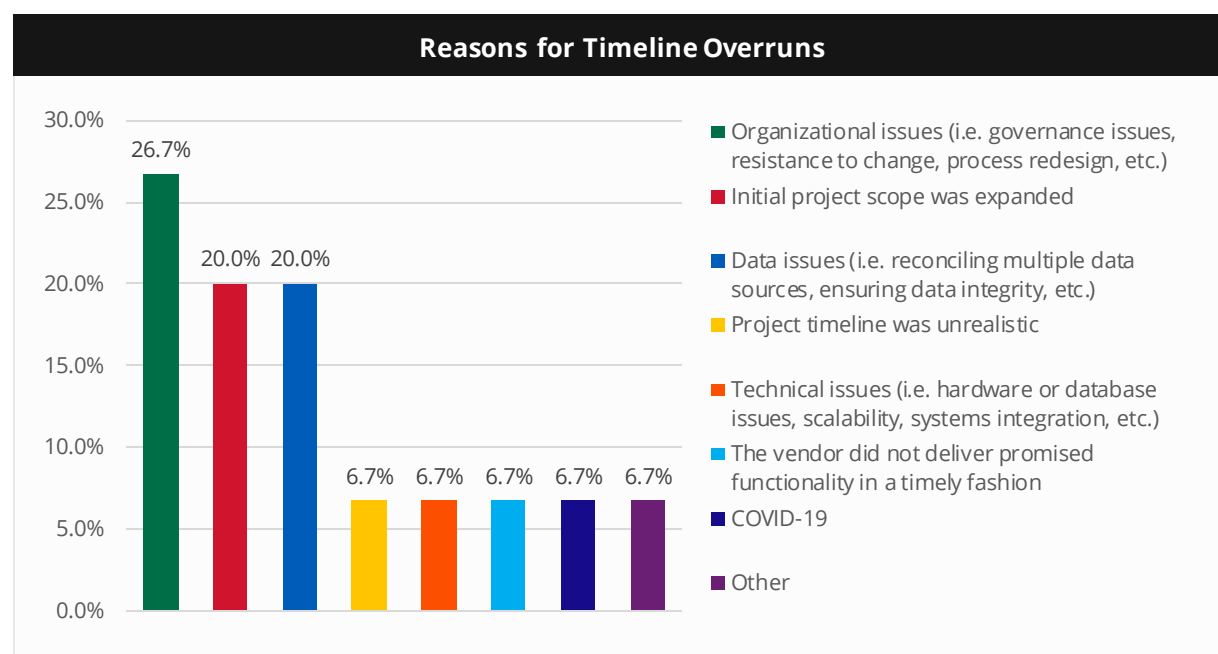
Organizations that exceeded their original timeline were an average of 29% over their expected timelines, with an average of 11 months as their expected timeline and 15 months as their actual timeline. This is also similar to last year, which is surprising considering that smaller organizations generally are able to implement faster than larger organizations.

However, based on the decreased focus on change management, it makes sense that a smaller organization facing significant employee resistance could be working on their project for as long as a large organization with a strong focus on change management.

→ Organizational Issues Lead to Timeline Overruns

The most common reason for timeline overruns was the same as last year: organizational issues (i.e., governance issues, resistance to change, process redesign).

In our experience, organizational issues are often a result of underestimating the amount of people/process focus required to avoid excessive customization requests and other last-minute pushback from employees.

Reasons for Timeline Overruns

- Organizational issues (i.e. governance issues, resistance to change, process redesign, etc.)
- Initial project scope was expanded
- Data issues (i.e. reconciling multiple data sources, ensuring data integrity, etc.)
- Project timeline was unrealistic
- Technical issues (i.e. hardware or database issues, scalability, systems integration, etc.)
- The vendor did not deliver promised functionality in a timely fashion
- COVID-19
- Other

→ **Delays Related to COVID-19**

Several respondents attributed their project delays to COVID-19. While the global pandemic has certainly posed a challenge for some implementing companies and dissuaded others from even beginning an ERP implementation, we have found that many companies are still eager to implement new software and many are successfully doing so. In fact, the amount of companies hiring us for ERP selection guidance in 2020 was similar to 2019.

However, certain industries have seen more challenges than others. Hershey's, for instance, announced that it delayed parts of its ERP project due to challenges posed by COVID-19. The company is delaying its ERP supply chain work and order-to-cash efforts while continuing work on the finance and data aspects of the project.

Success & Failure

We asked organizations that completed implementation whether they considered their overall ERP project to be a success or failure. Nearly all (92%) organizations said they considered their ERP project a success.

Like last year, organizations experienced strong benefits realization, leading them to believe their project was successful.

However, as discussed earlier, some organizations set benefits realization goals that are fairly low and may not

Project Outcome

- 0%
- 8.3%
- 91.7%

- ■ Success
- ■ Neutral or "I don't know"
- ■ Failure

lead to an impressive ROI. This is the more likely reason for the strong benefits realization this year because organizations were able to achieve these benefits without a strong focus on change management. It is rare to achieve significant business benefits without informed, engaged and capable employees.

We recommend defining and quantifying measures of success at the beginning of a project. When possible, it is important to tie all key performance indicators to cost savings or increased revenue to demonstrate that the project will have a strong ROI. Then, equip employees with the knowledge and skills to support these aims.
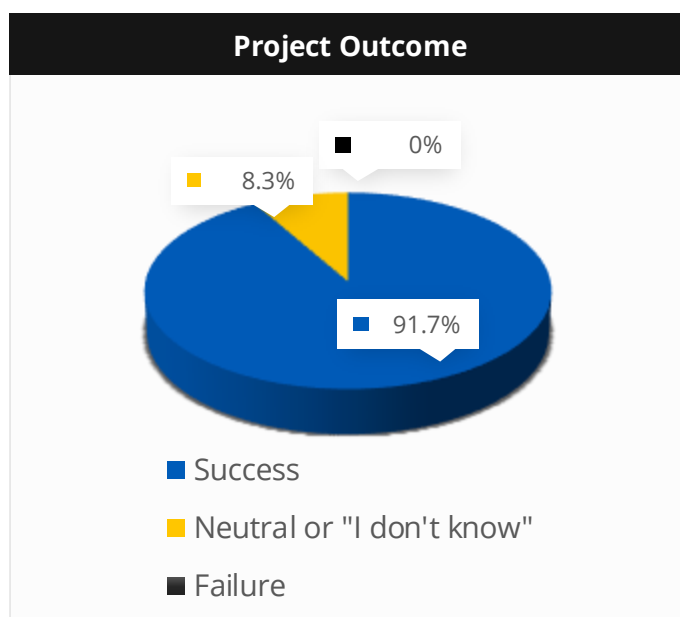
Year-over-year Comparison

	2018 ERP Report	2019 ERP Report	2020 ERP Report	2021 ERP Report
Top Industries	Manufacturing and Distribution	Manufacturing and Information Technology	Manufacturing and information Technology	Manufacturing and information Technology
Annual Revenue	$439M	$1.78B	$1.98B	$28.4M
BPM Focus	49% improved most processes	30% improved most processes	37% improved most processes	50% improved most processes
OCM Focus	13% had an intense focus on OCM	18% had an intense focus on OCM	23% had an intense focus on OCM	23% had an intense focus on OCM
Budget Adherence	36% stayed on budget	55% stayed on budget	62% stayed on budget	40% stayed on budget
Top Reason for Budget Overruns Schedule Adherence	Unanticipated technical/organizational issues	Scope expansion	Scope expansion	Additional technology
Schedule Adherence	21% stayed on schedule	42% stayed on schedule	53% stayed on schedule	54% stayed on schedule
Top Reason for Schedule Overruns	Organizational Issues	Organizational Issues	Organizational Issues	Organizational Issues

→ **Observations**

▸ When the average annual revenue was less than $1B, respondents reported a stronger focus on business process management. However, this was accompanied by the decreased ability to stay on budget.

▸ When the average annual revenue was more than $1B, respondents were more likely to experience scope expansion.

▸ Respondents' change management focus has always been relatively low. However, there is a general upward trend, not unlike the upward trend in the percentage of respondents reporting schedule adherence.

▸ Organizational issues have consistently plagued organizations over the years.

CONCLUSION

A strong focus on change management is critical whether an organization is performing an ERP upgrade, an ERP implementation or a digital transformation. While the average size of organization was smaller in this year's report, and more organizations retained their current system, there is no getting around the fact that organizations still found the process change and organizational change aspects of their projects just as difficult as they did in years past.

Focusing on organizational change management and seeking related guidance can mitigate the difficulty of organizational change, but fewer organizations focused on the change management activities included in our study and fewer sought change management guidance from a consulting firm.

Without expert guidance, it is difficult for an organization to know what change management activities are necessary for its unique situation. An objective, third-party is essential because organizations have a tendency is to minimize project costs and cut corners, especially if they are smaller organizations that have been heavily impacted by the economic uncertainty. There also is a tendency among organizations in general to underestimate the amount of change management required for an ERP upgrade.

However, this year's report was not all doom and gloom. Benefits realization actually increased compared to our previous report. This could be because organizations are adjusting their expectations based on the pandemic, and they are not aiming as high as they did in last year's report. Nonetheless, it is not unrealistic to assume that many of these organizations are still setting ambitious enough goals to at least recoup the cost of their ERP projects.

While it appeared that projected benefits were realized to the extent that they did in fact cover the cost of organizations' projects, it is likely that many organizations actually achieved a low ROI. We say this because the change management focus was not strong enough to facilitate significant benefits realization.

So, maybe this report was mostly doom and gloom.

However, it is still encouraging to see the organizations in this study using the downturn as an opportunity to invest in future growth. These organizations did not shy away from improving their processes or modernizing their technology in the midst of economic uncertainty, and we believe their boldness will be rewarded once they invest just a little more in organizational change management.

The choices organizations make during this uncertainty will have major implications for how they perform when the market recovers. Those that invest in building capabilities to meet the demands of a recovered market will be in a position to capture increased customer demand when the cycle turns.

ABOUT PANORAMA CONSULTING GROUP

Panorama Consulting Group is an independent, niche consulting firm specializing in business transformation and ERP system implementations for mid- to large-sized private- and public-sector organizations worldwide. One-hundred percent technology agnostic and independent of vendor affiliation, Panorama offers a phased, top-down strategic alignment approach and a bottom-up tactical approach, enabling each client to achieve its unique business transformation objectives by transforming its people, processes and technology.

Panorama's services include:

- ERP Selection
- ERP Implementation
- ERP Contract Negotiation
- ERP University
- Digital Strategy
- Technology Assessment
- Change Management
- Human Capital Management

- Business Process Management
- M&A Integration
- Turnaround Analysis
- Crisis Management
- Financial Restructuring
- Operational Restructuring
- Project Auditing & Recovery
- Software Expert Witness

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