The Dangers of Uninformed ERP Selection

October 2013
Nick Castellina
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Selecting an Enterprise Resource Planning (ERP) solution can be a high risk / high reward decision. While a successful ERP implementation can lead to substantial gains in many metrics, such as operating margins and inventory, a poorly selected and implemented solution can add complexity to an organization, keep employees from doing their jobs, and cause customer service delays. These problems compound when considering an ERP solution’s actual cost to an organization. Finding a poorly suited solution that either is not fully utilized or having to rip and replace a solution can cripple an organization with limited resources. Therefore, organizations must do all they can in order to ensure the solution they select is going to be successfully implemented and deliver the highest possible ROI. Conversely, they must ensure that the solution is a good fit and is not going to alter the processes that an organization has relied upon in the past. This Analyst Insight will uncover what an informed ERP buyer looks for when selecting a solution, as well as the consequences that uninformed organizations face.

Get Informed

Aberdeen’s Best-in-Class Strategies for Selecting an ERP in 2013 asked survey respondents to select their top four ERP selection criteria out of a list of 22 (Figure 1).

Figure 1: Best-in-Class ERP Selection Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Percentage of Respondents, n = 204</th>
</tr>
</thead>
<tbody>
<tr>
<td>Functionality</td>
<td>64%</td>
</tr>
<tr>
<td>Ease of use</td>
<td>56%</td>
</tr>
<tr>
<td>Total cost of ownership</td>
<td>44%</td>
</tr>
<tr>
<td>Must be an integrated suite</td>
<td>28%</td>
</tr>
<tr>
<td>Ease and speed of implementation</td>
<td>28%</td>
</tr>
<tr>
<td>Ability to tailor functionality without coding</td>
<td>26%</td>
</tr>
<tr>
<td>Global capabilities</td>
<td>21%</td>
</tr>
<tr>
<td>Relationship with vendor</td>
<td>18%</td>
</tr>
<tr>
<td>Best-in-Class</td>
<td></td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, July 2013

Of course, cost is a part of the picture when selecting an ERP solution, but for the Best-in-Class it is not the most important part of the conversation.
Best-in-Class organizations are more prone to focus on functionality and ease of use than the total cost of an ERP solution. What good is an ERP solution if it does not serve the organization? Identifying and implementing functionality that supports the processes that are essential to an organization’s success should be paramount. Ease of use should follow to ensure that employees can actually take advantage of the solution to more effectively perform their jobs. Additionally, 28% look for an integrated suite. This is to ensure that all of their modules are contained within one place and workflows can continue on unimpeded.

Combined, the top four selection criteria are the main aspects that any organization should be looking at when selecting an ERP. Even cost must be considered since any resources used for ERP may have to be taken out of other investments. For the rest of this report, Aberdeen separates potential ERP buyers into two classes:

- **Informed** — These are organizations that selected three or more of the top four ERP selection criteria of the Best-in-Class.
- **Uninformed** — These are organizations that selected less than three of the top four ERP selection criteria of the Best-in-Class.

So what are the actions of informed organizations, as well as the benefits of being informed, and the consequences of being uninformed?

### The Results of Informed Selection

When an organization is informed heading into the ERP selection process, the resulting solution is better aligned with the objectives of the business (Figure 2).

#### Figure 2: The Impact of Being Informed on the Solution

![Impact of Being Informed on the Solution](chart.png)

This begins with ensuring that business processes are standardized and documented. The practices that are essential to success must be identified...
so that they can be carried over once the ERP solution, which will change the way the organization operates, is implemented. Therefore, 63% of informed organizations standardize and align their business processes with their ERP solution. As a result, informed organizations are 69% more likely than the uninformed to have an ERP solution that is aligned with their business objectives. This is an important finding: since an ERP solution is the essential tool for supporting an organization, it must be in lock-step with the organization itself. Additionally, informed organizations must also understand the technologies with which their solution must integrate. It is all about selecting the best fit for the organization as it stands. Therefore, informed organizations are over three times as likely as the uninformed to be able to identify the gaps between ERP and other internal technologies.

Part of ensuring that the organization has selected the best fitting ERP solution means involving the employees that will actually use it. The organization must understand how the new solution will impact day-to-day operations. In order to accomplish this, informed organizations involve as many key stakeholders as possible throughout the process. Therefore, 61% of informed organizations hold the line of business responsible for the ongoing success of ERP compared with 36% of the uninformed.

But the value of being informed really shines when scrutinizing the differences in performance of the solution itself. Informed organizations saw greater improvements as a direct result of ERP than uninformed organizations in a variety of metrics (Table 1). For example, informed organizations saw almost twice the improvement in administrative costs that uninformed organizations saw. This is proof that taking a measured approach to selecting an ERP solution can pay exponential dividends in the future.

### Table 1: ERP’s Impact on Operational Metrics

<table>
<thead>
<tr>
<th>Result of ERP</th>
<th>Informed</th>
<th>Uninformed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in operational costs</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>Reduction in administrative costs</td>
<td>11%</td>
<td>6%</td>
</tr>
<tr>
<td>Reduction in inventory</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Improvement in cycle time</td>
<td>12%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Aberdeen Group, July 2013

To really drive home the point about the consequences of being misinformed in ERP solution selection, note the difference between the final amount of budget spent by informed organizations compared to the final amount spent by the uninformed (Figure 3). While informed organizations ultimately spend more than they had originally budgeted for their ERP purchase and implementation, uninformed organizations spend, on average, 155% of their budget. In the simplest terms possible, an uninformed organization with a $100,000 budget for ERP would spend around $155,000, while an informed organization would spend around $110,000. In these situations, the difference between being informed and uninformed would be

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Fast Facts

- Fifty-three percent (53%) of informed organizations select an ERP solution that is industry specific in comparison to 30% of the uninformed.
- The informed are 60% more likely than the uninformed to have senior management committed and attentive to ERP throughout the process from selection to implementation.
- The informed are 72% more likely than the uninformed to have cross-functional teams of IT and the line of business involved in selection and implementation.
$45,000. It should also be noted that informed organizations meet ROI in 70% of the time it takes the uniformed (see Fast Facts). These differences could have a huge impact on the bottom line and may be the difference between a successful and an unsuccessful implementation for those holding the purse strings.

**Figure 3: Avoiding ERP Project Scope Creep**

![Avoiding ERP Project Scope Creep](chart.png)

Source: Aberdeen Group, July 2013

**Key Takeaways**

The dangers of being uninformed when selecting an ERP solution include smaller improvements in operational metrics, more expensive solutions and implementation projects, and longer to reach ROI. Informed organizations identify four main criteria when selecting a solution:

1. **Functionality** — Informed organizations identify the essential features that they need to operate and ensure that their ERP solution has that functionality.
2. **Ease of use** — Informed organizations secure solutions that are intuitive and enable their employees to easily navigate the solution.
3. **Total cost of ownership** — Informed organizations define and stick to their budget.
4. **Integration** — Informed organizations ensure that their solution can integrate effectively with existing technology.

By focusing on these four main criteria, organizations can choose an ERP solution that will support them for years to come.

**Fast Facts**

√ The informed reached ROI in 27.9 months in comparison to the uninformed, who reached ROI in 39.7 months.
For more information on this or other research topics, please visit www.aberdeen.com.

To take part in Aberdeen’s 2013 ERP research, click here.

### Related Research

<table>
<thead>
<tr>
<th>Best-in-Class Strategies for Selecting an ERP in 2013</th>
<th>ERP in SME 2012: Using Emerging Technologies to Stand Out</th>
<th>To ERP or Not to ERP for SMBs: What Can ERP Do For Me?</th>
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</thead>
<tbody>
<tr>
<td>July 2013</td>
<td>September 2012</td>
<td>May 2012</td>
</tr>
</tbody>
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