

ERP Innovation

A Ventana Research Primary Research Study

Executive Summary



V E N T A N A
R E S E A R C H

Aligning Business and IT to Improve Performance

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San Mateo, California

April 2006

Ventana Research performed this research for a fee to examine ERP innovation. This document is based on our research and analysis of a quantitative survey administered via the Web to qualified respondents. Qualification was based on involvement with the use, deployment and maintenance of ERP systems.

This research was designed to investigate companies' attitudes and actions toward ERP and innovation. This research is not intended for use outside of this context and does not imply that organizations are guaranteed success by using only these results to improve overall corporate performance. Moreover, gaining the most benefit from performance alignment technology begins with an assessment of your organization's unique needs.

We certify that Ventana Research wrote and edited this report independently, that the analysis contained herein is a faithful representation of our evaluation based on our research and our experience with performance management techniques, and that the analysis and conclusions are entirely our own.

Ventana Research

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EXECUTIVE SUMMARY

Innovation does not have to involve game-changing approaches worthy of a magazine write-up; rather, it can consist of incremental alterations in an organization's functioning that make a difference over time. For example, businesses can enhance their market position and boost returns by making a steady set of changes to increase customer satisfaction, enhance sales force effectiveness, reduce administrative costs and others.

Over the past 15 years companies have improved results by doing these sorts of things with their enterprise resource planning (ERP) systems. Consider two examples:

- Since many companies adopted manufacturing resource planning (the precursor to ERP) software in the late 1980s, inventory turnover in the United States has increased by one-third. This improvement was not brought about entirely by better inventory management on computer systems. Yet many of the innovations supporting leaner inventories (such as overnight delivery services and dedicated logistics management companies) have been possible only because of information technology. The inventory improvement did not happen in one step; it was the result of ongoing innovations and refinements.
- Similarly, the cost of operating a finance organization has been cut dramatically. In the dozen years since the Hackett Group began to publish benchmarks of overall efficiency in finance departments, the metric was cut nearly in half from 1.9 percent of sales in 1992 to 1.0 percent in 2004 (it rose slightly in 2005 because of Sarbanes-Oxley compliance costs). We calculate that if applied solely to the Fortune 500, the value of this reduction would be \$60 billion annually. Software tools – particularly ERP systems – have been the major force driving this efficiency.

In a sense, ERP is a victim of success. It has become so commonplace in enterprise computing that people do not give it much thought unless it breaks. Unfortunately, in so doing they may be overlooking opportunities to use these systems more effectively to improve their company's performance further.

One reason for this deficiency may have more to do with human nature than with information technology. Ventana Research believes the six most expensive words in corporate management are, "We've always done it this way." Corporations continually must take fresh looks at areas where they can and should make improvements; long-established yet long-unexamined ERP systems provide one such prime opportunity.

The purpose of this study thus is to investigate companies' attitudes and actions toward ERP and innovation. The study results include responses from 391 companies with 1,000 or more employees or had annual revenues of \$100 million or more; among these respondents, 56 percent had IT titles, 25 percent had finance titles and the remaining 19 percent had line-of-business titles.

The response by functional title was different in this study from past ones involving the same target population. Typically, the mix has been 50 percent to 65 percent finance, 15 percent to 20 percent IT and the remainder lines of business. One reason for the variant here may be that ERP innovation is a topic that resonates more strongly with business executives who have technology responsibilities than with those in finance or lines of business. In addition, the response pattern indicates that ERP has transitioned from its previous position as a finance management item of focus to an IT responsibility.

Our research shows that some companies are using ERP software to innovate and improve their business execution and that they are adopting new methods and processes to improve their effectiveness and efficiency. Yet the numbers indicate they could do more.

Information technology has enabled companies to implement end-to-end processes that allow them to automate the management of tasks that span multiple organizations or business silos. For example, “purchase-to-pay” handles the buying process from the initial request through the creation of a purchase order, sourcing, receipt of materials and finally payment; two-thirds of the respondents whose comments we analyzed stated they have used their ERP software to support some purchase-to-pay processes. But from the sales end, where companies take in money rather than send it out, only half have implemented an “order-to-cash” system, which manages the process from receipt of an order to confirmation that money has been deposited. It is reasonable to expect similar efficiencies from this process.

Some technologies can be used with ERP systems to eliminate paper forms and documents, thereby increasing efficiency in executing a process and collecting and retrieving information about that process. Our research indicates that less than half of companies use ERP for electronic invoicing and payment, and less than one-third of respondents said they capture paper documents such as invoices as electronic images.

A majority of respondents told us they believed ERP can drive and support innovation in 11 of 12 key functional or process areas – but they do not always use it that way. In functional processes where ERP traditionally has played an important role, such as financial reporting and the accounting close, a majority of companies reported implementing innovations with this software. However, they did so to a much lesser extent in management reporting, and fewer than half had used it for planning and budgeting or performance management, even though most thought it could play a role in these processes.

It is generally acknowledged that companies take too long to close their books and publish their final management reports. Only about half of the companies participating in our study close their quarter-end books in six days or less, while 22 percent take more than two weeks. Other research we have done produced similar results and showed a solid majority of companies want to shorten the closing and reporting periods. Greater automation and improving the ability to access to financial and operational information could accelerate these processes.

Most companies use ERP to support reporting, which comes as no surprise, but little more than half say it helps with analysis or budgeting, fewer than one-third use it for profitability management and fewer still for activity-based costing. Only 11 percent of the participants thought their ERP system captured all or most of the non-financial information their companies need to monitor employees’ key performance indicators (KPIs), while 36 percent said it captured little or none of this information. ERP also plays only a minor role in business initiatives that require a high degree of analysis, such as scorecards.

One factor that may be keeping companies from putting their ERP systems to more innovative uses is a tepid assessment of whether the software has had a positive, measurable impact on the performance of the company. About half of the respondents thought it had improved insight, visibility and internal control. Just four in 10 reported that they believed it has driven down operational costs or helped optimize business processes. Less than one-third said it raised employee productivity, and only one-fifth saw it increasing

collaboration between the company and its customers. Yet despite these results, we believe ERP has the potential to accomplish all of these when it is used in conjunction with process enhancements or better information management.

Another likely factor is the participants' underwhelming assessment of how easy their ERP system is to use. Overall, respondents reported a neutral to slightly negative view. Slightly more than half described their systems as working well, but nearly one-third said it did not work well but that was not a problem. Similarly, half described working with their ERP system as easy enough though it could be improved, but one-fourth thought it was not easy enough to work with and should be improved. Six in 10 said getting information from their ERP system was manageable, but one-quarter thought it was difficult, and few described it as easy.

The study confirmed that the challenges of managing IT systems increase with the size of the organization. Innovation supported by information technology in larger companies is difficult because of the complexity of their environment; companies with more than 10,000 employees, for example, reported greater problems implementing changes to support process change than smaller ones. The difficulty, real or perceived, of making changes to ERP systems is likely to be an impediment to innovation.

WHAT TO DO NEXT

Our research study set out to explore how companies can use ERP software to innovate. We found among respondents to the survey a latent belief that ERP could help businesses innovate across a spectrum of business functions and processes. Yet there was an obvious gap between this belief and what companies were actually doing – a gap that companies must address to maximize the value of their ERP systems. We found some companies were taking new approaches to how they run their businesses, but even more have an opportunity to redefine their processes by making more effective use of software – software they probably already have. From our analysis of the research data, we offer the following suggestions for what can be done to reap the benefits.

The Six Most Expensive Words in Finance Departments ...

... are “We’ve always done it this way.” Consistency is an icon when it comes to accounting. We think it is one reason why people who work in finance organizations are prone to live with the status quo and unlikely to actively seek to improve methods or processes. “Innovation” in our definition does not have to be a big production. Most finance organizations can achieve better results through continuous improvement, a series of ongoing enhancements to processes and systems. Benchmark studies have shown that finance organizations nearly doubled their productivity during the 1990s. They did not achieve this improvement overnight but rather through steady gains. Yet these gains slowed considerably over the past several years, even before the demands of the Sarbanes-Oxley Act. Our research showed many companies are pursuing innovations in finance and operations. Yet all of them can and should do much more to increase efficiency in processing transactions, to cut time spent on the periodic close and other accounting functions, to revamp customer-facing transactions to make it easier for them to do business and to automate processes to ensure conformance to rules and reduce financial fraud and other risks. Some of these enhancements can be enabled entirely within the ERP system, while others may involve other applications and systems.

Make Your ERP System Work Harder

Few companies make full use of their expensive ERP investments. While it was a hot topic in the early 1990s (and an important rationale for buying ERP systems in the first place), many may consider the term “business process re-engineering” passé even if they buy into the concept. While we found companies had been using ERP and other applications software in new ways to address business issues, they could be doing considerably more in terms of revamping processes. Companies should be putting more effort into instituting end-to-end processes such as procure-to-pay and order-to-cash. Only half of the participating companies had implemented the latter, even though they can achieve a substantial payback through reducing working capital and administrative overhead and increasing customer satisfaction. Only just under half employ electronic invoicing and payment, despite the cost reductions this mature technology can drive. Fewer than one-third use electronic imaging, even though this well-established technique streamlines paperwork-intensive processes in areas such as accounts payable.

Is It You or Your ERP System?

The study showed respondents do not have a positive view of ERP’s impact on their companies’ performance. Half did not believe their system has improved insight, visibility and internal control. Just four in 10 reported that it has driven down operational costs or helped optimize business processes. Less than one-third said it raised employee productivity, and only one-fifth saw it increasing collaboration between their company and

its customers. We believe these assessments are not the result of inherent shortcomings of ERP systems but of companies not using them to their full capabilities. Some of this reluctance is due to the perception that making changes to processes and ERP systems is too difficult. To be sure, not many find making these changes easy, but the research also showed few find it very difficult. So your organization should ask whether it is the ERP system or a failure to use it more effectively that is keeping you from enjoying a higher return on this investment.

Address Information Management

On the information side, our research also confirmed something we have seen in our consulting work: The sheer complexity of IT infrastructures is an impediment to providing business users with information they need. Almost all (84%) of the IT participants in the research study said master data management (MDM) was an important architectural issue; it received the highest rating of five we asked about. Data synchronization (ensuring the numbers are from comparable time periods) was a close second (82% rated it important). Larger companies have substantially more complex environments, with more disparate sets of vendors, applications and (in the case of ERP) instances. We suspect complexity also creates a barrier to innovation with ERP, since dealing with that on a daily basis consumes resources that otherwise could be applied to initiatives to build the business. Investments made to simplify information management can have important carry-over benefits that will enable companies to use ERP as a more effective resource.

Demonstrate How IT Can Help Drive Business Innovation with ERP

IT professionals understand how information management can make their professional lives easier, but they must be able to sell the business side on the benefits of infrastructure improvements. We doubt it would occur to many line of business executives that they could use MDM to harmonize the disparate charts of accounts common in most large companies and, in so doing, shorten closing and reporting cycles. IT executives should point out the connection of technology innovation to important business improvements.

Establish a Joint Steering Committee of Business and IT

One unfortunate divide has persisted since the start of the computer age more than half a century ago: Businesspeople do not understand enough about how IT can help them address critical business issues, and IT does not understand enough about the need to apply available technologies to solving business problems. Today, there is another dimension to this digital divide between business and IT. Vendors of packaged applications have been so successful at developing products that most companies have more opportunities to effect improvements than they have resources (time and money) to pursue them. Ventana Research believes there is considerable room for companies to use ERP systems and other applications software to improve their business results, but addressing this opportunity should not be haphazard. Companies should establish steering committees with senior-level authority to ensure they are examining the IT dimension to their pressing business issues, finding opportunities to improve business processes through technology initiatives and setting priorities for implementing these solutions. This sort of collaborative effort could go a long way to identify opportunities and implement innovations that will improve a company's results.

HOW VENTANA RESEARCH CAN HELP

Performance Management has grown in strategic importance. It is no longer the exclusive concern of senior executives, as all managers (in finance, HR, supply chain, marketing and sales, operations and IT) strive to find ways to improve their results consistently. Performance alignment brings together people, processes, information and technology to achieve the best outcomes. Organizations are evaluating performance management approaches that take a fresh look at the traditional technologies and techniques used throughout their business, especially enterprise resource planning and information management. Corporations have made large investments in these areas, but we find that often they are not achieving all they could with these technologies. There is significant opportunity to use them for continuous innovation and process improvements that can enhance performance.

While most organizations recognize the need for a cohesive performance management strategy and superior execution, it is also true that synchronizing the necessary changes to people, processes and technologies can be difficult. The inability to effect these changes often stalls these critical initiatives and delays needed performance improvements. Technology itself can be a barrier to innovation. Companies and their managers can find it challenging to understand when and how to apply it and select from the array of different methodologies, best practices and processes, as well as gain buy-in and participation from executives and operational management.

Ventana Research, the leading Performance Management research and advisory services firm, can help your organization address these challenges. Our analysts and consultants offer a practical approach that combines extensive experience with an ongoing research foundation into business and technology trends, vendor solutions and best practices. Serving as an objective extension to your team, we can help you create a comprehensive strategy to enhance the value of your ERP systems and apply them to achieve targeted goals.

Through our **Enterprise Resource Planning Assessment** service, we will:

- Provide education to specific groups and the company as a whole on performance management and the contribution that better use of enterprise resource planning and information management technologies can make to improve business performance at all levels of the organization
- Provide guidance on identifying opportunities for innovation, ways of optimizing ERP investments and how to weigh the technology options available.
- Identify the most important requirements by profiling business stakeholders based on their roles, levels and process ownership (or business activity) within the organization.
- Assess challenges and desired improvements in current activities as they relate to alignment of strategy, goals, objectives and performance improvement initiatives.
- Evaluate your current and planned technology investments.
- Conduct a gap analysis and build a targeted, profile-based ERP strategy based on the strategy, goals, objectives and desired performance and process improvements.

- Optionally, benchmark your organization against the rest of the industry to determine whether you are ahead or behind the curve in adoption and best practices.

You will receive:

- ERP Strategy and Roadmap: Your strategy and roadmap will serve as a starting point to use to accelerate your impact on the business and guide your initiative to ensure successful execution and optimal business value.
- Industry Benchmarks and Best Practices Education: We deliver education and knowledge transfer through business and technology benchmarks and help you leverage best practices and your existing investments.
- Decreased Project Risk: Through our understanding of the vendor landscape and our proven methodology for mapping requirements to solutions, we will streamline the vendor selection and/or consolidation process to achieve optimal results.
- Reduced Costs and Increased Business Returns: By instituting the rigorous methodology that we deliver to align your people, processes and technology, you gain assurance you'll get it right the first time and decrease costs while increasing your return on investment.

To learn more about Ventana Research's workshops, assessments and advisory services, please contact clientservices@ventanaresearch.com.

About Ventana Research

Ventana Research is the leading Performance Management research and advisory services firm. By providing expert insight and detailed guidance, Ventana Research helps clients operate their companies more efficiently and effectively. These business improvements are delivered through a top-down approach that connects people, processes, information and technology. What makes Ventana Research different from other analyst firms is our focus on Performance Management for finance, operations and IT. This focus, plus research as a foundation and reach into a community of more than 2 million corporate executives through extensive media partnerships, allows Ventana Research to deliver a high-value, low-risk method for achieving optimal business performance. To learn how Ventana Research Performance Management workshops, assessments and advisory services can impact your bottom line, visit www.ventanaresearch.com.