Making Enterprise Business Systems Pay Dividends

January 2019

# THE REAL FACTS ABOUT ERP IMPLEMENTATION

## BUSTING THE MYTH OF FAILURE, BUT ARE YOU OVERRATING YOUR SUCCESS?

**Data Source**

*In November 2018, Mint Jutras conducted a survey of 315 manufacturers and distributors, focusing on the success of their ERP implementations in terms of schedule, cost and return on investment (ROI).*

*Responses were collected from companies ranging in size from $25 million to multi-billion dollars in annual revenues, and from quite new implementations, as well as those that are more mature.*

*This survey and study was commissioned by [Ultra Consultants](), an independent research and enterprise software consulting firm serving the manufacturing and distribution industries throughout North America, including those with global operations. All data analysis was conducted objectively and independently by Mint Jutras.*

*Enterprise Resource Planning (ERP) implementation is certainly not for the faint of heart. But neither is it the scary ordeal that many describe it as, nor is it doomed to fail. While disasters provide good fodder for sensationalized headlines, failure rates are generally overstated. A recent Mint Jutras study of ERP implementation success by manufacturers and distributors found 67% rate their implementations as successful or very successful. While 31% only achieved partial success, a scant 2% said they were "not very successful" and only one out of the 315 surveyed described their implementation as a failure.*

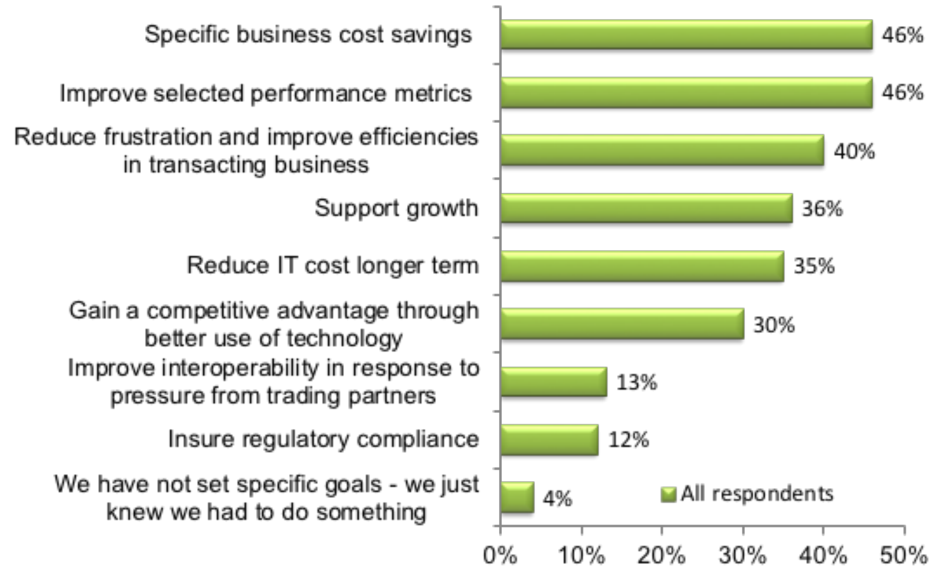
*And yet, while many are meeting expectations in terms of schedule, budget and return on investment (ROI), we need to step back and question whether these expectations are set high enough. Based on benefits actually realized, Mint Jutras feels many are over-rating their success and leaving additional attainable returns on the table. In our view, an ERP implementation should never be viewed as done and the ROI should be sustainable.*

*Here we explore the pace, the goals, the challenges, and the perceived success of ERP implementations. Where are the benefits are coming from? If you are in the midst of an evaluation, what should you expect? What should you do to maximize your investment? If you are not evaluating next steps, maybe you should be. What more could you be getting out of your investment? Is it time for a major overhaul or even a new solution? Today's fast-paced, global digital economy leaves no room for complacency.*

## SETTING GOALS

An ERP implementation is too important to embark upon without first setting goals. These goals should also form the basis for expectations in terms of return on investment (ROI). You might have a single over-riding priority, or you might have a long list of goals. We asked 315 survey participants to select their "top three" most important goals for ERP (Figure 1). Several only selected one or two, and a very small percentage (4%) indicated they set no goals. They simply knew they had to "do something." However, the vast majority did select three, leading us to believe that more often than not, they did indeed have a substantial list of goals.

Figure 1: Top 3 Most Important Goals for ERP




Source: 2018 Mint Jutras ERP Implementation Study

Specific business cost savings and improvement of selected performance metrics top the list, but we found it somewhat surprising that less than half (46%) selected each. These two goals provide the most direct opportunity for ROI and most companies embarking on an ERP project must cost justify the expense. In the past this was always a capital expense, but as software as a service (SaaS) becomes more prevalent, less (or no) capital may be required, perhaps making it easier to justify. But that doesn't mean you shouldn't strive for ROI.

*If your current solution is not meeting your goals, or if you never set goals, it may very well be time to step back and perform an audit of your current solution to determine if it is living up to its full potential. And then determine if that full potential is sufficient to give you a competitive edge. If not, it may be time to replace it.*

Mint Jutras strongly recommends identifying specific, quantifiable goals before getting onboard with any project, whether that project is an implementation of a new solution, a significant upgrade or a major overhaul. If your current solution is not meeting your goals, or if you never set goals, it may very well be time to step back and perform an audit of your current solution to determine if it is living up to its full potential. And then determine if that full potential is sufficient to give you a competitive edge. If not, it may be time to replace it. Be critical. If you can't be objective about this, find an independent third party that can. The right technology-enabled applications can help propel growth and superior performance, while those built on outdated technology can stifle it, and so can a poor implementation.

## SETTING THE PACE

If you are implementing a new ERP solution it is important to set a schedule. That schedule should be aggressive enough to establish and maintain momentum throughout, but it must also be achievable. Implementing a new solution that essentially runs your business is never easy. Putting together a schedule that is impossible to meet, regardless of how hard you work, adds additional stress to an already stressful situation. Typically the best people to involve in the project are those you can least afford to distract from their current responsibilities. Many, if not all members of the implementation team will still be required to do their "day jobs" during the implementation. You simply cannot afford them to become frustrated and demoralized.

So, what is aggressive enough, but still reasonable? The specific answer to that question will vary based on many factors, including the solution itself, the prior experience of the team, size of company, complexity of the business, just to name a few. This is a stage of the project where you may very well require expert assistance, but we can offer some guidance based on data collected on expected and actual time to achieving first "go live" milestones.

*Bear this in mind: What you accomplish, and how much you achieve in arriving at your first "go-live" milestone can vary. We choose this metric for two reasons:*

- ✓ *It is less variable than a full implementation*
- ✓ *This is when you are most likely to see specific, quantifiable results,*

However, bear this in mind: What you accomplish, and how much you achieve in arriving at this first milestone can vary. Some implementations go "big bang" with all functions going live at once. Others may approach it more incrementally. For smaller companies or those being divested from a larger corporation (on a tight timeline), it might represent their complete implementation. For large multi-nationals with many different legal entities and/or operating locations, it might represent a single division. We choose this metric for two reasons. First, it is less variable than a full implementation. Secondly, because this is when you are most likely to see specific, quantifiable results, although some companies benefit from business process re-engineering even prior to going live.

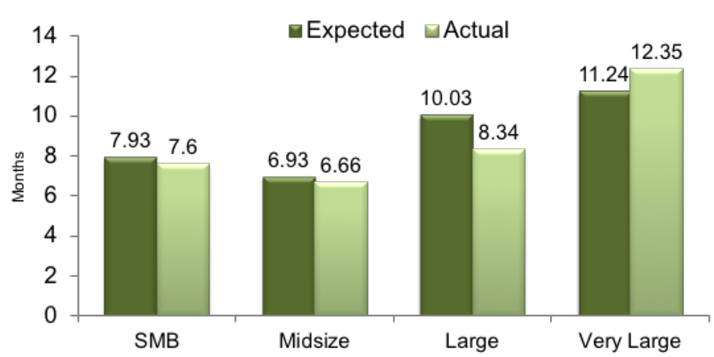
Because of this variability, we choose to present our findings in two different ways. First, we look at both expected and actual time to first "go live" milestones from the perspective of size of company, measured by annual revenue (Figure 2). You might expect the smaller the company, the faster the implementation. But that is not entirely true. Those companies under $100 million in annual revenues were a bit slower than those between $100 and $250 million. However, once you breach that threshold, expectations and actual time both increase with company size, as might be expected.

**Company Size**

*Company Size was based on annual revenues:*

- ✓ *SMB: $25 to $100 million*
- ✓ *Midsize: $100 to $250 million*
- ✓ *Large: $250m to $2.5 billion*
- ✓ *Very Large: Over $2.5 billion*

Figure 2: How long before your first "go live" milestone is reached?



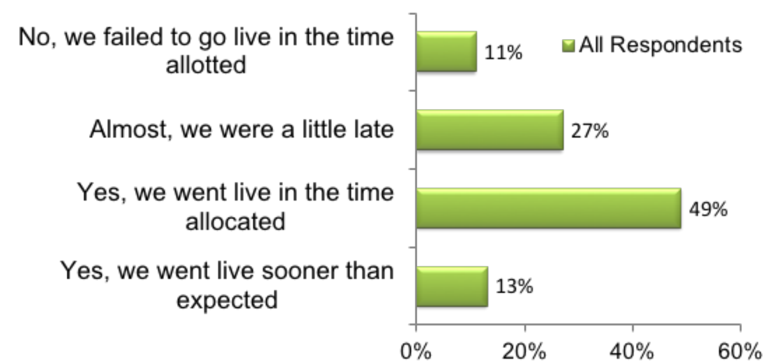

Source: 2018 Mint Jutras ERP Implementation Study

*External assistance might be needed, but not necessarily budgeted for. But if an objective third party can get you to a bigger ROI faster, it can ultimately pay for itself.*

So what's up with SMBs? While their businesses might be simpler, these small companies are more likely to be operating on a shoe string, expecting staff to play multiple roles. They also may not allocate as many resources to the task, and/or have the necessary expertise on staff. If not, external assistance might be needed, but not necessarily budgeted for. But if an objective third party can get you to a bigger ROI faster, it can ultimately pay for itself.

We also noticed also that with the exception of the very large companies, in aggregate expectations were met. This is consistent with a separate question which asked exactly that (Figure 3).

Figure 3: Were these (schedule) expectations met?




Source: 2018 Mint Jutras ERP Implementation Study

**Categories Defined**

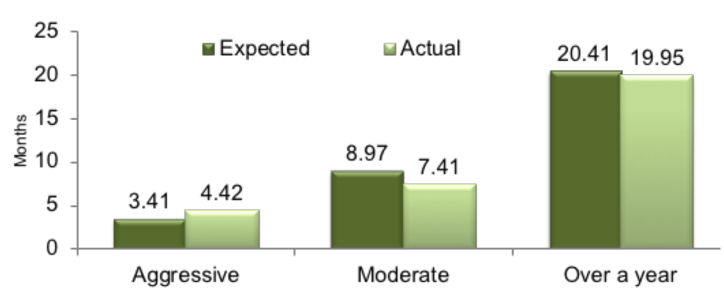
*The categories shown in Figure 4 are based on expectations for achieving a first "go live" milestone.*

- ✓ *Aggressive: Expected within 6 months of project start*
- ✓ *Moderate: Expected within the 6 to 12 month timeframe*
- ✓ *Over a year: Expected to take longer than a year before first "go live."*

*While the scope can vary in terms of first "go live," this reduces the variability from considering "full implementation."*

All but 11% either met or exceeded expectations, or came close. That made it look easy, but we know that it is not. So this led us to wonder whether companies were over-compensating based on the myth of ERP failure. For decades, the "normal" implementation was thought to take nine to twelve months. But new, next generation software has been designed to be easier to implement and far easier to use. Is work expanding to fill the time allowed? Perhaps. To better understand, we divided the survey respondents into three groups, based on the expectations for their first go live (see sidebar).

Figure 4: How long before your first "go live" milestone is reached?




Source: 2018 Mint Jutras ERP Implementation Study

While those who were most aggressive were a bit overly optimistic, they still managed to go live much faster than those who allocated more time. You will

*Don't be afraid to admit to not having the necessary experience to plan it and do it right. Consider getting help from certified experts to help you define goals, set an aggressive (but achievable) schedule, and stay on track.*

also find us using these three categories to present other data in this report which will further corroborate our message here: Don't over-pad your schedule. Perhaps you can be overly aggressive, but it is better to err on the side of too fast than too slow.

However, "fast" and "aggressive" doesn't equate to "Quick and dirty." This is not the type of project you want to take lightly, and unless you are an ERP consultant, it's not something you do every day. Don't be afraid to admit to not having the necessary experience to plan it and do it right. Consider getting help from certified experts to help you define goals, set an aggressive (but achievable) schedule, and stay on track.

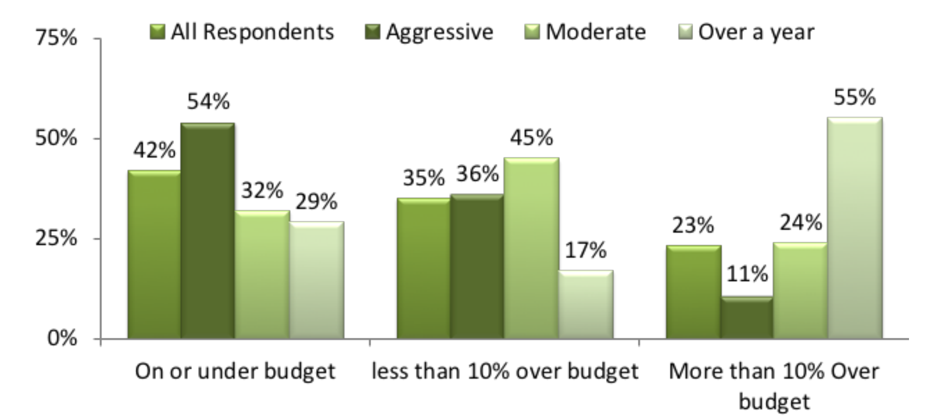
## STAY UNDER BUDGET

Staying on track also means controlling costs. Those experts can also help you set a reasonable budget, and as added reassurance, seldom are consulting costs the reason you go over budget… unless of course you drag the project on for too long, and then rates may escalate.

Another data point that serves to dispell the myth of ERP budget overruns and failure being common: 41% of our survey participants stayed on or under budget, another 35% were less than 10% over budget and only 26% went over budget by more than 10%. However, the percentage of those on or under budget rose by 32% (to 54%) for those who were aggressive in setting expectations for their first go-live (Figure 5). And only 13% of this category went over budget by more than 10%, compared to almost two thirds (63%) of those who expected to take more than a year to reach that point.

*Only 13% of those who were aggressive in setting expectations for their first go-live went over budget by more than 10%, compared to almost two thirds (63%) of those who expected to take more than a year to reach that point.*

Figure 5: How well did you perform against budget?

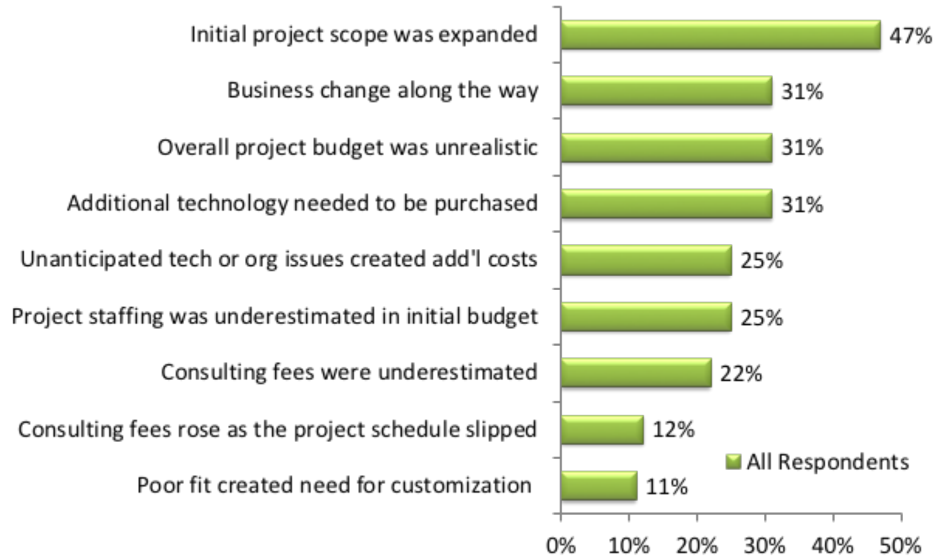



Source: 2018 Mint Jutras ERP Implementation Study

So, what causes these budget overruns? We asked that question in our survey as well, allowing participants to check off all that applied (Figure 6). "Scope creep" was at the top across the board - another reason to engage with experts that can help you set the scope, develop a realistic budget and also keep that on track. Experts can also help you fully understand the technology and staff assignments required, allowing of course for the inevitable change to business or economic climate. Note that consulting fees are quite far down the list as reasons for budget overruns.

*"Scope creep" is the top reason for going over budget - another reason to engage with experts that can help you set the scope, develop a realistic budget and also keep that on track. Note that consulting fees are quite far down the list as reasons for budget overruns.*

Figure 6: What caused you to go over budget? (Select all that apply)




Source: 2018 Mint Jutras ERP Implementation Study

Business change along the way is in a three-way tie for second. This is not surprising as we live in disruptive times. While nothing you can do will slow the pace of change happening around you, the best course of action, in terms of ERP implementation, is to make sure you select an ERP that is agile, one that is easy to configure and extensible, without invasive code changes.

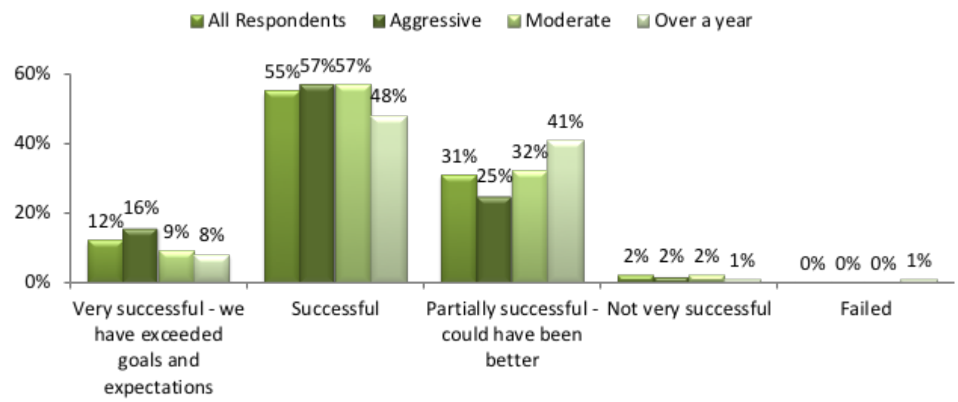
## RATING YOUR SUCCESS

As we mentioned in our introduction, very few of our survey participants admitted to not achieving at least partial success in their implementations. We also found aggressive implementations to be twice as likely to have exceeded goals than those that allowed more than a year for their first go live milestone, and 15% less likely to claim only partial success (Figure 7). This lends even more credence to our recommendation to plan and schedule more aggressively in order to see results early and maintain momentum.

*No surprise: Top management support and commitment contribute to success.*

We explored what contributed to success and also asked those that failed, were not very successful, or only partially successful, "What went wrong?" In terms of what contributed to success, we found the classic "top management support and commitment" right at the top of the list. This should come as no surprise, as ERP experts have been pushing this requirement for decades – for good reason.

Figure 7: How would you rate the success of your ERP implementation?




Source: 2018 Mint Jutras ERP Implementation Study

*Most of the reasons for success have more to do with organization (people and process) than the software itself. Good planning and preparation clearly pay off.*

In Figure 8 we display what those who were most successful felt contributed to their ability to exceed expectations. It would behoove the reader to examine all of these reasons but notice first and foremost that most of these reasons for success have more to do with organization (people and process) than the software itself. Good planning and preparation clearly pay off.

Figure 8: Factors that contributed to success (select all that apply)


Source: 2018 Mint Jutras ERP Implementation Study

*In terms of what went wrong, we do not see a single, overriding, dominant factor, but we also see the theme planning and preparation (or the lack thereof) here as well.*

In terms of what went wrong, we do not see a single, overriding, dominant factor, but we also see the theme planning and preparation (or the lack thereof) here as well (Figure 9). We collected responses to “What went wrong?” from any participant that did not rate his or her implementation as Successful or Very Successful (refer back to Figure 7). Therefore, many of the respondents had partial success, but admitted it could have been better.

Figure 9: Reasons for lack of success (select all that apply)


Source: 2018 Mint Jutras ERP Implementation Study

*Testing of software requires a level of skill that may not naturally occur in an organization. If this is the case in yours, seek guidance and help.*

Although the top two reasons (inadequate testing and inadequate business process re-engineering) are quite different, they go hand-in-hand. It is important to point out that testing of software requires a level of skill that may not naturally occur in an organization. If this is the case in yours, seek guidance and help. While you should be able to rely on the software manufacturer to test for outright bugs, it is important to test the selected product in the context of your own business and business processes. If you are also re-engineering those business processes, either to reflect business change, or to adopt best practices, this adds another dimension to the testing.

*Training today is less about navigating screens and more about the business process.*

This testing process can be blended with training. Given the prevalence of consumer technology today, and much more intuitive user interfaces, it might be tempting to downplay the need for training. Many of the younger users today grew up using technology that never came with (or required) a user manual. If they couldn't figure out how to use an app on their mobile device, they simply stopped using it. That is not an option with the enterprise software that runs your business. Training today is less about navigating screens and more about the business process. If the implementation fails to succeed, lack of training is often the culprit.

These success related questions provide us some insight, but we also realize just how subjective the answers are. Therefore, we also proceeded to ask specific ROI questions and to delve deeper into the benefits actually realized. Here is where we uncovered a disconnect between perceived success and benefits (and money) left on the table.

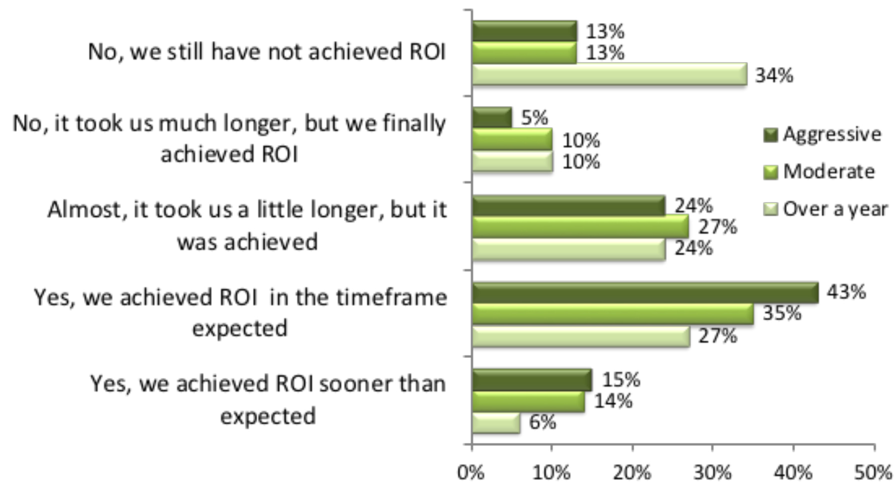
  

## EXPECT AN ROI

*A full 85% of companies surveyed projected a timeline for ROI and 82% of those who had projected it achieved it.*

In our survey we defined the timeline for ROI to be the time it took to recoup 100% of the initial cost of ERP through cost savings or added revenue. A full 85% of companies surveyed projected a timeline for ROI and 82% of those who had projected it achieved it. Not only were those who were more aggressive in implementation schedule more likely to achieve ROI, they were also more likely to do so in the time expected, even though they set the bar higher (Figure 10).

Figure 10: Were ROI expectations met?

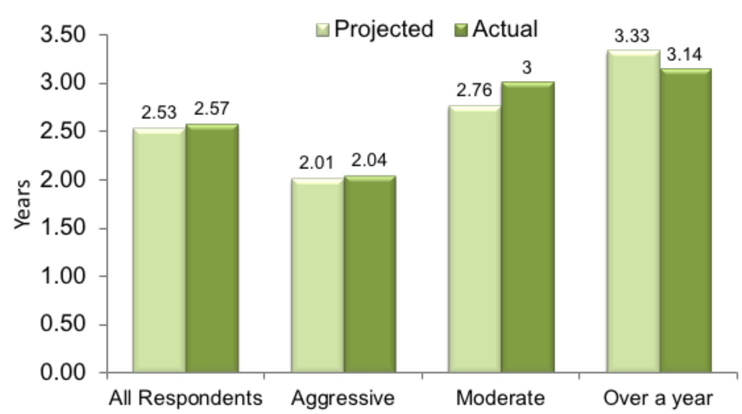



Source: 2018 Mint Jutras ERP Implementation Study

*If at all possible, you should try to beat the overall average of just over two and a half years to achieving ROI.*

So, what should you expect? Of course, much will depend on your actual costs, and your current state, but we would recommend, if at all possible, you should try to beat the overall average of just over two and a half years.

Figure 11: Projected and Actual Timelines for ROI




Source: 2018 Mint Jutras ERP Implementation Study

In aggregate ROI took a little longer than expected, but only marginally so. Those who projected the longest time to ROI beat their estimates, but still took over three years to recoup costs. Can you afford that kind of delay? Those who were aggressive were able to shave six months off the overall mean and achieved ROI about a year ahead of the moderates.

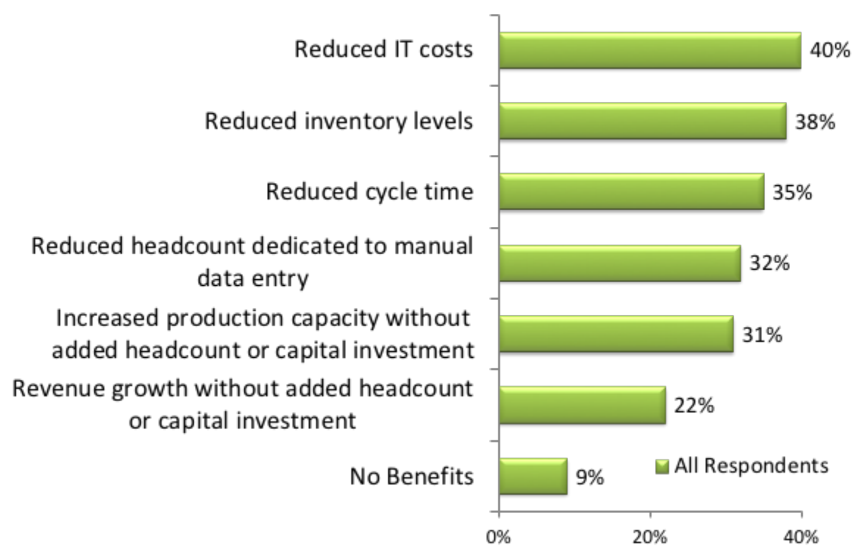
## WHERE DOES THIS ROI COME FROM?

*Once you achieve a certain level of savings, or even when you feel you are fully implemented, it is very tempting for the company in general, and the implementation team in particular, to breathe a collective sigh of relief and go back to business as usual. Resist that urge!* ***ERP should be an ongoing source of sustainable returns.***

We then investigated where this ROI is most likely to come from and this is what leads us to believe many are not expecting or benefiting enough from their current solutions. Once you achieve a certain level of savings, or even when you feel you are fully implemented, it is very tempting for the company in general, and the implementation team in particular, to breathe a collective sigh of relief and go back to business as usual. But weren't you trying to effect change by implementing a new solution? Shouldn't you reap all the possible benefits? ERP should be an ongoing source of sustainable returns.

The results from the first of two benefits-related questions are shown in Figure 12. We asked participants to check off all of the different ways their ERP implementation produced ROI. Excluding the 9% that claimed to have achieved no benefits (perhaps not yet), the average respondent selected 2.1 out of a possible 6. Why not more? These are quite basic. Do companies not understand the potential here? Are they simply not measuring it? And if they are not measuring it, then chances are they are not reaping all the potential rewards, because they can't manage what they don't measure. Are you?

Figure 12: Select all areas where your ERP produced ROI




Source: 2018 Mint Jutras ERP Implementation Study

### *REDUCED IT COSTS*

*Today's newer architectures and technologies, particularly those built on microservices, make solutions easier to develop and easier to maintain.*

Replacing applications based on outdated technology always presents the opportunity to save on the cost of simply keeping the lights on. Today's newer architectures and technologies, particularly those built on microservices, make solutions easier to develop and easier to maintain. For the reader with a technical background, microservices, also known as the microservice architecture, is defined (by Wikipedia) as an architectural style that structures an application as a collection of loosely coupled services. For those nontechnical readers, think of it as constructing a solution from a set of Lego building blocks. Of course, this is an oversimplification, but the benefits include the ability to configure, personalize, tailor and extend solutions without invasive customization.

*Additional cost savings may also be derived by choosing a SaaS deployment model: No capital expenditure required; no need to build out a data center or invest in hardware or a huge IT staff to maintain it.*

Additional cost savings may also be derived by choosing a SaaS deployment model: No capital expenditure required; no need to build out a data center or invest in hardware or a huge IT staff to maintain it. IT staff can turn their attention to adding more strategic value, rather than simply keeping the lights on. And don't forget the cost of obsolescence of hardware. With less hardware and no up-front license fee, you have lower startup costs and subscription-based pricing also gives you the option of accounting for the costs as operating expenses (OpEx) rather than capital expense (CapEx).

### *MANUFACTURING AND DISTRIBUTION OPERATIONS*

"Specific business cost savings" was at the very top of the list for goals for ERP. For typical manufacturers and distributors, inventory and labor represent a very substantial percentage of their operating expenses, while equipment factors heavily into capital expense. Inventory, cycle time and production capacity all speak to the efficiency and productivity of the manufacturing and distribution operations. Speed, efficiency and productivity are what ERP should be bringing you. If you are not looking to reduce inventory, while also speeding your processes (by reducing cycle time), you may very well be under-utilizing your production capacity. Increasing speed and capacity fuels growth. Doing so without adding headcount or capital expenditure fuels profits.

*Even if you have a mature implementation, don't leave money on the table. If you do not see how your ERP can (continue to) provide these benefits, then you either need expert guidance or you need a new solution, or both.*

Even if you have a mature implementation, don't leave money on the table. If you do not see how your ERP can (continue to) provide these benefits, then you either need expert guidance or you need a new solution, or both. If you are unsure, start with the former and see where it leads you. That is, of course, only if you want to grow profitably.

## BENEFITS BEYOND ROI

"Improve selected performance metrics" was also (tied) at the very top of the list of goals for ERP. Other performance metrics may not produce cost savings directly, but that doesn't mean they can't indirectly impact your ROI. In one way we see a little better response here (Figure 13). Only 5% claimed to have

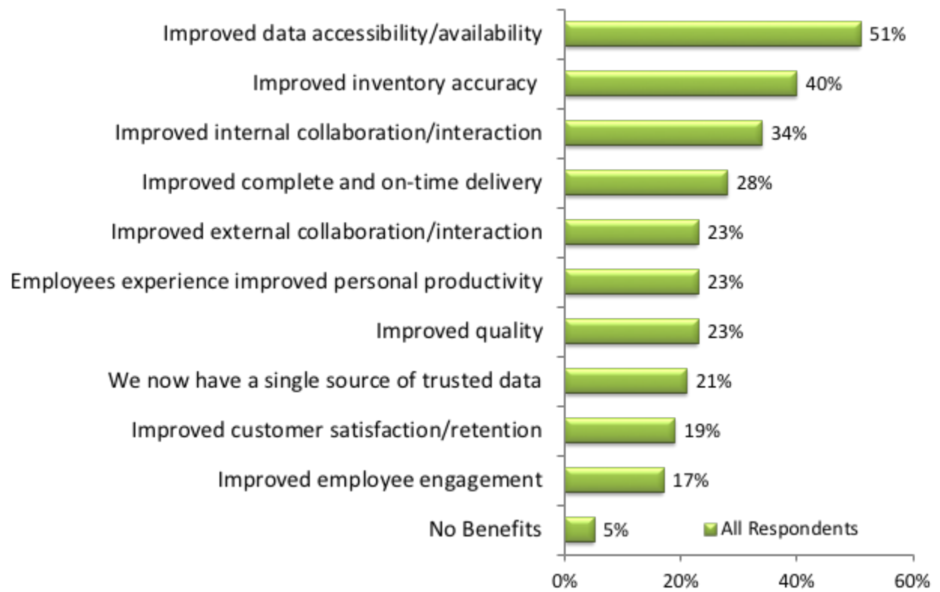
*At a time when data is becoming one of our most precious commodities, if you are not improving your access to more and better data, you are actually taking a step backwards.*

achieved no benefits, and the average respondent selected 2.84, but is that really any better? That was 2.84 out of a possible 10.

The improvement most likely to have been realized was better accessibility and availability of data. But still only about half (51%) experienced this. At a time when data is becoming one of our most precious commodities, if you are not improving your access to more and better data, you are actually taking a step backwards.

Examine the possible improvements in Figure 13 carefully. Some of them might seem like "nice-to-have" benefits, but not critical to your continued success. Or perhaps you feel you already excel in these areas. But Mint Jutras has yet to speak with any company that can boast 100% complete and on-time delivery and 100% inventory accuracy. We know of no company that could not improve either internal or external collaboration. If your millennial workers or your customers are not asking for this, you probably won't have to wait long before they do.

Figure 13: Additional improvements realized from ERP




Source: 2018 Mint Jutras ERP Implementation Study

*if you do not see how your ERP can provide these benefits, then you either need expert guidance or you need a new solution, or both. Don't be satisfied with two or three (or 2.84) of these improvements. Go for the gold. Why not all 10?*

As noted above, if you do not see how your ERP can provide these benefits, then you either need expert guidance or you need a new solution, or both. Don't be satisfied with two or three (or 2.84) of these improvements. Go for the gold. Why not all 10?

## SUMMARY AND RECOMMENDATIONS

Many approach ERP implementation with fear and trepidation, thinking the vast majority end in budget overruns and failure. Disasters may have been

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quite common in the early days of ERP. Nobody recalls those early days as "the good old days." Early ERP solutions were rigid and inflexible, hard to install and implement and even harder to use. Functionality was limited (and limiting) and implementations were not for the faint of heart. Horror stories of failed implementations costing millions of dollars were fairly common. For many, those perceptions live on, in spite of the fact that solutions today are far more technology-enabled, provide many more features and functions, and are easier to install, easier to implement and easier to use.

***High rates of failure in terms of schedules, costs and payback are a myth. Our study dispels that myth.***

High rates of failure in terms of schedules, costs and payback are a myth. Our study dispels that myth. Two thirds (67%) of our participants rate their implementations as successful or very successful and only one out of 315 described theirs as a failure. Only 26% went over budget by more than 10% and 82% of those that projected an ROI achieved it, often more quickly than anticipated. While we are glad that the majority of our study participants feel they have succeeded, we worry that they may be over-rating their success and leaving additional potential ROI and other benefits unrealized.

*Don't be afraid to seek guidance and assistance from those that do this for a living. ERP experts can help you identify goals, set a realistic schedule and budget and keep you on track. These experts will not be distracted by the day-to-day firefighting intrinsic to any business.*

Yes, ERP implementation is difficult and potentially disruptive to your business during the project. You really must expect this. After all, it is the software you use to run your business. And implementing ERP requires a different skill set than running your business. So secure top management commitment and create a plan. Don't be afraid to seek guidance and assistance from those that do this for a living. ERP experts can help you identify goals, set a realistic schedule and budget and keep you on track. These experts will not be distracted by the day-to-day firefighting intrinsic to any business.

And don't underestimate the potential of your solution. We suspect that many, upon going live, breathe a collective sigh of relief and go back to business as usual. They don't set the bar high enough in terms of the return on their investment, and they don't even try to make those returns sustainable. For manufacturers and distributors, reducing inventory, shrinking cycle times and increasing throughput and utilization of your current capacity should just be the beginning of on-going ROI. Think about reducing manual data input, gaining more access to more and better data, improving visibility to your business.

These should be no-brainers if you are implementing a new solution. But what if your existing solution hasn't provided these kinds of benefits? For years people have equated replacing ERP to brain surgery. You just don't do it unless the patient is dying. "Rip and replace" was avoided at all cost, even when there was no possible way the existing solution or its underlying architecture could keep pace with new market drivers and changing business needs. Upgrades were viewed as difficult and painful, but a replacement or reimplementation was often seen as pure evil. That too is a myth that needs busting.

If your current solution is not meeting your goals, or if you never set goals, it may very well be time to step back and perform an audit of your current solution to determine if it is living up to its full potential. And then determine if that full potential is sufficient to give you a competitive edge. If not, it may be time to replace it. Be critical. If you can't be objective about this, find an independent third party that can. The right technology-enabled applications can help propel growth and superior performance, while those built on outdated technology can stifle it. Which will you choose?

***About the author:*** *Cindy Jutras is a widely recognized expert in analyzing the impact of enterprise applications on business performance. Utilizing over 40 years of corporate experience and specific expertise in manufacturing, supply chain, customer service and business performance management, Cindy has spent the past 13 years benchmarking the performance of software solutions in the context of the business benefits of technology. In 2011 Cindy founded Mint Jutras (www.mintjutras.com), specializing in analyzing and communicating the business value enterprise applications bring to the enterprise.*