



White Paper

THE BIG ERP ADDICTION

EMBRACING **CHANGE**

What do you call it when you feel compelled to keep paying for something that you know is bad for you?

That's right, an addiction.

And judging by this definition, the vast majority of mid-sized companies are severely addicted... to rigid, high-maintenance ERP applications.

Business software buyers tend to favour and simply re-select their current ERP vendors, despite facing steep costs after implementing their software. This was one of the key findings of a survey sponsored by ERP vendor UNIT4 Business Software, and conducted by IDC, as part of its quarterly AppStats Survey in March 2008. A stunning 83 percent of mid-sized companies said they will still buy from the same ERP vendor, regardless of suffering from inflexibility when the need to make changes arises. Not only does this persistence resemble a true addiction, so do the symptoms of this 'irrational' behaviour: users are faced with hidden costs and tend to make the wrong decisions based on a lack of information.

The loyalty demonstrated by business software buyers is even more remarkable when you consider that more than half of respondents indicated they have to deal with significant changes (i.e. acquisitions, new processes, new products or services) every year. Such organisational changes often require modifications to the ERP system, which is a tedious and costly process with the majority of ERP packages that are in use today.

Reality is worse than expected

The survey also revealed that the inability to adequately respond to these changes is costing mid-sized companies dearly, both in terms of financial and resource costs! Almost half of those surveyed reported their financial applications projects exceeded their budget, with some of them reporting 100 percent above budget! While the ERP industry has a reputation of not meeting budget requirements, these unexpected costs can no longer be attributed to 'inexperience with the technology' and 'beginner's mistakes' such as inadequate training and unrealistic expectations.

The industry has now matured; there is plenty of expertise to deliver an ERP implementation on time, on target and in budget. Companies are now entering the next phase of cost control, where they need to start paying attention to what happens after the implementation – this is where the hidden costs occur. Half of all respondents incur additional costs after implementing financial applications and one in ten of these companies sees post-implementation costs topping 75 percent of the total budget.

A strange addiction

For some reason, companies still remain unwilling to break free of the continuous 'need-spend-need-spend' cycle, caused by their inflexible ERP applications. Ironically, they claim that cost reduction (28%) is the most important reason for investing in a new financial application. Other important reasons include: ease of set-up and installation (14 percent) and speed (14 percent). Post-implementation agility – the ability to make changes after the software has been implemented – only came in fourth at 12 percent.

To summarise: companies know their legacy ERP applications' inflexibility is costing them substantial amounts of money. They know that they need to reduce these costs but, despite this, they keep investing in the same software over and over again. This industry-wide addiction (for what else would you call it?) to legacy ERP is difficult to explain. It seems to suggest that companies are not willing to consider the options of using new, perhaps lesser-known vendors. There is either a sense of complacency or one of hopelessness that costs can never be reined in.

Going down hill

Arguably, the worst part is that for many companies, change is almost inevitable. Ongoing consolidation, globalisation and innovation are just a few of the factors that push companies to either continuously having to adapt themselves to new situations, or simply perish in obscurity! This is particularly true for mid-sized companies, who increasingly find themselves in a dog-eat-dog world: The biggest drivers for system change, cited by the respondents, were: mergers & acquisitions (35 percent), new business strategy (31 percent), reorganisation or restructuring (27 percent) and new customer demands (26 percent).

Not being able to implement a new business strategy, or roll out a reorganisation because the ERP system won't comply, could mean the end of a business. Their addiction to legacy ERP is a nightmare for these companies and unfortunately, a recurring one. The only people who benefit are the original vendors and consultants, specialised in legacy ERP, who are called in time after time to deliver the necessary system changes. All for a price, of course.

Time for rehabilitation?

Unfortunately, there is no such thing as an ERP rehab clinic; companies who find themselves trapped in a self-destructive ERP spending habit are largely on their own. Luckily for them, there is a way out. As with any addiction, acknowledgement is the first step. Many companies need to ask whether they should continue to stick to their current ERP system providers. They need to analyse and perhaps adjust their buying behaviour to review a wider array of alternatives before deciding on replacement solutions.

Particularly for businesses living in change (BLINC™), who, as a consequence of their dynamic business environment, frequently have to make modifications to their ERP system, there is a lot to be gained by using ERP software that is geared towards post-implementation agility. Any company that keeps getting frustrated by the high costs of making changes to their existing software, and then buying a newer version of the same software in order to reduce these costs, will most likely fall into this category. The only way to escape this continuous 'need-spend-need-spend' cycle is to put post-implementation agility higher on the priority list, and purchase ERP software that quickly and cost effectively adapts to business and organisational change!

Investing in rigid ERP systems that are unable to cope with such changes can be counter-productive and is not necessary.

About UNIT4 Business Software

UNIT4 Business Software in North America is a wholly-owned subsidiary of UNIT4, a \$517 million enterprise resource planning (ERP) company and a top six mid-market ERP software player globally. UNIT4 Business Software's leading ERP product for organisations living in change, Agresso Business World, is widely acknowledged as the business software solution that delivers the lowest Total Cost of Change. Thousands of professional services and public sector organisations, including cities and local governments, in over 100 countries use Agresso Business World for both operational support and strategic management.

About Agresso Pty Limited

Agresso Pty Limited (www.agresso.com.au) is a dynamic organisation providing innovative business information management solutions to leading organisations across Australia and New Zealand. Agresso provides, AGRESSO Business World (AGRESSO) for organisations that are people, project and service oriented. Over 2,900 private and public organisations, in over 100 countries, have deployed AGRESSO. AGRESSO's unique ability to change as new requirements appear, without incurring expensive programming costs, is its main competitive differentiator.

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