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ERP EXPECTATIONS FOR SMALL-TO-MEDIUM BUSINESSES (SMBS)

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When evaluating enterprise resource planning (ERP) solutions, the challenge for many small-to-medium-businesses (SMBs) is what to expect. To continue growing, SMBs must evolve from spreadsheets and standalone solutions. They must modernize.

But, what is a “modern ERP”?

This report explores what a modern ERP should provide and the performance that SMBs should expect from their systems.

Introduction

When SMB Leaders evaluate what they need from their ERP system, perspectives depend on each employee’s background, training, discipline, and type of business involvement. Answers may vary, but all companies should expect the same fundamentals as part of their ERP solution. We will examine each major area—and the applications and capabilities that Leaders have in place—as we evaluate ERP expectations.

Business Pressures

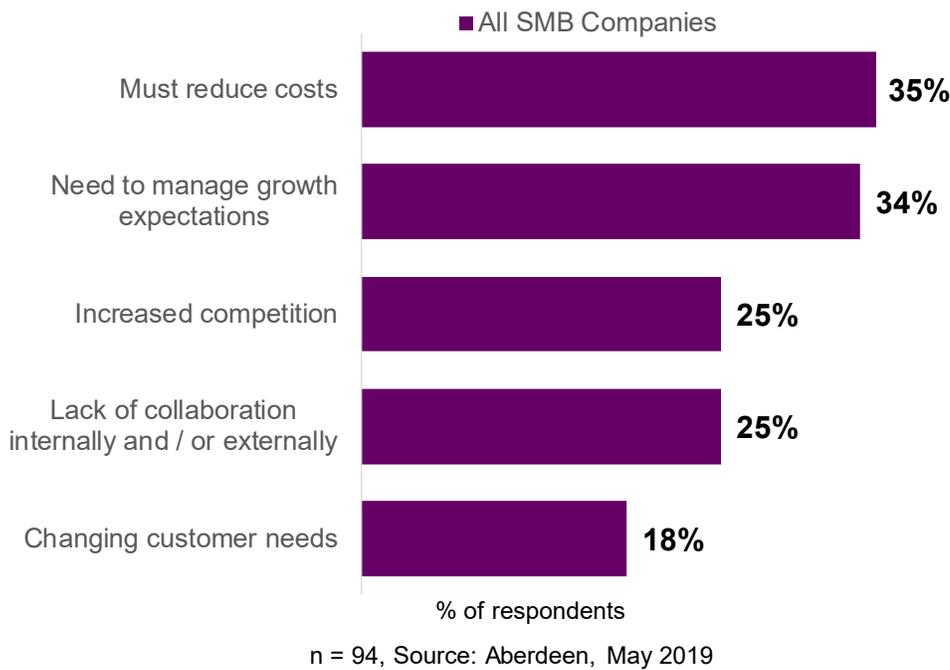
SMBs face the same pressures as their larger counterparts; however, SMBs weigh and prioritize differently. To protect margins and avoid cashflow issues, SMBs manage costs carefully. Reducing costs tops the list of business pressures for SMBs (Figure 1).

Managing growth expectations is another SMB concern for many of the same reasons. Growth is generally a positive sign for a business. However, it is equally important to make sure that the systems and resources to manage and support profitable growth are in place. Avoiding missteps is the key, and taking on new risk prematurely—before preparing the organization—may ruin growth opportunity.

The Aberdeen maturity class framework is comprised of three groups of survey respondents. This data is used to determine overall company performance. Classified by their self-reported performance across several key metrics, each respondent falls into one of two categories:

- ▶ **Leaders:** Top 30% of respondents based on performance
- ▶ **Followers:** Remaining 70% of respondents based on performance

Figure 1: Business Pressures



Sharing information effectively can be difficult following processes that evolved from manual, paper-based, and spreadsheet-dependent capabilities.

Increased competition is another factor affecting SMBs because they are not likely to be the market leader, usually due to size. However, this may not be true for SMBs promoting a new technology or product. In any competitive situation, there could be a contentious issue that arises, which may require an aggressive response. However, SMBs should measure their actions carefully so they do not extend themselves too far in the name of competition that could sidetrack from their mission.

Sharing information effectively can be difficult when following processes that evolved from manual, paper-based, and spreadsheet-dependent capabilities. A lack of collaboration indicates siloed functions. An ERP solution should establish one version of the truth.

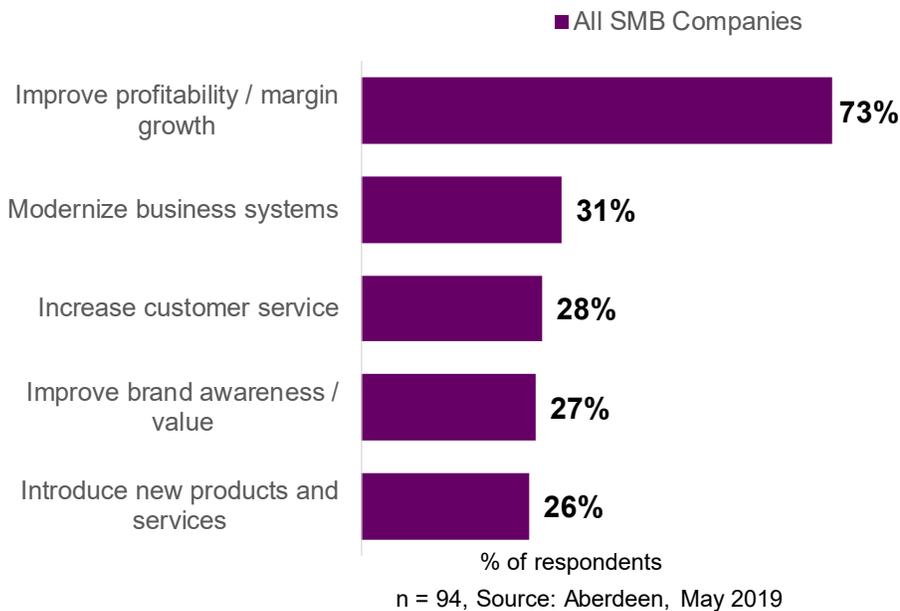
Very few companies start with a complete ERP solution suite; most add capabilities as needs arise. For many SMBs, growth evolves naturally, which makes it difficult to determine precisely where communications failures begin, or if there may be a need for a formal solution.

Beyond competitive pressures, changing customer needs can also be a disruptive force. Customers continuously seek ways to improve their competitive position; this puts further pressure to adjust the supply base accordingly.

Priorities for SMBs

Figure 2 provides the goals and objectives that SMBs are trying to accomplish while dealing with the pressures shown in Figure 1. These objectives drive strategic decisions, which shift based on immediate demands and pain points.

Figure 2: Goals and Objectives



The top goal—more than double any other—is to improve profitability as the company grows. There should be some margin improvement due to scale; however, it is imperative to know all product costs, to manage expenses tightly, and to control established budgets.

Compared to the other objectives, modernizing business systems is a strong second priority for SMBs. The primary focal area is establishing or updating an ERP solution. Intelligence and strategy come into play—when upgrading for the future or investing in a new solution—which leads to deployment considerations and selecting the right partner provider.

Customer service ranks next on the list. Growing profitably while keeping systems current helps to provide both the framework and governance for the business. Modernizing allows companies with a customer-centric approach factor their customers' needs into decisions and expenditures. Exactly *how* to service customers best, will vary by company, but it's

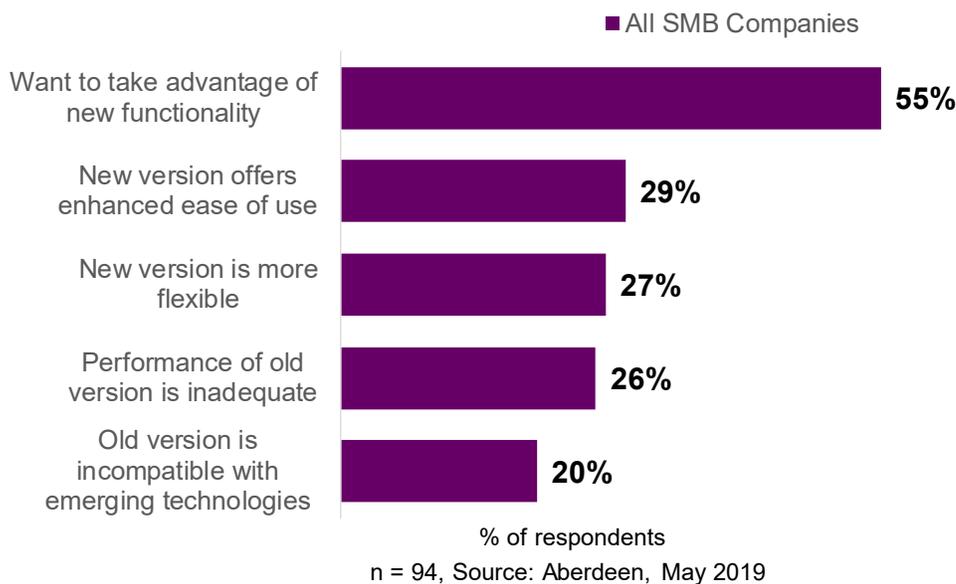
The top goal for SMBs—more than double any other—is to improve profitability as the company grows.

usually some combination of brand, products, services, and/or some unique capability a company might have in their industry.

Technology Motivators

When it comes to why companies are likely to change or upgrade their ERP system, there are many drivers (Figure 3). Taking advantage of the latest capabilities and functions tops the list.

Figure 3: Why Companies Change or Add ERP Functions



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As a business grows, handling volume, speed of information, and new process requirements may demand adding functionality. Ease of use is key to engaging employees and ranks second on the list. The priority is that the solution must do the job while also being easy to use.

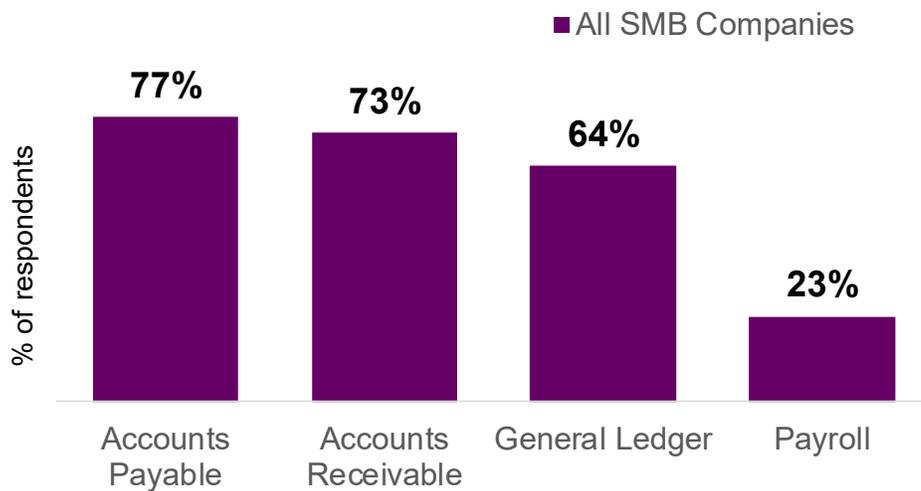
Based on their business offering, SMB flexibility may enable profitable growth. Additionally, based on features available, flexibility may be built into the solution; or, it could be at the deployment level (i.e., cloud-based).

If systems do not meet current business needs, it's time to change. Companies in this situation should reconsider their entire IT and systems strategy. A cloud-based approach—one with a provider that can handle growth and integration support—is a viable solution. Options vary; but considering flexibility is a wise approach, assuming the SMB intends to grow.

Financial Solutions Commonly Adopted

ERP adoption usually starts with financial solutions. SMBs require a means to track costs against accounts, balance sheet, and P&L generation, as well as general ledger functionality. Figure 4 identifies four of the most common ERP processes that SMBs are likely to adopt.

Figure 4: Basic Financial Technology/Capabilities



n = 94, Source: Aberdeen, May 2019

Accounts Payable (AP) and Accounts Receivable (AR) are two processes SMBs use to connect with customers and suppliers. Accounts receivable covers the order-to-cash process on the customer side (taking orders, delivering a product or service, billing, and collecting payment from the customer). Accounts payable manages transactions with suppliers. Known as the procure-to-pay or source-to-settle process, AP involves ordering goods or services from a supplier, receipt, invoice processing, and payment. General ledger is the backbone of the accounting system and is a solid base

Payroll is another commonly used accounting application, but not as widely as the others as SMBs typically outsource payroll to a third-party provider.

Administrative and Functional Applications to Expect

In addition to common financial applications, SMBs should expect basic administrative and functional applications in their ERP system (Figure 5).

Maturity Class

Performance:

Leaders vs. Followers

Complete and on-time delivery:

- ▶ Leaders: 96%
- ▶ Followers: 88%

Days to close a month:

- ▶ Leaders: 3.5 Days
- ▶ Followers: 5.4 Days

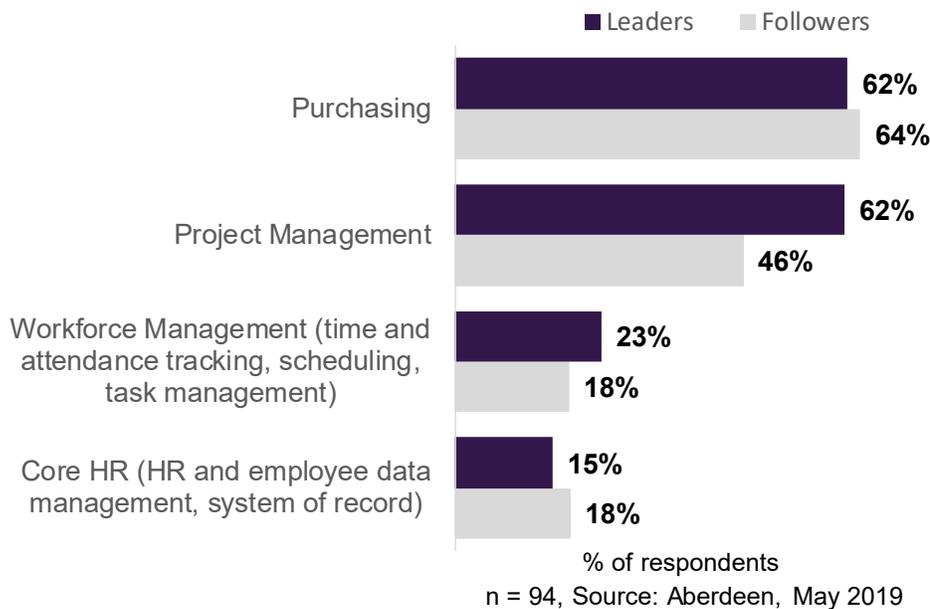
Improvement in profitability over the past two years:

- ▶ Leaders: 7%
- ▶ Followers: -2%

Improvement in productivity over the past two years:

- ▶ Leaders: 13%
- ▶ Followers: 1%

Figure 5: Basic Organization and Administrative Applications – task on 3rd bullet



Most organizations utilize some form of purchase order management process within ERP. Leaders and Followers have very similar levels of adoption.

Many ERP solutions support basic project management functions. Leaders adopt these capabilities more often than Followers (62% vs. 46%).

Basic workforce management—including time and attendance tracking, scheduling, and task management—is another common administrative area that SMBs have shown some interest in. Leaders, at 23% adoption levels, are more likely than Followers to have this in place. This adoption seems low; but SMBs may use third-party solutions to track time and attendance. As labor management and reporting requirements become more complex, leveraging a workforce management time and attendance solution integrated with the ERP system might be the next step.

Core HR functionality may also be part of some ERP systems, but this is another area that SMBs might initially outsource. As they grow, they may look for an HR solution that integrates well into their ERP.

Process KPIs: Leaders vs. Followers

Information received timely—during the “decision-window”:

- ▶ Leaders: 95%
- ▶ Followers: 85%

Improved key-business-process cycle time over the past two years:

- ▶ Leaders: 7%
- ▶ Followers: 2%

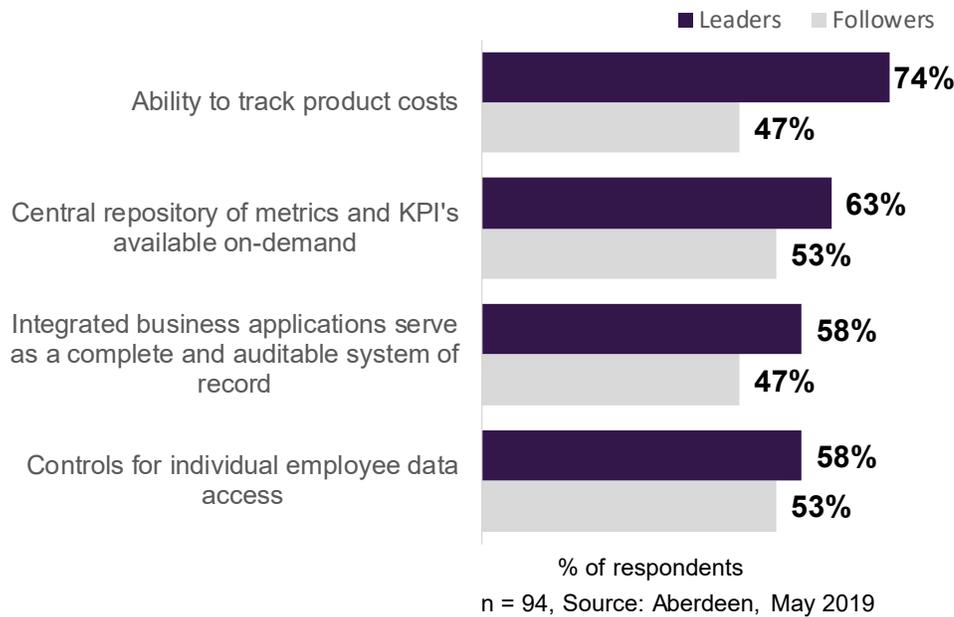
Faster decision making over the past two years:

- ▶ Leaders: 8%
 - ▶ Followers: 2%
-

Basic Operating Control Processes

Beyond basic financial accounting and administrative applications, there are many other fundamental capabilities related to controls, processes, visibility, and integration that Leaders are more likely to adopt (Figure 6).

Figure 6: Basic Organization and Control Processes



At 74% adoption levels, Leaders are 57% more likely than Followers (47%) to be able to track product costs. Since 73% of all SMBs indicate that their overarching goal is to grow profitably, cost control is essential. It is impossible to bid or quote business confidently without knowing what costs are involved.

Integrated business systems provide a complete and auditable system of record for the organization and establish one version of the truth. ERP solutions facilitate communication and collaboration by eliminating data silos and disconnected processes. A central repository for metrics and KPIs—available on-demand—reinforces this approach. Putting the information in the hands of the right people, based on their roles, also establishes control. Ensuring the right people have access to the information they need is vital, so they can make informed decisions in a timely manner.

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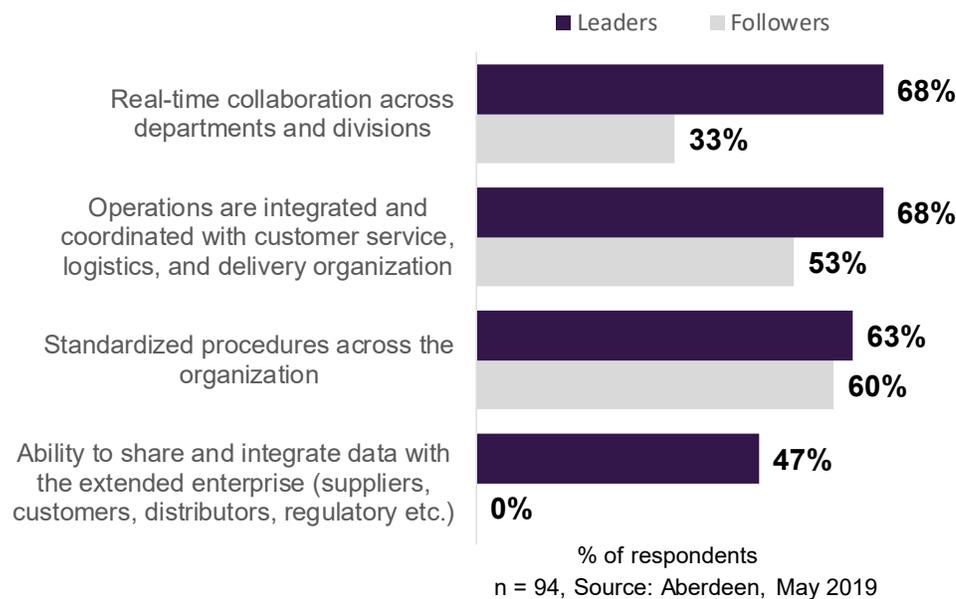
ERP solutions facilitate communication and collaboration by eliminating data silos and disconnected processes.

Core ERP Processes for Collaboration and Integration

As organizations grow and expand, it's critical to ensure the channels are in place to facilitate the flow of information. ERP solutions integrate different departments (operations, customer service, logistics, sales, finance). Having tightly integrated departments with a common data model eliminates time wasted on verification and error correction between silos that are not integrated. The end result is the faster flow of information between and across departments, and improved efficiency.

Figure 7 reflects the basic capabilities that SMB Leaders have in place to facilitate communication, collaboration, and standardization across the organization. Leaders are more than twice as likely to have real-time collaboration across departments and divisions.

Figure 7: ERP Process Capabilities



Standardized efficiency procedures across the organization is another capability that SMB Leaders and Followers establish with ERP. Standardization enables automation, which further improves efficiency.

Leaders are also significantly ahead of Followers in being able to share and integrate data across the extended enterprise, which includes customers, suppliers, and partners. The integration of embedded analytics by every application across the ERP platform facilitates improved collaboration, communication, and the infrastructure enables growth.

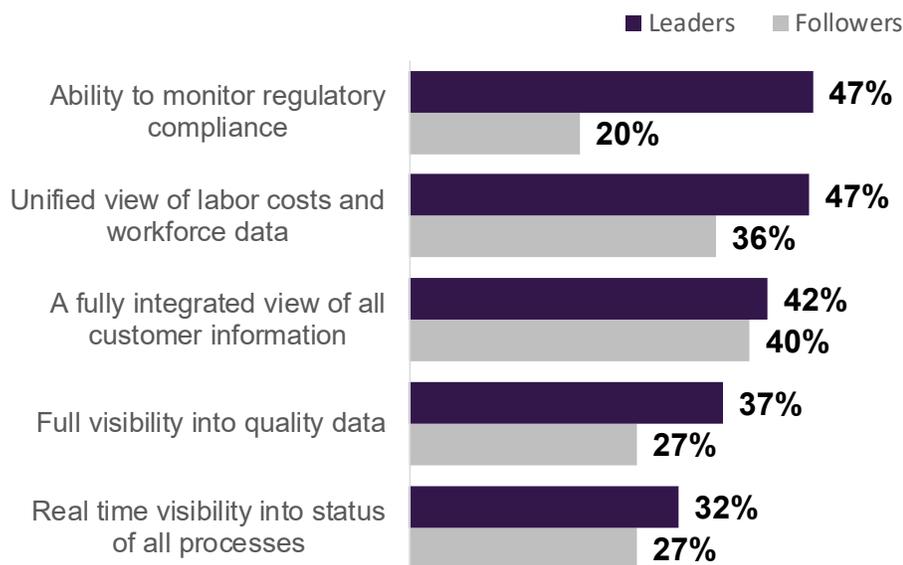
Table 1: ERP Integration Across the Enterprise

Integration	Leaders	Followers
Customer Relationship Management (CRM) integrated into ERP	53%	7%
eCommerce integrated into ERP/Order Management (OMS)	42%	20%
Business analytics/intelligence integrated into ERP	42%	33%
Ability to integrate data between financials and other applications	28%	13%
Customer self-service portals integrated with ERP	21%	13%
Supplier self-service portals	16%	7%

Visibility to the Critical Elements

Figure 8 reflects the capability advantages Leaders have in place as compared to Followers.

Figure 8: Enterprise Visibility Capabilities



% of respondents
n = 94, Source: Aberdeen, May 2019

Visibility into critical facets of the business created by an ERP solution can provide an early warning system that prevents issues from turning into crises. As SMBs increase in complexity due to growth, their regulatory exposure may increase as well. Leaders are 2.4x more likely than Followers to monitor regulatory compliance.

Visibility into a unified view of labor costs and workforce data is another crucial element for tracking product cost, which Leaders are more likely to have in place than Followers. Leaders are also 37% more likely to have full visibility into their quality data than Followers. This critical function provides an early warning system—when product is delayed or in question, due to a quality issue at a supplier or an internal process, the information might trigger an alert of corrective action to minimize the impact before it escalates.

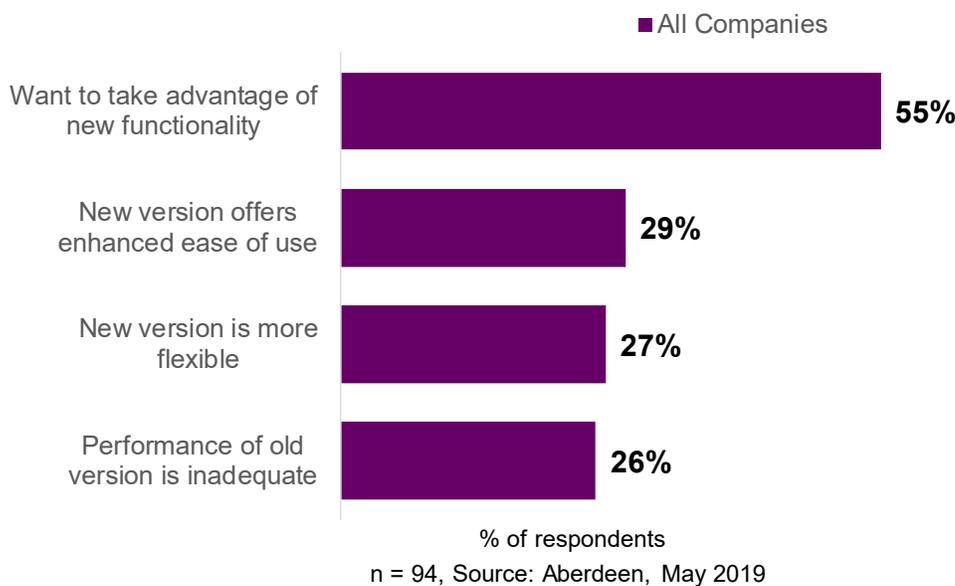
Leaders are also more likely to have real-time visibility into all processes; this function quickly identifies delays or highlights opportunities. For sales, customer service, and accounts receivable, having a unified, fully-integrated view of all information provides a holistic customer profile, which aids in crafting consistent communications.

Standardizing on a single platform, across multiple entities, addresses integration issues for multiple ERP organizations and those who need to integrate with legacy and best-of breed solutions.

Why Choose the Cloud for Your ERP?

For many SMBs, a cloud-based approach to ERP is the right solution (Figure 9).

Figure 9: Primary Selection Criteria for Cloud – All SMBs



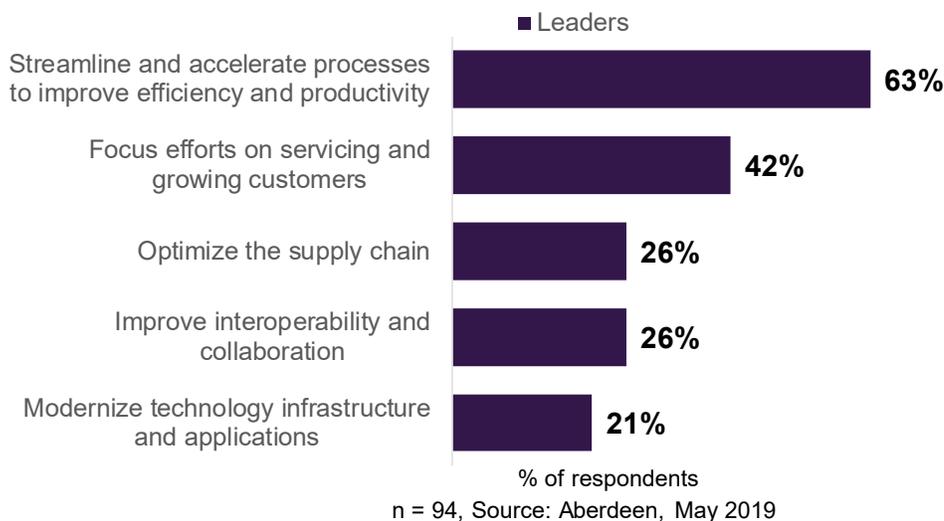
Standardizing on a single platform across multiple entities, cloud-based ERP addresses integration issues for organizations that struggle to merge legacy and best-of breed solutions. ERP Cloud simplifies integration within the finance function and across the different lines of businesses that finance collaborates with. Not only that, cloud-based ERP can reach directly to the customer, providing the foundation needed to offer self-service features that customers love. SMBs want to have the ability to expand as needed. An ERP solution that can scale is another reason SMBs choose the Cloud.

Eliminating much of the cost to manage systems on-premise is another reason to shift ERP to the Cloud. SMBs need a solution that can be seamlessly integrated and upgraded, as well as one that offers industrial-strength security for all their data. An ERP cloud solution reduces the need to build out an IT staff to "keep the lights on," allowing for a reallocation of resources towards more strategic initiatives.

Strategies for the Future

Looking forward, SMB Leaders are doubling down on many existing strategies (Figure 10) as they leverage their ERP solution to further address the priorities they identified (Figure 2). Their top priority is to streamline and accelerate processes that improve efficiency and productivity. This is a primary benefit an ERP solution provides and is top of mind for Leaders to ensure they take full advantage.

Figure 10: Strategic Actions for the Leaders





In addition to addressing fundamental productivity and process efficiency, SMBs have not lost sight of taking a customer-centric approach to service and their customer base, which is consistent with the SMB focus on customer service. Recognizing the ERP solution as a solid foundation, SMBs also recognize the opportunity to tackle some other areas that will improve their business such as, optimizing their supply chain (which can involve many applications to cover planning), execution, fulfillment, and an inventory model that supports end-to-end requirements. Improving interoperability and collaboration is another area that will address any data integration and communication channels that have not already been dealt with to further refine and improve their communication channels. Having a solid ERP foundation also simplifies adding any further technology or applications that are on the horizon to address future weaknesses that is in line with their overall systems strategy.

Summary and Key Takeaways

For SMBs, choosing the right ERP solution—and the right time to invest in or upgrade—can be a significant challenge. However, there are some fundamentals that SMBs should expect from their ERP solution:

- ▶ Accounting and financial applications, along with essential administrative and operational functions, should be expected. Leaders have adopted many other core capabilities.
- ▶ Demand control capabilities and process integration across the enterprise, as well as the ability to integrate with other enterprise systems, such as CRM and HCM.
- ▶ Depending on growth rate, integration requirements, internal IT support, and the need to have access to latest technology, a cloud-based ERP may be a viable option for many companies.

Aberdeen recommends that all SMBs follow the ERP path paved by the Leaders. SMBs should enable their people, improve their systems, and upgrade their technology to develop their ERP strategy for the future.

Related Research

ERP's Role in the Modern Manufacturer: Supporting the Needs of Industry 4.0; February 2017

Deploy Your FP&A Software in the Cloud to Keep Your Budgets and Forecasts Grounded in Reality; March 2016

Beyond Spreadsheets: Taking Planning, Budgeting, and Forecasting to the Next Level; January 2016

Maximize Your Supply Chain Effectiveness with Superior Modeling, Planning and Analytics; September 2018

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