

February 2014

The Value of Upgrading ERP: Maintaining Modern Technology

Enterprise Resource Planning (ERP) is a mission-critical application that is essential for end-to-end support of an organization. It provides visibility to decision-makers, helps to promote efficiency and collaboration, and provides a complete system of record. As such, these solutions tend to have long lifecycles within organizations; Aberdeen's research indicates that the average age of an ERP solution in midmarket organizations is over seven years.

This makes ERP tools some of the oldest applications — on average — in midmarket companies. This is not always a good thing, as a lot can change in seven years. Businesses may expand, add new product lines, become subject to new regulations, or any number of other business developments. The technology itself may also simply become outdated. Software vendors may introduce new offerings such as mobile or social capabilities, or more modern best practices templates. Oftentimes, optional upgrades to the ERP software introduce these enhancements. Some organizations take advantage of these offerings, while others may choose to forego them.

Organizations that do not upgrade their ERP may miss out on new technology that could significantly improve their business. This is why 58% of Best-in-Class midmarket (see definition in sidebar) organizations are implemented on the latest version of their ERP software. The purpose of this report is to identify the reasons that organizations choose to upgrade their ERP as well as the enhanced technology capabilities and benefits that these organizations experience.

The Importance of Staying Current

Every ERP vendor offers upgrades at a different interval, but data collected for Aberdeen's [*ERP in the Midmarket: Enabling Functionality and Simplicity to Combat Complexity*](#) finds that Best-in-Class midmarket organizations are more likely than All Others to accept these upgrades and keep their ERP updated (Figure 1).

Analyst Insight

Aberdeen's Insights provide the analyst's perspective on the research as drawn from an aggregated view of research surveys, interviews, and data analysis.

Company Size Definition

In this report, Aberdeen defines the midmarket as organizations with between 100 and 1,000 employees.

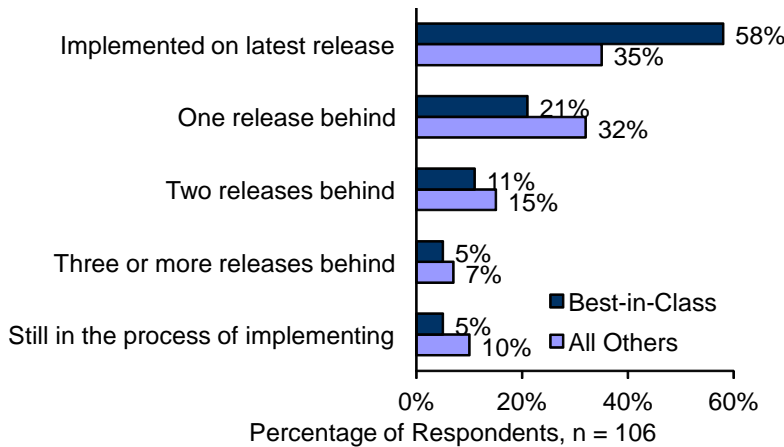
Aberdeen Methodology

The Aberdeen maturity class is comprised of three groups of survey respondents. Classified by their self-reported performance across several key metrics, each respondent falls into one of three categories:

- √ **Best-in-Class:** Top 20% of respondents based on performance
- √ **Industry Average:** Middle 50% of respondents based on performance
- √ **Laggard:** Bottom 30% of respondents based on performance

Sometimes we refer to a fourth category, **All Others**, which is Industry Average and Laggard combined.

Figure 1: The Best-in-Class Stay Current

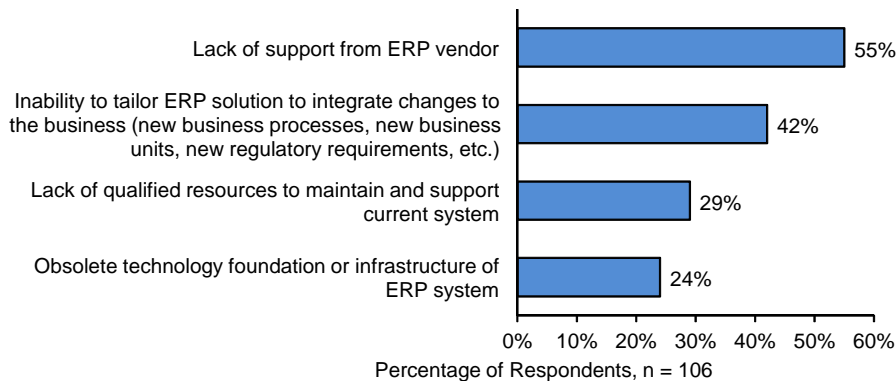


Source: Aberdeen Group, August 2013

As a whole, organizations that have not achieved Best-in-Class status tend to fall behind when it comes to updating their solutions. These organizations are 46% more likely than the Best-in-Class to be at least one version behind. This could be because Best-in-Class organizations have identified that upgrading their solutions allows them to take advantage of the newest advancements in technology and use those tools to accelerate their business performance.

To begin to understand why upgrading ERP is important, we must first identify the reasons that companies replace their ERP. Selecting and implementing a new ERP can be a daunting process that can place a burden on the organization’s resources, and as a result is a very difficult decision to make. Thankfully, upgrading ERP presents a good alternative to replacing a solution completely. In fact, upgrading ERP helps to combat all of the top reasons that such tools get replaced (Figure 2).

Figure 2: Reasons to Upgrade — Why ERPs Get Replaced



Source: Aberdeen Group, August 2013

How Do You Rate?

In the report *ERP in the Midmarket: Enabling Functionality and Simplicity to Combat Complexity*, survey takers were ranked on the following criteria:

- ✓ **Time to close a month:**
Best-in-Class – 3.9 days,
Industry Average – 6.4 days,
Laggards – 8.1 days
- ✓ **Days sales outstanding:**
Best-in-Class – 39.1,
Industry Average – 42.9,
Laggards – 51.4
- ✓ **Complete and on-time delivery:**
Best-in-Class – 96%,
Industry Average – 89%,
Laggards – 82%
- ✓ **Increase in profit margins over past 2 years:**
Best-in-Class – 16%,
Industry Average – 11%,
Laggards – 0%

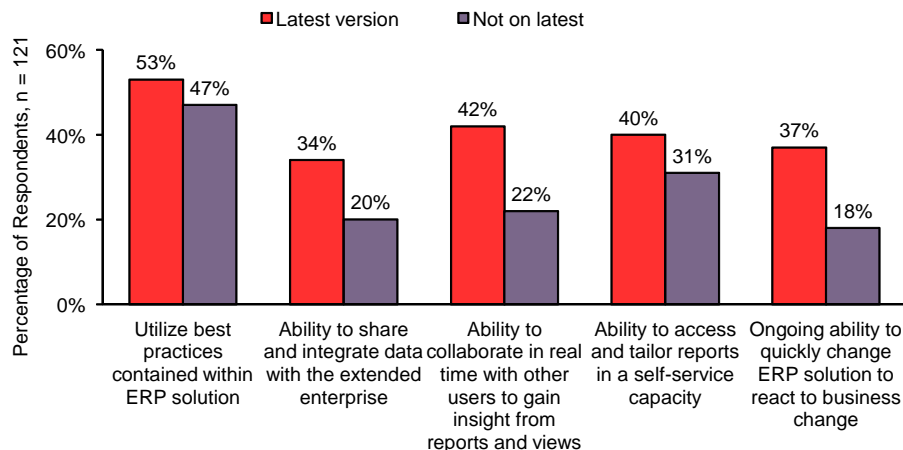
The top reason that ERPs get replaced is because of a lack of support from the ERP vendor. By upgrading ERP, organizations can ensure that they will receive the vendor’s ongoing commitment. Further, 24% replace their ERP because the technology has become obsolete. Upgraded solutions are more likely to contain functionality that is in alignment with modern business needs. These include adaptability and usability. Forty-two percent (42%) indicate that their solution is unable to support changes to the business. As ERP vendors update their solutions, they typically include new best practices or support for regulatory requirements. They also sometimes add features that are easier to use and enhance support. By upgrading their current ERP solution, organizations can avoid the burden of ripping and replacing their current software.

Of course, there are a few reasons that organizations may choose to not update their ERP solution when updates become available (see sidebar, *Why Not to Upgrade*). These mostly revolve around the vendor not offering upgrades that are attractive to their customers. This is where identifying a solution vendor that continually offers impactful updates becomes important. These updates should not significantly disrupt the business, however. In some cases, organizations may want to look to cloud solutions, where updates are handled automatically.

The Benefits of Upgrading

By comparing midmarket organizations that are implemented on the most recent version of their ERP software to those on older versions, it becomes clear that upgrades lead to more functional, usable, and scalable solutions (Figure 3).

Figure 3: A More Functional, Usable, and Scalable Solution



Source: Aberdeen Group, August 2013

Fifty-three percent (53%) of midmarket organizations implemented on the latest version utilize the best practices contained within their ERP solution, in comparison to 47% of those that are not. Vendors tend to introduce more efficient process templates or support of regulatory compliance with

Why Not to Upgrade

Midmarket organizations that choose not to upgrade their ERP solution cite the following reasons:

- ✓ 45%: The current release satisfies our needs.
- ✓ 38%: Not enough new features to build a solid business case.
- ✓ 37%: Fear of disruption to the business.

successive versions of their software. Only fully updated organizations are able to take advantage of these benefits. This means that these solutions are much more functional. Enhanced functionality only begins there; having an updated solution leads to the adoption of more key ERP capabilities as they become available (see sidebar, *Enabling Enhanced Functionality*).

Upgraded solutions also become more usable. For example, midmarket organizations that are implemented on the latest release are 70% more likely than those that are not to have the ability to share and integrate data with the extended enterprise. This is essential for working with business partners, customers, and regulatory bodies. Lacking this technology could lead the organization to miss out on revenue or cost savings because the organization would be more difficult to do business with.

Upgraded solutions also facilitate collaboration throughout the organization. Many ERP vendors introduce social collaboration through new updates. As a result, those on the latest version are almost twice as likely as those that are not to have the ability to collaborate in real time.

Lastly, scalability is incredibly important for midmarket organizations as they continue to grow. A more modern solution, which is achieved through upgrades, is more likely to support flexibility. In fact, midmarket organizations on the latest version of their ERP software are over twice as likely as those that are not to have the ongoing ability to tailor their solution to reflect business change.

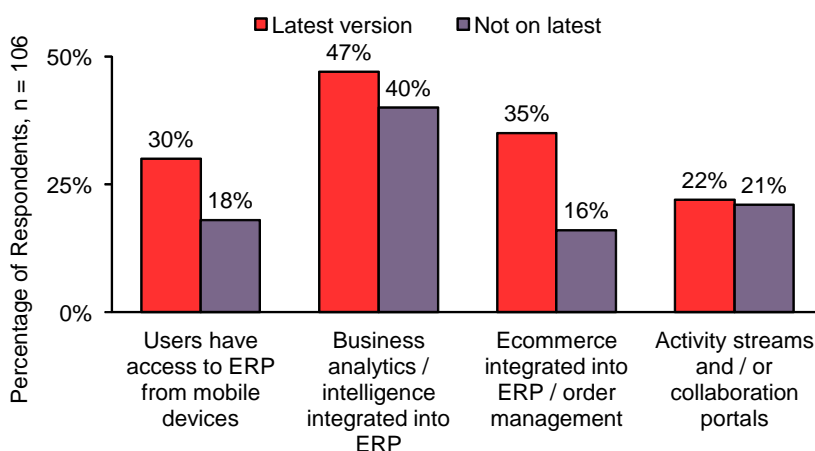
By accepting updates, organizations can also ensure that they are prepared to take advantage of the technology developments that are offered from their ERP vendor (Figure 4).

Enabling Enhanced Functionality

Compare the capabilities enabled by ERP in midmarket organizations using the latest version to organizations that are not:

- ✓ Data entry at the point of activity: 83% vs. 62%
- ✓ Ability to combine planned warehouse orders: 54% vs. 43%
- ✓ Real time visibility into the status of all processes: 63% vs. 33%

Figure 4: Taking Advantage of the Latest Technology



Source: Aberdeen Group, August 2013

For example, organizations that are on older versions of the software may not have the compatibility to utilize ERP on mobile devices. Truly, midmarket organizations on the latest version are 67% more likely than

those that are not to have the ability to access ERP from mobile devices. Even if the whole ERP suite is not available, updates may make available individual utilities that link to ERP, such as mobile sales. This is beneficial because instead of displaying the whole ERP system on a smaller mobile screen, which may be cumbersome, these solutions are optimized to enable employees to complete specific tasks. Many ERP vendors have embedded Business Intelligence (BI) tools into their solutions. Organizations that do not upgrade thus may not be able to take advantage of the power of analytics. Other technologies include Ecommerce, which organizations that are on the latest version are 119% more likely to have than those that are not. And while still nascent, organizations on the latest version of their ERP solution will be the first to have access to social streams, which ERP vendors are currently introducing.

But, as always, it really comes down to the bottom line. If organizations are afraid that upgrades will disrupt the business, they should consider the positive side of the update path. Aberdeen’s research finds that midmarket organizations that are on the latest version of their ERP software report greater benefits as a result of their solution in a variety of key performance indicators when compared to organizations on older versions. These include operational metrics such as schedule compliance, the cycle time of business processes, inventory turns, and complete and on-time shipments. These improvements are also recorded on the bottom line, as midmarket organizations on the latest version of their ERP software report a 13% reduction in operational costs. Paired with the evidence above that organizations that upgrade receive a solution that is functional, easy to use, scalable, and compatible with the newest advances, these improvements provide a compelling case for upgrading.

Table 1: Upgraded Users Report Benefits

Benefit Achieved through ERP	Latest Version	Not on Latest
Reduction in operational costs	13%	10%
Reduction in administrative costs	14%	9%
Improvement in complete and on-time shipments	22%	15%
Improvement in inventory turns	52%	36%
Reduction in inventory	17%	9%
Improvement in cycle time of key business processes	22%	13%
Improvement in internal schedule compliance	17%	14%

Source: Aberdeen Group, August 2013

Key Takeaways

Organizations rely on their ERP solutions to completely support them. As such, ERP solutions have long lifecycles within organizations. But business, and the technology that supports it, changes over time. Therefore, organizations are left with a few choices. Do they update their ERP solution

when it is offered by their ERP vendor, do they stay put, or do they replace the whole solution when their current one becomes outdated? Best-in-Class midmarket organizations are 94% more likely than All Others to be implemented on the latest release. An updated solution is more likely to be functional, usable, and scalable. It can help them take advantage of the latest technology and produces greater benefits. Note:

- Fifty-three percent (53%) of midmarket organizations implemented on the latest version utilize the best practices contained within their ERP solution, in comparison to 47% of those that are not.
- Midmarket organizations that are implemented on the latest release are 70% more likely than those that are not to have the ability to share and integrate data with the extended enterprise.
- Midmarket organizations on the latest version of their ERP software are over twice as likely as those that are not to have the ongoing ability to tailor their solution to reflect business change.
- Midmarket organizations on the latest version are 67% more likely than those that are not to have the ability to access ERP from mobile devices.
- Midmarket organizations on the latest version of their ERP software report a 13% reduction in operational costs.

By keeping their ERP solutions current, midmarket organizations can stay on the upgrade path to success.

For more information on this or other research topics, please visit www.aberdeen.com

Related Research	
<u>SaaS and Cloud ERP Observations: Enabling Collaboration in the Midmarket;</u> December 2013 <u>ERP in the Midmarket: Enabling Functionality and Simplicity to Combat Complexity;</u> September 2013	<u>Best-in-Class Strategies for Selecting an ERP in 2013;</u> July 2013 <u>ERP and BI in the SMB: Bringing Light to Data in the Shadows;</u> July 2013
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