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RESEARCH NOTE

ERP RETURNS $7.23 FOR EVERY DOLLAR SPENT

NUCLEUS RESEARCH

THE BOTTOM LINE

As competition continues to heat up in the market for enterprise applications, companies are taking advantage of vendors' investments in usability and functionality to streamline their operations, automate processes, and increase visibility and productivity. In analyzing Nucleus ROI case studies on ERP and financial management applications over the past five years, we found the average returns from ERP have increased to $7.23 for every dollar spent, up 36 percent from just five years ago.

Companies are investigating new ERP investments for a number of reasons, including:

- Investments made to address Y2000 concerns are reaching end of life and their rising cost of support, as well as poor usability and integration, are driving new investment decisions.
- Cloud ERP offerings, and the investments vendors have made in rapid deployment and lower TCO, have prompted companies to consider implementing ERP at branch locations to drive further automation and greater visibility (the so-called "hub and spoke" model).
- The large vendors' push to capture more midmarket share with rapid deployment options and templates, midmarket vendors' efforts to further streamline deployment and adoption of their products, and the broader availability of cloud options with in-depth functionality have made ERP and financial management applications accessible to a broader market of customers who didn't previously have the budget or appetite for such projects.

This is all good news for purchasers of enterprise applications, because vendors are willing to share more of the risk and responsibility for successful projects and are competing aggressively on price (particularly in small and midmarket deals). Vendors have also continued to invest in modernizing their applications, driving greater usability, and in extending their vertical and microvertical capabilities to reduce or virtually eliminate customization from many ERP project plans. Given the significant evolution in the market, we examined all the Nucleus case study data published over the past five years to analyze how the changes impacted value. We found that, for every dollar spent, a company gets back $7.23. This is up from previous years – a similar analysis of case studies published between 2003 and 2009 yielded an average return of $5.33 for every dollar spent.

Nucleus found that for every dollar a company spends on ERP, it gets back $7.23 – up 36 percent from average returns five years ago.

Our analysis included all the case studies Nucleus has published on ERP and financial application deployments in the past five years, which included a range of projects, from large deployments of most of the major vendors' solutions to smaller applications for SMB customers. Customers analyzed were from a broad range of industries and locations.

WHY ERP RETURNS ARE INCREASING

Obviously these figures reflect relatively successful deployments because few companies with failed ERP deployments are willing to have their cases published by Nucleus. However, the average returns from successfully deployed projects are increasing for a number of reasons, despite the fact that many deployments are second generation and often incremental in nature.

CUSTOMERS ARE SMARTER, MORE WARY, AND MORE VOCAL

ERP buyers today are more sophisticated, demanding, and vocal than ever before. Instead of relying on IT to complete an RFP process and recommend a solution, business users are heavily involved in the evaluation, negotiation, and purchasing process, as well as the deployment itself. They're more likely to be skeptical of vendor claims, more likely to demand and carefully vet references, and raise red flags early on in the project plan if needed. Companies have much less of an appetite to write off a failed ERP project today, and that has made project managers with skin in the game more squeaky about any potential risks. At the same time, the rise of social media and the ability of "epic fail" stories to go viral has put most vendors on notice.

Nucleus recently wrote about the rising role of the marketing technologist (Nucleus Research *o191 - Understanding the marketing technologist*, August 2014). The rise of tech savvy line-of-business users having greater influence on technology selection and deployment is not limited to marketing: understanding technology is increasingly a requirement for finance professionals who want to advance their careers.

CLOUD ERP IS RISING

The rise of new cloud ERP offerings and the cloud options being provided by most traditional ERP vendors are driving lower initial and ongoing cost and greater flexibility for ERP to deliver more value over time (roughly half of the projects included in this analysis were cloud-based). As companies move ERP to the cloud, they take advantage of the cloud multiplier effect (Nucleus Research *m108 - Cloud delivers 1.7 times more ROI*, September 2012) for greater returns. Cloud ERP is enabling customers to be more demanding that their expectations be met as well. In the old ERP world, business users might be willing to settle for a less-than-optimal application because asking IT for more burned up political capital they didn't want to risk. With Cloud ERP, those demands are made to the vendor so business users feel comfortable being more exigent.

Even if companies choose to go on premise, the impact of cloud applications on IT expectations and decisions is driving greater demands for more predictable time to value and less disruptive upgrades for ERP in general. On-premise and cloud vendors alike are increasingly pressured to support more seamless upgrades and capabilities to adapt and evolve ERP processes and functions as needed without a new consulting contract or development project.

VENDORS HAVE GROWN UP

Just as users have become more sophisticated and vocal, most vendors have recognized that failed deployments are their responsibility as well. On a purely self-serving level, they know publicity about failed projects are bad business, so they've made investments in reducing the risk and potential variability in results for customers. Investments in Rapid Deployment solutions by SAP, Business Accelerators by Oracle, and other roadmaps and rapid-implementation tools by other vendors have reduced the cost and unpredictability of deployments. Similarly, maturing functionality and the investments many vendors are making in vertical and microvertical capabilities mean less customization, reducing initial and ongoing support costs and enabling companies to upgrade and take advantage of more application value over time.

Usability investments by most of the major vendors have driven greater returns as well, by driving greater productivity for users instead of just ugly transactional data stores. As vendors have invested in the principles of the Dark Cockpit (Nucleus Research *n167 - Enterprise software must adopt the principles of the dark cockpit*, November 2013), simplification, automation, and focus are driving greater benefits from ERP.

CONCLUSION

The lower costs and barriers to entry for ERP, coupled with greater opportunities for benefit for a broader number of users, are driving greater ROI from ERP investments, which is good news for vendors and users alike. ERP deployments are likely to have a longer life than other enterprise applications that may be flipped on the whim of a new sales or HR manager. However, expectations have shifted up sharply. Today buyers demand not just a stable application but one that provides support for best practices, requires limited customization, and can be adapted to meet their changing needs over time.