AGILITY AND COMMUNICATION IN THE CLOUD: TOP MANUFACTURERS STAY ON TOP OF ERP UPDATES

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➜ **Nick Castellina,** Research Director, Business Planning and Execution

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Report Highlights

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Leading manufacturers are 59% more likely to be implemented on their ERP's latest version.

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The top reason manufacturers upgrade ERP is to take advantage of new functionality.

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Manufacturers with cloud solutions are 3.3 times as likely to be able to share and integrate data with the extended enterprise.

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Those with cloud ERP saw an 18% improvement in complete and on-time delivery.

This report illustrates how top performing manufacturers ensure that their ERP solutions remain current to provide essential functionality and support growth.

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As their businesses change, new product lines, business units, processes, and regulations must be supported. Every manufacturer comes to a point where their ERP must be upgraded or replaced. Fortunately, ERP deployed in the cloud can be a remedy to these headaches.

In a recent survey, Aberdeen Group found that only 9% of manufacturers have not implemented an Enterprise Resource Planning (ERP) solution. Of course, not all ERP is created equal. Some solutions start out as poor fits and are underutilized. Further, as time goes on, successful solutions can lose their ability to support the business. This could be due to business changes, incompatibility with newer technologies, and lack of support from the ERP vendor and IT professionals. For manufacturers, this can pose a problem. As their businesses change, new product lines, business units, processes, and regulations must be supported. Every manufacturer comes to a point where their ERP must be upgraded or replaced. This is a significant decision that should not be taken lightly. Fortunately, ERP deployed in the cloud can be a remedy to the headaches related to upgrading ERP. This report illustrates how top performing manufacturers ensure that their ERP solutions remain current enough to provide essential functionality and support growth.

Staying on Top of ERP Advances

Leading manufacturers understand the pitfalls of obsolete technology. Old solutions may not support new best practices; emerging technology such as social, mobile, cloud, or analytics; as well as ever changing regulatory requirements. As a result, Leaders are more likely to take advantage of available upgrades to their business systems (Figure 1). On the other hand, Followers are more likely to be two or more releases behind. Implementing a new solution or upgrading an existing one is a way to ensure that technology is up-to-date and effective. For example, modern technology could mean an emerging social business or mobile functionality that improves the effectiveness of service technicians.

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Figure 1: Leaders Stay Updated
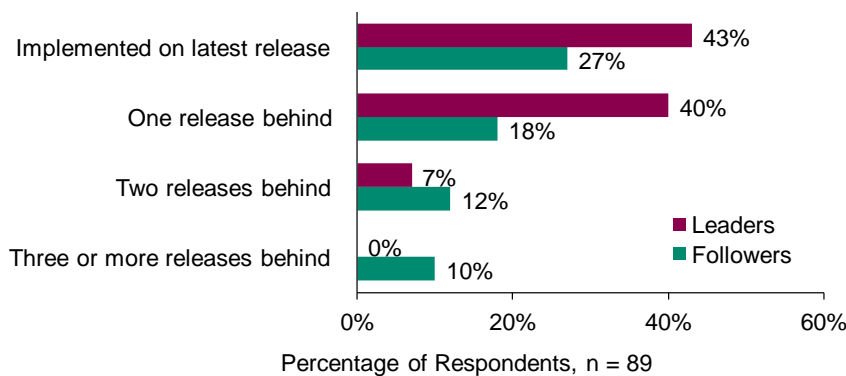
Source: Aberdeen Group, December 2015

So why would a manufacturer choose to upgrade their existing solutions? When polled, the number one reason that these organizations cited for upgrading their solutions is the need to take advantage of new functionality (Figure 2). This may include mobile technology that can help improve inventory, logistics, and service; updates to compliance rules, or simply new best practice workflows and processes supported in the most current release. Further, their existing solutions may no longer be adequate to support the business, due to poor performance, lack of vendor support, or obsolescence.

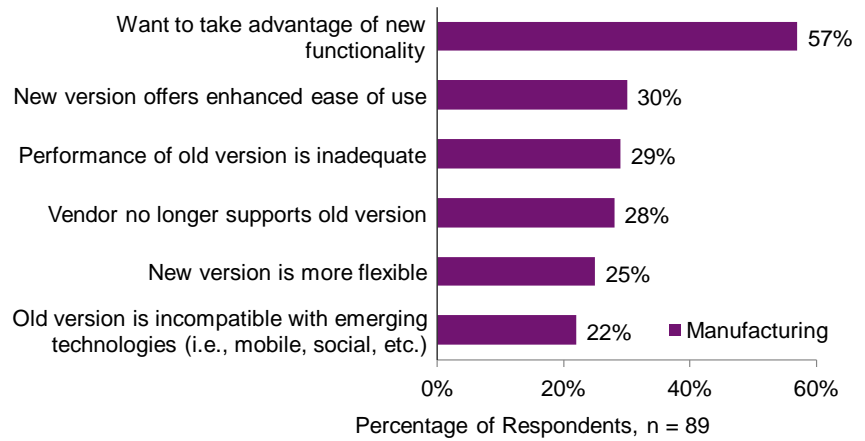In this report, Aberdeen groups respondents into two maturity classes:

- **Leaders:** Top 35% of respondents based on performance
- **Followers:** Bottom 65% of respondents based on performance

Survey takers were ranked on the following criteria:

- **Complete and on-time delivery:**
  - o Leaders – 96%
  - o Followers – 82%
- **Improvement in profit margins over the past two years:**
  - o Leaders – 14%
  - o Followers – 4%
- **Internal schedule compliance:**
  - o Leaders – 93%
  - o Followers – 81%
- **Inventory accuracy:**
  - o Leaders – 97%
  - o Followers – 87%

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Figure 2: Why Upgrade?

Percentage of Respondents, n = 89
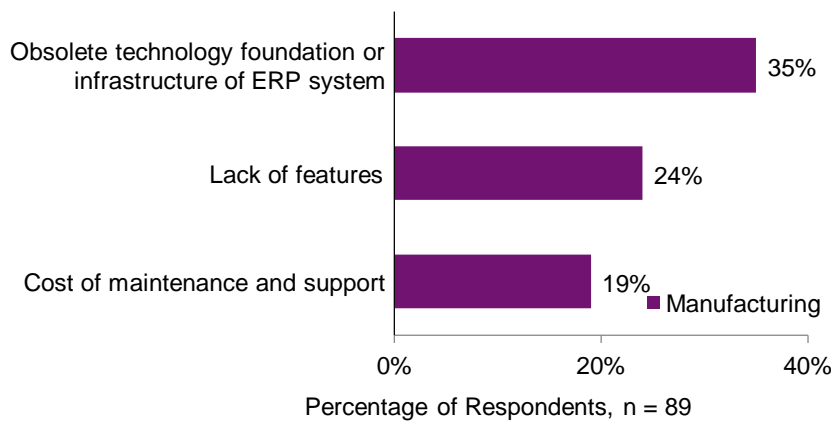
Source: Aberdeen Group, December 2015

It's about more than just providing new functionality. Upgrading ERP is about providing a solution that the organization can get more value from for a long time. Not only are upgraded solutions often easier to use, but they may also provide flexibility that the organization can take advantage of as they enter new markets, alter processes, encounter new regulations, and introduce new product lines. Today's manufacturers must look for solutions that enable them to be agile and can scale to support them as the business changes. Ultimately, upgrading is essential when the existing technology versions can no longer support the organization.

On the other hand, some manufacturers choose to replace the technology they currently use to support their organization. Unsurprisingly, the reasons chosen are similar to the reasons that organizations upgrade (Figure 3). Again, it's all about a lack of technology that can support the needs of the organization. Organizations that do not upgrade can miss out on the benefits of modern technology, including improved collaboration between product development, the shop floor, and delivery;

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communication with supplier and customers, enhanced traceability, and regulatory support. If the ERP software you use to support your organization is obsolete, you will lose ground to your competitors.

Figure 3: Why Replace?

Obsolete technology foundation or infrastructure of ERP system	35%
Lack of features	24%
Cost of maintenance and support	19% ■ Manufacturing

0%　　　　20%　　　　40%

Percentage of Respondents, n = 89

Source: Aberdeen Group, December 2015

## Either Way: Consider the Cloud

Whether replacing, upgrading, or implementing a new ERP solution, an organization is going to end up with a solution that can change the way it works. This is a perfect opportunity to reassess how the technology is delivered and supported. For the past few years, Aberdeen noted a growing trend within manufacturers to embrace cloud deployment as the delivery option for their ERP solutions. In fact, Aberdeen's _The Case for Cloud ERP in Manufacturing: Alleviating Outdated Concerns_ found that over the prior three years, interest in cloud ERP had more than doubled in comparison to a 26% decrease in interest for on-premise solutions over the same time period. The report found that cloud solutions can specifically address many of the top

challenges facing today's manufacturer, such as growth demands, inefficiency, and communication through the capabilities contained within cloud solutions. Further, these solutions have qualities that help support the reasons that manufacturers choose to either upgrade or replace their existing solutions. Why is that?

There are many reasons that manufacturers cite for implementing their solutions in the cloud (Figure 4). Not surprisingly, the top reason is lower total cost of ownership. When faced with cost constraints and limited IT staffs, manufacturers look to solutions that require lower capital investments and allow them to rely on the resources of the software vendor to manage the IT infrastructure.

Figure 4: Why Cloud?

Percentage of Respondents, n = 76
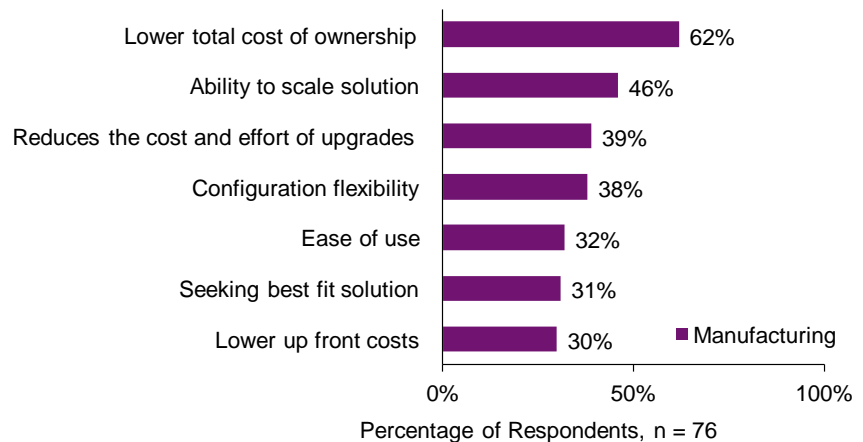
Source: Aberdeen Group, December 2015

But the act of selecting a business solution should never rely simply on costs. Since manufacturers today expect their solutions to be able to scale with them and be easily altered to support changes to the business, cloud solutions are particularly attractive. These solutions provide a manufacturer with the agility to react to their environments and stay competitive.

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Next is one of the biggest benefits of cloud solutions, the ability to be constantly updated with little disruption to the organization. A cloud solution ensures that an organization is always using the most current version of its software, since updates can be handled automatically. The challenges of obsolescence and lack of support are erased. The manufacturer can simply focus on delivering high quality products, and let the software vendor handle the hard parts of supporting the technology.

Combined, the fact that these solutions enable agility and are automatically updated directly illustrates that a cloud ERP solution can combat challenges related to upgrading and replacing ERP. But ultimately, the benefits of any technology come from the ways in which organizations can be improved and transformed through the capabilities contained within that software. To that end, manufacturers with cloud ERP are more likely to have capabilities that lead to success in today's manufacturing environment (Figure 5). While these capabilities are not exclusive to the cloud deployment model, the fact that a cloud solution is more likely to be updated with the newest functionality leads these solutions to be more likely to contain more of the following capabilities.

Figure 5: Enhancing Collaboration and Agility

Source: Aberdeen Group, December 2015
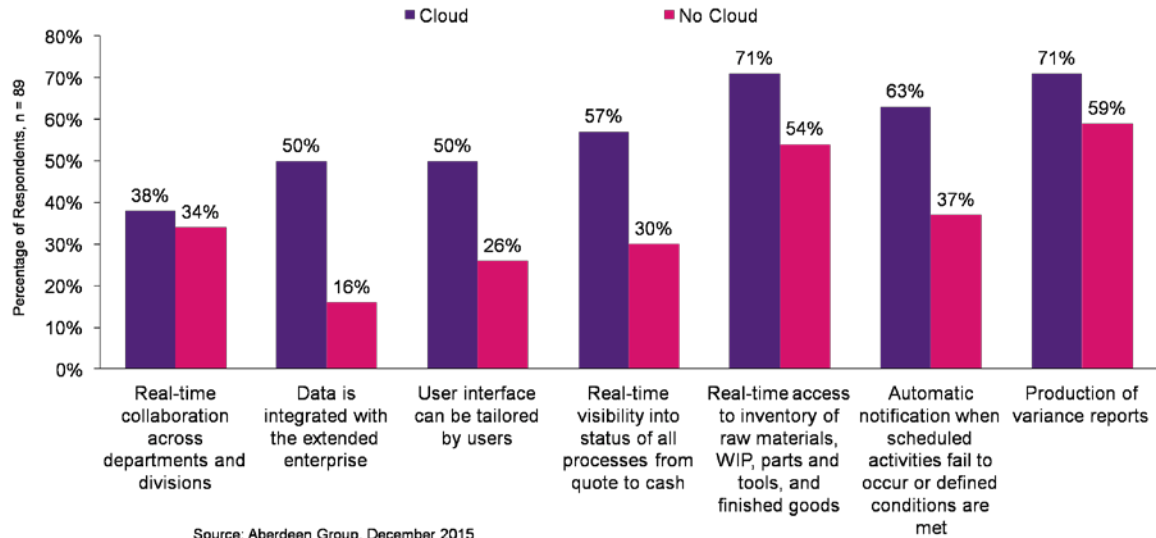
The agility enabled through a cloud solution extends beyond decision-making. Since cloud solutions can be more quickly implemented without reliance on internal IT resources, a cloud solution can be used to quickly scale new sites at new locations in new markets. Further, these solutions can enable your organization to adopt newer technologies as the business changes, giving your organization the flexibility to grow and change.

For example, since everyone can connect to a cloud solution as long as they have internet access, communication is greatly improved. This leads to capabilities such as the ability to integrate product development with production, which can then be integrated with the supply chain and logistics. In fact, manufacturers with cloud solutions are 3.3 times as likely to be able to share and integrate data with the extended enterprise. This integration provides visibility inside and outside of the organization, the benefits of which can include traceability, the ability to recall products, demand planning, customer service, and inventory management.

As noted, another big benefit of cloud ERP for manufacturers is improved agility in decision-making, which comes through greater visibility. With an easy-to-use cloud solution, the line of business is more likely to be able to create their own views of essential data. They can access this information, such as inventory or parts, on a real-time basis. Automated updates and

variance reports enable instant decision-making. With a cloud solution, manufacturers can be sure that their essential data is complete, up-to-date, and usable.

The Benefits

The success of an ERP implementation really comes down to whether or not the organization is able to use the emerging technology to induce improvements to the organization. For example, can schedules be adhered to, are products delivered when needed, and are costs contained? In the case of manufacturers with cloud ERP, Aberdeen has uncovered improvements in a variety of metrics, even more so than for manufacturers with on-premise solutions (Table 1). For example, those with cloud ERP saw greater improvements in operational costs, complete and on-time service, and internal schedule compliance. Beyond the improvements enabled through cloud ERP, manufacturers with cloud solutions also perform better in a variety of metrics. These include more agile decision-making, improved process execution, and better customer satisfaction. These results indicate that cloud ERP is an attractive option for manufacturers to upgrade their technology environment.

Table 1: The Results

Average Performance	Cloud	On-premise
Improvement in operational costs as a result of ERP	11%	6%
Improvement in complete and on-time delivery as a result of ERP	18%	12%
Improvement in internal schedule compliance as a result of ERP	14%	10%
Improvement in profitability over the past two years	19%	6%
Improvement in time to decision over the past year	42%	12%
Improvement in the cycle time of key business processes over the past year	19%	12%
Customers that report "better than average" satisfaction	80%	74%

Source: Aberdeen Group, December 2015

Key Takeaways

ERP is the lifeblood of a modern manufacturer. As such, ERP solutions often have long lifecycles within these organizations. But a manufacturer, and the supporting technology, changes over time. Therefore, manufacturers are left with a few choices. Do they update their ERP solution, stay put, or replace the whole solution when their current one becomes outdated? Forty-three percent (43%) of Leading manufacturers implemented their ERP's latest release in comparison to 27% of Followers. One way of staying current is through the deployment of ERP in the cloud. Research shows that cloud solutions are more flexible, provide greater visibility and collaboration, and can support a manufacturer for longer periods of time. A cloud solution is a critical component of growth for the modern manufacturer.

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

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Reduce the Friction in Manufacturing Operations Planning with ERP and MES; July 2015	*The Unified Manufacturing Environment: Transparency, Collaboration, and Decision-Making with End-to-End ERP*; May 2015

Author: Nick Castellina, Research Director, Business Planning and Execution (nick.castellina@aberdeen.com)

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