Radar Group International AB

ERP Cost of Ownership study

Why did we do it?

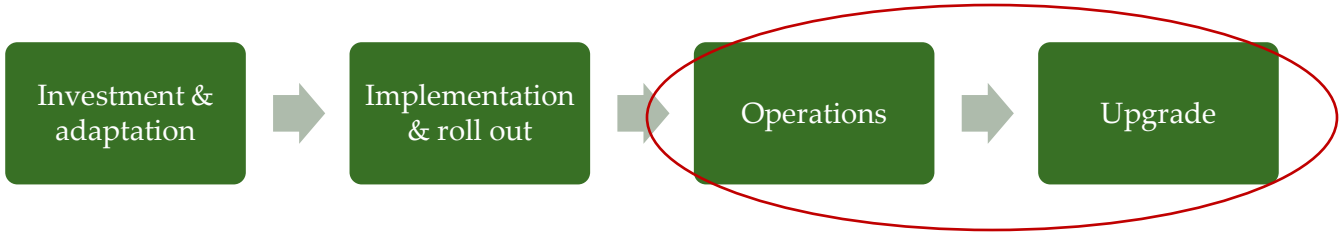
Differences in customer satisfaction

We experience large differences in customer satisfaction – not as much between different suppliers as between those who have been able to perform version upgrades compared with those who have not

Many operational ERP systems have never been upgraded

The operational experience when surveying the installed base shows that many have never performed version upgrades of their ERP system. The mean number of upgrades are 1.8 version upgrades during a 12 year life but over 20 percent have never performed any upgrade due to high costs.

Cost of ownership the less known cost and the less scrutinized



How did we do it?

Webb based survey

To define the cost breakdown between Ground investment including adaptation and unique development, pre studies, implementation and roll out and Cost of Ownership we performed a web based survey. The cost breakdown is build from operational feedback from over 550 organizations.

On-line Benchmark tool www.it-position.com

Our on-line benchmark tool is collecting average age, what ERP system that is in use, number of version upgrades etc in real time. More than 1700 organizations have used the benchmark.

In depth interviews

In order to define the differences between suppliers we have performed in depth interviews covering over 250 ERP installations.

What did we find?

CO is the less known cost and the less evaluated in ERP investments

CO proved to be the less known cost and also the less defined cost in ERP procurements. Much time is spent on evaluation with focus on investment costs versus functionality!

CO is potentially the largest cost element – over 6 times the ERP investment cost

The CO can potentially cost more than 6 times the original total ERP investment over a 12 year period!

Upgrade costs the largest cost element within the CO

The version upgrades, necessary in order to stay agile in operations over a long period of time, was potentially the largest cost element. The upgrade costs can add more than 3.4 times the original ERP investment over a 12 year period – or becoming a too high cost and an obstacle to stay efficient and competitive!

Why are ERP systems increasingly important

Sweden is a high cost country with modest economical growth. The IT maturity is high and ERP investments are increasingly becoming strategic as tools to:

- Drive process and production efficiency
- Drive transformation of business to suite a market and a constantly changing business landscape
- Gain agility in operations to quickly adapt to changing market demands

The Line of Business directs changes in strategy, tactics and business processes to meet new challenges such as new ways of doing business, changes to gain competitive advantage or governments setting new regulations.

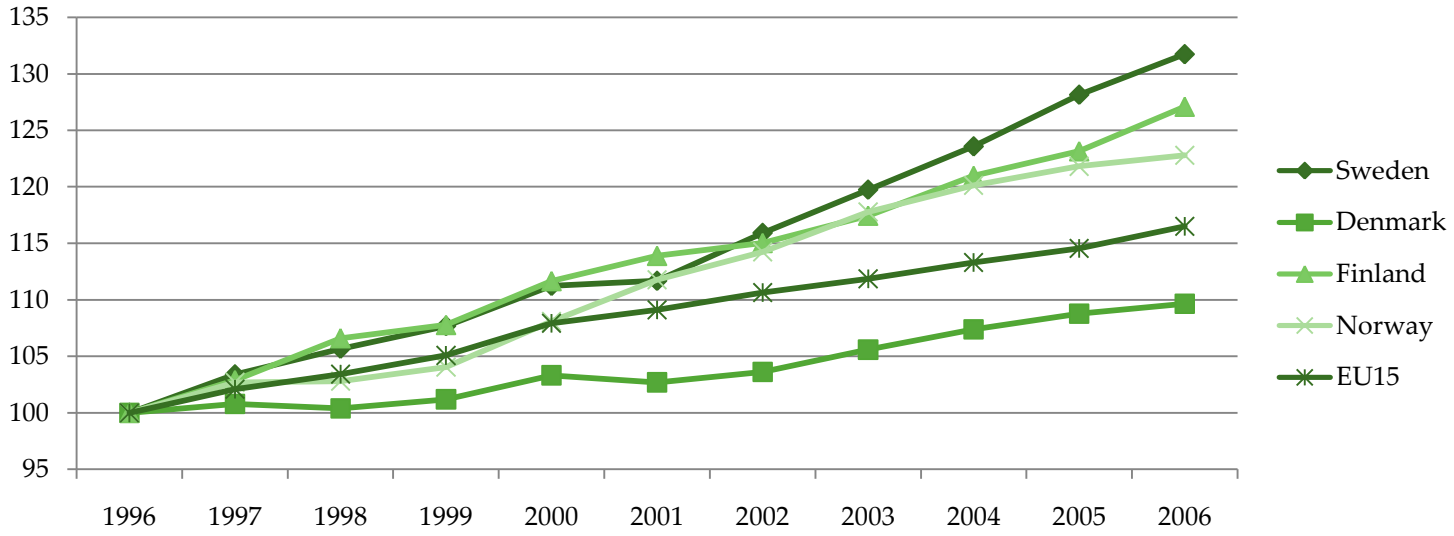
No business stays the same and the pace of transformation is rapidly increasing.

The ERP system will become an obstacle to necessary change if the cost of ownership is too high.

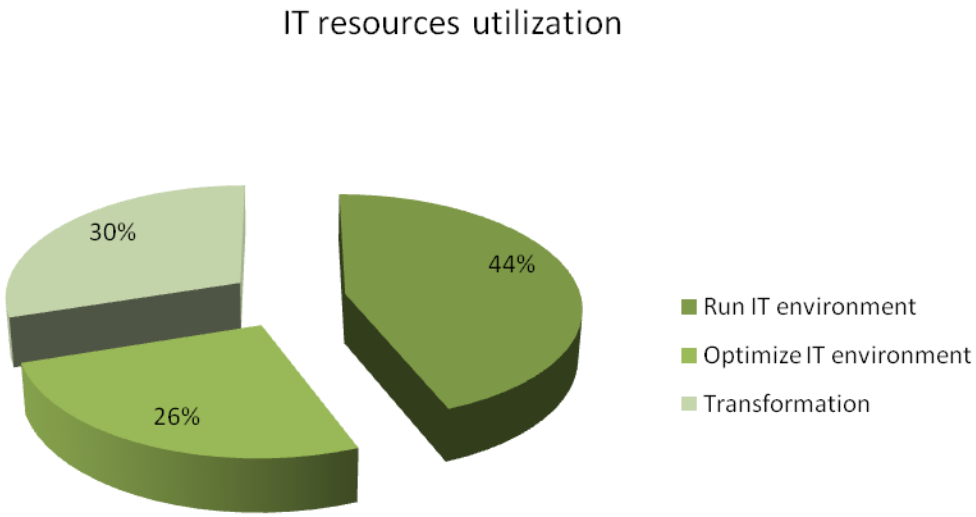
Stay efficient by being flexible or …..

Average gain in productivity is over 4 percent per year in Sweden

If you do not constantly improve efficiency and productivity with over 4 percent per year you are loosing agility towards your competitors!



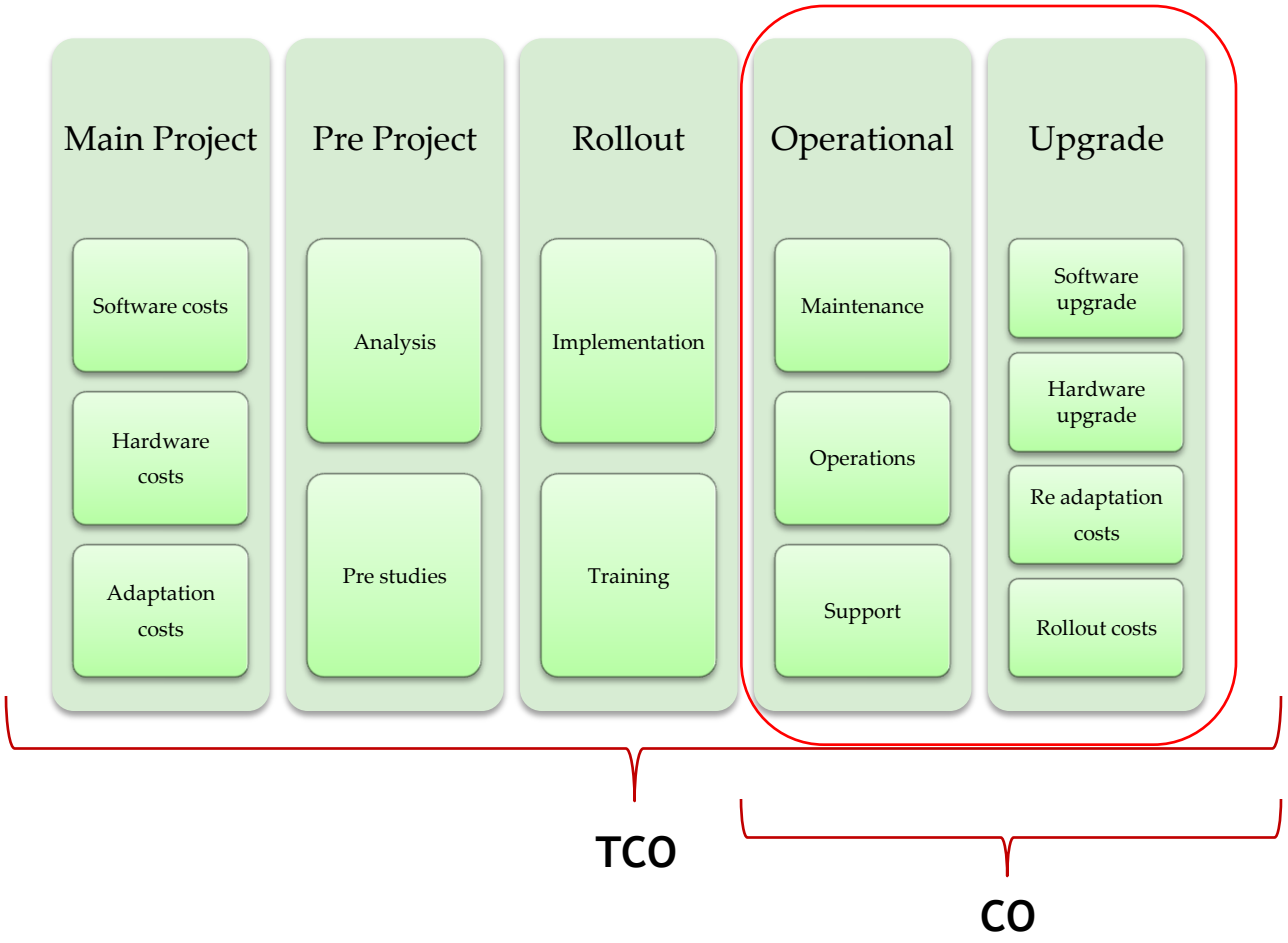
IT resource utilization



ERP is close to 9 percent of the total IT spend

ERP investments and operations stands for close to 9 percent of the total spend in the region!

CO report definitions



CO report assumptions

In order to complete a TCO analysis all cost aspects as well as the benefits of an ERP investment need to be taken into consideration. The benefits are left out of this evaluation.

Only the Cost of Ownership is analyzed in depth in this evaluation.

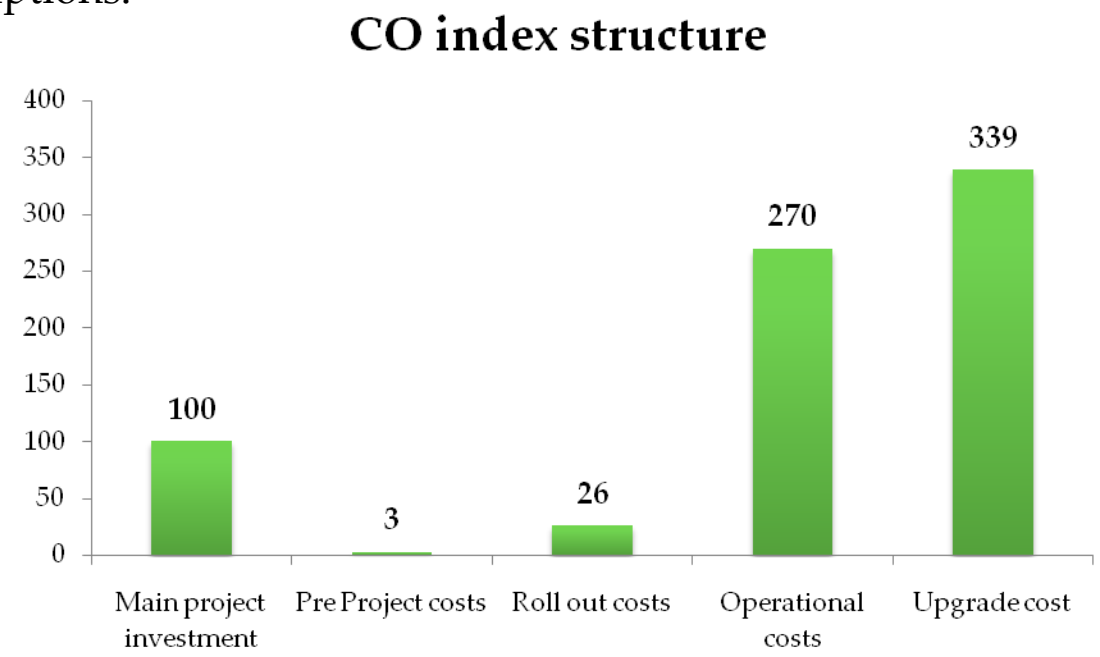
An upgrade requirement of 3 version upgrades per life has been used. All suppliers have new versions ready for the market with major improvements well within that timeframe (technology reason) as well as the present mean level of upgrades (1,8) compared to the increasing pace in transformation and business climate change (business reasons)

ERP system life has been set to 12 years with three version upgrades.

CO report findings

Finding 1: CO - the largest Cost element

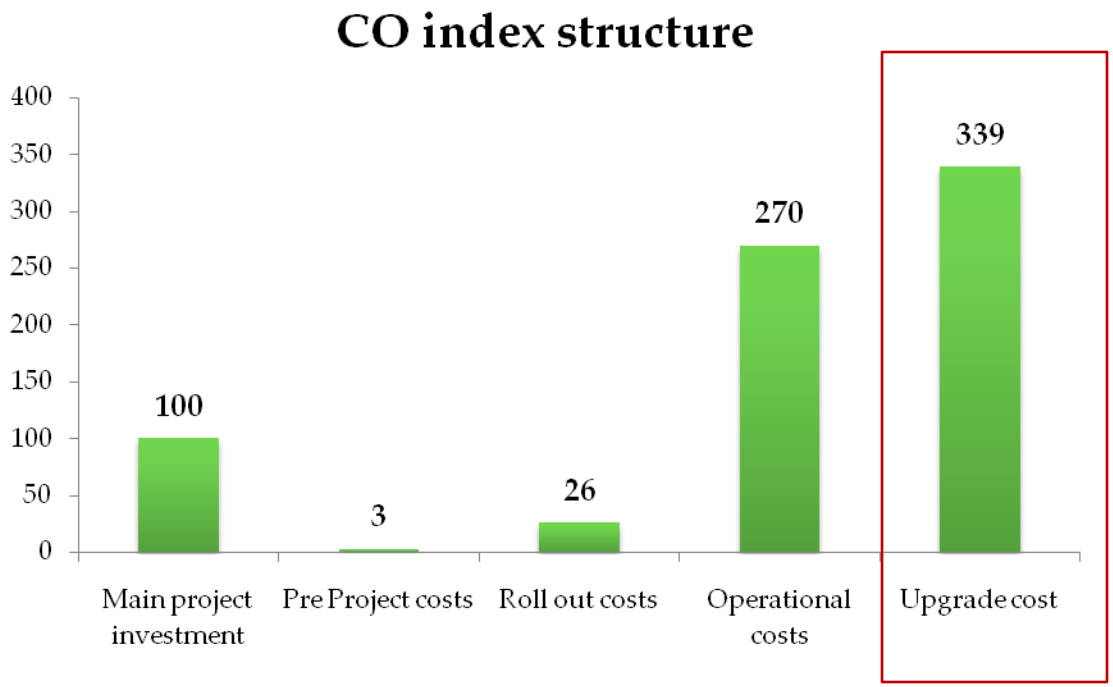
The CO (operational cost and upgrade cost) will is over 6 times the original main project investment and by far the largest cost element using the assumptions.



Definitions

Finding 2: CO – the upgrade cost is the major cost driver

The upgrade cost is potentially the largest cost driver in the CO.



CO report findings

Finding 3: CO - the less evaluated area in an ERP procurement

CO is the less scrutinized cost in ERP procurements in the region. Without proper evaluation of the CO in any ERP investment it will be exposed to risk and uncontrolled high cost will jeopardize not only the economy in the investment but the organizations ability to be agile and competitive.

CO report findings

Finding 4: CO – large differences between different suppliers

The CO differs largely between different suppliers. The difference can be as much as double the CO per year for similar cases.

CO report findings

Conclusions

- The CO elements is on an average over 6 times the cost of the initial investment including adaptation
- Upgrade cost amounts to 339 percent of the initial investment including adaptation over the life time of the system
- The largest cost over an ERP system life time is the least defined
- CO evaluation will need to become the most important part of a well performed ERP evaluation process in the future

CO ERP systems evaluation report

An additional report have been produced providing data and insight in to the different CO levels of different suppliers.

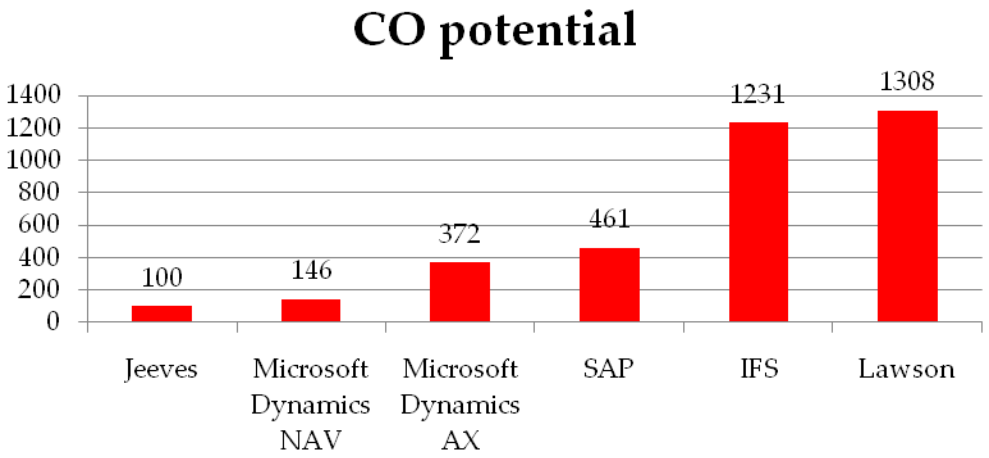
In depth interviews have collected the data covering operational data from over 250 installed ERP systems and using the assumptions of the CO report for number of upgrades and system life.

The following ERP systems were covered:

- Jeeves
- Microsoft Dynamics NAV
- Microsoft Dynamics AX
- SAP
- Lawson
- IFS

CO ERP system evaluation report

Vendor	CO differences
Jeeves	CO baseline
Microsoft Dynamics NAV	46 % higher CO potential
Microsoft Dynamics AX	372 % higher CO potential
SAP	461 % higher CO potential
IFS	1231 % higher CO potential
Lawson	1308 % higher CO potential



CO ERP system evaluation report

Conclusion

- The difference can be as high as more then 13 times the yearly cost between different suppliers
- Jeeves was found to be the system with the lowest CO using operational experience and the assumptions for number of upgrades during an ERP systems life