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ERP Projects Create Significant B2B Opportunities

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Companies have been focused on business-to-business (B2B) initiatives for quite some time to support demand collaboration and supply collaboration. While there are still plenty of standalone B2B initiatives, ERP projects are often a catalyst for additional B2B activity. As management teams focus on the need for systems and processes to support an integrated global business, the importance of the relationship between ERP and B2B becomes critical.

AMR Research recently surveyed 121 respondents responsible for decisions regarding tools and technologies to support B2B initiatives within their organizations. The survey reached across four industry segments in the United States: automotive, consumer packaged goods (CPG), high tech, and food and beverage. The majority of the decision makers represented IT roles within the organization (62%) while the remainder were aligned with a line of business. Respondent firms ranged in size, with the smallest firms starting at \$750M in annual revenue and larger firms (50% of the overall sample) with \$10B or more in annual revenue.

Globalization results in a lot of ERP projects

Most of the companies we surveyed have major ERP projects planned or in process. These ERP projects include everything from new implementations and major consolidations to upgrades and functional expansions. The study found 66% of respondents are planning to move to a highly consolidated ERP envi-

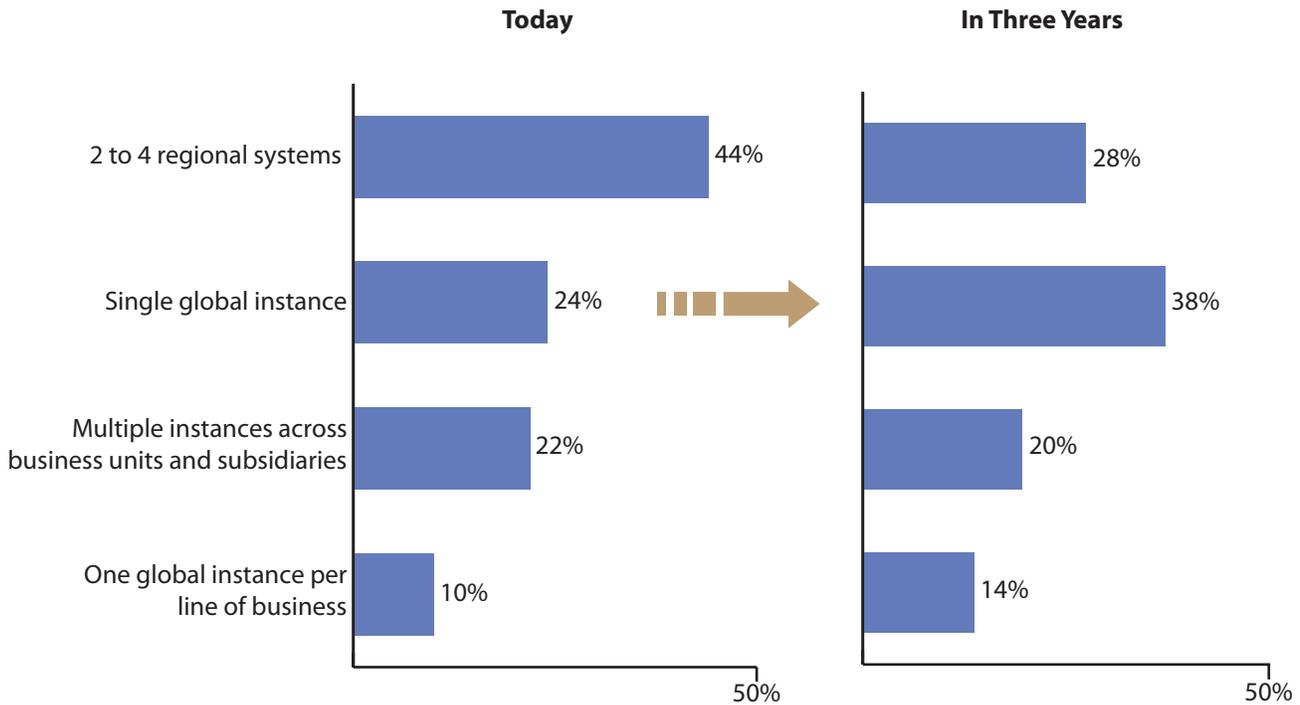
ronment with a single global instance or a very limited set of regional instances over the next two years, highlighting the desire for global visibility and control.

This very strong trend toward centralized management of critical processes reflects the realities of doing business in a highly dynamic global market, and it certainly applies to the supply and demand processes supported by B2B applications.

A look across the different industry segments revealed the following specifics:

- High-tech companies have been quicker to embrace the importance of global visibility and the need to source on a global basis over the other industries surveyed, with 51% planning to have a single global instance of ERP within the next three years.
- Automotive companies are slower to move to a single global instance, with only 21% of survey respondents expecting to have a single global instance within the next three years. The size of these companies and the cultural heritage of levels of autonomy within their organizations are the likely causes of their slower response.

Figure 1: ERP deployment



Q. Which of the following best describes your current ERP deployment? Which of the following best describes what your ERP deployment will look like in three years?

n = 121 total respondents

Source: AMR Research, 2009

Changes to ERP systems result in changes to B2B integration strategies

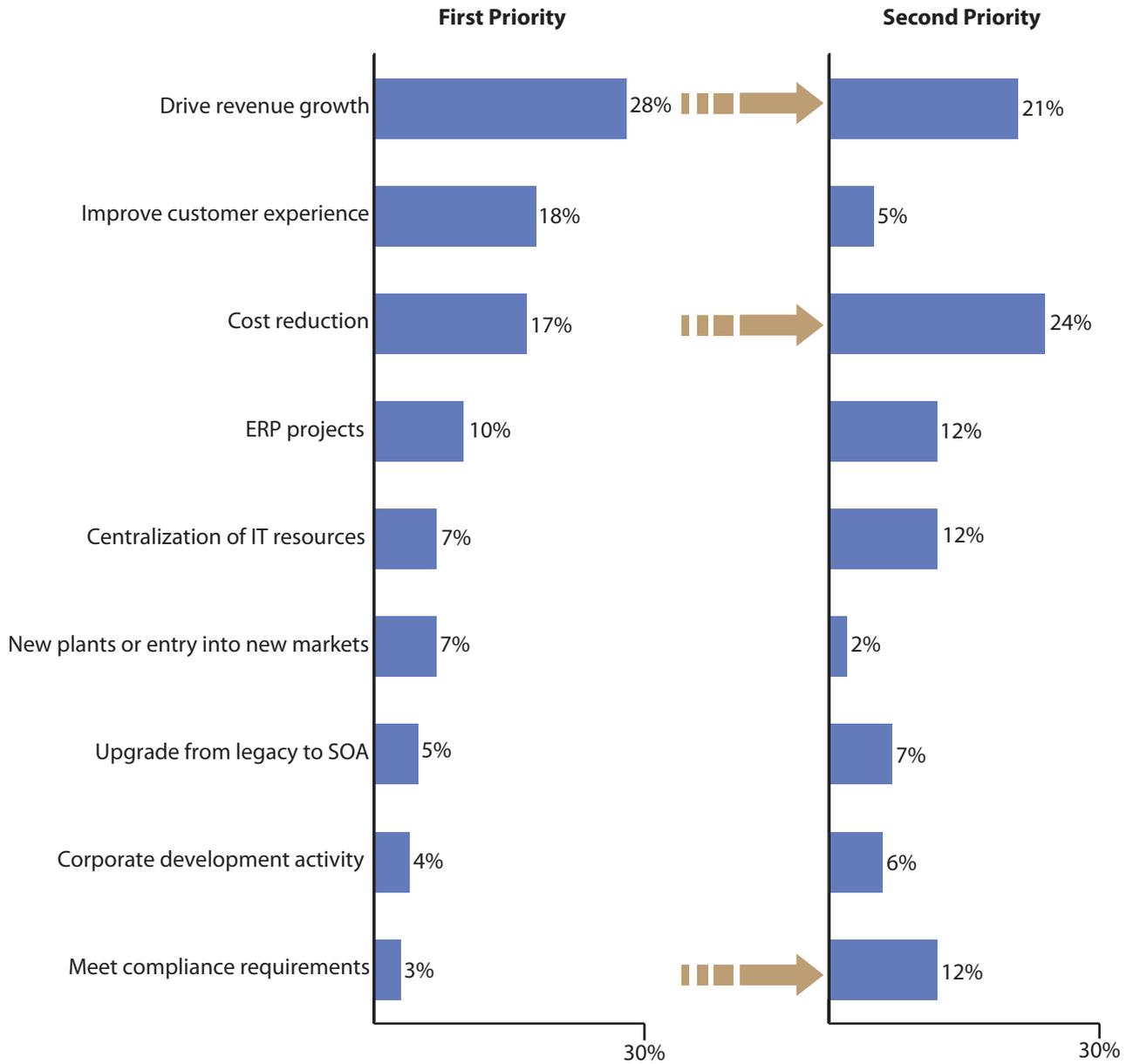
Our study found a multitude of factors generating B2B activity within organizations today, including revenue growth, reducing costs, and improving customer service. ERP projects are also a top business priority driving B2B activity. This is not surprising given the large amount of ERP activity that exists today.

Changes to an organization's ERP system often drive significant changes to B2B integration strategies. As a

part of the ERP project, many companies will reexamine their entire IT architecture strategy and attempt to modernize their infrastructure while reducing the number of IT suppliers. Almost 60% of respondents said they were consolidating multiple, disparate B2B gateways onto a common platform.

From an industry perspective, the study found automotive companies are more likely to outsource B2B integration to a third party as a result of changes to their ERP system (29%).

Figure 2: Top business priorities driving B2B initiatives

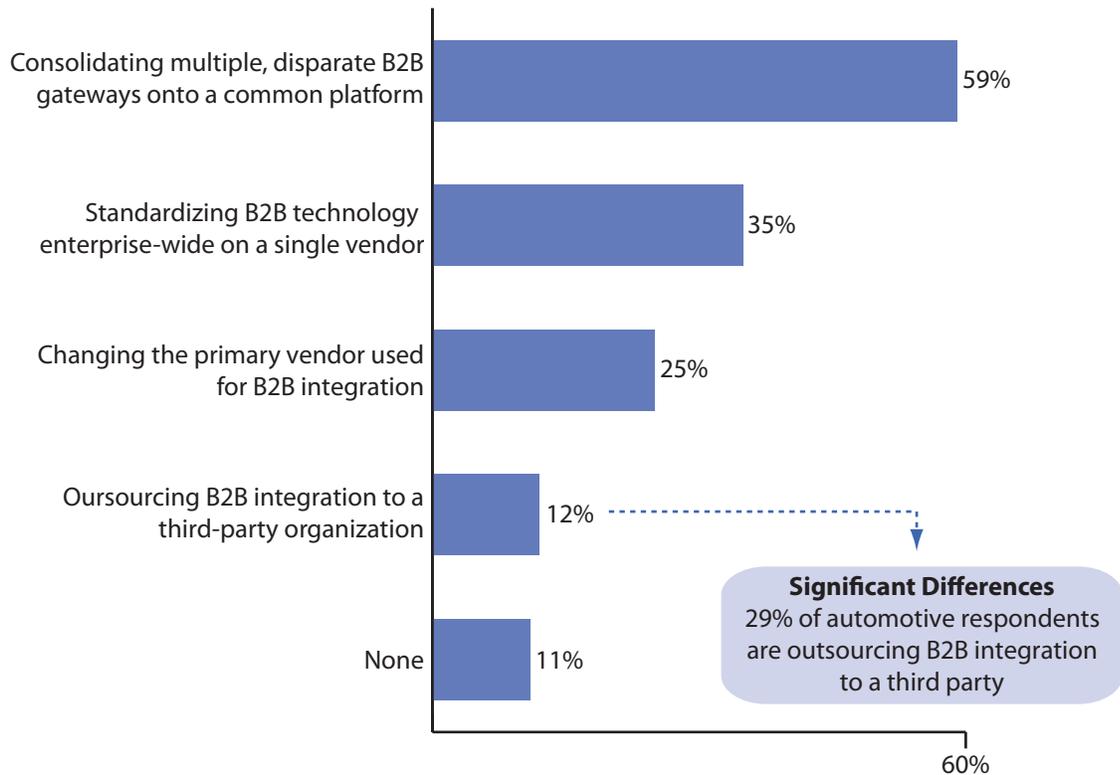


Q. What are the top two business priorities driving your company's current and planned B2B initiatives?

n = 121 total respondents

Source: AMR Research, 2009

Figure 3: Changes to B2B integration strategy as a result of changes to ERP system



Q. As a result of changes to your ERP system, which of the following changes has your company also made to your B2B integration strategy?

n = 121 total respondents

Source: AMR Research, 2009

B2B integration is a major task within an ERP implementation

ERP systems process massive amounts of data, and high data quality is necessary to make ERP work. Our study revealed that 34% of the data feeding ERP systems comes from external sources, further highlighting the importance of the relationship between ERP and B2B. This is significant when considering companies have far less control over external data and most of the data management and data cleansing efforts tend to be focused on internal data.

As a result of changes to their ERP system, 69% of survey participants said they were enforcing higher levels of data quality from trading partners. AMR Research believes that most companies are really not aware of how much of their critical transactional and master data comes from external sources. While data governance and data cleansing are a major part of any ERP project, most of the focus is on internally generated data. Companies need to expand their projects to ensure that B2B data is also a part of their data management effort.

Further segment analysis found that automotive and high-tech respondents were more likely to enforce higher level of data quality from trading partners—75% and 74%, respectively—whereas food and beverage respondents were less likely (56%).

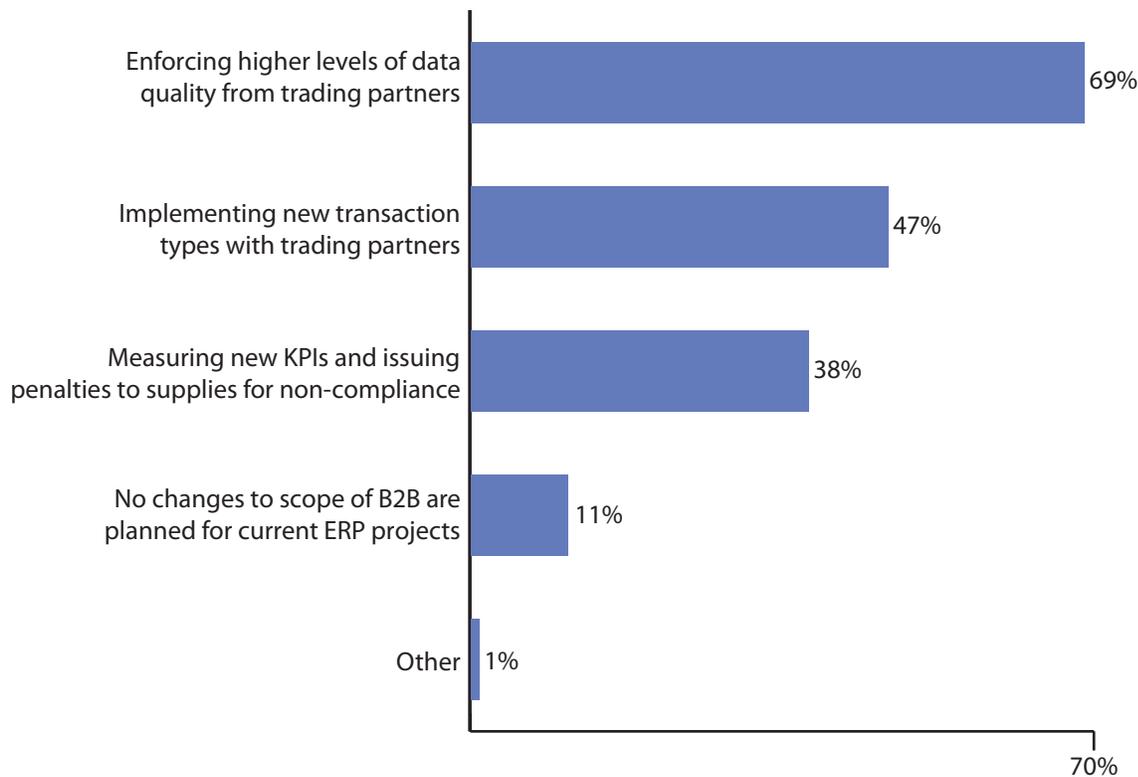
In the past, B2B integration typically fell on the technical side of things and has not been part of the business process. Today, it appears the majority of companies surveyed (60%) realize that B2B integration is a major task within an ERP implementation and that they need to engage the B2B integration team at the beginning stages of a project.

Although our study showed that most respondents engage the B2B integration team during the plan-

ning and budgeting phase, this awareness is not as mature as other areas of ERP. Oftentimes, companies underestimate the project needs in the areas of staffing and budgeting, which can lead to disruptions in the project. Only 17% of respondents stated that the level of resources and budget allocated to B2B integration efforts for ERP were always well planned and adequately funded, and 21% of respondents reported their efforts were often poorly planned and inadequately funded.

From an industry perspective, we found that poor planning and inadequate funds are more likely to be the case in automotive respondents over the other industries surveyed (36%).

Figure 4: Policy changes with trading partners based on changes to ERP system



Q. As a result of changes to your ERP system, which of the following changes is your company making to policies with trading partners?

n = 121 total respondents

Source: AMR Research, 2009

Process gaps in B2B integration can result in considerable cost and delays in ERP projects

Testing connectivity with your B2B community is a critical aspect of the success of your B2B ERP integration project, and failure to do so can lead to disastrous consequences. Despite this fact, results of the study showed that B2B components receive less rigorous testing than internal ERP functions, and during project delays, B2B integration testing is frequently cut short to facilitate go-live dates.

Manual transactions are much easier to test, and the major vendors and their partners tend to supply pre-built test scripts that allow robust integration and performance testing. Even though B2B transactions often represent critical and high-volume supply and demand transactions, they are not getting an appropriate level of testing. Companies risk catastrophic failures in areas like order processing and managing procurement because of inadequate B2B test procedures.

Further segment analysis revealed the following:

- Automotive companies surveyed have a higher incidence (39%) of testing efforts being terminated prematurely with external trading partners in order to meet externally imposed go-live deadlines.
- Only 14% of CPG companies surveyed said they terminate testing efforts prematurely with external trading partners.

B2B integration issues can lead to a multitude of problems, including delays in ERP projects, exception handling and error processing, and loss of B2B connectivity. Our study found 26% of respondents experienced significant delays from B2B integration issues. Since most companies can only go live on certain dates because of constraints around quarter-end shipping and financial close activities, a project that misses its go-live date by a day or two can throw the entire project off by one month or even a quarter. The cost associated with these types of delays can be enormous, with the costs of internal and external project team resources easily amounting to several hundred thousand dollars per month.

Further segment analysis revealed the following:

- Almost 40% of automotive respondents experienced major issues with B2B integration, which caused significant delays.
- CPG companies surveyed were least apt (14%) to experience major issues, which caused significant delays.

Our study also found that 79% of respondents have exceptions or problems on more than 1% of inbound B2B activity transactions. Given the massive number of transactions, the cost associated with these errors is much higher than most companies realize.

Large organizations may be manually addressing thousands of transactional issues every month. Not only does this have a negative impact on employee productivity, but it also slows down important information flow and introduces the kinds of clerical errors that B2B was intended to eliminate.

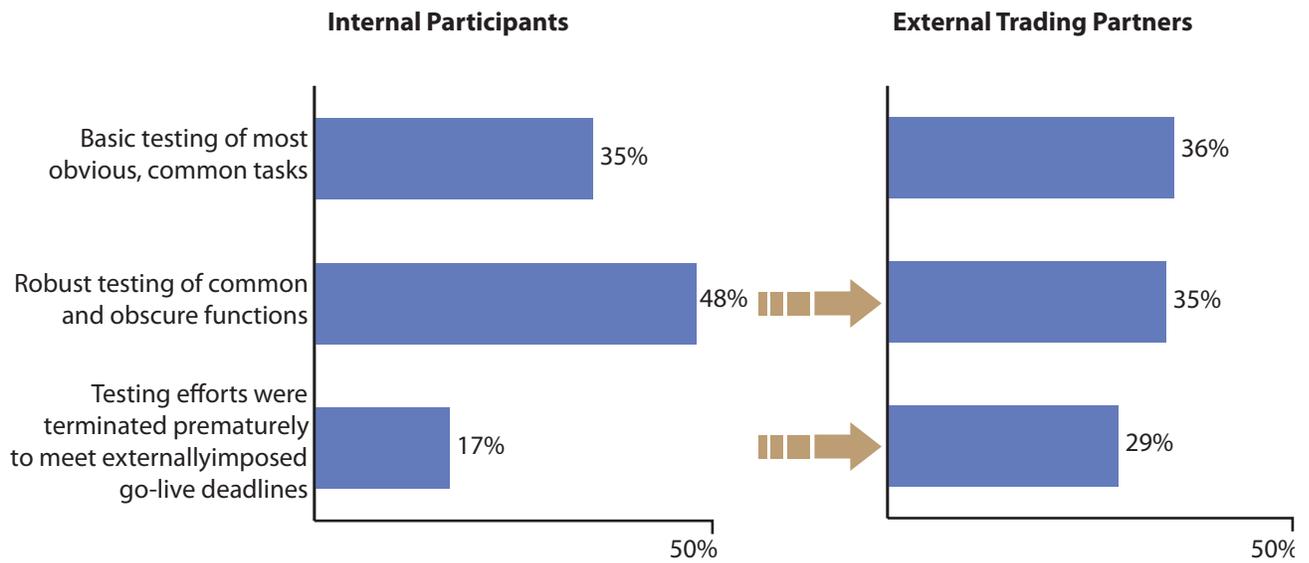
Loss of B2B connectivity is another major issue that can negatively impact manufacturing operations. Almost half (48%) of our survey participants stated they have experienced some loss of B2B connectivity. This incidence was much higher in the automotive sector, with 79% of respondents having experienced losses in B2B connectivity.

It is critical that companies have contingency plans for handling these connectivity losses. The survey results showed that 73% of companies understand the importance of having a contingency plan. However, a large gap (25%) exists with the survey respondent's ability to effectively mitigate risks associated with losses of B2B connectivity.

Additional segment analysis showed the following:

- CPG respondents place a higher importance on contingency planning, with 86% ranking it as of very high importance.
- The contingency planning gap between importance and effectiveness was noticeably higher for line of business (37%) versus IT (17%)

Figure 5: Testing approach on ERP projects with B2B integration

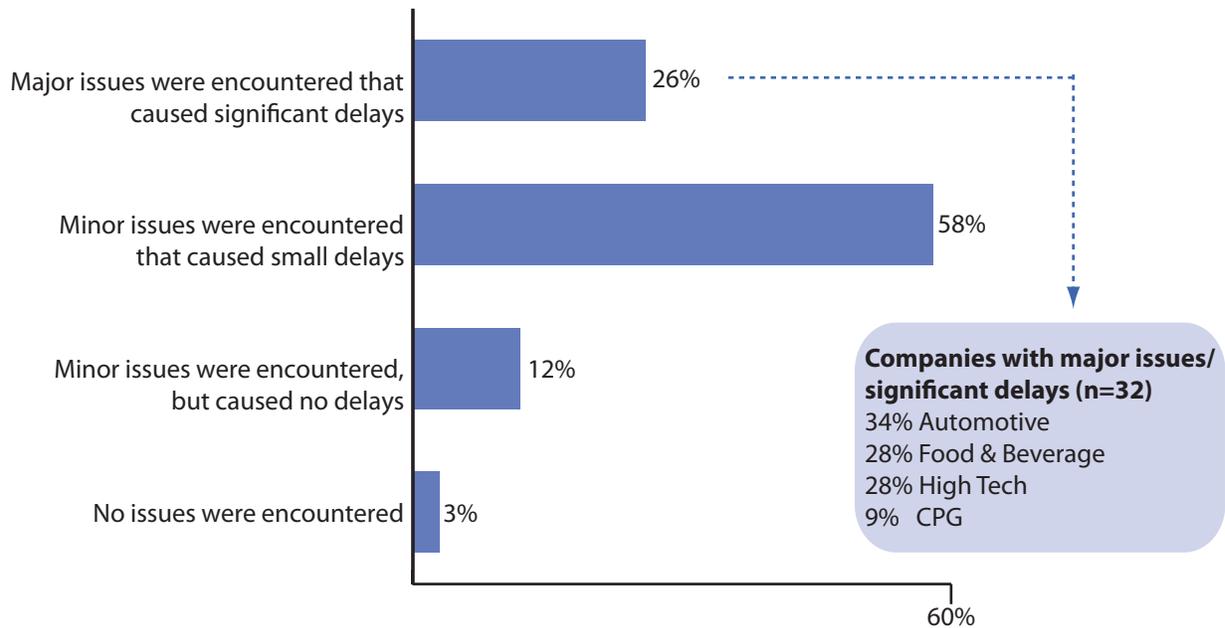


Q. During the course of your ERP projects that included significant B2B integration, which of the following best describes the testing approach performed with internal participants and external trading partners?

n = 121 total respondents

Source: AMR Research, 2009

Figure 6: Severity of delays in ERP projects caused by B2B integration issues

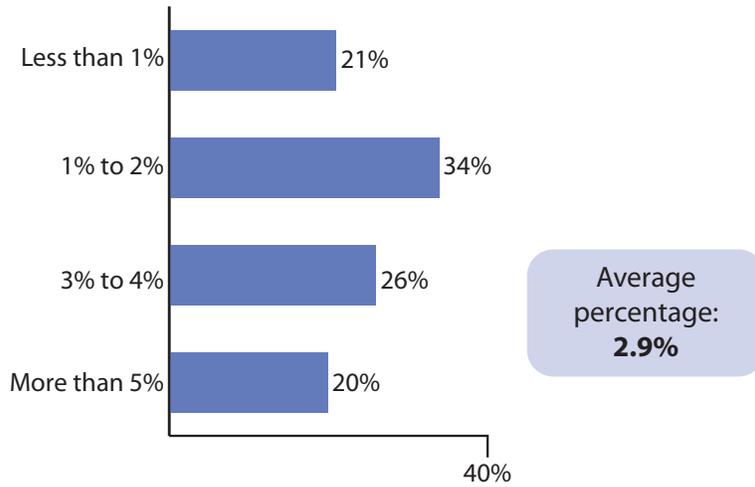


Q. Which of the following best describes the issues you may have encountered with B2B integration that caused a delay to ERP projects currently underway or previously performed?

n = 121 total respondents

Source: AMR Research, 2009

Figure 7: Transactions from external sources requiring exception handling or error processing



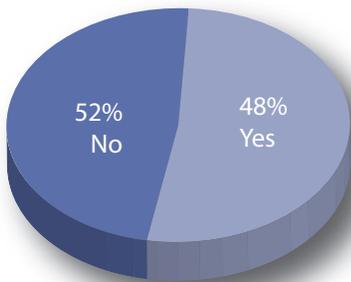
Q. What percentage of the transactions originating from external trading partners which are processed directly into your ERP system require exception handling or error processing?

n = 121 total respondents

Source: AMR Research, 2009

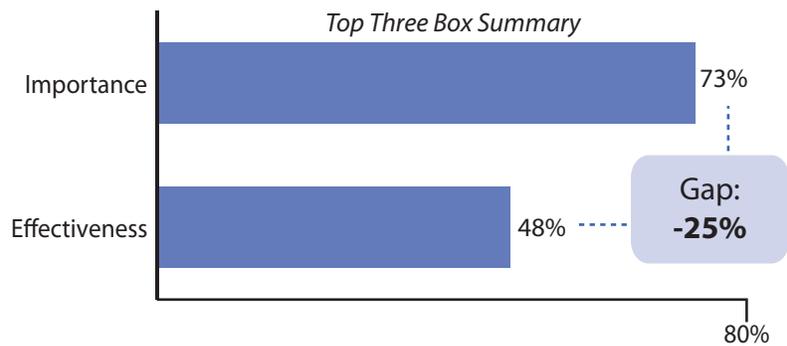
Figure 8: Loss of B2B connectivity

Loss of B2B connectivity



Significant Differences
79% of automotive respondents have experienced loss of B2B connectivity

Importance/Effectiveness of Contingency Plan



Q. Has your company ever experienced a loss of B2B connectivity that has impacted your manufacturing operations? How important is having a contingency plan in place to mitigate risk of losing B2B connectivity to manufacturing operations? How effective is your company's contingency plan for mitigating risk of losing B2B connectivity to manufacturing operations?

n = 121 total respondents

Source: AMR Research, 2009

Focus on cost savings and streamlining business process drives B2B outsourcing

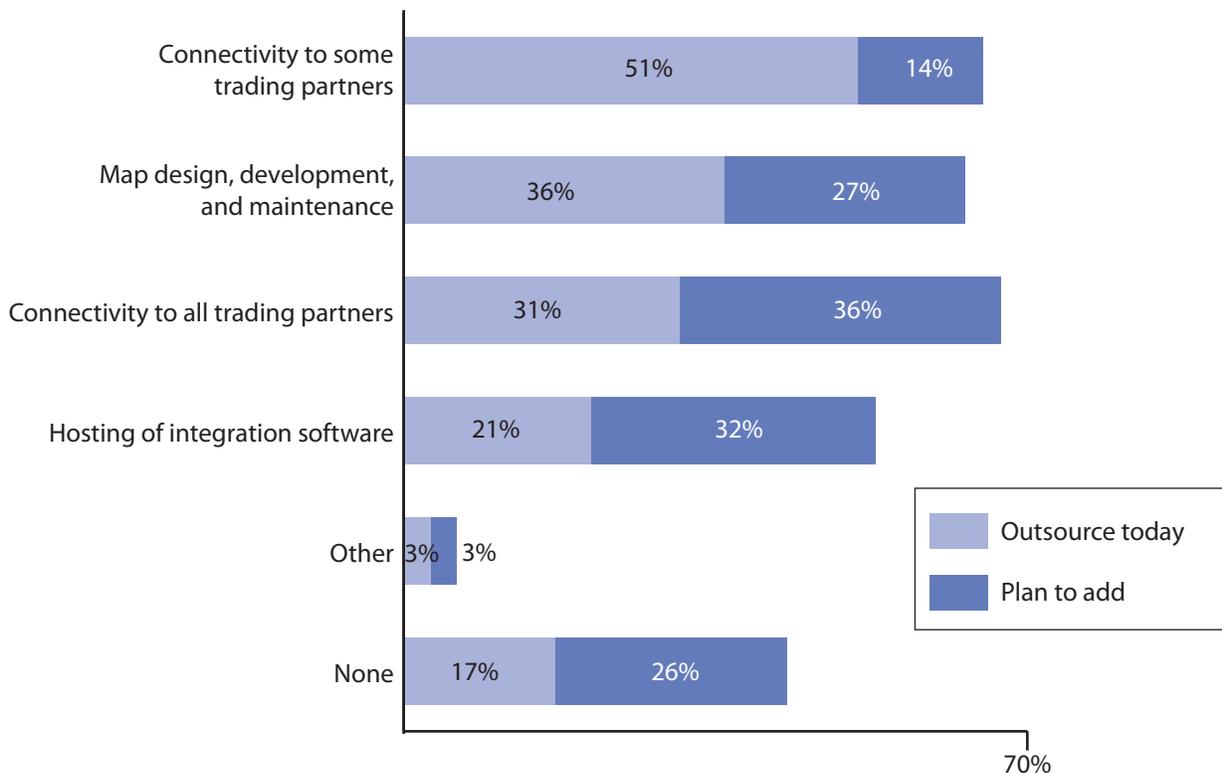
As companies continue to weather the storm created by the shake-up of the financial markets last fall, B2B activities have felt the sting of the economic climate in areas of budget cuts (71% of respondents) and project priorities shifting (64% of respondents). Forty percent of companies surveyed also reported having experienced B2B integration team staffing reductions as a result of bad economic times. This is significant considering that oftentimes IT staffing is never replaced once it is let go.

As companies continue to focus on reducing cost, increasing levels of support without additional staff, and easing adoption of new business processes, com-

panies will look to outsource more B2B activities. Our study revealed that 51% of respondents currently outsource connectivity to some trading partners, and an additional 14% plan to within the next three years. Another 31% of respondents outsource connectivity to all trading partners and another 36% plan to outsource connectivity to all trading partners within the next three years.

The study also showed that 36% of survey participants outsource map design, development, and maintenance, and another 27% plan to within the next three years. This shortage of internal IT resources and the inclination of companies to increase outsourcing activity as a result of ERP projects should create new opportunities for B2B providers.

Figure 9: Outsourcing B2B activities



Q. Which of the following B2B activities do you currently outsource to a third-party service/managed services? Which additional areas will you outsource within the next three years?

n= 121 total respondents

Source: AMR Research, 2009

Conclusion

The survey data clearly illustrates the importance of B2B information and integration within the context of an organization's ERP backbone. However, most companies still don't adequately plan for the potential negative impact that B2B downtime can have on their ability to perform critical business processes. This potential negative impact is magnified by the expanded scope of B2B integration plans that we see from our interactions with customers. The combination of the large number of ERP upgrade or consolidation projects currently planned or underway with the downstream changes to B2B infrastructure as a result of those efforts create the potential for opportunity or pave the way for disaster, depending on how companies approach the challenge.

The opportunity lies with companies that look at the multi-enterprise nature of their business strategy, and take that into account when planning their ERP upgrade or migration strategy. These companies will look at B2B not just as an IT problem, but instead as a critical component to running their core business processes.

As a result, business process owners and the ERP center of excellence will be central participants in the planning of how their B2B integration strategy fits into their business process improvement plans. These companies will also enforce a consistent level of testing and data governance for both internal and external data.

The challenge will be for the companies that continue to view B2B as an IT integration issue and manage the process and the program separately from their core business process improvement plans. B2B integration will remain an afterthought during their ERP upgrade, leading to inadequate planning and testing, which can lead to downtime—resulting in a material impact on the performance of the business. It also perpetuates the transactional level only relationships with trading partners, which is a missed opportunity for creating real collaboration and becoming more demand driven.

The survey data also confirms a number of key trends we are seeing that will have a significant impact on the B2B software market. First, companies are continuing to look to their B2B providers for help in managing the infrastructure, whether that is delivering the software as a service (SaaS) or providing managed services for some or all of the trading partner relationships. The topic of managed services comes up in every B2B discussion we are having today, and we expect that trend to continue as customers look to get leaner and better at managing B2B integration.

Second, B2B vendors will need to be much smarter about a customer's ERP platform and develop tighter relationships with the center of excellence within a customer's organization. Given the magnitude of impact that B2B can have on ERP operations, B2B vendors must be able to work with the center of excellence much more closely.

Finally, we see a continuing trend for customers to look toward their strategic software providers (including their ERP platform vendors) as their key integration provider. This potentially shifts the competitive landscape so that the B2B providers will have to compete as well as partner with their ERP friends to remain healthy and viable.

We welcome comments at kcarter@amrresearch.com, dgaughan@amrresearch.com, and jshepherd@amrresearch.com.