Aberdeen Group
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Epicor Mid-Size Customers: Beating the Best-in-Class with Low TCO

Total Cost of Ownership (TCO) remains a significant factor that influences Enterprise Resource Planning (ERP) strategies and decisions. While the focus for the past decade or more from both ERP solution providers as well their customers has been on reducing the Total Cost of Ownership (TCO) of ERP, as companies brace themselves in this down economy focusing exclusively on TCO is no longer enough. The focal point must now expand to include the Return on Investment (ROI) of ERP projects in order to justify continued investment and maximize business benefits. Aberdeen's *Beyond the Total Cost of ERP Ownership* explored the cost of those business benefits across a broad sample of over 500 manufacturers. In the course of that investigation we found a specific subset that exceeded even our Best-in-Class in terms of cost reductions and schedule improvements… and did so at a lower cost. That subset was comprised of Epicor customers in mid-size companies.

Cost versus Benefit

In expanding our view beyond TCO to include ROI, we need to consider the business benefits achieved through implementation. Aberdeen has consistently measured several of the most universal metrics of inventory, operating and administrative costs, as well as schedule improvements achieved through the implementation of ERP (Table 1).

Table 1: Performance Gains by Competitive Framework

Performance Metric	Best-in-Class MidSize	Industry Average Midsize	Epicor 2009 Midsize
Reduction in inventory	16%	9%	14%
Reduction in operational costs	13%	7%	5%
Reduction in administrative costs	13%	7%	10%
Improvement in complete & on-time shipments	19%	10%	21%
Improvement in mfg schedule compliance	17%	10%	18%
Average improvement	17%	11%	18%
Total cost per user	$10,527	$14,323	$9,220
Total cost / user per %age point of improvement	$626	$1,346	$524

Source: Aberdeen Group, June 2009

Analyst Insight

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

Company Size

Aberdeen defines company size in terms of annual revenues:

- √ Small: less than $50 million
- √ Mid-Size between $50 million and $1 billion
- √ Large: companies in excess of $1 billion

A total of 141 Epicor customers responded to our survey; 95% were small to mid-size companies; 30% (42) were mid-size.

Best-in-Class Criteria

The following were used to determine Best-in-Class

- √ reduction in inventory
- √ inventory accuracy
- √ days to close a month
- √ manufacturing schedule compliance
- √ complete and on-time shipments

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Whenever Aberdeen observes such a high percentage improvement, we check to make sure that these gains were not the result of low hanging fruit generated by very poor performance. When the starting point for performance is abysmal, it is possible to have tremendous percentage point gains and still be a Laggard. However, Epicor mid-size companies' current performance in metrics such as percentage of orders shipped on time and complete (93%) and internal schedule compliance (90%) were either at or above Industry Average, as well as inventory levels in terms of number of days of supply (37 days of component supply and 6 days of finished goods inventory).

If one assumes "you get what you pay for," one might expect ERP implementations that produce the best or most results to be the most expensive; however, we find on a per user basis, the average cost is the highest amongst our Industry Average Mid-size companies; Best-in-Class actually pay less and Epicor customers in this sector pay the least. If we further divide that cost per user by the average percentage point of improvement (across the five we measure), we find the cost drops successively with increased performance. A solid foundation, sound strategy and precise execution of that strategy are far more important factors than the size of the check written.

While we are able to provide benchmarking data that allow companies to compare their actual results to those of our Best-in-Class in terms of the cost reductions and schedule improvements shown in Table 1, we also recognize that each individual company will have their own definition of the cost versus gains sides of the ROI equation. Other factors include increased production, support of growth without additional headcount, better utilization of resources and reduced time to decision-making. These business benefits combine to assist companies in delivering more value to customers, which in turn feeds increased revenue and profits.

Breaking Down the Costs

While "total" costs can and should include a wide range of factors, Aberdeen research benchmarks the cost of software, services, and maintenance on an annual basis. Past research has found these are the cost elements which are most often measured and considered when evaluating software or measuring the Return on Investment (ROI) of ERP implementations. Costs vary significantly as companies grow in size and the expected business benefits will vary from company to company. Table 2 shows the progression of costs from small companies on up, with the costs identified by Epicor customers inserted in the progression based on average number of users.

One would naturally expect a correlation between the size of the ERP deployment and costs. As a company grows, the number of users goes up, along with the total cost of software and services. Unlike past years where we saw some exceptional dips, this proved to be true across the entire spectrum of company size this year with respect to software, service, and

Vendor Snapshot

Epicor Software Corporation is headquartered in Irvine, CA. Founded in 1984 as Platinum Software Corporation, the company changed its name to Epicor in 1999. In its 25-year history the company's annual revenues have grown organically and through acquisition from $30 million (at its initial IPO) to $500 million. With over 2,700 employees and 20,000 customers, the company currently supports nine ERP solutions available in 35 different languages and installed in more than 150 countries. Support is offered in 20 languages, available from 15 support centers around the world for 24x7 coverage. Beyond its focus in manufacturing, Epicor ERP also serves Distribution, Retail / Hospitality, and Services industries. Within manufacturing, Epicor targets discrete industries including Capital Equipment, Industrial Machining, Aerospace & Defense, Fabricated Metals, Instruments & Controls, Medical Devices and Electrical Equipment.

maintenance costs. However, we find Epicor customers paying less than the average $50 million to $100 million ERP user (two thirds of Epicor mid-size customers fall in this bracket), not only for software, but for services and maintenance as well, yet supporting 15% more users (137 versus 119). However, Aberdeen does not find these costs shockingly low, which would indicate Epicor was buying business or giving away software in order to sell additional services.

Table 2: Average Costs by Company Size[1]

Company Size	Average # of Users	Average Software Cost	Average Service Cost	Average Maint. Rate	Average 3-Year Maint. Cost	Average Total Cost[2]
Under $50 million	39	$165,353	$144,875	15.7%	$82,371	$407,553
$50 to $100 million	119	$468,310	$373,397	16.5%	$229,288	$1,071,487
Epicor 2009 Midsize	**137**	**$415,476**	**$347,500**	**16.2%**	**$183,533**	**$919,783**
$100 to $250 million	185	$579,464	$716,810	17.3%	$317,412	$1,714,395
$250 to $500 million	383	$926,923	$831,250	17.7%	$470,629	$2,205,777
$500 million to $1 billion	725	$1,291,667	$1,113,281	16.6%	$586,067	$2,611,067
$1 to $5 billion	1056	$2,477,427	$2,393,435	16.8%	$1,249,115	$6,190,842
Over $5 billion	4521	$4,632,759	$4,361,667	17.4%	$2,344,795	$11,173,366

1 Performing calculations at the aggregate level shown in this table will not yield accurate results. In order to use as much data as possible, all calculations were made for each individual response and subsequently averaged. In addition, where multiple elements were needed, calculations were only made where the respondent answered all required questions. For example, Total Cost may not equal the sum of Average Software Cost, Average Service Cost, and Average Three-Year Maintenance Cost because not all survey respondents answered all three survey questions. The Average Software Cost is based upon all respondents who answered the said survey question, as is the same for Average Service Cost and Average Three-Year Maintenance Cost. However, the Total Cost is based upon averaging individual responses where respondents answered all three survey questions.

2 Total Cost is the total of software cost, services cost and three years of maintenance cost, where maintenance cost is estimated by multiplying the maintenance rate by the software cost and then multiplying by three.

Source: Aberdeen Group, June 2009

Just as the total price of software, services, and maintenance go up as companies grow, costs per user should scale down. Not only should we observe volume discounts being applied, but bargaining power increases with company and deal size. Indeed if we look at the average total cost per user, with the exception of the very low end of the mid-market ($50 to $100 million) where it drops precipitously only to rise again in the next bracket, we see a gradual decline as ERP usage and companies grow with added users (Table 3). In spite of the low costs per user in the $50 million to $100 million bracket, total costs to Epicor customers were below even these low averages.

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Table 3: Average Costs per User by Company Size[1]

Company Size	Average # of Users	Average # of ERP Modules Implemented	Average Software Cost per User	Average Software + Services Cost per User	Average Total Cost[2] per user
Under $50 million	39	9.7	$6,394	$14,258	$17,631
$50 to $100 million	119	10.9	$5,518	$8,898	$11,557
Epicor 2009 MidSize	**137**	**11.6**	**$5,088**	**$7,140**	**$9,220**
$100 to $250 million	185	10.9	$4,593	$12,750	$15,497
$250 to $500 million	383	10.2	$5,112	$10,942	$13,639
$500 million to $1 billion	725	9.2	$4,225	$7,046	$9,293
$1 to $5 billion	1056	9.7	$3,310	$6,728	$8,362
Over $5 billion	4521	11.3	$3,256	$6,097	$7,777

1-2 Refer to Footnotes 1 and 2 below Table 1
Source: Aberdeen Group, June 2009

Within the four brackets in the mid-market range (from $50 million to $1 billion in annual revenues), in the aggregate we see little fluctuation in the average software cost per user across the different size brackets and the price paid by Epicor customers is generally in line with these averages. Because we calculate maintenance by multiplying the maintenance rate by the total software cost and Epicor customers on average pay a slightly lower maintenance rate, these combine to yield slightly lower maintenance costs. However, as we start to add in the cost of the services associated with implementation, training and customization, this is where cost savings of Epicor customers begin to emerge.

Low service costs can be attributed to a variety of factors including proper fit (reducing or eliminating customization), ease of use (reducing the need for training) and ease of implementation. When asked to prioritize ERP selection criteria on a scale of 1 to 5 (where 5 is most important) Figure 1 shows Epicor clients place slightly more emphasis on those factors which contribute to reducing the need for services.

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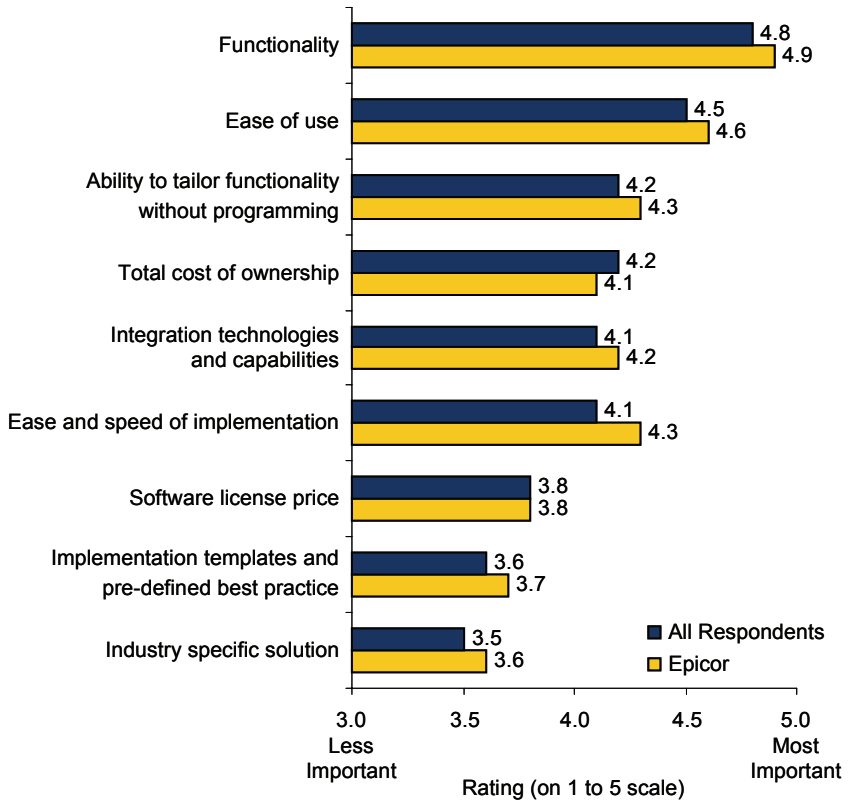
Figure 1: ERP Selection Criteria



Source: Aberdeen Group, June 2009

Epicor ERP Products

- √ Epicor 9
- √ iScala
- √ Vantage
- √ Vista
- √ Manage 2000
- √ Avante
- √ DataFlo
- √ ManFact
- √ Enterprise
- √ Clientele (CRM)

See *Convergence at Last: Epicor First to Deliver* (October 2008) to better understand the relative positioning of Epicor ERP products.

Size and Scale Matters

It is clear that ERP represents an important investment for any size company. A $400,000 investment for a small $35 million company is just as significant as an $11 million investment for a $10 billion company. For this level of effort and investment, companies of all sizes should expect a substantial, measurable payback.

One caveat in terms of our sector definition for this Analyst Insight: Epicor targets the mid-market, but its success has clearly been at the lower end of that market. Epicor also has a large presence in small companies (under $50 million in annual revenues) with 65% of Epicor users surveyed falling into this size bracket. While we did observe similarly lower costs in small companies, we did not observe the same stellar performance in terms of better than Best-in-Class improvement metrics in small companies (improvements were about average). However Aberdeen did note smaller companies were significantly more likely to be running Epicor Vista, a SOA-based ERP solution targeted at smaller manufacturers but now fully converged into the Epicor 9 footprint, where it continues to be marketed and sold. While almost 30% of small companies run Epicor Vista as compared to 6% of mid-sized companies, any new purchase and implementation of Epicor's ERP solutions today would be based on the

next-generation Epicor 9, which incorporates all of the Vista product functionality and more.

Case in Point

Take for example the case of Symetrics Industries, LLC, a privately-held Florida corporation that specializes in the design, manufacture and testing of electronic systems for the Department of Defense, prime contractors, and government military organizations around the world. In serving the Aerospace and Defense (A&D) industry, Symetrics faces regulatory requirements for traceability, product quality and safety. The search for an ERP solution began in the summer of 2005. "At the time I was the Configuration Manager," said Peter Volkert, currently the Director of Operations (which includes manufacturing, purchasing, quality and information systems).

"Back then every chance I got I would create a [Microsoft] Access database. We had no ERP at the time. We had an accounting package but nothing to help us keep track of what was going on out on the shop floor. I had started to write pieces using Access but I knew I couldn't create a full ERP solution. We were no different than any other company in a similar position. We all had our spreadsheets, and I had my Access data bases, but none of them agreed with each other. So at the time I started up a grass roots effort. I assembled a group of us that would meet periodically to talk about our needs. We knew we needed an ERP solution, but assumed we couldn't afford one."

In spite of this assumption, that summer, the group Mr. Volkert had formed invited several solution providers in to demonstrate their ERP solutions. When Epicor came in, "We liked the demo and Epicor was very aggressive with pricing. We found our assumption that we couldn't afford ERP was not true. We made the decision in September 2005 and implemented everything from quoting jobs to shipping product as well as accounting and payroll by the second quarter of 2006."

Symetrics's current installation includes 30 users in the back offices and it just expanded the number of users on the shop floor from 20 to 40. Since 2005, it has seen its revenue per operator increase 82% and on-time delivery progressed from 88% in 2006 to 92% in 2007. "Our on-time delivery was more than 99% every month in the latter part of 2008. Epicor had a lot to do with that."

Seeking to improve its competitive position and enable future growth, in November 2008, Symetrics became the first customer to go live on Epicor 9. "The improvements in tracking of serial numbers that we gained in implementing Epicor 9 were key. All our electronic boards are serialized and they get used in serialized assemblies. We could always assign serial numbers to the boards, but if we moved part of a lot ahead in production, we never knew which serial numbers moved. Today we can see the individual status of every board and every serial number. We know what the last operation worked and the next operation yet to be completed.

There is no limit to the number of levels in the parent / child relationships and we have full visibility throughout work in process.

"We were looking to automate and streamline operations while improving data flow. Epicor 9 provides a firm foundation for continuous improvement and operational agility to improve cycle time and reduce errors. Our Epicor 9 system brings together information from all aspects of our business to provide a single version of the truth based on one set of data. More consistent information means few mistakes and less wasted time, money and material."

Not only has Symetrics improved its on-time delivery to near-100%, while revenues have increased by 67% since 2005, Symetrics has actually reduced its headcount in manufacturing and the finance department handles $50 million in business with 3 full time and one part time employee, and this includes the Chief Financial Officer (CFO).

Key Takeaways and Recommended Actions

Aberdeen recommends the checklist located in the sidebar on the next page for any small to mid-size company evaluating ERP solutions. In addition, prospective buyers of Epicor ERP solutions should keep in mind that Epicor targets the mid-market, but its success has clearly been at the lower end of that market. If your current revenues are above $100 million or you are growing aggressively, seek out references which are comparable to your size and complexity. If your annual revenue is below $50 million, Epicor's pricing is also competitively priced at this level.

A well-managed ERP implementation can be a continuing source of cost savings and operational improvements which help companies survive and thrive, particularly in these troubled economic times. Some recommendations from our annual benchmark of *ERP in Manufacturing* that are particularly pertinent to any discussion of TCO and ROI include:

- **Estimate ROI to justify ERP projects.** Best-in-Class are more than three-times as likely to use ROI to cost justify projects. This correlates to 136% more cost reductions and 268% more schedule improvements.
- **Measure ROI of ERP projects as they are completed.** While 42% of those not Best-in-Class estimate ROI in order to cost-justify projects, only 23% actually follow up and measure the actual ROI upon completion. Best-in-Class are almost twice as likely to take this final step. Proving the value of prior projects provides added justification for future efforts.
- **Continue to measure ROI even after it has been achieved.** While Best-in-Class are more than twice as likely as all others to measure ERP at the completion of projects and continue to do so even after initial goals have been reached, more than half still take neither of these steps. Continued measurement leads to continued business value.

Checklist

Questions for small to mid-size companies to consider when evaluating an ERP solution:

- √ Does the solution meet your current functional needs?
- √ What level of complexity does it bring to your business?
- √ Is the solution built on a modern, expandable technology infrastructure?
- √ How far is this solution likely to take you in your journey of growth? Consider both current and planned functionality as well as the solution provider's track record of delivering on promises.
- √ How strong is the vendor's community in terms of reference-able customers and partners?
- √ What is the financial strength of the vendor?

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While the total cost of ERP ownership is important to monitor and optimize, focusing on TCO is no longer sufficient. Focus must now expand to include ROI of ERP projects in order to justify continued investment and maximum benefits.

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

Related Research	
Measuring the ROI of ERP in SMB; February 2009 *ERP in Complex Manufacturing*; December 2008 *Convergence at Last: Epicor First to Deliver* October 2008	*2008 ERP in the Mid-Market*; August 2008 *The 2008 ERP in Manufacturing Benchmark Report*; June 2008 *ERP in Action: Epicor*; June 2009

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