Sole-sourcing BI from your ERP vendor:
IT convergence or strategic business decision?
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Sole-sourcing BI from your ERP vendor: IT convenience or strategic business decision?

Is sole-sourcing BI from ERP vendors delivering on its promises?

Catalyst

In the last two years, the software industry has witnessed a consolidation in the business intelligence (BI) market. In BI, enterprise technology conglomerates identified a strategic growth market and a great opportunity to upsell to their existing install base, primarily that of enterprise applications such as enterprise resource planning (ERP). This consolidation has rendered sole-sourcing BI from ERP vendors an alluring option for many organizations.

In order to explore the benefits and drawbacks of sole-sourcing BI from ERP vendors Datamonitor has conducted a study of 100 enterprises from the US and EU that have deployed BI and enterprise applications from the same vendor. The survey aims to investigate whether or not customers are experiencing what sole-sourcing promised to deliver.

Summary

Following a review of the survey results, Datamonitor makes the following conclusions:

- Although business managers are involved in the selection process, BI vendor selection is motivated by ease of procurement by the IT department stakeholders rather than the needs of the business users.

- While sole-sourcing BI from ERP vendors promises tighter integration with transactional applications and IT procurement simplicity, the benefits are not resoundingly clear.

- Sole-sourcing BI from ERP vendors still requires too much effort on the part of IT to manage and operate a BI system while not empowering the business users through self-service.

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Analysis

Consolidation has rendered BI/ERP sole-sourcing an alluring option for customers

During the last several years, the pressure of commoditization and the desire of the enterprise technology conglomerates to expand into new fast-growing growth markets have led to BI market consolidation. Following a series of blockbuster acquisitions in 2007 and 2008, procurement of both BI and enterprise application systems from the same vendor is an option for many organizations looking to deploy BI.

Datamonitor surveyed 100 SAP customers to understand the implications of sole-sourcing

The SAP customer base was selected as the representative of the broader BI/ERP sole-sourcing trends

In order to explore the implications of sole-sourcing BI from ERP vendors on organizations' ability to implement and support effective BI strategies, Datamonitor conducted a study of 100 enterprises from the US and the EU that have sole-sourced BI from an incumbent ERP vendor. To be precise, the survey includes 50 enterprises from the US and 50 from the EU that have deployed both SAP ERP and SAP Business Information Warehouse (SAP BW).

Given that SAP commands the largest share of the enterprise applications market, Datamonitor considers the SAP BW user base to be the most illustrative example of BI/ERP sole-sourcing dynamics. Datamonitor believes that the sample is representative of the trends and behaviors associated with sole-sourcing BI from ERP vendors.

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IT-driven sole-sourcing struggles to support business users' needs, escalating the costs

The findings of the survey indicate a number of key trends within organizations that decided to sole-source their BI application from their ERP vendor:

1. Selection Process: Selection process and criteria heavily favored the needs of the IT department and treated the business user requirements as a secondary consideration. In most cases, the ERP vendor was the only solution actually evaluated.

2. Reliance on Spreadsheets and IT Department: Business users' requirements are not being fully met by the BI and Performance Management system. Therefore, business users still rely on spreadsheets to conduct a large majority of their BI activities. Business user reliance on IT departments to conduct day-to-day BI transactions is prevalent, and in some cases stifling, within organizations that choose to sole-source BI from their ERP vendor.

3. Hidden Costs: Although customers who purchased BI systems from their ERP vendor expected it to be the most cost-effective option, the survey found that significant incremental costs were incurred, primarily through increased headcount in the IT department as well as through roll-out budget overruns and project delay costs.

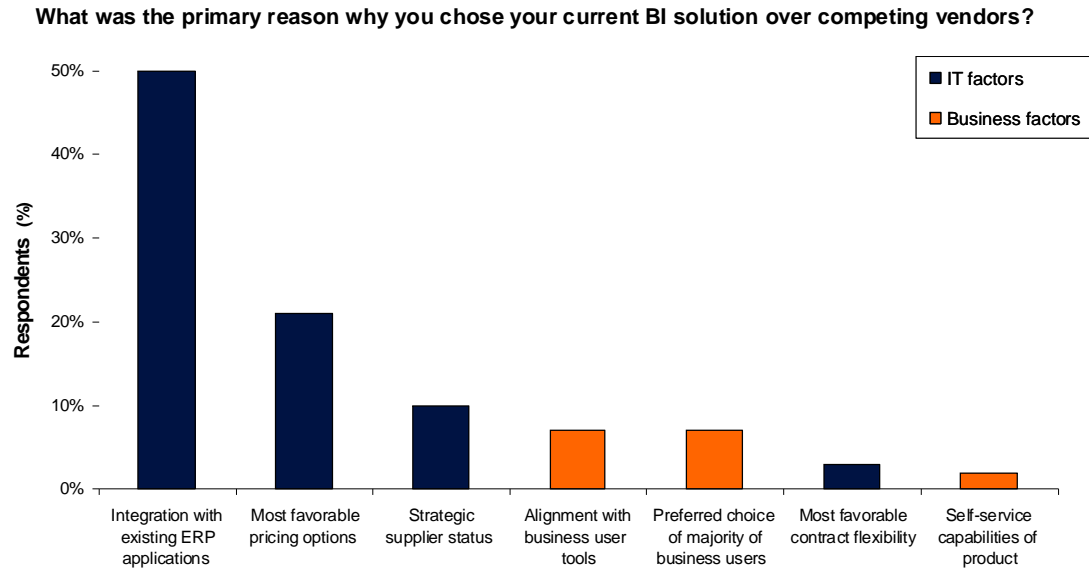# Selection process heavily favored IT criteria

The principal motive behind the decision to sole-source BI is the ease of procurement to the IT department

Almost three quarters (73%) of the SAP BW customers surveyed indicated that price, contract flexibility and integration with ERP were the principal motivations behind the decision to sole-source BI from their incumbent enterprise application vendor. By contrast, factors important to business users, like information delivery capabilities, alignment with the commonly-used business tools or business users' demand for a particular application, account for just over a quarter of responses.

The importance of the procurement factors is further highlighted by the closer scrutiny of the primary drivers behind the decision to sole-source BI from ERP vendor. Figure 1 demonstrates that sole-sourcing is motivated mostly by:

• promise of closer integration with the existing enterprise application landscape;

• favorable pricing options and strategic links to the ERP vendors.

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Figure 1 Integration with the existing ERP system is the primary factor in the decision to sole-source BI

What was the primary reason why you chose your current BI solution over competing vendors?

Source: Datamonitor, n = 100

Precisely half of the organizations surveyed cited integration with the existing ERP system as the primary reason behind the decision to sole-source BI from ERP vendor. Favorable pricing options and strategic supplier status account for a further 20% and 10%, respectively.

Business-driven selection factors, on the other hand, are clearly deemed to be of secondary importance. In only 16% of enterprises, end-user considerations (such as alignment with business user tools, users' preferred choice or self-service capabilities) were the primary motive to sole-source BI from their ERP vendor.

The findings of the survey indicate that the requirements and preferences of business users are typically ignored in the BI solution selection process, even though the success of a BI initiative hinges on meeting everyday needs of these constituents. In many cases, the brunt of dysfunctional BI systems will be borne by the IT departments. After all, IT staff will be required to manipulate the BI system on the behalf of the user, at a considerable cost to their time and potentially damaging implications of unfulfilled business user requirements.

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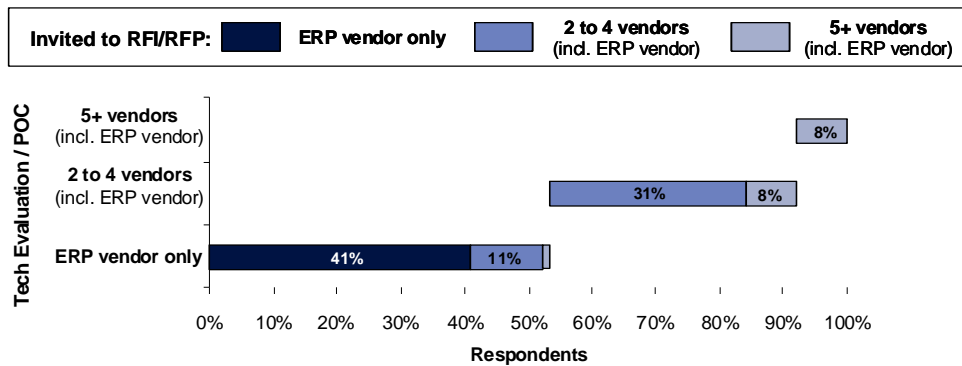Reference Code: CYTC9097 / Publication Date: July 2009

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An ERP vendor's BI solution is often the default choice of IT departments

The Datamonitor survey also revealed the following insights:

- In almost half of the cases surveyed, only an incumbent ERP vendor was invited to submit a request for information (RFI) or a request for proposal (RFP).

- Further 11% of respondents would invite two to four vendors, including an ERP vendor, to submit the tender documentation but would only conduct detailed technical evaluation or proof of concept exercises with the ERP incumbent.

- In over 50% of all competitive situations, the ERP incumbent is the only seriously evaluated option. In contrast, only 16% of the respondents would invite five or more vendors to tender, including the ERP incumbent.

Figure 2 In the majority of sole-sourcing scenarios only an ERP incumbent was seriously considered

How many BI vendors did you send RFI / RFP to and with how many did you perform tech. evaluation / POC ?

Source: Datamonitor, n = 88

There are several trends behind the reliance on an ERP incumbent. For example: vendor consolidation is shrinking the pool of viable BI solutions; the selection process inevitably focuses on a smaller number of alternatives; the promise of closer integration with the existing enterprise application is alluring; and IT departments often wield considerable influence within SAP accounts.

Nevertheless, the fact that in over half of the cases surveyed only ERP application incumbents were seriously considered raises the issue of whether sole-sourcing BI from ERP vendors is primarily a procurement convenience.

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IT-driven sourcing creates challenges fulfilling business users' needs

Supporting business users' BI requirements has proven difficult

Many of the organizations included in the survey reported that they are content with their sole-sourced BI system's capability (in this case SAP BW) to support their business users' BI requirements. However, the survey also revealed that support for business users is far from perfect.

The respondents frequently cited complaints regarding the information delivery and business user support of their sole-sourced BI system. The most common complaint is the need for better self-service support and the flexibility of the information delivery modules.

> "Our business users are finding the tool difficult to use without additional assistance." – Project manager at a US manufacturer.
>
> "SAP BW has been perceived as too transactional and not flexible enough." – Global head of IT with a large energy/ utilities organization in Norway.
>
> "The intelligence is there, but the presentation, information and the layout issues are yet to meet users' expectation. The information is correct, but the presentation needs to be improved." – Head of IT at a large IT services organization in the Netherlands.
>
> "The system needs lot of improvement because it is IT centric. Our users do not have the ability to do ad-hoc reports, therefore it needs IT involvement." – Director of technology at a US retailer.

Business users remain dependent on their IT departments for reporting and information delivery

According to the results of the study, 42% of enterprises believe that improvements are necessary if their sole-sourced BI system is to meet the information needs of their business users. As some of the quotes from the survey indicate, far too few business users of BI systems sole-sourced from ERP vendors are entirely self-sufficient in terms of information delivery.

While less than a quarter of the organizations claim that their business users self-service their information delivery needs, 75% depend on IT. To be more precise:

- One third of organizations surveyed claim that they depend entirely on IT to create the BI content and reports.
- Almost half (42%) rely on the combination of IT-built reports and supplementary spreadsheets as the de-facto ad-hoc query and reporting tool.

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Business users are still overly reliant on spreadsheets as primary BI tool

Another leading indicator of the effectiveness of a BI solution in meeting the needs of business users is the degree of reliance on spreadsheets (primarily MS Excel) for information delivery, ad-hoc analysis of BI content or performance management tasks such as planning. Modest reliance on auxiliary systems, such as spreadsheets, indicates a pervasive deployment of BI system and its involvement in the everyday routine of the business users - the goal of all BI initiatives.

The survey of the organizations that have sole-sourced BI from their ERP vendor indicated that:

- 82% of the organizations surveyed state that their business users are heavily or moderately reliant on spreadsheets in order to consume BI content effectively, almost half of which indicated that their business users are heavily reliant on spreadsheets to consume data from the BI system.

- Only 18% believed that their users are modestly reliant on spreadsheets for report creation and analysis.

The pitfalls of using MS Excel (or any other spreadsheet tool) as a reporting and ad-hoc data analysis tool have been well documented, but are often ignored by IT decision makers. There is no point denying the importance of spreadsheets or their role in the future of information management and delivery. At the same time, however, it is worth repeating that spreadsheets are not suitable for a vast range of tasks, particularly those that require a broader audience of users or collaborators and repeated engagement.

While the familiar interface makes spreadsheets ideal exploratory environments, the lack of data integrity enforcement and error checking, combined with awkward updating and synchronization, mean that reliance on spreadsheets indicates failure of the BI system to engage business users.

While the proliferation of spreadsheets may appear to be perfect solution for information delivery, it undermines the very reason to invest in the BI systems in the first place. In the long run, reliance on spreadsheets creates a significant drain on resources as they lack audit controls; expose the organization to risk due to the absence of a unified view on the data; and adds to the user support and maintenance burden. While Datamonitor has no doubts that spreadsheets will remain a crucial part of information workers' arsenal, it is clear that MS Excel, or another spreadsheet application, is not and cannot be a surrogate for self-service BI.

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Poor self-service information delivery pushes business users to demand spreadsheets

A lack of self-service information delivery is further underlined by the fact that in only 26% of the organizations surveyed a new report can be generated within a day. In 82% of the cases, the reports are created within a week. This means that in almost one in five organizations it takes over a week to create or alter a report.

Given the pressure for just-in-time, informed decision-making exacted by the contemporary business environment, this implies that in a majority of the enterprises that have sole-sourced BI from ERP vendor, reports and other BI content could well be obsolete by the time they are delivered to the business users.

While such a situation is clearly untenable, it goes a long way in explaining the popularity of spreadsheets. Datamonitor believes that in the vast majority of cases, unstructured data extracts used for further analysis and formatting in spreadsheets are forced upon business users because BI systems sole-sourced from ERP vendors are not able to respond to rapidly-changing information delivery requirements in a timely fashion.

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Hidden Costs of BI/ERP sole-source procurement decisions

Like much of the IT projects, sole-sourced BI deployments tend to be behind schedule and over budget

Unfortunately, it is not uncommon for an IT project to be over budget. In the Datamonitor's survey, 46% of the BI deployments sole-sourced from ERP vendors were over the budget or did not even have an anticipated budget at the time of purchase. Although half of those budget overruns are exceeding the total anticipated cost of project by less than 10%, significant budget overruns are not entirely unheard of.

Compared to budget overruns, delays in roll-out timeframes are even more common. In fact, the majority of the BI deployments sole-sourced from ERP vendors, or 56% to be exact, are delivered late. Perhaps more alarmingly, precisely half of all delayed BI projects sole-sourced from ERP vendors were running at least several months behind the originally anticipated schedule.

IT projects behind time and over budget are all too common. However, one of the central tenants behind sole-sourcing BI from ERP vendors is accelerated time to value based on the tighter integration between BI and the transactional applications. In that respect, one would expect performance metrics to be better than they currently are.

However the most startling hidden costs incurred by BI/ERP sole-sourcing customers is the amount of investment in specialized IT resources needed just to maintain the system and service the BI content needs of the business users. Due to the lack of alignment with business user needs and lack of user centricity of the system, customers who sole-source BI from their ERP provider have to invest significantly in IT staff in order to maintain and make it work for users.

Datamonitor's survey demonstrates the following:

- Only 14% of the organizations surveyed are keeping constant the number of full time employees (FTE) dedicated to maintaining and running their sole-sourced BI system.
- Two thirds (66%) of organizations are doubling or tripling the number of FTEs dedicated to maintenance of sole-sourced BI systems.
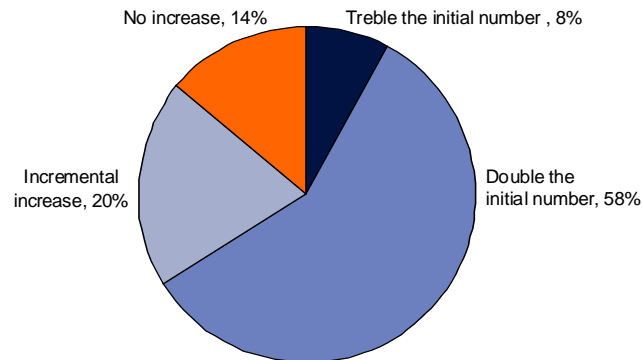- Under a quarter of all respondents are expanding their BI maintenance teams incrementally.

Of course, a certain degree of maintenance capability augmentation is to be expected, as just over a half of the enterprises included in the survey have expanded their internal BI user base since the initial deployment. However, it is clear that the rate of the addition of the maintenance staff exceeds the average

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rate of internal expansion of the BI user base. In fact, the resource creep associated with the BI systems sole-sourced from ERP vendors would well be even more marked if the hidden cost of delegating the responsibility for report creation and ad-hoc analysis through business users' reliance on spreadsheets is taken into consideration.

Clearly, the pattern of spiraling IT maintenance resources required to run BI systems sole-sourced from ERP vendors is fuelled by far too great involvement of IT, either direct or indirect, in information analysis and delivery process. Datamonitor believes that the situation is particularly untenable if it is considered that sole-sourcing promised tighter integration between BI and transactional systems. Based on the evidence collected in this survey, such benefits are not being readily realized.

Figure 3 Vast majority of sole-sourced BI projects require significant increase of dedicated FTEs

How many FTEs did you assign for the initial BI project deployment and how many did you have to add to administer / manage your BI project?

Source: Datamonitor, n = 100

It could well be argued that the project delivery track record of BI systems sole-sourced from ERP vendors is certainly in line with expectations with the current industry practices, even though sole-sourcing promised faster time to value through rapid integration with transactional systems as well as a more favorable pricing options.

Nevertheless, the proliferation of the costly staff dedicated to maintenance of BI systems due to inadequate information delivery capabilities certainly means that the total cost of ownership of the BI systems sole-sourced from ERP vendors would be much higher than anticipated. Put simply, any potential savings in costs of licenses could well be offset by increases in the far more costly associated headcount.

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Conclusions

Based on research conducted on 100 enterprises that have decided to procure BI systems from the incumbent enterprise application vendor, in this case SAP BW, it can be concluded that sole-sourcing BI from ERP vendors could be hindering the potential impact of BI. More pertinently, several of the core value propositions of BI systems sole-sourced from ERP vendors are not manifested universally.

Although business managers are involved in the selection process, BI sole-sourcing from ERP vendors is motivated by:

- ease of procurement from the incumbent enterprise application vendor;
- tighter integration with transactional applications.

While sole-sourcing BI from an incumbent ERP vendor promises tighter integration and IT convenience:

- accelerated time-to-value is not apparent, projects are still delayed and over budget;
- IT is excessively involved in running the BI system, particularly in reporting and information delivery;
- reliance on spreadsheets as a substitute for business user self-service goes against BI principles;
- spiraling needs for dedicated IT maintenance staff increases total cost of ownership.

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Recommendations

- Reconsider procurement practices in order to find the best way to cater to the needs of business users in the BI selection and adoption process. After all, it is the participatory and pervasive adoption of BI by the business users that ensures the success of a BI initiative.

- Evaluate whether the benefits of simplified procurement and tighter links with enterprise applications are as compelling as they may appear at first, given the following:

  - the lack of business user participation in BI, and the misalignment with their requirements;

  - additional workload and headcount costs to IT departments created due to lack of self-service facilities and complexity of usage;

  - productivity issues due to lack of intuitive user experience of tools for the business user;

  - increasing software maintenance fees and other costs associated with vendor lock-in;

  - the risk of inaccurate information in the decision-making process due to a lack of single version of truth caused by the continued prevalence of spreadsheets.

- Consider the opportunities to devolve responsibility of serving business users through self-service reporting facilities in order to optimize your IT department's workload.

- Conduct thorough evaluations of a broad range of vendors, including the enterprise application-independent BI vendors, in order to ensure that the solution meets the needs of business users and is designed for self-service.