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ERP Marketing and Italian SMEs

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The growing relevance of Enterprise Resource Planning (ERP) has raised much attention in the academic literature, business practice and media. Current literature and thought are primarily focused on two aspects of this phenomenon: the economic and organizational impact of the adoption of ERPs inside a firm, and the best way to manage that adoption. While these research questions are certainly critical, our aim stands upstream: to explore the marketing activities of ERP vendors, checking if the marketing tenets for BtoB selling are followed or not. The study of suppliers' marketing approach – rather than adopter's practices – may explain a good part of success/failure of ERPs diffusion and adoption.

We conducted a survey on nearly 150 installations of ERP in Italian SMEs. The results showed that the marketing competencies of vendors are not extensively developed or, if anything, are not fully leveraged. In particular, often vendors are too focused on selling ERP solutions to existing and known customers, refraining from searching for new clients, and therefore failing to explore the extension of the potential market to its fullest. The marketing tenet of relationship is here myopically applied, keeping suppliers too tied to their current customers. A further finding is that few suppliers are willing to involve network partners in the sales stage, preferring to deal with customers by themselves. This is contrary to the dictates of literature that see each BtoB relationship embedded in a network.

The implications of our research are that part of ERPs diffusion and success is determined by the marketing abilities of suppliers, rather than low demand or failure in adoption processes by clients. Marketing competencies of suppliers-resellers should be fostered in order to allow ERP producers to really reach their market.

Keywords: Enterprise resource planning, ERP, Project marketing, SMEs, Italy, Sales processes, BtoB selling

ERP Systems and SMEs

ERP systems have been defined as comprehensive software solutions that integrate organizational processes through shared information and data flows (Shanks and Seddon, 2000). ERP systems, therefore, are marketed as a vehicle for the integration of an enterprise's core business activities, such as finance, logistics and human resources, and as a means of overcoming problems associated with the so-called ''legacy systems''. They are based on developing a common IT infrastructure and common business processes. In the past, many incompatible systems and processes co-existed, especially in large globally distributed corporations, making integration difficult. Our opinion is that ERP systems can play an important part in leveraging organizational competitiveness, by improving the way in which strategically valuable information is produced, shared and managed across functions and locations. ERP systems, therefore, have been strongly promoted, promising improved competitiveness, by increasing productivity, reducing costs and improving decision quality and resource control, thereby enabling a leaner production (Communications of the ACM, 2000). Therefore, firms are motivated to adopt ERP systems in the hope of increasing productivity and efficiency.

Gattiker and Goodhue (2000) classify the literature on the ERPs benefits into four categories: (1) improvement of information flow between sub-units through standardization and integration of activities; (2) centralization of administrative activities, such as accounts payable and payroll; (3) reduction of IS maintenance costs and increased ability to deploy new IS functionality; (4) enablement of transformation from inefficient business processes to accepted best-of-practice processes. The authors also showed that firm- and site-specific differences may be critical factors in the outcome of implementation.

Besides the benefits resulting from the investments in ERP software, an organization may also face considerable risks associated with such investments. A number of articles has dealt with failed ERP projects (Scott, 1999; Davenport, 1998; Mabert, Soni and Venkataramanan, 2001). The risks associated with investments in ERP software are especially high among Small and Medium Enterprises (SMEs). The financial impact of a failed ERP software implementation can be disastrous for an SME.

Since the majority of large companies have already implemented ERP systems, today ERP vendors are shifting their focus towards SMEs. Several reasons have encouraged the interest of ERP vendors towards SMEs. These include the saturation of the market, as most large enterprises have implemented ERP software, the supply chain integration between large and small enterprises, the high number of SMEs compared to the number of large enterprises, and the technological development together with the availability of relatively cheap hardware.

From our point of view, ERPs for SMEs differ from ERPs for large enterprises in the following two major aspects:

- ERPs for SMEs are cheaper and simplified/easier to implement. If setting up an ERP can take at least 9 months, an equivalent ERP for a SME can be set up in 2–3 months;
- ERPs for SMEs are sold, implemented and supported through a different channel. While ERPs are distributed through systems integrators (such as Deloitte and KPMG), ERPs for SMEs are distributed through Value Added Resellers (VARs), which have access to the code and therefore are able to modify the applications by themselves. A typical VAR is a medium software firm usually specialized in a given industrial sector and/or well-defined geographical area.

Even if ERP vendors are working hard to attract SMEs clients, the rate of adoption of ERP systems by SMEs has slowed down (European Commission, 2003 and 2004). What are the problems that SMEs have to face today when adopting technology? First, SME organizations do not have a large amount of money to invest in IT, compared to their large enterprise counterparts. Secondly, they do not have a team dedicated to implementation/post-sale maintenance and software operation – our research confirmed this hypothesis, as shown in Figure 1. Thirdly, because of the risk of lock-ins in ERP systems, prospective buyers are afraid of investing in these applications, unless

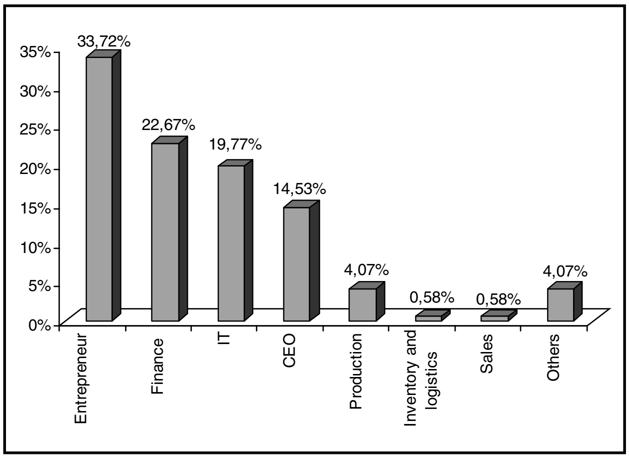

Figure 1 Customer Functions Involved in the Project

they are completely sure of future requirements. Lastly, they may already be using bits and pieces of other systems that cannot be integrated with any new system they currently require (Brock and Uwe, 2000; Southern and Tilley, 2002; Scally, Stanfield and Grant, 2001; Forth and Mason, 2004).

Based upon these considerations, the most important hypothesis of our work is that the organization of VARs' marketing processes – one of the less explored analysis perspective in current literature (Verville and Halingten, 2000) – is one of the main reasons for ERPs failing or succeeding in being adopted by Italian SMEs – excluding product validity and other motivations previously described. We strongly believe that by correctly approaching marketing processes, VARs can contribute to make ERP diffusion easier among Italian SMEs.

Theoretical Approach

An ERP system is strongly characterized by the implementation project. This can be seen in the implementation costs which can amount up to five times a license purchase price (Adam and O'Doherty, 2000). Hence, the need to adopt a classical analysis perspective in the analysis of a project that has been defined by the literature as *project marketing* or, more extensively, business-to-business marketing (Cova, Ghauri and Salle, 2002; Cova and Salle, 2002; Cova and Salle, 2003), also considering in particular a reference to the marketing processes that characterize our work.

Based upon this approach, a project can be defined as ''a complex transaction covering a package of products, services and work, specifically designed to create capital assets that produce benefits for a buyer over an extended period of time'' (Cova, Ghauri and Salle, 2002, 3). A project is characterized by four elements: discontinuity, uniqueness, complexity, financial commitment (Cova and Salle, 2002). Such definition and elements apply to an ERP project.