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Lidl cancels SAP introduction having sunk €500 million into it

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Disruptive discount grocery brand Lidl has made an uncharacteristic misfire, shelving a seven year project to introduce SAP to its business. The attempts wasted an estimated €500 million, with Lidl now looking to revive its old system.

In recent years, German supermarket groups Aldi and Lidl have emerged as major threats to the previously untouchable market leaders of the grocery scene, with their discounted prices and quality goods appealing to consumers in the UK whose stagnating wages demand they do more with less. As a result, so many customers have invested into the budget supermarkets as opposed to the 'big four' – consisting of the more mainstream supermarkets Tesco, Sainsbury's, Morrisons and Asda – that those long-time market incumbents have either been forced into stringent cost-cutting measures, or surprise merger talks to preserve profits.

While the duo have often leveraged innovative and sustainable business practices, as well as slashing prices, to eat into the market share of top brands, however, Lidl in particular has made headlines for lagging behind in the race to digitise its back office procedures. Following a protracted attempt to complete an SAP introduction project, Lidl called time on the procedure, having already spent €500 million on it, though neither Lidl nor SAP have issued comment to confirm that number as of yet. If it is indeed accurate, then the cost will have been similar to another similarly incurred by Deutsche Post - DHL for another failed SAP implementation in 2015.

Lidl cancels SAP introduction having sunk €500 million into it

SAP SE is a German-based European multinational software corporation that makes enterprise software to manage business operations and customer relations, and the project was reportedly intended to be a grand, transformative change for Lidl, as well as the biggest in the chain's history, but with Lidl and German software giant SAP both being leaders in their respective fields, on paper, it looked set to succeed. In April 2017, SAP even awarded Lidl – which has close to €100 billion in annual revenues – a prize for being one of their best customers. The eLWIS (pronounced like Elvis in German) system, in planning since 2011, quickly lost its lustre however, as roughly 1,000 staff and hundreds of consultants implemented a new company-wide system for inventory control, the price quickly spiralled beyond the two groups' estimations.

By May 2017, Lidl's head of IT, Alexander Sonnenmoser, had left, and in July this year, eLWIS was finally halted. Now, Lidl intends to revert to its old inventory system, an embarrassing change of course. One company insider told German business paper Handelsblatt, "We are practically starting from scratch."

The trouble for eLWIS began when SAP came up against the issue that unlike many of their competitors, Lidl based its inventory management system on purchase prices. The standard SAP for Retail software uses retail prices, and fearing the group could lose a competitive edge by compromising, Lidl declined to change, so the software was instead adapted. As this and several other accommodations had to be made, performance fell and costs rose.

Lessons to learn

According to a letter to staff from Lidl boss Jesper Hoyer, "The strategic goals as originally defined were not possible at an acceptable expense."

On the other hand, suggests Jean-Claude Flury, an IT manager who works in the pharmaceuticals branch and also heads a SAP-user group, DSAG, which includes more than 3,300 SAP clients told the press, "If a company wants to use the standard software, it has to adapt its own processes," perhaps suggesting the fault rests with a client unwilling to change.

Elsewhere, Andrea Cravero, an ERP, SCM & EPM Sales Consulting Senior Director of SAP's ERP rival Oracle, took to his LinkedIn to suggest that there were at least two lessons to be learned from the failed project. He said, "An ERP implementation cannot last seven years. The pace of change has accelerated in many industries, retail and distribution is not immune. ERP Systems have to cope with the pace of change. Customisations should be avoided as far as possible, leveraging built-in best practices that are now part of modern ERP Cloud Systems."

Secondly, Cravero added, "Now Lidl apparently wants to revive his old system... This sounds very odd to me. I would not base a digital transformation program on an on-premise, legacy solution conceived a long time ago. New technologies such as artificial intelligence, robotic process automation, conversational interfaces, block-chain are disrupting the application landscape and will guarantee a competitive advantage to the early adopters."

A number of retail and consumer companies have tapped consulting firms to aid their SAP implementation schemes in recent years. Earlier in 2018, US chocolatier Hershey's hired Accenture to assist its SAP roll out, while in 2016, Indian grocery group Bharti similarly looked to the consulting world for help, among a number of other cases.

<https://www.henricodolfing.com/2020/05/case-study-lidl-sap-debacle.html>

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Case Study 12: Lidl's €500 Million SAP Debacle

It was to be a monumental and transformative project for grocery store chain Lidl. And success appeared certain. Lidl and German software giant SAP are leaders in their respective fields.

About a thousand staff and hundreds of consultants implemented a new company-wide system for inventory control for the discount grocery chain, which has close to €80 billion in annual revenue.

The system, in planning since 2011, got the code name 'eLWIS' which in German is pronounced like Elvis. The name is short for electronic Lidl merchandise management and information system.

In April 2017, SAP even awarded Lidl a prize for being one of their best customers.

But by July 2018 eLWIS was pronounced dead before arrival. Lidl would need to revert to its old inventory system. "We are practically starting from scratch," a company insider told German newspaper Handelsblatt.

All this after spending an estimated EUR 500 million on eLWIS.

Lidl is part of the Schwarz Group, the fifth-largest retailer in the world with sales of EUR 104.3 billion (2018), and Lidl makes up 80 % of that result.

The first Lidl discount store was opened in 1973, copying the Aldi concept. By 2019 Lidl had over 10.800 stores in 29 countries.

Both Lidl and Aldi have a zero waste, no-frills, "pass-the-savings-to-the-consumer" approach of displaying most products in their original delivery cartons, allowing the customers to take the product directly from the carton. When the carton is empty, it is simply replaced with a full one. Staffing is minimal.

Lidl rigorously removes merchandise that does not sell from the shelves, and cuts costs by keeping the size of the retail outlets as small as possible.

But in contrast to Aldi, there are generally more branded products offered. Lidl distributes many low-priced gourmet foods by producing each of them in a single European Union country for its whole worldwide chain, but it also sources many local products from the country where the store is located.

Timeline of Events

2011

In 2011 Lidl made the decision to replace its homegrown legacy system "Wawi" with a new solution based on "SAP for Retail, powered by HANA". The old merchandise management and information system was reaching the limits of its capacity. In fact, SAP claimed that Lidl's system was "hampered by process breaks, redundant master data storage, integration gaps and functional restrictions. Moreover, a combination of myriad interfaces and modules and a decentral server structure was making the task of running and maintaining the system increasingly complex."

The new solution should no longer implement just individual functions, but integrate process chains from the supplier to the customer. Key figure analyzes and forecasts should be available in real time. In addition, Lidl hoped for more efficient processes and easier handling of master data for the more than 10,000 stores and over 140 logistics centers.

2014

Lidl appointed Sven Seidel as the new CEO, a day after announcing it had removed Karl-Heinz Holland, citing "unbridgeable" differences over future strategy.

In an unusually blunt statement the secretive company said Holland was leaving after more than five years as chairman, 12 years on the board and a total of 23 years at Lidl.

2015

Lidl initially went live with the new electronic merchandise management and information system at its Austrian stores in May 2015. Also the stores and hubs in Ireland and the US went live with the new solution.

2016

In recent years, Lidl has also worked on harmonizing internal data transfers from the branch to the country systems to the new ERP system. Software AG's webMethods integration platform was implemented for this purpose. Apparently a number of systems have already been connected to the SAP system. In autumn 2016, René Sandführ, member of the management board, and head of ERP systems at Lidl, spoke of over 30 systems from the existing infrastructure that were integrated into eLWIS already.

"With the new platform, we are positioning ourselves for the future," Alexander Sonnenmoser, responsible for the entire Lidl IT, started the international rollout of eLWIS in spring 2016.

2017

CEO Seidel stepped down from his position in February 2017 after Manager Magazin reported he had fallen out of favour with Klaus Gehrig, who has headed the Schwarz Group since 2004. Seidel was succeeded as CEO by Dane Jesper Højer, previously head of Lidl's international buying operation.

By May 2017, Lidl's head of IT, Alexander Sonnenmoser, also had left.

The project at that time must have been going well because in 2017, SAP awarded Lidl a prize for being one of its best customers.

2018

In July 2018 Holland's successor Jesper Hojer and board member Martin Golücke pulled the plug on the whole project. With eLWIS, "the originally defined strategic goals cannot be achieved with reasonable effort", says an internal memo.

The message directed to Lidl employees states that they should all stay on board and now help to make the old, modular system (Wawi) future-proof - by bringing in the experience from the SAP project. This is to be done step by step, it is emphasized, and with the involvement of the Lidl national companies.

The company's official announcement states that the decision was "not a decision against SAP, but for its own system". "Lidl will continue to work closely with SAP in other areas."

What Went Wrong

The problems arose when Lidl discovered that the SAP system based its inventory on retail prices, where Lidl was used to do that based on purchase prices. Lidl refused to change both her mindset and processes and decided to customise the software. That was the beginning of the end.

Requirements Gap

Lidl based its inventory management system on purchase prices. The standard SAP for retail software uses retail prices, and fearing the group could lose a competitive edge by compromising, Lidl declined to change, so the software was instead adapted.

Customizing package software to fit your needs may be easy or it may be hard. The degree of difficulty depends on the so-called 'requirements gap' (i.e. the difference between what the existing package is capable of and what you want it to do). The smaller the gap the easier the project, the bigger the gap the more challenging the project becomes.

A requirements gap can be addressed in a number of different ways;

- 1) You change your business processes to match what the software can do
- 2) You customize the software to match your business processes
- 3) You can meet in the middle (i.e. do a bit of both – change the software and change the business processes).

All have their challenges, but by deciding to keep their processes as is, Lidl took on the challenge of making a system do something it was not originally designed to do.

Going live in 2015 with smaller countries made Lidl discover it wasn't a 'requirements gap' they had in front of them, it was a 'requirements chasm'. After all the adaptations and amendments that were required by Lidl along the way, it is reported the solution that SAP had produced was "not suitable for high-turnover countries".

Project Duration

An ERP implementation just cannot last seven years. The pace of change has accelerated in many industries, retail and distribution is not immune. ERP systems have to cope with this pace of change.

Customisations should be avoided as far as possible, leveraging built-in best practices that are now part of modern ERP systems.

Executive Turnover

Lidl experienced quite a bit of executive turnover throughout their transformation. It is difficult to maintain alignment and momentum against this backdrop. As executive priorities and personalities change (and both did in this case), it is highly likely that your ERP project will become misaligned with those new people. This is where projects often fail.

No one wins when a project is misaligned with executive priorities. Resources aren't committed to the project the way they need to be. The project team lacks clear direction. Project and software decisions don't tie into bigger-picture business decisions that need to be made. I could go on, but the point is that executive misalignment will derail projects like these.

Change Management

According to SAP, 80% of the retailers in the Forbes Global 2000 are SAP customers. This suggests that grocers like Lidl are successfully using the software. Even setting this statistic aside, there are thousands of organizations that are successfully operating on SAP S/4HANA and other legacy versions of the software. Simply put, the software works.

The more relevant question is: does or can SAP software work for your business? Are you willing to do the hard work required to reconcile the inevitable differences between your business and the software out of the box? This is where so many organizations fail. It sounds like Lidl was one of them.

Jean-Claude Flury, chairman of the worldwide SAP user group, stated in the German Handelsblatt "that it is the fault of Lidl itself and not of SAP." Lidl bought a solution that was implemented by SAP and her partners at several large retail companies. If the customer does not pay attention during the buying process or does not want to accept the principles of the software solution, the vendor is not to blame.

At most you can ask yourself whether SAP and its implementation partner KPS have sufficient change management skills. And whether the correct 'change guidance' was offered to the Lidl management. After all, those people are retailers with little or no experience in such large change processes.

Expertise System Integrator

Gossips are scapegoating German IT consultancy KPS, which was supposed to guide the transformation. SAP only provided the software — KPS was supposed to manage the adaptation procedures for Lidl, they say. Critics inside Lidl say that KPS was too slow. But Matthias Nollenberger, a senior manager at KPS who was responsible for overseeing the eLWIS project, says his company was working too short deadlines compared to other similar projects, and that the pilot phases in Austria, the US and Northern Ireland were all achieved on time.

How Lidl Could Have Done Things Differently

As painful – and unbelievable – as it is to read about, there are some good lessons from SAP failure that we can take away from this story.

Evaluation

The principles of inventory management belong to the elementary characteristics of any software solution. These kinds of characteristics are published in every product brochure and on any product website. That is definitely not something to discover after a few years of implementation. So, didn't the Lidl staff pay attention during the product demonstrations and the Proof of Concept? And why did the Lidl management sign a contract for a solution in which such a distinguished function was lacking?

Even though SAP is one of the most well-known software houses in the enterprise segment worldwide, has a great image and the customer generally cannot "go wrong" when choosing SAP, it still does not offer the right solution for every project / company.

The lack of flexibility in the field of adjustments, the excessive use of numerous external consultants and the complex implementation complicate the project's success, especially for companies that do not want to completely change their previous processes, but rather "only" want to improve.

Stop Earlier

When Lidl refused to conform to the SAP standard, the fence was from the dam. Explosion arose in time and the costs kept running. Suppose the project was budgeted at EUR 180 million and 3 years. Then for sure there was a moment when the counter stood at EUR 200 million. At EUR 260 million. And even at EUR 380 million. Probably still without any prospect of a successful completion. Again, the question is - why did the management of Lidl not intervene?

Less Customization / More Change

Customization is a risky way to reconcile your off-the-shelf ERP software with the realities of your business. Most organizations customize their ERP software to some degree. But, should they? That's a different question.

Customization creates headaches by breaking other parts of the software, introducing risk to implementation, and making ongoing maintenance very difficult. It is important to have stingy project governance processes in place to validate and rationalize any requests to change the way the software was initially built.

And here's an important takeaway: too much customization is often a symptom of not having a good enough organizational change management strategy and plan in place.

Executive Sponsorship

It is always interesting to wonder who is responsible for this type of projects at the top level. In many companies, this responsibility is considered as a 'group responsibility'. And it often goes wrong there.

This is because nobody in the top has "all" as a first name. With the logical consequence that nobody feels personally responsible for the project.

This is certainly true if a new CEO has been appointed ("oh, that project of my predecessor"). Every business software project must have a competent director who owns the project and who is responsible for both success and failure from the start till the end.

Without real, in-depth and end-to-end management involvement, today's business software projects are doomed to whole and half failures. Anyone who does not understand this is probably wise to postpone that new project.

Closing Thoughts

EUR 500 million is one heck of a lesson to learn, but good for Lidl's management team for eventually recognizing that their plan was not going to achieve what they wanted to achieve. I know of many management teams that wouldn't have the nerve to step up and admit that.

Of course, writing off EUR 500 million is a bitter pill. Although, with a yearly turnover of circa EUR 80 billion, Lidl can have a small bump. Much worse than this financial loss is probably the fact that the company has spent 7 years without any modernisation and further development of its business processes.

One would expect the Lidl organization to learn from this lesson. But nothing seems less true. According to the latest reports, the retailer has decided to continue to develop the old, self-developed 'Wawi' system. So that they can continue the way of stock valuing in the old, familiar way. And therefore do not have to change.

In a nutshell: Forcing a square peg into a round hole does not work for large ERP projects.