PART II:
ERP INTO DETAIL – APPROACH AND IMPACT ON THE ENTERPRISE

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ERP in reality – setting the tone

- Many companies have jumped early on the train
- Many were sold an ERP without needing one
- Partners and 'black box' concept
- In 35 years, the failure rate is around 70%
- An ERP system is not just software, it's a way of working

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ERP in reality – A success story?

- MRP II was rebadged into ERP, also to break the link with the many failures (marketing)
- Global ERP market is worth around 35 billion €.
- Sales model of many companies is to put their people in your company and keep them there.
- Price tags are not in line with the results we see.
- The software companies pick partners and keep the knowledge within the network, to make sure the customer will pay for this kind of 'complex' work.

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ERP in reality – A success story?

- The cost of the software is 1 thing, the cost of the consultants another.
- Projects run over budget and do not bring the anticipated benefits.
- Difficult to find examples: companies are embarrassed (maintain image for the investors and the stock market).
- Are ERP projects then destined to fail? No, but an ERP implementation is far more complex than just 'installing the software'.

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ERP in reality – Disasters

Examples of negative effects of failed ERP implementations:

- Cost overruns
- Deadlines not met
- Inadequate software functionality
- Negative impact on employee morale
- Benefits do not cover the investment
- Lost business opportunities
- Negative impact on financial results
- Damage to brand image
- Bankruptcy…

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ERP in reality – Disasters: examples

Examples of negative effects of failed ERP implementations:

- Hershey: 19% income drop
- Whirpool: shipments were delayed due to the SAP implementation
- Nike: paid $400 million to upgrade their ERP system. They lost $100 million extra due to a bad upgrade.
- HP: reported changing to SAP lost them $160 million in lost backlog orders and lost sales.

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ERP in reality – Disasters: examples

Factors which cause this:

- Projects drain resources
- Poor planning (Bad project Management)
- Underfunding
- No support in the organization (Bad Change Management)
- Untrained and overpriced juniors/consultants
- No Business Analysis (my way or the high way) – No fit

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ERP: who is involved/responsible?

There are many players in an ERP project

- Senior management - who approve the project
- Middle management - who coordinate the implementation
- Internal/external experts
- Vendors & partners
- End-users

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ERP: What is failure exactly?

Failure is not meeting the expected results, within budget and time.

Success is different for each party:

- Vendor: software runs without mistakes
- Implementation partners: software runs as designed
- Customer: all their expectations are achieved, within budget and within the deadlines.

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ERP: What is failure exactly?

Failure is not meeting the expected results, within budget and time. Failure can be:

- Budget overrun
  - Scope not clearly defined
  - Unrealistic estimates given by vendor
  - …
- Deadlines not met
  - Scope creep
  - Lack of available resources
- Lack of expertise to actually work with the ERP system (poor training)

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ERP: What is failure exactly?

Failure is not meeting the expected results, within budget and time. Failure can be:

- No adoption of the ERP system
  - People keep working with the old system
  - Poor change management
- No executive support
  - The management does not approve of the new system
  - Lead by example
- Little or no benefit achieved
  - It's no better than the old system
  - It is better than before, but the cost was too high

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ERP: what is causing failure?

What are the main causes according to the customers?

- ERP vendors and their partners misrepresented their expertise and experience
- ERP vendors and their partners misrepresented the capabilities of the system
- Training wasn't sufficient or given too early
- Disagreement on included functionality (fixed price & scope)
- Language difficulties!

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ERP: what is causing failure?

What are the main causes according to the vendors?

- No executive support
- Poor definement of requirements
- Insufficient budget
- Lack of available human resources
- Poor change management
- Unrealistic expectation of ROI
- Unrealistic timeline & deadlines
- Scope creep (video)

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ERP: what is causing failure? Scope Creep!

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ERP: The devil's triangle

Devil's triangle
Buyer: The customer or the party who is requesting the project and new ERP system

- Selection process is important
- They need to understand that an ERP is going to change their business
- Define scope & requirements in time
- Make sure experts and other resources are available
- Make sure the C-level is on board (executive support)

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ERP: The devil's triangle

Devil's triangle
Implementation partner (system integrator): The company/people who will actually implement the new software.

- Skilled people are important
- Time&material invoicing can cause budget overruns and unhappy customers
- Fixed price projects are dangerous due to scope creep and unexpected difficulties.
- Business ethics: be honest & fair. Don't keep the black-box façade.

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ERP: The devil's triangle

Devil's triangle
Software Vendor: The party/company that sells the software and the licenses.

- ERP software vendors maximize their revenue by attempting to charge full list price on software licenses, while trying to lock buyers into long-term support and maintenance contracts.
- In a way, they benefit from project failures and keeping information in-house.
- Business ethics are important. Win-Win!

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ERP: The devil's triangle → Business ethics

- The ERP buyer-seller-consultant relationship may extend for years, as the system is implemented, upgraded, and enhanced over time.
- Success is almost assured when the three groups are aligned, working together in a spirit of cooperation and mutual benefit.
- Conversely, implementations fail when these devil's triangle relationships become distorted by greed, inexperience, or arrogance, with one or more parties attempting to take advantage of the other.

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ERP: Roadmap to success

There are many important steps to successfully understanding and implementing an ERP project

Many ERP projects fail, because an ERP implementation track or project is complex and consists of many crucial steps. If some of these steps are ignored/skipped or poorly executed, this can result in a failure.

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ERP: Roadmap to success

The problem is most companies do not see an ERP project as a company change project, but instead see it as a technology project that can be handed of to others, without serious involvement.

This is…

WRONG

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Roadmap to success 1 - Acquisition Rationale

- ERP changes the way we look at and run the business
- ERP can provide a competitive advantage

Then what's critical?

- Senior management understanding the ERP's capabilities
  - At the beginning of the selection
  - Support this system
  - Communicate these 2 points towards the rest of the organization

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Roadmap to success 1 - Acquisition Rationale

It's like an aircraft: buying one does not instantly learn you how to fly with it!

Important topics

- Do we need an ERP system?
- What detailed outcomes do we and can we expect?
- Who needs to be involved and how much effort will this take?
- How will we get everyone on board?
  - Executive support
  - Change management

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Roadmap to success 2 – In-house expertise

An ERP system is complex and consists of different modules. Adapting to the system is important and therefore you need to understand what you're getting. Expertise cannot be completely left in the hands of others.

Embarking on an ERP project with limited knowledge simply puts the organisation at the mercy of ERP vendors and their implementation partners, whose primary interest is in making a maximum revenue.

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Roadmap to success 2 – In-house expertise

Important topics

- Education on ERP for decision takers
- Keeping the decision power in house
- Being able to be critical towards
  - Vendors
  - Implementation partners

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Roadmap to success 3 – ERP Risk Assessment

ERP can be a powerfull tool for a company. But where there is a big upside, there can also be a big downside if things go wrong!

Potential risks

- Financial Risk
  - High costs involved
  - Negative ROI
- Technical Risk
  - Depending on a certain technology
  - Integration?
- Project Risk
  - Resources available
  - Other project risks (planning, timing, budget…)

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Roadmap to success 3 – ERP Risk Assessment

Potential risks

- Political Risk
  - Visibility
  - Resistance by employees
  - People/functions that become obsolete
- Cultural Risk
  - Language
  - Privacy
- Business disruption Risk
  - Human resources are used for the project
  - Problems with cut-over
- Contingency Risk

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Roadmap to success 3 – ERP Risk Assessment

Potential risks

- Contingency Risk
  - You cannot know everything upfront
  - Possible unexpected problems
- Software failure Risk
  - System does not work
  - System does not do what was expected
- Non-use or misuse Risk
  - People don't use the system or use it incorrectly
- External Risk
  - Integration with vendors/customers
  - Legal obligations not met

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Roadmap to success 3 – ERP Risk Assessment

Potential risks

- Competitive Risk
  - They have adopted the same way of working as their competitors
  - Bad implementation can cause:
    - Loss of orders
    - Slower delivery
    - …
- Reputation Risk
  - Bad service towards customers
  - Bad ROI = impact on figures
  - …

Senior management should insist and focus on a true and profound risk analysis!

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Roadmap to success 4 – ERP Cost justification and budget

It is vital to specifiy in detail what the benefits of the ERP system will be and how they will be achieved!

Important topics

- Budget based on a detailed assessment of the work to be completed.
- Cost estimation that covers the work, hardware and software costs.
- Expected benefits that is realistic in time and returns to expect.

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Roadmap to success 4 – ERP Cost justification and budget

Typical cost areas to be considered (some examples):

- In-house hosting vs SaaS (Software as a service)
- Software license fees
- Hardware costs
- Education & training costs
- Software maintenance costs
- Cost of integration with legacy systems
- Data clean-up costs
- Business disruption costs

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Roadmap to success 4 – ERP Cost justification and budget

Typical benefit areas (some examples):

- Productivity increase (how to measure this?)
- Headcount reduction
- Process improvements (lean)
- Quality improvements
- Customer service improvements (better retention)
- Increased sales
- …

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Roadmap to success 5 – RFP (Request for proposal)

A request for proposal is a document which specifies what the system should be able to do/support and which has as objective to recieve a proposal from 1 or more vendors to implement this.

Important topics

- Visual models, specifying:
  - Needed functionality
  - Hardware platforms to integrate with
  - Needed number of users
  - Needed number of transaction
  - Examples of needed output (documents, reporting…)
  - Examples of current processes

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Roadmap to success 5 – RFP

The RFP will often lead to a POC (Proof of concept), which is a light version of the software with limited functionality, to proof the system can do what is requested.

- The customer can immedialtely see the look and feel, with realistic data
- If not all requirements are supported, this comes up during the selection phase
- The prices and functionality offered will be more accurate