UNIVERSIDADE
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Assignment 10: **Lidl's SAP debacle**

Management of Information Systems and Technologies

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Case study analysis

In 2011, Lidl started a project named **eLWIS** to *replace* its old inventory system **Wawi** with a SAP software solution.

SAP *Systems, Applications and Products* is an ERP *Enterprise Resource Planning* software for managing business operations and customer relations. It was intended to be a huge *transformative change* for Lidl's grocery store chain.

SAP reported that the old Wawi system was reaching its limits by suffering process breaks, redundant data storage, integration gaps and functional restriction, which were resulting in increasingly complex maintenance of the system.

In 2014 and also in 2017, Lidl *changed* their CEO while the project was perceived to be successful, because SAP awarded Lidl a prize for being one of its best customers in 2017.

In 2018, the transitional project **failed** after 7 years and a 500 million € in costs.

SAP software is used by 80% of the Forbes Global 2000 retailers and thousands of other grocery organizations are operating on it, which means that SAP is globally **successfully** implemented.

Therefore, what went wrong in Lidl's case that resulted in a 500 million € loss? This assignment analyzes the **risks** that materialized and which **control** mechanisms could have mitigated them, following the *taxonomy of the EBA Guidelines*.

Change risks

Excessive customization

The SAP retail software uses **retail** prices, while Lidl's inventory management system is based on **purchase** prices.

Experts have considered the first **failure decision** that Lidl **refused changing** its workflows and instead the SAP software had to be **adapted** to fit Lidl's processes, which made the project more *expensive*, caused *delays*, and resulted in a system too *complicated* to work properly.

What they faced is a **requirements gap**, which can be explained as the system doing something that was *not originally designed* to. With a proper **change management**, this situation may not have *materialized* into a *risk* if some *controls* were placed.

- ➢ For example a proper monitoring and risk assessment while developing the transition process, because the *customization* was *breaking* other parts of the software that should have raised an alarm to *reconsider* the *severity* of the *repercussions* that the *customization* was *causing* in the *already existing* processes.
- ➢ Also it was making the *ongoing maintenance* difficult, which in a *controlled environment* would have been reported to *reconsider* the impact that the change process was *affecting* in the original system.

Poor governance

Through the seven years of the transformation process, Lidl experienced executive CEOs and IT leaders *turnovers* which caused shifts in *priorities*, a lack of continuity, and insufficient *oversight* of the project.

- ➢ This type of impactful strategic decisions are taken for the benefit of the company, and the risk that they arise can be controlled by having a strong **project governance process** in place to *validate* and *rationalize* any requests to change the way the software was initially built.

Connecting to the previous analysis, too much customization can be a *symptom* of not having a good enough organizational change management strategy and plan in place.

Outsourcing risks

Inadequate outsourcing governance

The transition of Lidl's system was carried out by **outsourcing** the process contracting SAP software services.

There are two points of view when analyzing the case study:

- Pro SAP's state that the customer has to *understand* **what** is buying and **how** it works. In words of Jean-Claude Flury, chairman of the worldwide SAP user group: "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."
- Pro Lidl's question if SAP and its implementation partner KPS have sufficient change **management skills**, regarding whether the correct 'change **guidance'** was offered to the Lidl management, assuming that they are retailers with little or no experience in such large change processes.
- ➢ The situation could have been controlled with an appropriate outsourcing governance to settle the *guidelines* and *agreements* **between** Lidl and SAP.

Availability and continuity risks

Inadequate capacity management

Lidl's SAP implementation was unable to **scale** efficiently due to the excessive customizations made to fit its business processes. This created inefficiencies, reducing system *performance* and suitability for high-turnover operations.

Lidl boss Jesper Hoyer referred to this inability to scale: “The strategic goals as originally defined were not possible at an *acceptable expense*”.

- ➢ The risk of *uncovering expectations* could have been mitigated with the Internal Control Component of Information and Communication, by communicating financial reliable *information* for the *decision* making process.

Inadequate disaster recovery planning

This was not exactly a risk before the disaster but **after**: specialists have criticized Lidl’s recovery strategy to revert to its old inventory system, which was already **outdated** in 2011 when they took the decision to modernize, instead of pursuing and making use of the **new** technologies available.

- ➢ In the words of Andrea Cravero, Consulting Senior Director of SAP: “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.”

Conclusions

Lidl's failed SAP implementation can be attributed to several key *risks*, including excessive customization, poor governance, and inadequate outsourcing and capacity management.

The decision to heavily customize the SAP software to fit Lidl's existing processes *led to* increased costs, delays, and a system that was difficult to maintain.

Additionally, frequent leadership changes *created a* lack of continuity and oversight, exacerbating the project’s challenges.

Furthermore, outsourcing the implementation without proper governance and failing to scale the system efficiently *contributed to* the failure.

A more structured approach to change management, governance, and recovery planning could have potentially **mitigated** these issues.

Resources

- https://www.bankingsupervision.europa.eu/framework/legal-framework/regulatory/compliance/html/index.en.html
- EBA Guidelines on ICT Risk Assessment https://moodle.ensinolusofona.pt/pluginfile.php/987805/mod_resource/content/1/ICT%20Risk%20Taxonomy%20-%20Final%20Guidelines%20on%20ICT%20Risk%20Assessment%20under%20SREP%20%28EBA-GL-2017-05%29.pdf
- Lidl case study Literature Review https://moodle.ensinolusofona.pt/pluginfile.php/987798/mod_resource/content/1/Lidl%20-%20case-study-lidl-sap-debacle.pdf