Marin County v. Deloitte: Learn from this ERP Implementation Failure to Drive Success

ERP implementation failure is a pretty easy topic to write about – fresh material is delivered to my door almost daily. Consider, for example, the California County of Marin's recent $30 million lawsuit against Deloitte Consulting LLP.

In that case, Marin County hired Deloitte to implement an SAP ERP system. Marin spent $18.6 million on system and implementation costs. For all of that money, what did it get? A malfunctioning system, administrative lock-ups and headaches.

The system was supposed to automate and simplify Marin County's finance and HR business processes. Instead, reporting and system functionality are a mess. Marin County hasn't issued financial statements for the past two fiscal years. It can't yet reconcile its cash balances. Nor can it administer payables, receivables, fixed assets and inventories. Pension administration – a key component of public sector finances – has been partially stalled by an inability to extract current information from the databases. Recently, pension officials had to rely on an outdated 2007 actuarial report because it had no current alternative. These are but a few of Marin County's 26 reported ERP system problems.

In its legal filings, Marin County claims that Deloitte botched the implementation project because it "was utterly incapable of providing the County with the necessary expert advice, guidance or leadership". Marin further alleges that Deloitte had "staffed the project with dozens of neophyte consultants, many of whom lacked even a basic understanding of SAP". Predictably, Deloitte has denied all of the allegations. Deloitte says that it did what it was hired to do, and that Marin County had approved of its performance. Deloitte has countersued for $555,000 on account of alleged unpaid consulting bills and interest.

Marin County's ERP implementation project was unequivocally a failure. Regardless of which party the court ultimately sides with, Marin County is still stuck holding the bag. While Deloitte is busy collecting fees on other projects, Marin County is still figuring out how to issue its financial statements.

The moral of this story is that companies implementing ERP (or any other complex software) need to find the right implementation partner. Oftentimes, finding the right partner means finding the right project manager and consulting team. The project manager must be adept at running complex business projects that include: corporate restructuring, business process re-engineering, change management and IT systems integration. The consulting team must be made up of seasoned consultants who are experts in a given functional business area as well as in the specific software.

Here are five tips to help you pick the right project manager and implementation team:

Tip #1: The Project Manager Must Be Independent And Impartial

ERP implementations are saturated with decision points that require the company to choose between changing the business and changing the software. Your project manager has to advise you on these decisions. To ensure your company is getting advice that is unequivocally in its best interests, your project manager had to be independent from and impartial to ERP vendors. This means that his company should not be an ERP reseller (a.k.a. VAR or value-added reseller) or a consultant working for the ERP vendor.

Tip #2: Use A Proven ERP Implementation Methodology

A proven, time-tested ERP implementation methodology demonstrates an ability to deliver a complex implementation project on time, within budget and up to performance standards. When assessing a methodology, your company should look for answers to the following questions: has the methodology withstood the test of time? How many ERP projects have been delivered with the methodology? How is final project success measured? How are incremental project phase successes measured? Has the methodology been used in any failed projects? Is the methodology published?

Tip #3: Hire The People Not The Firm

Remember: a firm name on a door can't implement ERP. So, when selecting an implementation partner, your company needs to hire the right people with the right experience. This means looking behind the firm name at the people who will be staffed on your project. Your company should interview all of the prospective consultants and look for implementation experience, experience with the specific software, and experience in your company's particular industry, among other things.

Tip #4: Protect Your Company Against The Bait-And-Switch

Unfortunately, we continue to hear stories about consulting firms using a bait-and-switch tactic. In fact, this tactic is a central allegation in the Marin County lawsuit. A brief explanation of the bait-and-switch is as follows. A consulting firm sends its "A-Team" to make the sale, effectively representing that these people will manage the project. Once the deal is signed, however, the consulting firm replaces the "A-Team" with less experienced and less skilled people. To protect itself against the bait-and-switch, your company should ensure that the desired consultants will be assigned exclusively to your project for its duration. Also, your company should retain a veto right over any staffing changes that might occur.

Tip #5: Conduct Detailed Reference Checks

Remember, with an ERP implementation project, your company is putting its operations and administration on the line. To protect itself against failure, your company needs to make sure that the consultants are qualified to manage the project, the change and the risk. Since projects are run by people and not firms, you should check references for previous work done by the proposed consultants. If the proposed consultants do not have directly relevant experience, you probably don't want them learning on your company's dime and at the expense of its operations.

For every failing ERP project our firm has been parachuted in to rescue, for every ERP failure story I've read, I've come to one conclusion: each and every one of those failures was avoidable. I continue to be floored by the billions of dollars, hundreds of jobs and number of years that are collectively wasted on ERP failure. The most upsetting part is that this wastage is both unnecessary and avoidable. Your company can help break this cycle. Before it starts an ERP project, it should do its due diligence on prospective ERP implementation partners.

- See more at: http://www.backbonemag.com/Backblog/marin-county-v-deloitte-learn-from-this-erp-implementation-failure-to-drive-success.aspx#sthash.yp9oNRHu.dpuf

Understanding Marin County's $30 million ERP failure

Summary: Marin County voted to stop an ongoing SAP project, implicitly accepting that it wasted over $30 million on software and related implementation services from Deloitte Consulting.

The Board of Supervisors in California's Marin County voted to stop an ongoing SAP project and seek a replacement solution, implicitly accepting that it wasted over $30 million on software and related implementation services from Deloitte Consulting.

The dramatic decision to replace SAP comes after relations between Marin and Deloitte Consulting, the implementation consultant on this project, deteriorated to the breaking point. Marin filed a lawsuit against Deloitte "seeking actual and compensatory damages of at least $30 million, along with unspecified punitive and, or exemplary damages and interest." Deloitte has countersued Marin for approximately $550,000 in unpaid fees and late charges.

Related: Marin County sues Deloitte: Alleges fraud on SAP project

The Contra Costa Times described the situation:

After spending more than $30 million on a fancy computer system that never worked well, top Civic Center officials have concluded the program should be scrapped as soon as a more efficient system can be phased in.

The Marin Independent Journal offered historical context:

The Board of Supervisors bought the SAP system in 2005, then paid mounting consultant bills as staff grappled with a fiscal nightmare in which the program could not produce basic financial reports. SAP never performed as promised, bobbling the payroll, accounts receivable and other routine financial functions. A grand jury probe concluded it cost taxpayers $28.6 million as of April 2009

Computer World brought in SAP's perspective:

SAP "strongly believes in the value and performance of its software in use in Marin County," said spokesman Andy Kendzie. "Our software works exactly as it should, and any issues in this implementation in no way reflect on SAP. Our software is installed and functioning perfectly in tens of thousands of public sector agencies, including dozens in California."

Marin's decision to jettison SAP and start over with new software is based on an analysis performed by Phoenix Business Consulting, a firm that Marin hired at a cost "not to exceed $50,000." The statement of work is relatively vague and uninformative:

To review the SAP program currently implemented at the County of Marin and analyze whether it meets the needs of the County, including whether it was properly implemented by Deloitte. Review what additional costs and efforts are necessary for SAP to properly function to meet the needs of the County Departments. Review what efforts were taken to fix the SAP problems which occurred post-implementation.

STRATEGIC ANALYSIS

This situation offers a clear example of how mismatched expectations can drive poor communication and lead to complete failure. To help understand what really went wrong, here is a brief description of each party's role in contributing to this situation:

Marin role. *In my opinion, having reviewed substantial documentation, Marin's decision to replace SAP seems intended primarily to strengthen its lawsuit position and push all accountability away from itself. Marin's position is extreme and not credible.*

Marin's apparent lack of organizational and governance maturity, and its inability to absorb business transformation changes associated with this implementation, seem to be a basic driver underlying this failure.

A summary status report compiled by Marin's Information Services & Technology Department acknowledges significant lessons learned on this project that it plans to apply on a future ERP implementation:

At this stage, staff is recommending that we look at other system options and recommend the following approach:

1. An incremental, phased approach to the replacement of SAP, rather than the "big bang" approach that was intentionally followed in the SAP implementation, as was advised by the outside consultants;
2. IST involvement up front to guide the steering committee of employees from key departments in recommending a system and leading its implementation;
3. Less reliance on outside consultants and more on County staff, who have a greater, vested interest in the outcome and success of the implementation; and
4. Routine communication with employees, the public and Board of Supervisors in the form of regular status reports and meetings, including meetings with an oversight subcommittee of the Board for the project.

A town supervisor also emphasized the importance of lessons learned during a meeting in which the Board voted to stop the project (video).

Deloitte role. *Most emphatically, I believe Deloitte shares equal, or perhaps even greater, culpability in creating this situation. Deloitte's posturing and unwillingness to accept even* *partial responsibility for the failure appears inconsistent with the facts. Deloitte seems focused on compensation arising from the implementation process itself, without regard to whether the client achieved successful results or outcomes.*

Deloitte's position and actions stand in stark contrast to these customer-centric words from its website:

For some, the path to value is a steady march. For others, it unfolds through bursts of innovation. But for the best of the best, it's always both. Disciplined improvement initiatives, marked by powerful leaps and breakthroughs.

SAP role. *Neither Marin nor Deloitte have suggested that SAP software contributed in any way to the failure. However, a complete analysis must consider the role of SAP in setting client expectations regarding demands imposed by the implementation process.*

The extent to which software vendors and integrators should take responsibility for decisions that buyers make during the purchasing process is a difficult question. As I have written, the solution lies in three areas:

1. **Enterprise customers** should be more careful assessing their own capabilities before undertaking any complicated organizational change initiatives, including implementing ERP systems.
2. **Systems integrators and consulting firms** must be more straightforward in explaining pitfalls and success requirements to potential clients. Some consultants paint an overly positive picture during the sales process; such nonsense has to stop.
3. **Software vendors** should tie a greater percentage of sales compensation to ultimate customer satisfaction.

I have referred to relationships among enterprise customers, software vendors, and system integrators as constituting a "Devil's Triangle."

Understanding the numbers. The county's decision to throw away its $30 million investment bears scrutiny, especially during this period of budget cuts and economic difficulty.

To understand more, I spoke at length with Mark F. O'Connor, CEO and co-founder of Monadnock Research, which offers advice to enterprise customers on working with services firms. In an excellent analytic writeup, Mark says:

Marin may want to step back and take a closer look at the findings of the report it is using to support that conclusion...Analysis of those findings, however, appears to offer clues into apparent unrealistic expectations similar to what got Marin into its current predicament.

I asked Mark to elaborate this view:

Opponents to the SAP-based system implemented at Marin County are clearly aligned around getting rid of it as quickly as possible. But it appears the County may never have accepted responsibility for making it work in the first place. In fact, my reading of the agreement with Deloitte seems to indicate the County was trying to cede its responsibilities to Deloitte.

Responsibility without authority, however, always yields outcomes similar to what we see here in complex systems projects. There are literally thousands of important decisions that need be made by client staff during an implementation—while they continue to do their day jobs. I would caution against pre-deciding what will happen with SAP at this point, before the County's alternatives are fully vetted. While there is political consensus to move off SAP, there are workflow and human factors to consider, and a lack of consensus across all departments as to whether they should initiate another disruptive systems project so soon.

Additionally, the financial justification that appeared persuasive to the Supervisors was remarkable to me only in its lack of detail. The County needs to ensure that it doesn't make decisions to improve its position in the Deloitte lawsuit at the expense of its financial interests and ability to effectively provide services to Marin County residents.

I would hope Marin's analysis and assessment of the various alternatives includes addressing these twelve key questions:

1. What are the estimated expenses for hard and soft dollar costs associated with preparing the five plans the Board of Supervisors just authorized?
2. What is the estimated cost for managing the alternative assessment, selection, and implementation process?
3. What are the estimated application acquisition costs for the various scenarios?
4. What are the estimated costs for business process redesign?
5. What are the estimates for implementation costs for the various alternatives?
6. How many hours are being assumed for each?
7. What hourly rates for consultants are the implementation assumptions based on?
8. What are the estimated costs for migration and conversion in each of the alternatives?
9. If a best-of-breed solution is chosen, what are the expenses for software infrastructure and services associated with application integration at a level similar to what would be present in an integrated application suite?
10. What are the application maintenance and support expense estimates?
11. What are the training costs for the various alternatives?
12. What are the internal staffing costs for the alternatives during the project for the SAP environment and for transition scenarios with risks and probabilities assigned for the different concurrent environment scenarios?

The Marin Information Systems and Technology group appears to have concluded that fixing the Deloitte-installed SAP application will cost nearly 25 percent more over a ten-year period than buying, modifying, implementing, and migrating data over to a new system in a protracted multi-phase project, during which time they would continue to operate the SAP environment concurrently, until going live on the respective new system modules. That conclusion seems implausible to me

My take. No good comes from situations like this. Marin appears to have wasted $30 million dollars; Deloitte faces a lawsuit and bad press; and SAP's brand and reputation will suffer even though no one blames the software.

Note to software vendors and system integrators: A substantial number of your customers, especially those who are smaller, only purchase ERP once in many years; these folks require more education than you typically provide during the selling process. Situations like this make clear that something is deeply wrong with your approach to sales and consulting.

Note to enterprise buyers: There is no escaping that *you* are ultimately responsible for the success or failure of *your* project. That said, when you hire services vendors be sure the contract includes provisions that connect cost and time to achieving successful results. If your vendors don't have skin in the game, then go elsewhere.

Marin County seeks new software vendor to replace SAP system

Officials will focus on 'Tier 2' ERP vendors this time around

IDG News Service - Officials in California's Marin County have begun the search for new ERP software to replace a troubled SAP implementation that was at the center of an ugly legal battle between the county, SAP and systems integrator Deloitte.

County supervisors voted this week to approve an RFP (request for proposals) from vendors who want to take on the job. Officials are focused on "Tier 2" vendors, which are generally smaller and more focused, and especially ones that have experience in the public sector, said County Administrator Matthew Hymel during a meeting of the supervisory board, which was webcast.

"A big lesson learned [from the SAP project] was around fit for an organization our size and the business that we're in," Hymel said. Tier 1 ERP vendors such as SAP and Oracle offer "very complicated products that serve Fortune 500 companies," he added.

"Our employees were definitely impacted by our last implementation so they taking this very seriously," Hymel said. "We're all in agreement of the need to do this right."

Given the "pain" caused by implementing SAP, Marin County officials are taking a "belt-and-suspenders," or quite conservative, approach to the new project, he added.

For one thing, the project will stick to phased deadlines, based on readiness. "We're not going to go live unless we're ready," he said. More resources for training users, as well as improved efforts to take in user feedback, are also planned.

"We've really gone out of our way in many cases to ensure our users are heard," said county IT staffer Tim Flanagan, who also spoke at the meeting. "Every department has been involved and included."

Responses to the RFP are due in December and it's hoped that an approved contract will be signed by June.

Marin County wants to save money compared to what it cost to acquire and run SAP on an ongoing basis, and is also open to using products from multiple vendors, rather than trying to find one that says it can handle every functional area, according to Flanagan.

Supervisors offered Hymel and Flanagan praise for their efforts planning the second project.

"I think we've really laid out a good map," said District 1 Supervisor Susan Adams, as she paged through a thick binder containing the second project's details.

The supervisory board's good mood belied the acrimony stirred up by the county's now-settled lawsuit, which reportedly cost it $5 million in legal fees but netted just $3.9 million in settlement payments.

Marin County has spent at least $30 million on the SAP project, which dates to 2006, and had at one point pursued $35 million in damages. It accused Deloitte of staffing the project with inexperienced consultants, leading to delays and cost overruns.

It also claimed Deloitte and SAP's alleged wrongdoing fell under the federal Racketeer Influenced and Corrupt Organizations Act (RICO), which would have trebled the damages. A judge dismissed the racketeering claims.

In 2010, Marin County announced it would rip out and replace the SAP system rather than attempt to fix the alleged problems with it, saying the first option would cost less money.

After the settlement in January, Marin County continued to use the SAP software and will keep doing so until a new system is implemented. The SAP payroll module will be run in parallel with the new system for a period to ensure there are no problems, said Flanagan.

A Deloitte spokesman didn't respond to a request Friday for comment on the county's actions this week. Deloitte has been under fire of late for its role in developing allegedly faulty unemployment benefits systems in a number of states.

SAP spokesman Andy Kendzie declined to comment, except to say SAP is "examining" whether to submit a bid to the Marin County RFP.

Marin County has some considerations to make as it moves forward, particularly with regard to its own shortcomings on the first project, said analyst Michael Krigsman, CEO of consulting firm Asuret.

"Part of the challenge with the first system was the ability of the county to absorb changes," he said. "It could make sense for the county to rethink its expectations and scale back the anticipated scope." This would cut costs, lower the amount of process changes and "make the entire project shorter and more manageable," he said.

The county also must be careful in the way it words contracts with the chosen vendors, Krigsman said. While the contract should include incentives for the systems integrator to complete work on time and within budget, it must also leave wiggle room to address any significant issues that are discovered midstream, he said.

He compared the situation to a person renovating their house. While it's desirable for the project contractor to finish the work on time, If he were to lift up floorboards and discover termites, "it only makes sense to deal with the termite problem" rather than ignore it and press forward, Krigsman said.