



White Paper

# Implementing ERP: Best Practices

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## Why implementing ERP is such a challenge?

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In this white paper, CPA Jorge M. Mejía summarizes his more than 20 years of experience in 15 important tips for implementing ERP. Follow them and your experience implementing an ERP or technology in general won't be such a gruesome experience.

### 1. Business Applications such as an ERP are for business people, not tech people

The number one mistake made by companies in selecting and implementing technology is delegating these functions to the Information Technology departments.

Today, technology is not a department, technology is embedded in our lives, and therefore in our work daily functions. The main problem is that the business functions within organizations are not being held accountable for selecting and implementing the technologies that will best suit their needs according to the value they are supposed to bring to the organization. Who is the best person to select the accounting software a particular company will use? It is certainly not the IT person; it must be the head of accounting. Then, why are technology departments the ones contacting IT vendors for accounting software and not finance or accounting?

If you are responsible for the accounting and finance functions of your company, then you should be responsible for keeping yourself current on the technologies that are relevant to your functions. Also, you cannot delegate the implementation of the single most important tool to run your department to another department. It is your responsibility to run the project and make sure that it meets your expectations.

### 2. Have clear objectives

One thing that worries me is to see a company acquiring technology and engaging in very complex projects while not having the project's objectives clear. As with anything you do in an organization, you should set clear objectives when engaging in an ERP implementation. Such objectives cannot be generic. The most common ones I see are things like: To be more efficient, to have a modern infrastructure, to close our



books faster and so on. Objectives in these projects need to be very specific. If you are trying to be more efficient you would need to narrow that to more specific terms such as; Improve the procure to pay cycle by implementing a self-service solution that will enable a faster requisitioning process. If your objective is to close your books faster, then you would need to include objectives such as, reduce manual journal entries in half by integrating x or y systems, implementing automatic recurring journal entries, automating intercompany journal entry posting etc.

Setting clear and specific objectives have many benefits. First, it will give the project focus and a way to measure its success. Second, it will help you control your costs because you will be implementing and dedicating time to what is relevant. And last, it will guide your team when lining up the requirements.

### **3. The RFP: All the bells and whistles**

One common approach to procure technology is to hire a company (some do it themselves) to prepare an RFP (Request for proposal). This is a very good approach since it provides a framework for the proposing companies to demonstrate a product capabilities and for the company to ascertain that the technologies will perform as they expect. However, there are good and bad RFPs.

One common approach is to interview all the users of the system and ask them to list all of their requirements and expectations of the new technology. This is when things start to go wrong and technology gets very expensive. As explained in item number 2, setting clear objectives is a key element of success in these projects. Therefore, if end user requirements are not filtered and aligned with the project objectives, you might have departments requesting unreasonable functionalities that will increase cost and complexity.

For example, if managing fixed assets is not a relevant function in your company, why would you let that department set complex requirements such as bar code scanners and geolocation functionality? Keep your requirements aligned with your objectives, and not to particular departments or individuals who just want to do less work.

### **4. The RFP: Software Features vs. Services**

Typically, when preparing an RFP, companies tend to focus more on products features and forget one of the most important aspects of the implementation, the consulting services. When selecting a services

company you must understand a few things. First, these companies are mainly risk averse, and if you are not clear on the services scope, they will assume that they will be held responsible for everything, and thus will estimate a lot of hours, increasing your cost significantly. Make sure you include your service expectations in the RFP. Having a services company held 100% responsible for a project (or trying to do so) is a great mistake. A services company has experience implementing the technology, and you should engage them with a partnering attitude with one objective in mind, how can this company help your organization become expert in the technology you are implementing. Look for a 50/50 share of responsibility.

Ask yourself in which areas you think you will need more help. For example: Converting Data, Building Reports, Customizing Certain Functionality, Training your people etc.

The following list will give you an idea of things to clarify when engaging a services company:

**A. Data Conversion**

- i. What type of data
  - a. Master data?
  - b. Transactional Data?
- ii. Period
  - a. Open transactions or historic data?
- iii. Who is responsible for extracting data from legacy software?
- iv. Who is responsible for data cleanup and transformation?
- v. Who is responsible for loading data into the new system?
- vi. How many conversion rounds do you want them to scope?

**B. Custom Reports**

- i. This is a critical part of any system implementation. Therefore, you should do a proper report matching when evaluating the software. If custom reports are needed, you will be better off if those were identified earlier in the process.
- ii. Financial Statements – these will always be customized since they will depend on the chart of accounts design. Make sure you agree specifically on the quantity and format of the financial statements, and who is going to build them before the engagement is signed.

### *C. Training*

- i. Knowledge transfer is everything in these projects. Knowledge transfer will be possible only if your team participates and has the right attitude towards learning.
- ii. If a train the trainer is agreed upon, then make sure your trainers acquire the right amount of knowledge during the project and have the right aptitude to teach.
- iii. Make sure you review the company's training materials and approach prior to engagement, and make sure it suits your expectations.

**D. Customizations** – Ideally, you found a software that does not need any customization to suit your needs. However, if customization is needed, make sure the requirements for such custom work is well defined, and you provided the service vendor with all the information they require to prepare their estimates.

Services costs are commonly higher than technology costs. Therefore, it is important that the service provider has as much knowledge of your expectations as possible. You do not want a high estimate, but you don't want one so low that basically leaves you all alone in the project.

## **5. A bit more on data conversion**

Understanding who will be responsible for what in terms of data conversion is not enough. You must be clear on how much data you will be converting. There are different types of data; there is master data and transactional data. Master data represents the entities that perform transactions in a system. Therefore, common master data are customers, suppliers, employees and general ledger accounts.

On the other hand, transactional data are the interactions made with the master records. For example, customer records have sales transactions and supplier records have delivery and invoice transactions.

Typically, master records are always converted and the following must be observed:

1. **Manual versus electronic** – Do not ask your services company to prepare a conversion script to load 50 records in your



new ERP. If the amount of records to be converted is not significant, go manual and use it as training for your resources.

2. **If you go electronic** – make sure you have a way to validate the conversion process. Make sure you know the amount of records you are converting. You want to ensure it all went through without a problem. Then, be certain that you have identified the report from the new system (or query) that will be used to test the conversion. Depending on the amount of data, you might want to use a sample or go one by one. If you are converting payroll master records, do a one by one validation.

3. **Clean up your data** – Do not dump all your old data into the new system. Look for records with no transactional data, or at least no recent transactions, incomplete, inactive, and duplicate records etc. Do note that this clean up might take time, and therefore, it will increase the project cost.

So, if you are going to clean up data, make sure you allocate a specific budget for this task. You might want to treat this as a separate effort and not consider it part of the project's budget. Sometimes this is one of the project's biggest cost and is not an intrinsic project task, cleaning data should be a normal process within any company's operations.

With regards to transactional data, the question is, how far to go, if any. Bear in mind that data conversion is very costly, because it is very complex. Also, transactional data has many relationships. For example, when you convert invoices from suppliers you also need to convert payment checks, and therefore, you have to make sure they are applied to the correct invoice. You also need to convert credit and debit memos.

If you set up your system to require a three-way matching, the conversion process might require the conversion of all purchase orders, as well as receipts. Then, this will impose a lot of work on your service provider and you should not underestimate the workload on your team that has the ultimate responsibility of testing the conversion.

As a general rule, you should focus on converting open items and making sure that your team has a way to access historic information via reports from the legacy system. Certainly, if you are converting customer

transactional data is different, you need to weight in the impact on your customer service efforts.

## **6. Phased approach – how much can you handle?**

Most companies do not realize how long it has taken them to use and master the technologies and processes they currently manage. I often ask prospects and customers how long have they used excel and how knowledgeable are they in that technology. Most of them have been using Excel for more than 15 years, and do not even use half of its functionality. Same happens with new technology, it will take your team a long time to use all the functionality in them. Thus, when planning an ERP implementation, make sure the system has the functionality you will need for the next five years, but scope the project in phases, and make sure the first phase is something you and your company will be able to absorb. Some prospects ask me how fast can I implement x or y technology and I tell them, you are asking the wrong person, you are the one that needs to answer that question and be very sincere in your response.

So, when engaging in an implementation of this nature, ask yourself, does my team have the skills to adopt this new technology? Do they have the time to participate during the implementation in order to become experts? Do they have the right attitude to help me achieve the project objectives? And based on those responses, you should ask the one thing you can control, have I adequately scoped the project to balance objectives vs. change tolerance?

Work closely with your service provider is determining the project scope, they will be a good sounding board.

## **7. The manufacturer or the partner**

When evaluating technology, some companies are confused by the fact that the software manufacturer more often than not, does not engage in the implementation process of their technologies. In some instances, companies procuring software decide to deal only with software that is implemented by the manufacturing company.

I have worked for both, the consulting divisions of software companies as well as with their service partners. One thing I have learned is that software manufacturing companies are not consulting companies, and therefore, more often than not, they are not as good in services. Thus, I



am not saying that consulting divisions of software manufacturing companies should be completely discarded, but what I am saying is, always consider a consulting Implementation partner when assembling your team.

#### **8. Engage with someone I can sue, really?**

This is like getting into your first marriage with a prenuptial agreement. If you are thinking that your project will end up in litigation, you are not doing your job right. This means that you have not documented your requirements adequately, nor have you evaluated the technology and your implementation partner qualifications sufficiently. Had you done so, you would know for sure the probability of success of your project. If such probability is not high enough, then you should not be signing any agreements. Also, when you engage with a large Corporation, like Sap, Microsoft, or Oracle, thinking that they have deep pockets to pay you in case anything goes wrong, then you are completely wrong. These companies have deep pockets to defend themselves from you, not to reimburse you the money you already gave them.


You should, however, evaluate the financial capacity of the company you are engaging with, not because you will sue them, but because you want to make sure they are in for the long run, because most likely the technology you selected will be critical for your operation and will be with you for a long time. Remember what I said before, you should look for a 50/50 project responsibility ratio. In that scenario, you could end up suing yourself!!

#### **9. Localizations**

Localizations are those country related features that a software must have to comply with the regulations of the countries where your company operates. Typically, localizations have to deal with taxes. If the manufacturer does not have these as part of the supported product, what ends up happening is that a local implementation partner develops the functionality and sells it to the customers, look for those. When evaluating a software, make sure it complies with all regulations. If it does not, it doesn't mean you shouldn't buy the technology, just make sure your implementation partner understands the requirement really well and estimates you the cost of building the solution and the time frame.

This is the time when you might want to bring a third party into the equation to make sure the estimate is realistic and that the customization

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can be developed on time and on budget. Make sure that this particular issue stands out as a negative in your evaluation sheet.

## **10. Customizations**

A customization is an adaptation of the software that requires actual coding. Most “of the shelf” applications are very flexible, and flexibility is achieved by setting up parameters in a software rather than custom coding the solution. If you are buying an ERP, you are buying a mature software.

There are thousands of ERP’s, and most of them have been out there for decades. Therefore, there should not be a need for customizations. Thus, if you found a feature lacking in the ERP that you are evaluating or perhaps that you already selected, think twice before starting to code.

Here are some examples:

- A. You are probably asking for something that is not needed in the new technology. A few years ago we were implementing an ERP in a services company that required a robust solution for project accounting. We were replacing a custom made software built by the client. The client wanted the new solution to generate project numbers using a very complex rationale. They wanted the project number to include customer number, project date, and a random number. Our consultants explained the customer that the out of the box software did not have such functionality and that the system generated a sequential number for every project. The customer insisted and was very adamant about the requirement. After wasting a few days, the issue was escalated to me. I visited the client and asked why they wanted this feature. They said that it was very important because it was a way to easily query the project in the system. What the customer did not know was that in the new ERP you could search projects not only for date and customer number, you could search by customer name, project name, project manager etc. When that was explained to the customer, they realized that such requirement not only was not needed, but that the new software had much more functionality than what they expected.
- B. The consultant probably does not know that the feature exists and is too lazy to search for it. If the feature you are asking is a common one in your industry, and inherent to the process you are automating, do



not settle for a no. Make sure you and your consultant researched enough before proceeding with custom coding.

A year ago I was playing a PM role helping a friend implement an ERP. The technology they were implementing is from a global company, used by thousands of customers worldwide. We were automating the procurement process and wanted a feature to accrue for contracted services rendered but not invoiced, similar to a common functionality available in most ERP's when receiving inventory in a warehouse, in which the system will accrue the liability based on the PO price and the quantity received. We proceeded to ask the client super user for the feature and guess what, we received the most common answer you get when implementing a software, the answer that you never get when buying the software, she said: "the system doesn't have that functionality".

I had been trained in the solution and even though I was no expert, I knew such feature existed. So, I went to Google, researched it and voila, found a perfect description of how to implement the functionality. So, never settle for the common phrase "the system doesn't do that".

- C. If the system does not really do exactly what you want, then try to settle for the famous "Work Around". This refers to a solution similar to what you need, but that can be configured in the application without the need to custom code it.
- D. If you still think you need the solution exactly as you are requesting it, and it is vital to your business, then make sure your implementation partner follows the manufacturer's guidelines. This is very important because you do not want this customization to interfere with future upgrades nor to invalidate your support agreement. Also, make sure you know how this customization will be supported in the future, as most probably as not, it will be supported by your implementation partner rather than through the manufacturer's standard support practices.
- E. If the customization is needed and cannot be performed following the manufacturer's standards, this is a sign that you probably bought the wrong solution for your business. This is when you might want to abort the project and cut your losses.

## 11. Retain your talent.

Being technologically savvy nowadays is synonymous of better pay. Therefore, the employees you assign to a technology project will be more valuable to the market once the project is completed. Now more than ever, resources are likely to be noticed by other employers because you have to assume that once the project is completed they will update their LinkedIn profile. Thus, make sure you adjust the compensation of those that you want to retain according to their new value on the market.

## 12. Change management

An ERP, or any technology implementation is all about change. It is about transforming the way a company operates, and therefore, since you are transforming the way human beings are behaving, you must manage the aspect of change in the project. Implementation consultants have a priority, and that is that the technology they are implementing works as per the established requirements.

That job alone is difficult enough to occupy any consultant full capacity. Training is a secondary priority and making sure people actually learn is not only a lower priority but sometimes a job some consultants are not able to do, because they are not teachers. Thus, having a change management person or team in the project will save you a lot of headaches.

A change management consultant is an auditor like figure that focuses on monitoring the human related project risks. This person will interview end users and team members during the implementation process to understand their commitment to the project, their concerns, their learning capabilities, and if in fact they are learning. This resource is the right hand of the project manager, letting him know what the findings are and plans to tackle a risk before it becomes a problem.

Back in 1999, before the Y2K, when I was implementing an ERP at a large Government Corporation, our Change Management person identified a potential risk due to the new integrated process we were implementing. The manual procurement process did not have any impact in the Corporation's books before the invoice processing part and even then, the accounting was controlled by an accountant. The new process would have an impact in the books even when a new requisition was processed and the accounting was going to be determined, indirectly by the requestor. The process did not involve an accountant because the

system would generate the accounting transactions based on the information in the requisition.

For example, the account was going to be generated based on the requested item and the cost center based on the requestor. She thought it was very important to explain the group not only the new process and how to interact with the system, but explaining the accounting impact occurring behind the scenes and the need to process transactions with the upmost carefulness. The seminar was a huge success and helped us minimize accounting errors that would have resulted more difficult to solve at month end close.

### **13. Project Management**

There has got to be a project manager from both sides, the customer and the implementation partner. There is a huge fuss about the Project Management Professional (PMP) certification and I honestly think it is very good that it exists, because it can validate someone's expertise on the matter. However, I do think that the PMP alone does not give a person the capacity to manage any kind of project. To me, a project manager must be a subject matter expert in the functional area being addressed by the project. For example, an ERP project manager must be an expert in accounting processes before being a PMP. Make sure your PM is an expert in your process, then train him/her in project management.

Another good approach is to include a PMP in the project to help your project lead. The point is that the ultimate responsible for the project must be the functional person that will be using the software after the implementation, even though he/she's not performing all the PM functions.

Nevertheless, the most important thing when managing a project is your weekly progress report. In it make sure you document your weekly progress, next week's plan, and your risk and problem log. Remember that risks are those things that are not yet a problem, but if not managed, will become one. Progress reports are completed by both parties, the customer and the consulting company's PM.

### **14. Sponsorship**

It is important that top management becomes an integral part of the project. A steering committee that meets regularly, follows up on the progress, and makes timely decisions when risks are reported. This

makes all the difference in the world. Also, steering committees make sure that the project has the right direction towards meeting the goals above anything else, they keep the strategic focus in place.

Likewise, these meeting are like receiving friends and family in your home, for that day you make sure your house is sparkling and you complete all those pending projects. For steering committee meetings, PM's will clean the house and make the time to separate from the day to day routine, and analyze the project from a holistic point of view.

## 15. Chart of Account Design (COA)

This is the heart of an ERP. Make sure your services partners know what they are doing because if you designed it wrong, you will suffer the consequences for a long time. The first thing I explain to my customers is that a chart of accounts serves three main purposes; compliance, accountability, and profitability. Compliance typically refers to tax and legal reporting. You need to make sure the COA you design captures data in such a way that it will facilitate your legal and tax reporting at month, quarter or year end.

For example, you might have taxable and exempt revenues as well as some expenses that are partially deductible. When designing your COA, segregate those transactions making sure those amounts follow through your compliance reporting smoothly, without the need to look for detailed information that might put you and your team in additional stress to meet the deadlines.

Same happens when your company belongs to a regulated industry that needs to report to a regulatory body in a different way than what your management team is expecting, either because the way revenues and expenses are grouped or because of a difference in accounting principle.

About accountability: the obligation of an individual or organization to account for its activities, accept responsibility for them, and to disclose the results in a transparent manner. In my opinion, this is the most strategic aspect of an ERP implementation, because without accountability, a company cannot scale beyond the tentacles of the owner. Thus, for a company to grow, it must design a chart of account that enables it to capture costs mimicking the company's accountability model.

In other words, the COA must have a cost/profit center structure that can be tied to the individuals making decisions in the company. Ideally, these

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individuals are part of the Company's budgeting and planning process, and therefore, are committed to achieving specific goals while controlling the resources that have been assigned to them (or requested by them). Consequently, when designing the COA, look for your organizational chart and identify those positions that are decision makers that have an impact on revenue and/or expenses. These are typically approving authorities within your procurement process for expenses. From a profit center perspective, these are the positions in charge of preparing and committing to forecasts. Once identified, you should prepare a mapping table identifying the relationship between the accountable positions and the cost center member (or combination) that represents it in the COA.

About profitability; for purposes of this document, profitability means measuring a company's ability to generate profits from a perspective more granular than the total company; such as product, customer, market, line of business etc. Thus, considering how to scale a Company and making important decisions, one must understand how a company generates revenue, and therefore profit while taking into consideration how often management will require information to make decisions.

I always recommend companies to sit back and think about their strategic objectives. For example, for a company that only sells one product and whose strategy is to expand geographically, monitoring each market's profitability will be more important than to a company whose plans is to diversify its product offering in a specific market. For this second company, product profitability is more relevant.

Now, bear in mind that incorporating profitability management into your COA is only adequate if you need to monitor such profitability very frequently, and that you can reasonably allocate many direct and indirect costs to it. The idea is to generate a full profit and loss for every element to be monitored. Thus, if you are only monitoring sales and cost of sales of a product, you might be able to get this information from a report in your sales subsidiary, and therefore, there is no need to incorporate such a complexity in your COA. If on the other hand, you can assign costs such as sales, payroll, rent and depreciation among other, then it is reasonable to incorporate the profitability model in your COA.

## Bottom Line

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In summary, an ERP implementation will always have challenges. You have to consider that you are trying to change processes and systems that have been in your company for months or even years. This is very disruptive. Surround yourself with experts that will be with you through the process. When I mean experts, I am not talking about companies, I am talking about people. Make sure that the people that sold you the system are the same ones that will be implementing it with you.





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