

THE 10 BIGGEST MISTAKES TO AVOID WITH YOUR ERP PROJECT

HOW TO SCALE THE MOUNTAIN

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EXECUTIVE SUMMARY

STARTING OFF ON THE RIGHT FOOT

Executing a major enterprise resource planning (ERP) project has been compared to scaling and reaching the top of Mount Everest. Many potentially overwhelming obstacles exist to thwart such a project. The conventional wisdom holds that many ERP projects fail to meet expectations. Either they don't deliver tangible business benefits or, even worse, they threaten the economic viability of the company.

Hyperbole? Perhaps, but it underscores the enormity of the pitfalls that can impede ERP efforts to integrate internal business processes efficiently and ultimately, produce a disappointing – and costly – outcome. And, while faulty technology often is blamed, other shortcomings usually spark performance-related issues. One typical problem is that the people employing the ERP application really don't fully understand what it is or how it works.

The CEO must appreciate that the ERP implementation is not merely a technical solution, but a business and organizational one as well. Toward this end, the CEO should actively recruit first- and second-level managers who will embrace the new way of doing things and commit to helping the program succeed.

Certainly, obstacles exist. But the journey still remains highly desirable, since execution of a successful ERP project provides the backbone for a company's internal and external operations – from integrating back-office financials with business performance data to building a launch platform for the extended enterprise and collaborative commerce. This foundation can serve as the competitive weapon of the future.

What can help is a road map, of sorts – a list of useful advice that can circumvent the forces of failure that frustrate many ERP projects. Of course, a “cookbook” doesn't exist that produces a perfect project every time, but following some key lessons learned through experience can smooth the path. What follows is a list of the top 10 mistakes to avoid in implementing ERP software – perhaps similar to the tips an experienced Sherpa might develop for that fearless mountain climber.

AN ONGOING JOURNEY

TAKING THE LONG VIEW

Mistake 10: Believing the Journey Is Complete Too Soon

Treat the day your ERP project goes live as the start of the next phase of your journey, not the finish. An ERP implementation represents much more than simply a project. Typically, your upfront investment is large, but the life expectancy of the application should lie somewhere between 10 and 20 years. You've already established your team and devoted 15 to 30 months to bringing the project to its launch date. So why would you disband the team a month after the project goes live?

It's like starting up a major chemical plant that took three years and a huge investment to build, only to dismiss the engineers the day after it starts up. Naturally, those engineers would nurture that plant for years to come. By retaining a subset of your installation team, you can empower its members to enhance the ERP application, handle bottlenecks, tweak and improve the system, look for continual productivity gains – and learn. This smaller team should comprise both business and technical personnel.

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Mistake 9: Not Planning for an Initial Performance Dip

Most ERP projects change a significant chunk of a company's IT backbone. It's not unusual that a project replaces the systems that have been used for half of a company's back-office transactions – and it may affect as much as 90%. And this project is not just a major technical shift. It usually represents a major change in business processes, culture, staff training, and the business environment.

All of this change is why a dip in performance invariably follows an ERP project going live. Research shows that even projects with the smoothest execution suffer a drop in performance after the new system launches. Transactional efficiency, for instance, might fall from 98% to 90%. The pace of taking sales orders may slow down. Or the speed of pushing products into the warehouse may decline a bit.

Of course, you must try to minimize this through strong and careful planning, testing, education, and risk analysis, among other things. While performance is very likely to suffer some at the outset, excellent execution can mitigate this effect.

Mistake 8: Focusing on Quick Business Hits

Today, every chief executive officer must deliver results now, not 15 months from now. Given the challenges of a full ERP implementation, it's difficult for them to promise their board of directors that the ERP project will deliver savings of such-and-such amount within 24 to 36 months. Shareholders want to see the return on investment now.

The challenge here involves scoping and sequencing the ERP implementation to maximize rapid business payback without jeopardizing the overall power that ERP integration promises. Many ways exist to accomplish this, and a good integration partner can offer advice.

Mistake 7: Starting Too Late to Address Data Quality

Your ERP investment will be substantial, but remember: these systems are only as good as the fundamental data that enters them. And that's where a common problem erupts. Far too often, research indicates, companies begin to focus on the quality of their data too late in the project.

Start thinking about your data on the day the project begins, not two months before the application goes live. It takes time to determine the new data standards you will employ, as well as to cleanse and transfer all the existing data. Taking this approach ensures that valuable information about customers, vendors, or accounts is consistent with how you want to run your business going forward.

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It's not unusual for a company's vendors to have more knowledge about its purchasing patterns than the company does itself. That can change with the technical power gained from an ERP implementation. Suppose you're buying products and services from a major chemical manufacturer that supplies your needs in 32 countries. Your ERP implementation can enable you to identify your own purchasing patterns and thereby be in a better position to negotiate price discounts. But this will work only if your data is consistent, up-to-date, and accessible. You must also plan carefully how this data will be managed and updated to ensure continuing accuracy after startup. Often a completely new data management organization may be needed.

TOP TALENT FOR TOP-NOTCH PERFORMANCE

DEDICATED RESOURCES AND STRONG GOVERNANCE

Mistake 6: Underskilled Project Team Staffing

Project staffing can be a major challenge. You need top-notch talent for these projects – not just technical standouts but stellar performers from the business side as well. Indeed, if you have to trade off in terms of quality in one area, never skimp on business talent. You can rely on a consultant for skilled technicians.

The “A” players should encompass senior program managers as well as the most junior members of the team. Don’t enlist Joe and Joan Doe simply because they don’t have anything else to do at the moment.

Your best staff members undoubtedly are busy with other assignments, and some of the larger ERP projects can involve 200 to 300 people. But in fact, it is easy to justify this approach. You’re investing in their careers and the company’s future success. By the time the project goes live, you will have immersed your best talent in the new strategy, the new business processes, and the new operating system. You’ve created a tremendous inventory of exceptional talent – and you will realize firsthand that your best projects succeed when the team members are your stars.

Mistake 5: Lack of a Dedicated Senior Governance Council

Any major ERP project overhauls a great many business processes, roles, responsibilities, standards, and data definitions – and these are changes that cannot be pursued from the bottom up. An effective governing council is essential, as is a single dedicated and effective executive sponsor to serve as chair. The project is sure to trigger some contentious issues, and a senior executive who is accountable can make tough decisions and see that the governance council understands and accepts them.

In some companies, the governance council meets just once a month for an hour or so, essentially to get progress updates from project management and give encouragement to the project manager. A far more effective model is a group that takes the time to be actively involved, understanding and guiding the project, making key decisions, resolving issues, and shaping the future of the company. A vast difference exists between the two.

On the business side, the chief financial officer is usually a good choice to serve as the senior executive. The CEO can also play that role well, especially if the project is a major business transformation critical to the company’s future success. If the thrust of the ERP project affects sales and distribution, the senior vice president for sales and marketing might be the right person to take charge. In any event, the project’s executive “angel” must be from the corporate suite, and preferably is not the chief information officer. Unless the CIO happens to be an exceptional business manager and makes sure to involve senior counterparts, chances are that the other executives will not get involved and the project will turn into the mission purely of the CIO and technical staff. The CIO should obviously be highly involved in the project, but not be the executive sponsor.

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Mistake 4: Ignoring the Counsel of Your Systems Integrator

It's always surprising to learn that a company has spent considerable time and money to select a strong systems integrator (SI) and then does battle with the SI every step of the way. Why seek out this expertise if you constantly question the consulting partner's input or suspect that its recommendations simply reflect a desire to generate more revenue? An SI should serve as your eyes and ears. While this project may represent your first or second experience with a major ERP implementation, the SI has probably worked on hundreds of similar assignments. Mutual respect and a partnership approach are essential for the project to succeed – and that includes the software vendor. By the same token, you should avoid working with an SI that assumes that the client is ill equipped to offer worthwhile input and takes responsibility for everything.

In selecting an SI, a company should:

- Consider compatibility. Do you want a firm that wants to come in to do it **to** you rather than do it **with** you? Some SI firms favor a teamwork approach, while others prefer to hand you your marching orders. Determine which approach best fits your firm's culture.
- Clearly look at the SI's track record. Look beyond its marketing messages, query your software vendors, and consult industry analysts.
- Spend considerable time getting to know the members of the team who will be working with you every day. Be sure to include language in the contract that binds the team leaders and one of the firm's partners to be involved with you for the project's duration.

CULTURAL CONSIDERATIONS

KEEPING THE PEOPLE FACTOR IN MIND

Mistake 3: Bad Fit Between Solution Shape and Corporate Culture

In the 1990s research found that many companies expected an ERP project to be the silver bullet that would solve all their problems – even if the “style” of the solution wasn’t compatible with their corporate culture. For example, an executive might express the desire to operate in a globally centralized fashion, with the strength and discipline of a global head office. However, this doesn’t work if your firm’s culture is one of decentralized entrepreneurship. You can’t use technology to force this kind of change. Instead, the best option would be to install a decentralized ERP application or recognize the enormous change-management mountain you face.

As another example, let’s say you’re consolidating 93 warehouses into six, and the ERP application is “expected” to make that happen. Technically, ERP can support that consolidation. But this isn’t just a technical process; it’s a business undertaking that involves people. It’s essential to appoint someone who can drive the change in attitudes to enable the organization to understand and take a positive attitude toward the initiative.

On the other hand, if a CEO has a mandate to overhaul the company and its culture, that’s a different situation. Still, the CEO must appreciate that the ERP implementation is not merely a technical solution, but a business and organizational one as well. Toward this end,

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Mistake 2: A Technology Focus, Neglecting Change Management

Don’t misunderstand: the ERP technology must work. But keep in mind that 30% of the challenge of an ERP project relates to technology, while people and processes represent the other 70%. Few of us really like change, and when an organization is moving to ERP, things will most definitely change. At the minimum, an employee will need to work with a different computer screen; at the maximum, the employee’s entire life will undergo a seismic shift.

The new technology brings integration of information and processes, and generally makes information available instantly. For example, when raw material arrives at a company’s receiving dock and is scanned into the system, anyone can access that information and use it. When a product becomes a fin-

ished good and is entered into the system either automatically or manually, that product becomes available immediately for sale; an employee has instant access to that information.

Real-time integration and accurate data change people’s jobs. A traditional sales-order-taker can change into a full-service customer agent. For example, with full online access to an integrated ERP backbone, the agent enjoys immediate access to the customer’s history and other vital identifiers. The agent can examine real-time open inventory at all warehouses (not just local) and future production schedules. The agent can freeze and commit from this schedule to the customer’s immediate needs, among other things. Thus, it’s critical for senior management to recognize that the new ERP technology should affect many people, their training, and the processes they use.

A CRUCIAL ELEMENT: THE BUSINESS CASE

HOLDING MANAGERS ACCOUNTABLE FOR REALIZING BENEFITS

Mistake 1: Lack of a Solid, Approved Business Case

Since an ERP project will no doubt take a minimum of 12 months and as long as 36 months to employ, and typically costs between US\$5 million and \$50 million out of pocket, stamina is essential. So you must be absolutely certain why you're embarking on this journey; that is, have a solid business case.

At the same time, without a solid business case for the project, you are unlikely to get the commitment from the entire business team to make the journey successful. Many companies pursue an ERP implementation not simply to cut technology costs; in fact, in some cases total technical costs may well increase. More often, the project is undertaken for broader business reasons. If the justification is not clearly expressed, fully understood, and approved in both qualitative and quantitative terms, members of the senior executive team are unlikely to give their full support.

And that business case should be a living, breathing document that explains how to derive the original business benefits and is regularly updated to define how business benefits can be achieved over, say, the next 20 years. It must outline how to track the benefits the application will produce. It must be

a tool that the CEO uses in the annual operating budgets, incorporating the cost reductions and revenue increases that represent the commitments of each vice president or business unit head. The business case must be used to hold senior and middle executives accountable for the goals so that the anticipated bottom-line benefits are realized.

This type of discipline is still relatively rare, in part because many managers don't expect to be around long enough to see the project through for that length of time. And it's surprising how many major companies will complete a business case for an ERP project, submit a capital appropriation request, and get it approved, only to park the business case on the shelf to gather dust while the project proceeds.

But for an ERP project to succeed, it is critical that this business case is documented and becomes well worn. Just

how vital is it? So much so that it is number one on this list of mistakes to avoid.

Remember that technology alone cannot help you reach your business goals. Think, for inspiration, of that momentous day in 1953 when Sir Edmund Hillary of New Zealand and Tenzing Norgay of Nepal became the first human beings to reach the pinnacle of Mount Everest, the highest place on earth. It wasn't fancy technology that got them there; their equipment was relatively primitive. They succeeded because they learned from the mistakes of so many before them.

Implementing a successful ERP project may not be as physically difficult as scaling Mount Everest, but the consequences of failure might be dire to your business. Avoiding these 10 costly ERP mistakes will safeguard your project along its way.

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