ERP - PANACEA OR POISON?

ERP is without doubt one of the technology 'stars' of the last 20 years. We no longer debate the value of buying into an end to end – all pervasive – technology from a single supplier; for most organisations it's taken for granted if they can afford it, the value being assumed, often without much proof.

Of course, ERP does provide unrivalled productivity improvement in specific areas; enforcing integration, handling data and displacing labour, but many organisations fail to get the underlying productivity boost they'd hoped for.

In fact, many say that their investment in ERP has not paid the predicted dividends, a situation worsened by cost overruns, a common feature of many ERP programmes.

This is echoed across many organisations. Whilst observing point-improvements in labour efficiency, their overall productivity appears to reduce following an ERP investment – especially so regarding productivity measures which take into account capital employed or return on assets other than labour. So what's going wrong – why isn't ERP as beneficial as we think it is and what can we do to avoid the pit-falls?

The 2007 NAO (UK National Audit Office) survey of Shared Services (all enabled by an ERP technology backbone) found that not only had all major programmes over the preceding 5 years suffered significant cost overrun, all had failed to materialise the predicted benefits, some having the effect of diluting the organisation's overall productivity. On average programmes were only able to verify around a quarter of the net productivity improvement ascribed in the business case.

Bringing clarity to YOUR CONCERNS

"In this article we've looked at ERP in a number of ways. If you're considering adopting ERP then we've provided 10 suggestions that from our own experience, will significantly improve your chances of success. If you've already implemented ERP and have concerns over the success you've achieved, then we've suggested 3 areas that may resonate with you and which may help bring clarity to why you have those concerns, together with some observations about what you can now do to make improvements.

Of course, if you have not implemented ERP and are not thinking of doing so, the points brought out here apply to a significant degree to any large technology-enabled change and therefore, we hope they are interesting to you also."

10 POINTS TO BEAR IN MIND WHEN IMPLEMENTING ERP

ERP HAS A VALUABLE AND VITAL PART TO PLAY.
It goes to parts of an organisation other technologies fail to reach, and can be the enabler of significant and lasting transformation – but there are pitfalls to avoid.

These top 10 tips may help.

1 Understand your ambition

Understand the ambition you have for ERP and use this to firmly set scope. If your prime need is to automate the back office for low cost – don't get pulled into a wall-to-wall technology replacement requiring full supply chain integration (yet!).

2 Make ownership and accountability clear

The closer you delegate ownership for ERP outcomes to line management, the better control you will have on cost and value – and eventual productivity improvement.

3 Make the economics add up

Scrutinise the business case and make sure it is based on long term cost of ownership, has adequate contingency built in (>30% contingency at start, >15% at UAT and retain >10% for immediate post live support), model version and upgrade costs – if the numbers stack up then proceed with confidence.

4 Re-engineer

ERP benefits will only arise if you re-engineer how your organisation and your people work – and help them though the change. Automating the 'as is' is a waste of time – re-engineering needs to include structure, relationships and data.

5 If the ambition allows – don't ignore high value components or quick wins

Consider non-traditional ERP components from the start – self-service, mobile, big data, social media – adding these can directly enhance productivity, adding them later may be problematic and expensive.

6 Select the right product and partner

Decide if you are buying a configurable or pre-packaged solution and accept the significant restrictions of each. Select the right partner and contract appropriately, accepting you can't fully contract out risk, select someone you can work with in good and bad times, challenging them to use their experience to reduce complexity and risk. If you're told it's not possible, challenge them again.

7 Believe in the methodology

Plan the whole project in an integrated way, enhance the business and people change components of the standard ERP methodologies, avoid agile if you can and extend the plan to a period of post implementation support and stabilisation. Carefully consider alternative landscape and implementation options as they have fundamental differences in planning, people and costs.

8 Never enhance the product

Understand the product's features and capabilities intimately, use expert help for this and always change the organisation, not the system. Understand the restrictions and implications related to adoption and the significant effect on people of this constraint.

9 Test, test, test

Don't compromise on a proper 3-cycle (at least) testing regime – unit test (UT), integration Test (IT) and user acceptance test (UAT), with roll back at UAT – focus testing not only on functional performance, but realising productivity improvement. Prioritise test quality ahead of schedule delivery.

10 Build an internal capability

Not just for the project but for life! – to avoid cost lock in and dependency on expensive consultants.

PLAN THE WHOLE PROJECT IN AN INTEGRATED WAY

3 REASONS WHY POST-ERP, YOU MAY BE DISAPPOINTED

Many organisations are surprised that in their post-ERP world; even if more integrated, more automated and less labour intensive in specific areas, their business works less well overall. There are three main reasons for this;

1. Moulds like putty, sets like concrete

ERP provides a comprehensive, but rigid business model – founded on dated finance and manufacturing transaction processing and not supportive of progressive and dynamic ways of working for emerging businesses. Adopting rigid processes, straight 'out of the box' can be efficient for point-automation of processes, but isn't responsive to rapidly changing needs. Once configured you're pretty much locked in.

ERP provides a limitation to business re-structure in the medium term. For example, due to merger, acquisition, carve out or divestment. Situations often arise following a re-structure where ERP services need to be provided under some form of transitional arrangement that can be expensive and complex to administer. This adds cost and complexity to business change, diluting productivity during an extended period of transition.

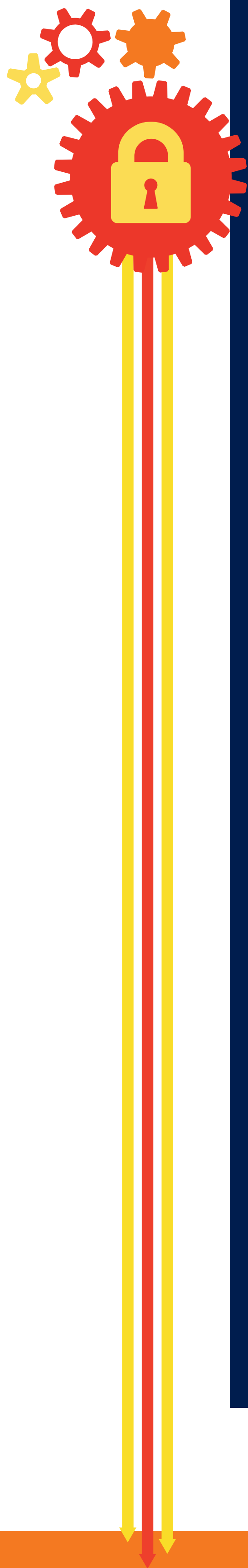
Despite offering connection to the outside world via well-established standards, most ERP's feel very 'closed technology' – just try integrating to a significant external component. The use of proprietary standards can prohibit, or at least make expensive and complex, integration with partners and their supply chains. This also raises life cycle costs of ownership.

2. Behind the curve

The long development and release lifecycle for major products such as SAP and Oracle prohibits the latest functionality being widely available across the product's scope. Currently available versions offer functionality that is by definition out of date.

Additionally, the 'one size fits all' approach of major packaged solutions can offer only homogenised functionality, which does not by definition provide competitive advantage. This may restrict the use of niche or specific industry functionality where needed, and inhibit productivity improvement based on innovation.

An example of this is the 'clunky front end' provided by most major ERP packages – compared to the intuitive way we use technology generally in our lives. A clunky front end is generally predicated on satisfying back end needs for comprehensive and accurate data. It often leads to poor rates of user adoption and acceptance, misuse of the facilities provided and consequent dilution of personal productivity. *(continued)*



HOW DID WE GET HERE?

It's useful to reflect on the reasons we may sometimes pursue an ERP strategy regardless of clear, demonstrable proof of productivity improvement.

The influence exerted by ERP providers and analysts shouldn't be underestimated. Business has become more complex, and keeping pace with technology an increasing challenge – the adage 'no one got sacked for buying…' applies equally to an all-encompassing ERP technology as the major IT suppliers about whom it originated. Buying an end to end technology solution 'out of the box' is attractive and on the face of it risk reducing; removing us from having to deal with the nitty-gritty of architecture, design, integration and development, allowing us to focus on more important things.

The marketing machine engaged by the big ERP suppliers is impressive. Companies larger than most of their customers, they make a very compelling case and it's easy to get excited about the level of integration, streamlined processes and automation on offer.

The role of consultants can't be ignored – most unable or unwilling to provide truly independent advice as to the real value of ERP, and the pit-falls, as most offer implementation and outsourcing services and therefore have lots to gain from a decision to invest in ERP.

All in all we face a heady mix of influence and incentive to embark on ERP programmes and follow a well-trodden path, often leading to problems.

3. Hard to live with

ERP is a capability that can be hard to live with. Notwithstanding the unpredictable expense often arising in the delivery of projects, and high follow on cost (diluting most measures of asset based productivity (e.g. ROCE)), it can also be highly disruptive in both the short and long term.

The pain of changing to a new way of working, a high failure rate requiring re-work (>60% of ERP projects fail in some way) plus the need to upgrade and manage patches regularly can significantly disrupt the business calendar and absorb scarce resources.

More importantly, adopting an ERP model of working can expose an organisation's processes and data to microscopic scrutiny. Productivity may fall as an organisation seeks to come to terms with a new, more robust and integrated way of working.

The highly integrated cross-functional processes that help drive process standardisation, especially when tied to operations, mean a high level of dependency on the ERP system, which introduces risk especially if not fully understood.

The resulting complexity of the ERP solution requires significant ongoing investment in solution control and governance to ensure that the ramifications of any business change, however small, are fully understood.

A fault in the ERP design and implementation can stop operations at significant cost. A change to the integrated ERP processes can lead to unintentional downstream impacts.

The ERP model doesn't suit everyone.

WHAT'S THE PROGNOSIS?

ERP is alive, well and in rude health – and despite some infectious traits that can challenge the long-term fitness of organisations it supports, it's going to be around for a while yet.

The common pitfalls that can contribute to a dilution in overall productivity following an investment in ERP are mostly understood and accepted. All can be reduced or avoided with a greater awareness and some preventative action. The ten top tips (above) may help identify the necessary steps.

IF YOU'VE ALREADY IMPLEMENTED, WHAT'S THE BEST WAY FORWARD?

ERP tends to be in a constant state of change, enhancement and version control, so the tips can still work if applied incrementally to each tranche of further development and enhancement, and especially so in the case of a major component upgrade (happening every 3 – 5 years), at which time a lot could be re-jigged and improved by way of optimisation.

In particular, tip number 6 (partner selection and contracting) and 10 (building internal capability) apply pervasively outside of the development of any particular project.

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