

# The Top 10 ERP Mistakes

## Avoiding these pitfalls puts you a long way toward your ERP goals

by Clive Weightman

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.

Is this mountain-climbing analogy hyperbole? Perhaps, but it underscores the enormity of the obstacles that can impede ERP efforts to integrate internal business processes efficiently and, ultimately, lead to a disappointing — and costly — outcome. And, truthfully, while faulty technology often is blamed for the problems, it is frequently other shortcomings that create performance-related problems — such as the people employing the ERP application don't fully understand what it is or how it works.

Certainly, obstacles exist, like those facing the bold mountain climbers, but the journey remains highly desirable because 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 an 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 help foil the forces of failure that frustrate many ERP projects. Of course, a "cookbook" doesn't exist that produces a perfect project every time. Still, ignoring the advice of veterans almost certainly will trigger failure. So, what follows is a list of the Top 10 mistakes to avoid in implementing ERP software — perhaps, in a way, similar to a list an experienced sherpa might develop for that fearless mountain climber.

## Top 10 Mistakes

### 10. Believing the journey is complete at "go live."

Treat the day your ERP project goes live as the start of the next phase of your journey, not the finish because 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 years and 20 years. You've already established your team and given it 15 to 30 months to bring 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 millions of dollars 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, its members can enhance the ERP application, handle bottlenecks, tweak and improve the system, look for continual productivity gains — and learn. This subset should be made up of both business and technical personnel.

## **9. Not planning for — and minimizing — the interim performance dip after start up.**

By and large, most ERP projects change a significant chunk of a company's 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 percent of them. And it's not that this is just a major technical shift. It usually represents a major change in business processes, culture, learning, and the environment.

That's why a dip in performance invariably follows an ERP project going live. Research shows that even the projects that have gone the smoothest in the execution stage suffer a dip in performance after the new system launches. Transactional efficiency, for instance, might dip to 90 percent from 98 percent. The pace of taking sales orders may slow down. Or the speed of pushing products into the warehouse may decline a bit.

You must, of course, try to minimize this through strong careful planning, testing, education, and risk analysis, among other things. Still, recognize that performance is going to suffer some at the outset, but with excellent execution, this effect can be very slim and very short.

## **8. Failing to balance the needs and power of integration with seeking quick business hits.**

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

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

## **7. Starting too late to address all things data (architecture, standards, management, cleansing, and so on)**

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 think about the quality and accuracy of their data too late in the project. The consistency and accuracy of your data is critical.

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. This ensures that valuable information about customers, vendors or accounts is consistent with how you want to run your business going forward.

For example, it's not unusual for a company's vendors to have more knowledge about the company's purchasing patterns than it has about itself. Suppose you're buying products and services from a major chemical manufacturer that supplies your needs in 32 countries. If this company is well run, it probably knows more about you and what you're buying than you know about such purchases. Your ERP implementation can give you the technical power to change this and get the upper hand so that you can push for a further 10 percent discount on price. This works, though, only if your data is consistent and up-to-date and you have instant access to it to make that case for a price break.

## **6. Failing to staff the team with "A" players from business and technical sides of the organization, including program management.**

This can be a major challenge. You need top-notch players for these projects — not just technical stars 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 perhaps trade off on technical expertise because the consultant you retain can bring in skilled technicians.

And the "A" players should encompass program managers to 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. This part can be difficult because your best staff members undoubtedly are busy with other assignments and because some of the larger ERP projects can involve 200 to 300 people. But you must free some of your very best players for this project team.

It is easy to justify the use of this top talent. You're investing in their careers and the company's future success. Understand that by the time the project goes live, you have immersed your best talent in the new strategy and the new operating system for your company. 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.

## **5. Starting without an effective and dedicated senior governance council, including a single executive sponsor.**

Any major ERP project overhauls a lot of business processes, roles, responsibilities, standards, and data definitions — and these are changes that cannot be pursued from the bottom up. An effective governing council — a steering group — is essential, as is a single executive sponsor, dedicated and effective, to chair it. The project will trigger difficult, sometimes nasty, issues and a senior executive who is accountable can make those decisions and see that the steering group understands and accepts them.

A steering council can meet just once a month for an hour or so to give encouragement to the project manager, or it can take the time to be an actively involved group that understands and guides the project, making key decisions and shaping the future of the company. A vast difference exists between the two.

On the business side, the senior executive often is the chief financial officer. It also can be the chief executive officer, 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 executive could be the senior vice president for sales and marketing. The project's executive "angel" must be from the corporate suite and, preferably, not the chief information officer. Unless the CIO happens to be an exceptional business manager and have the ear of his chief business counterparts, the other executives will not get involved and the project will often turn into the CIO's and his technical staff's mission.

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## **4. Selecting a strong systems integrator and then not heeding its advice.**

It's always surprising to learn that a company has spent considerable time and money to select a strong systems integrator and then does battle with the SI every step of the way. Why spend mega-bucks for this consulting partner's expertise if you always question the SI or think its recommendations reflect a desire simply to generate more revenue? An SI should serve as your eyes and ears because while it may be your first or second time with a major ERP project, the SI

has probably worked on similar assignments dozens or hundreds of times. So why second guess the SI?

Respect and mutual partnership is essential for the project to succeed — and that includes respect from each partner and often the software vendor.

By the same token, an SI can't assume a client is ill equipped to offer strong advice.

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 "let's solve this together" approach, while others prefer the "here are your marching orders, this is how it's going to be, so let's get down to business." Determine which approach you favor for your firm's culture.
- Clearly look at the SI's track record. Look beyond its marketing, talk to the software vendors you'll be working with and also talk with industry analysts.

Spend considerable time examining the members of the actual team that will be working with you every day. Be sure to put language in the contract that at least binds the team leaders and the firm's partner with you for its duration.

### **3. Trying to create a solution incompatible with the company's culture.**

In the 1990s, research found that many companies with ERP projects saw them as a silver bullet that would solve all their problems — even if the "style" of solution wasn't compatible with their corporate culture traditions.

An executive might say he or she wants to operate in a globally centralized fashion — to be more like a Wal-Mart, 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 change in the culture of your company. So if yours is a very decentralized structure, you'd better opt to install a decentralized ERP application or recognize the enormous change-management mountain you face.

For example, let's say you're consolidating 93 warehouses into five or six warehouses and the ERP application is "expected" to make that happen. Technically, ERP can make that happen. But this isn't just a technical process but a business/people process. If you don't have someone who can change attitudes so that the organization understands and supports the consolidation, then your project will fail.

Now, if a CEO has a mandate to make an overhaul of a company and its culture, this can be a workable situation. But, again, the CEO isn't looking at the ERP solution as simply a technical solution; rather, as a business and organizational one as well. The CEO must look at the first- and second-level managers to choose those who can work under this new regime and make the program successful.

### **2. Treating this as a technical project vs. a change that balances people, process, and technology; not using the power of the new, integrated information.**

Don't get me wrong. The ERP technology must work, but appreciate that 30 percent of the challenge of an ERP project usually is attributable to technology and the remaining 70 percent involves people and processes. Few of us really like change and if an organization is moving to

SAP, for example, things are going to change. At the minimum, an employee's computer screen is going to change; at the maximum, the employee's entire life is going to change.

The new technology brings integration 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 finished good and either automatically or manually is entered into the system, it becomes available immediately for sale; an employee needn't wait overnight for such information to be available.

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. Again, the new ERP technology affects many people, their training, and the processes they use.

**1. Embarking on the journey without a solid, approved business case, including mechanisms to update the business case continuously and to ensure the savings are baked into operational budgets.**

Stamina: Since an ERP project, no doubt, is going to take a minimum of 12 months and as much as 36 months to employ, and often costs between \$5 million and \$50 million out-of-pocket costs, 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, if a solid business case hasn't been made for the project, you won't get the commitment from the entire business team to make the journey successful. Many times when a company pursues an ERP implementation, it isn't simply to cut technology costs, because total technical costs may well increase with the application. Most of the time, the project is undertaken for broader business reasons, so if those reasons aren't clearly expressed, fully understood, and approved in both qualitative and quantitative terms, members of the senior executive team won't give their full support.

While this is far less of an issue than it was five years ago, a number of major companies still complete the business case for an ERP project, submit a capital appropriation request, eventually get it approved, only to park the business case on the shelf to gather dust while the project proceeds.

A business case should be a living, breathing document of how to drive out both the original and updated business benefits from the ERP journey for, say, the next 20 years. It must outline how to track the benefits the application will produce, and it must be used for the CEO to bake into the annual operating budgets the cost-reductions and revenue increases that each vice president has committed to. It must make senior and middle executives accountable for the goals so that the anticipated bottom-line benefits are realized. This type of discipline still is relatively rare, in part because many managers think, "Hey, I'm not going to be here to see the end of this."

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? It does head this list of mistakes to avoid!

## **Not by Technology Alone**

Remember that technology alone cannot help you reach your business goals.

Think, for inspiration, of that momentous day in 1953 when 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 avoided the costly mistakes that had tripped up so many before them.

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