

## Optimize Your ERP System: How to Avoid the Implementation Sins

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### Introduction

Enterprise resource planning (ERP) systems offer much potential to improve your way of doing business. By providing accurate, real-time information throughout your supply chain, an ERP system can help your company be more competitive. Seamless integration of information flows across all departments through a centralized database, provides a unified view of the business, and enables management to make more effective, timely decisions. A successful ERP implementation can provide better business intelligence, streamline business operations, reduce costs, enhance collaboration, and ultimately help you grow your business.

While most organizations rely on enterprise resource planning systems, relatively few are able to truly optimize the capabilities and functionality the software products can deliver. In fact, statistics show that more than 60 percent of ERP implementations fail to meet expectations. What constitutes failure? Not realizing the anticipated return on investment, extending the implementation schedule and go live date far beyond planned, going over budget by a large amount, interrupting the organization so much that business suffers, and stopping production and/or not delivering products to customers are the major issues.

But this doesn't mean your project is doomed from the start. Understanding the factors that can interfere with the project as well as what items can lead to success is extremely important.

## The Eight Deadly Sins and Best Practices to Prevent Them

Knowing the common reasons ERP implementations fall short and how to avoid them can save you valuable time and money and help make your project a success.

### **Sin #1: Overlooking the purpose of the ERP system.**

Companies can focus too much on replacing the systems and functionality they have and fail to learn enough about the capabilities the new ERP system can deliver. In other cases, ERP implementation begins without a clear understanding of the benefits that will be attained. As a result, they are not measured against the preimplementation environment. In addition, many companies go through ERP implementations without a step-by-step roadmap, making it difficult to achieve continuous improvement. It is also a mistake not to analyze existing business processes and identify opportunities for organizational improvement, expecting the software to cover up weaknesses.

**Best Practice: Focus on process improvements.** It is easy to lose sight of process analysis during an ERP implementation. But the prime focus should be optimizing existing processes and tailoring the system functionality to complement them. However, companies should be careful not to automate non-value-added processes in the new system. It is also important to measure process effectiveness and efficiency regularly and to adopt and enhance best practices extensively.

### **Sin #2: Lack of commitment from top management.**

If company executives are not strongly committed to the system, do not foresee and plan for the changes that may be necessitated by ERP, or do not actively participate in the implementation, the implementation has a high likelihood of failure. Top management often tends to delegate the implementation to lower management levels, which can lead to their being out of touch with critical events or lack the understanding of the scope, size, and technical aspects of the project. Top management must view the ERP implementation as a transformation in the way the company does business.

Additionally, the ERP implementation can not be viewed only as an IT project. If it is, it will never realize its full capabilities and it is likely the technology will be deployed in a vacuum, the software will not be aligned with business processes, and staff will resist using it.

**Best Practice: Employ a top-down approach in securing organizational commitment.** Large-scale initiatives require commitment from top executives. Before an ERP implementation project starts, key management must define clear goals and objectives to achieve their vision for how the company will operate with the new technology in place.

These expectations must be clearly communicated throughout all levels of the organization. Oftentimes, lower level employees do not understand the company's strategic plans and how their individual roles affect them. Without a clear understanding of why the company is implementing a new system, people will tend to resist the change and find ways of maintaining the status quo. Without commitment from the entire organization, the capabilities of the ERP system will never be fully utilized.

It is imperative to secure buy-in from users of the new system and increase their stake in the success of the program. One of the easiest ways to achieve this is to have those who will use the system most serve as part of the core design team. This helps break down barriers to change by helping them to be more comfortable with the application and workflows.

**Sin #3: Poor ERP system selection.**

Some of the biggest ERP system implementation failures occur because the new system's capabilities and needs are mismatched with the organization's existing business processes and procedures. Poor selection occurs when a company hasn't adequately developed functional requirements definitions or when the ERP project team doesn't take the time to run through the system's screens as they would during the course of their daily work to discover if the software's features will accommodate their needs.

For many ERP selection teams, it's tempting to select a well-known ERP vendor. They find some security in the popularity of the software and the vendor's reputation. However, ERP implementation success involves more than a popular name. It depends on a vendor who offers solid experience in installing the new software, one who knows the problems that could arise and how to manage them effectively. While the well-known vendor may boast thousands of installations, its reseller partner may have installed only a comparative few.

**Best Practice: Select the right ERP system and partner.** Companies have numerous options when selecting an ERP system. While most packages have similarities, substantial differences do exist. Since an ERP system may impose its own logic on a company's strategy, organization, and processes, the enterprise system selection decision must be a wise one. The company must feel comfortable with the vendor's view of best practices and how they will impact the company's business processes. Each organization should select and implement a system that complements its unique competitive strengths while helping to overcome competitive weaknesses. It's important for the company to determine the critical needs it is trying to address and identify the desired features and characteristics of the selected system.

It is also important for the company to check the vendor's references thoroughly. When contacting a reference, the caller should find out what role the contact plays at the company, what portions of the software he or she uses directly, and whether the person was directly involved in the initial implementation. Questions to ask include:

- How much training and implementation services were needed from the vendor to get the system up and running? Was this accurately reflected in the vendor's proposal?
- What modules were purchased, and have they all been implemented or scheduled? What else do they plan to implement?
- Does the vendor provide periodic updates to the software? If so, has the user received any updates?
- Does the vendor provide a help desk for day-to-day questions or problems? What kind of response time does it provide?
- Has the software worked as promised? Are other departments using it as expected and receiving the information they want on a timely basis?
- If they had it to do over, would they purchase again from this vendor?

**Sin #4: Poor project management.**

Managers may be surprised by the scope, size, and complexity of an ERP implementation. As a result, management sometimes does not initiate the necessary level of detailed project management planning and control. Short-cutting critical events in the project plan—such as time for documentation, redefining and integrating processes, or testing before going live—is a major mistake.

**Best Practice: Employ sound project management strategies.** An ERP system is the information foundation of an organization. Correctly implemented, it combines industry best practices with state-of-the-art information technology that affects the way every function operates. But it is important to remember that IT plays a supporting role and is not the final objective. Unfortunately, because ERP systems involve

the introduction of significant new technologies, some shortsighted organizations have off-loaded the implementation responsibility to information technology specialists only. To realize the full potential of an ERP system, the technological aspects of the implementation must be managed as part of the larger program.

The implementation team should include highly respected representatives from all departments and functions. Guided by executive-level input, the team should have the responsibility to identify and examine existing business processes. Fully supported by top management, they should also have the authority to reengineer existing business processes or develop new business processes to support the organization's goal.

The implementation team should take a disciplined approach to project management, including a clear definition of objectives, development of a work plan, and establishment of a resource requirement plan. Milestones should be established, and progress against those milestones should be carefully tracked. Since timely decisions save time and money, management should empower rapid decision-making at the proper levels.

### **Sin #5: Inaccurate data.**

Because of the integrated nature of ERP, inaccurate data entered into the common database will have a negative effect throughout the enterprise. Inaccurate data can lead to errors in market planning, production planning, material procurement, capacity acquisition, and the like. Failure to guarantee accurate data is entered into the ERP system will cause the system to lose credibility, and employees will become discouraged and frustrated by the new system.

**Best Practice: Ensure data accuracy.** For the ERP system to function properly, accurate business data is required. Processes to ensure data accuracy should be in place before the implementation begins, and they must be a top priority during the implementation. Educating users about the problems that data errors and mistakes can cause throughout the company can assist this objective.

### **Sin #6: Ignoring user reluctance for new applications.**

Some employees may be frustrated by having to learn a new software system. They may feel that they're too busy to be bothered and resent having to take time out of their schedule for training. Users may also be overwhelmed by all the new capabilities the system offers, and some employees may be uncomfortable with the realization that with better information, upper management can keep better track of what they are doing and the money they are spending.

User understanding and buy-in of the new system are critical success factors. If users don't understand how the system works, they will tend to invent their own processes using those parts of the system they know how to manipulate.

### **Best Practice: Invest in change management.**

An ERP system will change the current mode of operation within and between functions. Companies that have successfully implemented ERP systems typically approach the implementation as an exercise in change management.

To assist in the process, they will select a highly respected executive champion to lead the initiative, backed by a strong project team and the steadfast commitment of top management. To be successful, the company must obtain a sincere commitment to the change process from all functions and all levels of the organization.

In return, since system users will have to deal with organizational restructuring while learning new processes, management will have to make a strong commitment to satisfy the needs of these people.

Companies experiencing problems implementing ERP systems often have difficulties in the areas of cultural adaptability. A comprehensive change management strategy can decide the fate of the project. Thus, a separate budget for change management strategy, including planning, communication, and execution, is not just advisable, but critical for an ERP program's success.

### **Sin #7: IT staff implementation issues.**

People have a natural tendency to be comfortable with the status quo and may be fearful of changes brought about by any new system. IT managers may be afraid that the new system will make their jobs more difficult, reduce their importance, or even cost them their jobs. They may have been very knowledgeable about their old system, having developed the skills necessary to maintain it. A new ERP system may create a great deal of uncertainty in some people as to whether or not they will be able to perform their jobs as well as they did under the old system.

**Best Practice: Secure appropriate education and training.** An experienced vendor will provide extensive training and education to increase the knowledge base and comfort level of the IT staff who will be responsible for maintaining the system. It is imperative that financial support be allocated to secure the training required so the new ERP system can be most fully utilized.

Additionally, top management should understand that education and training is an ongoing process. Much of the learning comes from hands-on use of the system during daily operations. The implementation team leader should keep in contact with all system users and monitor the use of the new system. Periodic meetings should be arranged with system users to help identify problems and share information gained through experience with the new system. Further training should be scheduled when appropriate.

### **Sin #8: Unrealistic expectations.**

Many companies miscalculate the amount of resources, time, and outside assistance required to complete the project. Additionally, management and users often expect to see immediate improvements once the system is installed. But companies should be prepared to see an initial frustration after the new software is implemented, simply because a new system may be complex and difficult to master. As employees become more familiar with the new system, the expected improvements will result.

**Best Practice: Focus on ROI, not expenses.** ERP solutions can be expensive. As a result the company will want to justify its investment by regularly measuring the system's performance and impact on business operations.

To measure properly, companies should determine exactly how an ERP system adds value to their organizations. Since ERP can deliver value through a multitude of business parameters, it is important to select a few key performance indicators and focus on those that align with the company's organizational vision. The ability to show a measurable, year-on-year payback will show the investment was worthwhile.

Also, ERP implementations deliver greater ROI over time when scalability and integration aspects that impact business performance are kept in mind. For this reason, the ERP software should feature a robust technical architecture, effective data management practices, and a strong business intelligence backbone that is aligned with the current landscape and takes into account future business expansion, including mergers and acquisitions.

As global economies become more uncertain, companies face increasing pressure to remain competitive. While an ERP system can help, it's only as effective as the effort placed on the implementation. By being aware of the reasons implementations fail and knowing what best practices can be employed to help ensure success, companies can save valuable time and money and achieve a higher return on investment.

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