Avoiding ERP Implementation Pitfalls

Pre-Purchase Considerations

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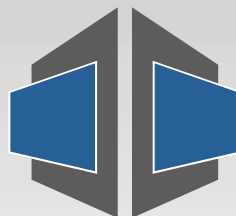
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It has often been said that one needs to have nerves of steel when setting out to implement a major business change initiative. That said, implementing an ERP system from scratch has slowly become less of a risk and larger numbers of organizations are seeing great benefits of their ERP implementations.

As in everything else, sound planning goes a long way to reduce the risk in the project. Traditional Management Information Systems in organizations were built by the Information System professionals; they built systems that were tailor-made for their organizations. However, an inherent limitation of this approach was that these systems were restricted to the current needs of the organization and did not have much flexibility for future growth. Every new need had to be recoded and integrated with the rest of the system. Besides this, such systems only tended to replicate and automate existing processes in a business. Reengineering a process and incorporating best practices was never an aim.

In contrast, an ERP system is built differently. It is important that this difference be understood well even before you embark on your project. Central to the success of your ERP project is the gap analysis and the elimination of redundant business processes. Once these have been identified, company management has to approve the elimination of these processes. A decision also has to be taken to integrate various business functions and domains and to ensure that data flow between them is smooth and seamless.

These few issues really determine the difference between a failed and a successful project.

An ERP system is to be seen as a strategic weapon. It leads to business reform and needs to be designed from a managerial perspective. It requires a change in the attitude of everyone who will use it. People have to come out of their protective silos and use information resources so that they deliver high quality relevant information to every decision maker whenever it is required.

Planning is the Key to Avoiding Pitfalls

Just like any other complex project, ERP projects also have to go through a number of different phases. Many of these phases will start much before a decision is even made to purchase a product. The various phases are not rigidly defined and a number of them can even run concurrently while maintaining an overall sequence. In some cases (though rarely), some phases can be skipped altogether. The different phases are:

- Pre-evaluation checks and screening
- Evaluation of packages
- Project planning
- Gap analysis
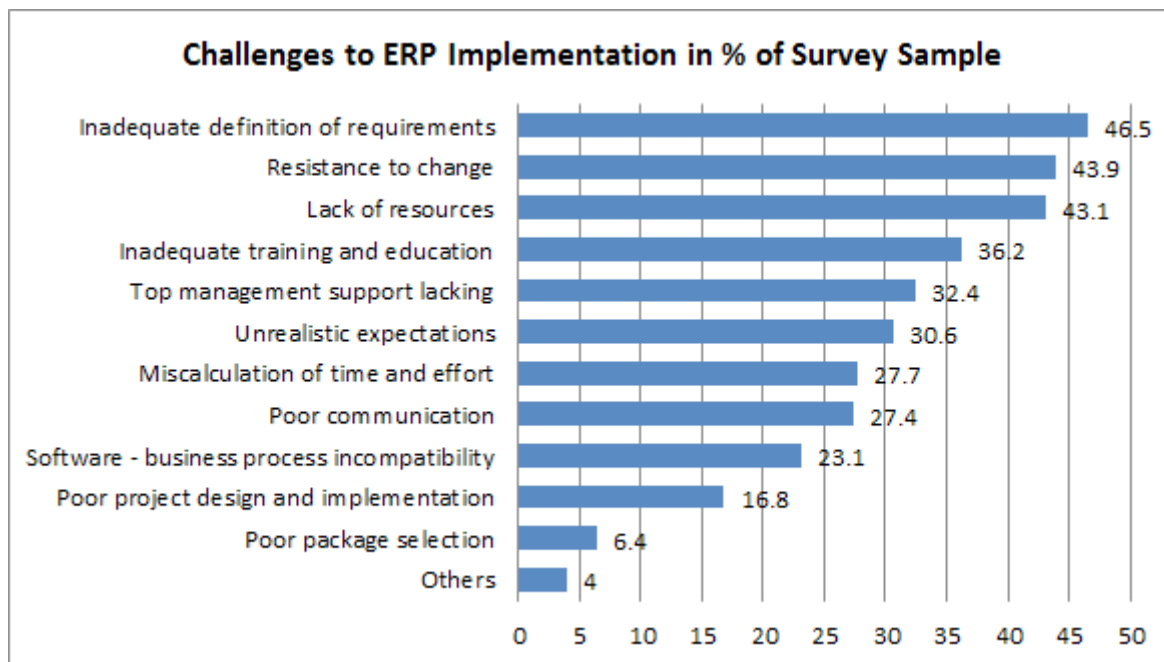- Reengineering
- Customization

- Training the implementation team

- Testing

- Going live

- User training

- Post-implementation activity

The above list looks at the ERP package itself. It has not looked at the organizational issues, all of which are critical to the success of the project as well. Therefore in the subsequent discussion, we shall focus on both organizational and

technological and selection related issues. Only when all of these are carefully managed, will you get a successful implementation.

At every step it is important to remember that an ERP project is not an IT project. It is a business change project; it has to be approached from the business end.

A set of typical values of challenges to a successful ERP implementation are shown in the graph[1]. Note that many of these relate to planning and preparation phases of the project.

Challenges to ERP Implementation in % of Survey Sample

Challenge	%
Inadequate definition of requirements	46.5
Resistance to change	43.9
Lack of resources	43.1
Inadequate training and education	36.2
Top management support lacking	32.4
Unrealistic expectations	30.6
Miscalculation of time and effort	27.7
Poor communication	27.4
Software - business process incompatibility	23.1
Poor project design and implementation	16.8
Poor package selection	6.4
Others	4

[1] Leon, Alexis, Enterprise Resource Planning, Tata McGraw Hill, New Delhi, 2008

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BUSINESS ISSUES

The graph on the previous page also shows that there are a number of managerial and business issues that govern the success of the project. Issues such as 'poor communication', 'miscalculation of time and effort', 'lack of top management support', 'unrealistic expectations', and 'resistance to change' are not technical issues at all. They all relate to business and cultural factors and if one accepts that even a project using a top of the line ERP solution can fail, it becomes clear that these issues are extremely important as well.

Therefore, looking at business management issues first, here are some important points to consider.

An Approved Business Case with Full Backing of Senior Management

An ERP implementation requires stamina. Typical projects take between 12 to 36 months and costs can run into millions. Even with all this time and money invested, success can only occur if the management is absolutely convinced that the solution is essential for the future of the company. This means that the project champion has built a solid business case that is so compelling that any other course of action does not appear practical. Only if this is achieved, will you get the backing of the entire senior business team to implement the project.

Senior managements are now more aware of the issues involved and the need for management support. If you have built a sound business case, you should not have a problem in getting senior management support. However, the key requirement, as always, is building a very strong business case.

Starting With an Influential Executive Sponsor and a Program Governance Council

Any ERP project involves major changes in business processes, in the roles and responsibilities of people and in very fundamental things such as the very data definitions that a company follows. Many of these activities will start very early in the project. None of these can be implemented bottom up. There will be many turf battles and some may turn nasty as well. This is where the senior executive needs to step in. He has to have authority to make decisions and make them stick otherwise the project will dither.

The program governance council must keep an eye on the project and take frequent reports to keep the program in-charge moving. It must get involved and support (and when needed – push) the program director to ensure that the ball keeps rolling.

Keep the Company Culture in Mind

Previously, many companies saw ERP as a panacea to all their problems. However this is not so and this realization took time to sink in. If your company allows its divisions a great deal of autonomy and encourages an entrepreneurial culture, you will need to ensure that any ERP solution you implement supports this as well. Putting in place a highly centralized solution like some global retail chains may use may just not work for your company. Technically the solution will work, but culturally it will not.

It is essential to remember that an ERP solution is not just a technical project. Sure, the technology has to work, but there are very real people issues as well. These issues have to be handled with sensitivity and concern for those whose lives are going to be affected by the project.

Staffing the Implementation Team

By now it should be sufficiently clear that the implementation team has to be interdisciplinary and be composed of your best people. While you can take some chances with the technical people you provide, do not cut any corners with the others. Your vendor and consultant can fill any technical gaps but only your business experts know the business. Too much is at take to give the project to mediocre people.

TECHNICAL AND OTHER ISSUES

While the business side requirements of a successful ERP project are important, technical issues are no less critical.

Start Early to Handle Data Issues

There are many issues with your company data that never needed management before the ERP project began. At the simplest level, different divisions and sections maintain the same data in varying formats. Then there will be situations where different values are stored for the same object. Your accounts department may have one value of the cost of an item, manufacturing may have another. Which is the one to be accepted? Your customer data could be stored in differing formats in different locations. Which is to be used as master data and is all of it correct?

There will be hundreds of such conflicts and all of these will have to be resolved before this data can be provided to the ERP database. Every department concerned will try to protect its data and its approach. It is important to understand that this process of data cleansing can start well before the ERP solution is even selected. If you start this process late, you will waste time cleaning data later and the ensuing delay could make the project lose momentum at the critical moment.

Many consultants try and get different departments to start using a common view of data very early in the project. Even though the ERP is not yet

implemented, simply using a common database has major benefits that can be a precursor to the benefits of an ERP.

Product Selection

When evaluating ERP solutions, many products will proclaim themselves to be ideal for your company's needs. It is not possible to evaluate them all and it is suggested that a smaller list of about half a dozen be prepared based on product literature and comparison guides from which a final selection can be made.

When a final product selection is to be made, it is best if the selection is done by a committee comprising members of different departments so that all points of view are taken into consideration. While the committee may not be able to find a perfect match, it should endeavor to find a solution that is flexible and can adapt to your needs. A selection criterion should be drawn up in advance and each solution should be evaluated against this. Some important points to consider while evaluating possible products are:

- Degree of functional fit

- Degree of integration between components of the system

- Flexibility and growth potential

- Complexity

- User friendliness

- Ease of implementation

- Multi–site use

- Quality of technical solution

- Upgrade availability and frequency

- Customization and customization cost

- Support

- References of other users

- Costs: TCO, lifecycle costs, training costs, hardware etc.

While every vendor will show you demonstrations of their software, ask them to show the demo with your data. This will ensure that the demonstration is realistic. If you are using a consultant, you can ask him to create a dataset for the demonstration. A good dataset will represent the technicalities of your business correctly and will be able to bring out the strong points or otherwise of the solutions that are being studied.

Gap Analysis

Most consultants feel this is the most crucial element of the project. The 'gap' is the difference between where you are and where you want to be. If the gap analyses is done well, you will have a functional model of your ERP solution that discovers and fills gaps in your company's capability. There will always be gaps between where you are and where you want to be. How well these are plugged will determine the success of your project. Besides this, there are gaps in every prospective solution as well.

It has been often said that the best ERP product will meet about 80% of your needs. The 20% gap represents a problem. You have the following options:

- Live without some functionality

- Look for an upgrade – the vendor may not provide it when you need it

- Use a third party product – there could be interface issues

- Resort to recoding – expensive and difficult

If the technical selection is done carefully and all gaps in capability are discovered and plugged (to the extent possible), you are on the path to a successful implementation.

Expectations

Inaccurate expectations often plague ERP implementations. A study by the Standish Group had found that just about 10% of ERP projects met full functionality within cost and time. 55% suffered from some overruns and 35% were aborted. The average cost overrun was 178% while about twice the planned time was taken to complete projects. Earlier in this paper we had mentioned that ERP projects needed stamina and staying power, this data confirms this.

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ERP Success Rates

- On time and cost
- Time and cost overrun
- Cancelled
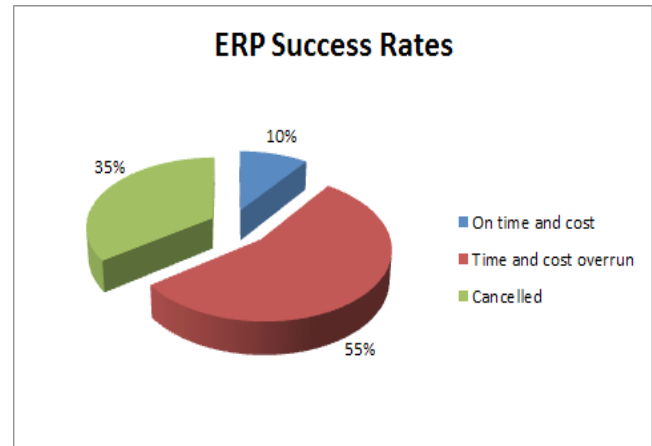
Conclusion

ERP projects are very complex affairs and go beyond technical issues into both cultural and business process domains. Earlier ERP projects had a fairly high failure rate since the cultural and business factors were not properly understood and software was not selected following an exhaustive approach.

All of these issues are better understood now and this is reflected in the far higher success rate of ERP projects.

As this paper shows, the success of your ERP project is determined by the amount of preparation that is undertaken before the software is even shortlisted. Following the procedures and precautions discussed in this whitepaper will help you avoid most of the pitfalls of the project.