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Successful ERP Implementation the First Time

by R. Michael Donovan

It's not pretty out there. Companies have spent fortunes on ERP software and implementation only to find that business performance has not improved at all. These large investments and negative ROIs have created a whirlpool of controversy, rampant company politics and even a number of lawsuits. The trade press has reported many negative ERP stories, and even annual reports have pointed the finger at ERP for lower-than-expected earnings. For some, this has created a higher level of fear about making a big ERP mistake.

Much of the time, ERP software vendors are the targets for blame when anticipated results do not materialize. Are the ERP vendors that sold the software the real culprits for the lack of business performance improvement? The answer is, not very often. Certainly, it can often be argued that ERP system logic is sometimes illogical, functionality is missing, functions perform poorly and so on. But accountability for ERP software selection and implementation usually lies to varying degrees with internal personnel and often with external consultants.

Selecting and implementing a new ERP system, and the process changes that go with it, is unquestionably a complex undertaking. Regardless of your size and perceived resources, an ERP implementation is not something that should be approached without a great deal of careful planning. Among companies that have been through a less-than-fully successful ERP implementation, five reasons for poor results show up consistently:

- Operating strategy did not drive business process design and deployment.
- The implementation took much longer than expected.
- Pre-implementation preparation activities were done poorly, if at all.
- People were not well-prepared to

When ERP implementations fail to deliver, it's usually because management hasn't taken the time to structure the organization to take advantage of these systems.

accept and operate with the new system.

- The cost to implement was much greater than anticipated.

How can we avoid some of these costly mistakes? Here are some guidelines to help you with ERP success. (Rather than repeat a discussion here of pre-implementation preparation activities, please refer back to my column in the September 1998 issue of *Midrange ERP* ["There Is No Magic in ERP Software: It's in Preparation of the Process and People," p. 8]).

It's the process

Management is getting its hoped-for results from ERP less often than not, and this begs an explanation for ERP's often-poor performance. What many manufacturers fail to realize is that extensive supply chain improvement requires that management begin to redefine its business in terms of strategic opportunities. The purpose of ERP technology is to support the business processes that support the company's strategic opportunities.

There are some basic tenets of ERP that should guide management's actions and decisions.

1. There is no magic in ERP software. ERP's benefits are a direct result of effective preparation and implementation, and appropriate use. This seems obvious, but nine out of 10 companies don't get it right the first time around. Expecting a quick fix, silver-bullet solution is a dangerous

mindset.

2. No amount of advanced information technology can offset the problem of a flawed business strategy and poorly performing business processes. This area, in particular, is something that ERP software implementers may not fully address because it can slow system deployment.

3. Define a business strategy that will give you a competitive advantage or, at the very least, make you competitively equal. Then, analyze your current business processes and develop your objectives. Once this step is done, the following steps for preparation, ERP software selection and implementation can support your strategic and process objectives better.

4. Acquire flexible ERP information technology that can accommodate rapidly changing business conditions. The high-velocity flow of information needed to support action up and down the supply chain is a major step forward for most manufacturers. It will be mandatory in the future just to compete, much less stay ahead of, the competition.

5. Have the implementation led by a senior executive who has the authority to make changes happen and happen quickly. Make sure there is a sense of urgency and true accountability for completing preparation and implementation activities on time.

Moving away from functional silos and creating effective cross-functional processes that are truly integrated via an ERP system is not an easy task. When ERP is not fully integrated into day-to-day business operations, however, it is not likely to be very beneficial.

If enterprise integration or more advanced supply chain management strategies are to have any chance of complete success it will be due, to a large extent, to the removal of traditional cross-functional barriers. These silos comprise the organizational

boundaries where information flow, and often cooperation, stop. You must ask, "How will we use the ERP system?" Some not-so-obvious issues will surface as you try to answer that question. For example, will you combine demand-based flow and lean manufacturing techniques, which will negate the need for some traditional ERP functionality? Focus on your business strategy and not just software selection and implementation. Many problems are reinforced by contradictory objectives and performance measures that actually create inconsistent value and belief systems, to the company's detriment. No amount of information technology will correct these problems. Management must aggressively remove them once and for all through business process redesign.

Assess your skills and prepare

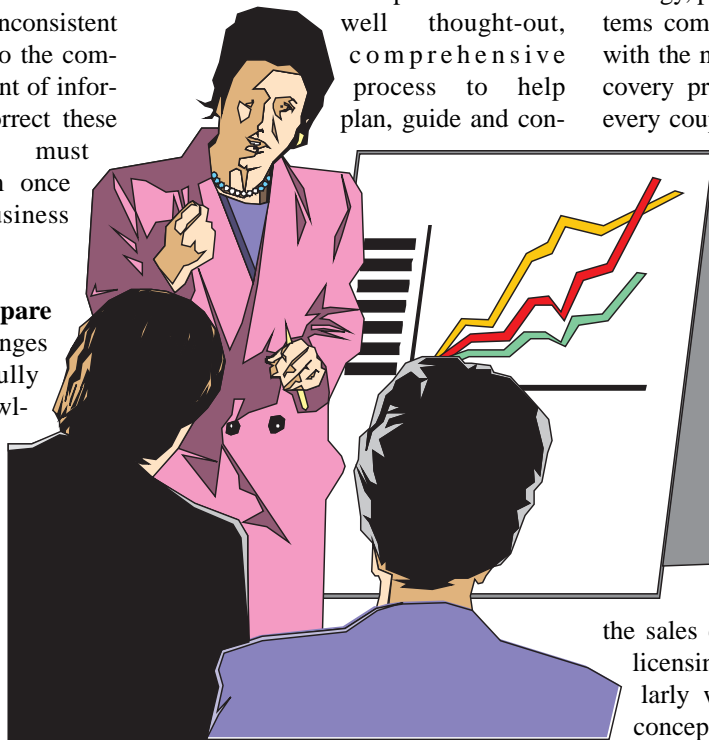
Management too often plunges into ERP less than fully informed, with limited knowledge of what to expect. Often, there is a misconception that the skills necessary to select and implement ERP already exist in the organization. That may be partly true, but few organizations have the skills they need to implement ERP effectively within a reasonable timeframe. Consultants may be able to fill some of the skills gap, but given the high risk involved, it's important to make sure they're genuinely qualified.

Another commonly overlooked area is the issue of information technology change. Often, the IT infrastructure changes required to implement a new ERP system are not given the high priority these technology issues deserve. Certainly, implementing ERP should be driven by business issues, not technology. But it is IT's understanding and skills that support the technology that improves business processes. Ignoring the preparation and education new information technology requires is asking for trouble. Further, IT personnel often must make the technolo-

gy transition quickly. If the technology and infrastructure transition are not done well, the project, at the very least, will be delayed.

One of the biggest problems with implementing ERP is misunderstanding what ERP is all about and underestimating what it takes to implement it effectively. Senior operating management cannot relegate critical decisions to personnel who may not have the background or the temperament for this type of decision-making.

Companies need a well thought-out, comprehensive process to help plan, guide and con-



moves on, the missed schedule problems start affecting implementation quality as the almost-inevitable response is to start taking shortcuts and bypassing critical business issues. The slam-and-cram method of an ERP software transplant is now in high gear.

Software selection is not easy

Before the nitty-gritty of software selection begins, it is a good idea for management to know how current strategy, processes and supporting systems compare to what they could be with the new system. In fact, this discovery process should be performed every couple of years so management

will know where the company is, compared to a previous stake in the ground. This is a basis from which to evaluate opportunities.

Many people avoid examining strategy and business processes and jump right into looking at software functions and features. Software vendors often encourage this because they want to move you along quickly in

the sales cycle and get you closer to licensing their product. Be particularly wary of so-called proof-of-concept offers wherein the vendor implements its software at your site and offers various guarantees. This practice adds confusion to the software selection process, especially for the uninitiated. Obviously, ERP software vendors are in the business of selling their products (just as your company is) and they have their very best people work the sales cycle to guide your organization to their obvious best solution for all of your problems.

Start defining software needs by examining current processes that govern your flow of information and material throughout the order-to-delivery process and ultimately the entire supply chain. There is a common tendency to shortcut this very important activity, but you will pay—sometimes

control the entire ERP implementation effort. Starting an implementation with an undocumented, skimpy or untailored implementation methodology is an open invitation to disaster or, best case, a long, drawn-out implementation. Everyone from the boardroom to the stockroom needs to understand his role and responsibilities for implementation. Implementation leaders should encourage dialogue to get people focused on business objectives and early identification and correction of any problems. Who will be accountable for results, and when, must be an integral part of this understanding. An implementation that's going astray becomes recognizable when repeated schedule slippages surface. As time

dearly—in time and money for avoiding this essential step.

Evaluating and selecting ERP software is a complex task. It should be a fact-based process that brings you to a point where you can make a comfortable, well-informed decision. The process requires an objective and comprehensive methodology to guide you through the selection process. This does not mean you should use voluminous predetermined questionnaires that do not recognize your specific needs. Rather, it means your evaluation and selection process should be based on your own strategy and business process model. A comprehensive methodology to plan, guide and control the effort has the potential for dramatic savings, not to mention the most important benefit: avoiding big mistakes.

At some companies, management is so preoccupied with other, seemingly more important activities that ERP is delegated completely to the IT department. The idea that this is strictly a technology project because software is involved is wrong and, in fact, is one of the leading causes of ERP failure. The IT function is not well-positioned to evaluate the business implications of various tradeoffs or to determine their impact on day-to-day operating results versus strategic intent. Certainly, this shouldn't be the case as operating decisions belong with senior operating management and not IT.

Once an ERP system has been selected, it's rare for a company to cut its losses and scrap the project until many years have passed. The political fallout is often the biggest obstacle. No one wants to tell upper management that an ERP investment of millions of dollars was a mistake and the process should be restarted. When a company lives for many years with a poor ERP decision and/or implementation, however, the costs continue to escalate and the benefits do not come. The cost of lost opportunities could be massive. The ERP software search, evaluation and selection process must be done right to minimize this risk.

The clean-sheet-of-paper approach, although alluring in concept, has been

a big bust for many companies. The clean-sheet business process redesign and the subsequent ERP system configuration is complex, costly and time-consuming. Consequently, most companies have come to accept the compromises and trade-offs that industry-specific, best-practice templates require. Preconfigured templates allow faster system deployment and faster benefits. Processes can be refined at a later date. This is not to say that it is okay to just slam and cram predetermined processes into place. On the contrary, selected template processes must still be verified for appropriateness, at least for the near-term, before going forward.

The demand for rapid ERP implementation is high. This was the primary driver for the development of off-the-shelf templates designed to speed up and simplify the software personalization process. But templates, by their very nature, incorporate specific best practices that support cross-functional business processes. On the surface this may sound like nirvana, but very few organizations take the time to rethink how they should and could run their businesses. By taking the easy way out, these companies end up with generic, albeit industry-specific, functionality.

Plan to succeed

Successfully implementing ERP the first time requires a structured methodology that is strategy-, people- and process-focused. This is the only way to manage the risk effectively. A good methodology covers all the bases, but when the unexpected pops up, as it usually does, you will be prepared to handle these exceptions without severe negative consequences. One very common mistake is not having your employees prepared to use the new processes and support system. The consequence here can range all the way to total failure, but they are avoidable.

Evaluate your business strategy and ERP plan before you commit to software acquisition and installation. Doing it right the first time is the only cost-effective way to go. Many people

out there wish they had paused to evaluate their direction. The following questions do not cover every possible contingency, but should be helpful to stimulate thought and discussion.

- How do we want to run our business?
- What business problems need to be solved?
- Do we know and understand our priorities?
- Do we fully understand our as-is condition versus our could-be/should-be processes?
- Have we carefully defined an action plan for pre-implementation preparation activities?
- What tasks will be accomplished and when?
- What are the missing links in our current system and our software of choice?
- What are the real costs, benefits and timetable going to be?
- Do we have an executive-level ERP champion to provide the necessary link to top management?
- Who will implement ERP and make it work?

ERP and supply chain management systems implementations are, in fact, projects without an end. After all, the supply chain is, to a large extent, the very life blood of a manufacturing company. For the well-prepared, new supply chain management systems based on ERP have become significant competitive differentiators.

Implementing ERP can become a mind-altering experience for those involved. Following a sound methodology will greatly increase your likelihood of success the first time. Yet, it will not guarantee your success. Only you can do that. ♦



R. Michael Donovan is a management consultant based in Framingham, Mass. He can be reached at (508) 788-1100.

Readers may obtain a copy of the book, Strengthening Manufacturing's Weak Links, and other educational materials through www.rmdonovan.com.