

ERP Success Criteria

Introduction

ERP is either resounding success or dismal failure. How can the same solution get such different results? Let's for one moment presume that if it's the same product, the result must vary for other reasons than the product.

Could it be that it works for one business and not for another? Well, that can't be it, since even in the same industry sector the same success / failure differences exist.

Could it be the size of the organization and that it works better for the Fortune 500? Nope – more companies in the range of \$50 million to \$5 billion have ERP success than exist in all of the Fortune 500.

So what should be the issues of concern?

- Non-IT C-level executives are taking note of ERP
- They are discussing it with fellow executives – inside and outside the company
- They are forming opinions on what they hear

They will be turning to their own IT organizations with what may be the following questions:

- What are the plans for this?
- What is it?
- Why should I have it (or not)?
- Note: Bear in mind that any smart C-level executive already know the answers to the questions he's asking.
- What is your recommendation?

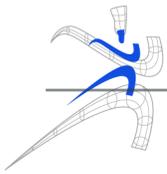
If you already have an ERP, specific issues are brought out:

- VP Admin – “We are using less than 12% of the asset. Why?”
- CFO – “Are we so rich that we can afford to have 2 ERP's?”
- CIO – “If ERP is our strategy, why do we keep licensing additional software?”

Points of View

In any organization, there will be polarization. Some will seek a change and some will oppose. This is normal human and organizational behavior. Accepting these differences and dealing with them is the only viable option. They will never be eliminated and pressure to get a single set of values will only drive dissention underground.





So there are those who advocate, those who want to think about it and those who oppose.

ERP advocates:

- “Our company has improved revenues by over \$100 million each year over the last three years through integration afforded by our ERP”.
- “We would never be able to conduct business the way we do in 27 countries without the ERP’s ability to handle languages and tax regimes”.
- “Makes my job as CIO easy. Let the vendor invest and take risks!”

Considering:

- “I think with the pressure of CSOX, it’s becoming a necessity”
- “I can’t get information I can rely on to run my company. I am getting too many different answers to the same question.”
- “I know it’s coming here. It seems that it’s happening everywhere. I hope I can hold it off until after I take retirement”.

Never:

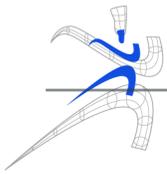
- “Our organization supports empowerment of the individual. We will never sink to the common denominator”.
- “Our culture would never accept or subscribe to an ERP. It’s contrary to our whole set of values”.
- “There are too many horror stories out there about failure”.
- “For the price on an ERP, I can drill 30 wells”.
- “ERP consultants are ridiculously expensive. They also move in and never leave.”

ERP Success Criteria

If you’re going to have to deal with it in some fashion, it may be useful to consider what makes ERP succeed.

1. Organizational Alignment
2. Buy vs. Build
3. Best Practices
4. Strategic Approach
5. ROI vs. TCO vs. ROR
6. Value Proposition
7. Architectural Plans

There are more, but I would suggest that if these aren’t considered, addressed and satisfied, the rest aren’t even worth enumerating.



Organizational Alignment

An ERP acquisition and implementation is too big to hide or disguise. Furthermore, if the organization is so disconnected and uncommunicative that an ERP implementation can be unobtrusive or compartmentalized, it would never become an ERP. The letter “E” in ERP stands for Enterprise.

It can be stated with reasonable confidence that financial transactions do not originate in the Accounting Department. Enron has taught us that this is also highly undesirable. Revenues are generated by sales / manufacturing / production types of operations within the organization. And other than corporate operating overhead, expenses are also generated by these same ones.

Many existing cultures have power bases that stem from the notion that information is power. That power resides in many Accounting organizations. And yet they are scorekeepers, rather than goal scorers. This is not a secret. In fact you see that many of the operating units have a contentious relationship with the head-office and finance functions. Both need to change to prosper. Finance has filled a vacuum because someone in the organization had to. Remember that their roots are bookkeeping and money management. Not profitability or customer relationship.

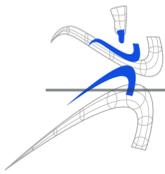
An ERP therefore transfers the responsibility for control back to those parts of the organization that generate revenue and incur costs in that process. It puts the visibility of results back in the hands of the operation. The person with the puck and the stick on the ice scores the goals, not the ref.

No individual or department is solely responsible for success. Nor is any single organ in the human or corporate body solely responsible for life and health. It can also be accepted that in this context, ERP is not a technical issue or initiative. It can be a solution strategy and technology strategy for IT, but the quality of either of these will never drive business success.

So if we accept the magnitude of impact and change, this can be successfully achieved without strong and consistent leadership. There are many more ways of making any initiative fail than there are of making it succeed. ERP is no exception.

Human behavior is predictable. If you reward the commando and the tactics that go with it, you will get commando behavior. If members of the organization prosper at the expense of others, they will strive to do so.

Change in direction means work and effort. This applies to the laws of physics and business. There is a cost – but if it cannot be viewed as an investment with a return and attached reward, no ERP would ever succeed.



And above all, people are people. They are individuals. You could say that the sales job was inadequate, or the rewards for change inadequate if there are casualties. But there is always a statistical subset that will oppose any argument.

Buy vs. Build

Any one vendor will never have the complete functional scope for any and every business.

An ERP solution will never have the technical specificity to support many engineering, scientific, medical, and indeed government processes.

An ERP requires a critical mass in the market as an economic foundation to engineer and support a solution. There will not likely be an ERP solution that would support Production and Revenue accounting in the Western Canadian Basin. We here think it's important, but on a global scale, it doesn't even register. On the other hand, no ERP will ever analyze formation data to find an oil reservoir.

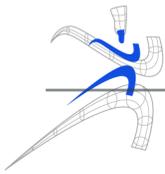
An ERP will certainly do the ordinary without even breaking a sweat. I challenge any home-built application to do accounting differently (let's not go back to the Enron thing, OK?). And payroll gross-to-net being correct has no grey areas, or competitive comparisons.

What an ERP has through exposure to the needs of hundreds and possibly thousands of businesses is the ability to analyze and assimilate dominant business practices. It would also be fair to say that they can also analyze changes to these practices, and by necessity change the solution to adapt. Dominant changes and practices now encompass and even emphasize Customer Relationship Management, and the criticality of a well-managed Supply Chain. Also, since ERP strength in the marketplace, suppliers and business partners and beginning to adopt ERP themselves, creating added B2B facility between two owners of the same brand of solution.

Point solution vendors also want a ride. Hence the ever increasing claims of being able to integrate with many of the branded ERP's. Technologies of XML, EIA, etc., further increase the viability and practicality of these claims.

Best Practices

There is an outdated mindset that says computers are never the master. While that is not the argument, when the best solution is a screw, not a nail, adapting the hammer to behave like a screwdriver is a poor option. SO if the choice opts for pragmatic and economic, if the outcome of a process is identical, then why not opt for the one that comes pre-built.



Conventional practice asks the process owners to define their requirements and having done so asks that they approve and accept the new processes. Frequently process owners are not the owners of the results of the processes. Maybe the question should be posed to the results owners if they would like improved results. If the processes and the inputs remain the same, is it likely that the results would ever be different?

We in North America, thanks to our source of entertainment, see “The Terminator” or “Die Hard” as heroes and role models. They all struggle against the norm and emerge victorious. While we all agree that individuals with the company should not all print their own checks, this should not extend to individuals creating their own corporate procurement policies and practices. But they do! And it cannot be denied that the distance from head-office is a freedom factor. Those who do are in denial of standard practices in the oil patch.

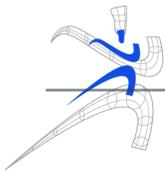
We all like to be given choices. For the sophisticated and well-informed, it’s a fundamental need. But do remember that the success of Henry’s first car was partly do to the choice of any color as long as it was black. Now Henry’s cars come in many colors. So for the beginner, maybe too many choices is not a good thing. But later on, why not? As for “some assembly required”, sure, as long as we accept the consequences of incorrect assembly, and understand that the best time to assemble the parachute is on the ground.

How can I trust an ERP vendor (and a German one at that) to know and understand my business? It is the vendor’s business to do so! They can’t sell what others refuse to buy because it doesn’t fit the need. And why indeed would anyone take the effort to invent a process rather than copy one that is dominant amongst their customers. And if there is a competition amongst the vendors, wouldn’t the one with the better process (and ability to adapt to new ones) win? Of course, there is little rational argument over the emotions of “Not Invented Here” or “Not in My Back Yard”. Of course, if there are potential winning arguments for any home-built application that can post an invoice better, I would be really interested in the how. Suffice it to say, when a supplier is willing to take the risk of engineering, building and testing a business IT solution, why would an oil and gas company think they can do better?

An ERP then permits process standardization. Advantage: Someone else is accountable for those nagging audits, controls, checks and balances. A case can be made that the ERP solution must be compliant as a fundamental requisite of entry into the business.

Strategic Approach

One of the positive attributes of an ERP is its functional scope. This same aspect also



provides one of its greatest challenges. It takes time to gain even a working knowledge of ERP capabilities, let alone profess expertise. This needs either an experienced hand to guide the organization to exploit, or time. Without the organization's policy to look at the ERP's repertoire first, money and effort may well be spent to procure other solutions when in fact it's already owned.

An ERP will run on any Tier 1 DBMS and HW platform. The ownership of the functions and data is with the business. IT may be the custodian, but they don't own the building.

In considering functional scope, many 1st generation ERP implementations have been too ambitious. In addition to a large scope, the burden of the impact of change was assumed simultaneously. A large scope also created a large team and with this size an increased project management burden, project run time and implementation risk

The second risk of conventional implementation approach assumed that business functional requirements are a blank sheet of paper. This approach results in the redefinition of the obvious. The majority of corporate back-office functions do not need to be re-defined. There is no benefit to redefining payroll, AP, AR, etc. functions. Opting for a mid-way point between packaged applications and custom development results in a solution that contains the worst of both alternatives.

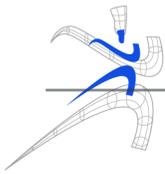
Save the effort and project budget for the high-value business functions. In particular those that aren't in hand today. And solve these as a second effort once the low-hanging fruit has been harvested.

Business Case (ROR, TCO, ROR)

- ROI (Return on Investment) is common term and understanding
 - Standards exist
 - NPV base
 - Measure against other spends
 - Invest and benefits are the 2 foundations
- TCO (Total Cost of Ownership) emerging
 - Broader than just ROI
 - Enterprise view
 - Considers ERP in the conventional asset context
- ROR (Risk of Replacement) the next mantra
 - Blackberry patent suit e.g
 - Vendor consolidation (JDE/PeopleSoft/Oracle/SAP)
 - Keep an eye on Bill Gates

Blackberry situation: RIM lawsuit by US company for patent infringement. It may only cost \$300 to replace the Blackberry on your belt if it should become necessary. It will likely cost over \$75,000 per employee for the enterprise to move to and support an alternate form of wireless technology.





Vendor consolidation: Baan has already pretty well disappeared in North America. JDE will become only PeopleSoft. If you don't know this already, you have missed all the news. If you picture Larry Ellison's personality, it's not too hard to imagine that Oracle (see Fusion Application Suite – R0 in 2008) will be the last one standing next to SAP.

Microsoft: With SAP's initiative to establish NetWeaver as a "platform", Bill Gates is not going to stand still without countering in the ERP marketplace.

Value Proposition

If all you want is an accounting system, get Accpac. If you want other parts of the enterprise to participate, don't try to get them engaged through your accounting system. The costs you can save in the accounting department are very limited and will never offset an ERP price tag.

Accounting solutions have never been favorably received by the operational side of the company. It's unlikely that an ERP accounting initiative will be different.

The ideal is to capture information once and use everywhere. This not only means a single information capture cost, but a single incidence of the truth.

CIO concerns: Cost control, skill availability, vendor management, providing stable technology. All of these are more attainable if the solution flavors needed are limited rather than varied.

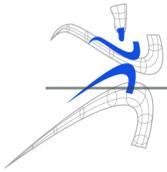
Architectural Plans

There is a pre-requisite for ERP. It is practical to take these off the critical path if you have an ERP on one. Figure out the economics of displacement of current – that's just so you're not surprised when you have to abandon certain investments.

So what happens to my current suite of applications? Like it or not, it's an asset as is the data in it. You also know that in the bottom drawer and on the C drive of every employee out there sits another set of solutions. "We spent 3 years getting to an ERP implementation – this is no time to screw it up" – A. Client

Platform has a cost dimension as well as a re-tooling and skills requirement. It's a hot skill market. You have to plan for this growth. Otherwise you'll be paying rental for consultants. I like that, but you won't.

What is expected: Microsoft Windows and Excel. Not what is delivered. It getting there, but it's still not Excel. Be prepared to deal with it and where you can't build a skin on it. The problem is not the functional capability or the integration – it's just the appearance.



Pick your preferred integration method / technology. Use hubs, gateways rather than point-to-point. Decide if it's EIA or XML or DBMS. Select an integration and exchange architecture. Keep bridge design alternatives to a minimum. Remember that master data rules and there can be only one master.

You have just outsourced your solution. Developers now become Integrators. System Analysts become Business Analysts. "Operations" becomes "Performance Management" and "IT Administration" becomes "Vendor Management". By the way – the users now own all aspects of the process.

Conclusion

You have to know where your organization stands on the success criteria presented. Armed with this knowledge, you have a better than even chance of at least determining the threats to ERP success.

And if you know where your organization stands, at least you know which areas have to be addressed or built up before ERP should be attempted.

If you already have an ERP, this report card or measurement may help in understanding where there are areas for improvement, or at the very least understanding why there is pain or dissatisfaction.

To summarize, before you can take steps in any direction, it's useful to know where you are. And if you're not planning to move at all, it's useful to know if you're parked on the train track.