White Paper

Top 5 Reasons ERP Implementations Fail and What You Can Do About It

Contents

Contact Ziff Davis B2B
100 California Street, Ste. 650, San Francisco, CA 94111
Tel: 415.318.7200 | Fax: 415.318.7219
Email: b2bsales@ziffdavis.com
www.ziffdavis.com

Introduction

Let's face it: ERP is a monster. The typical enterprise resource planning (ERP) package contains between 10 and 25 modules designed to automate almost every aspect of your business processes from the supply chain to the shop floor, from HR to account payables and everything in between. With all of these moving parts trying integrate with each other and your existing infrastructure, legacy apps and data, it's easy to understand why problems -- to put it mildly -- sometimes arise.

Nor is it any wonder that so many stories of failed projects abound: Marin County, CA. vs. SAP and Deloitte, which recently settled out of court, is just the latest. Marin leveled charges of fraud and racketeering in its suit; charges usually reserved for Mafioso types not software vendors and systems integrators. (Not surprisingly, a judge later dismissed those claims as baseless but it does give one an idea of how far astray projects can go.)

Interestingly, the county did not impugn SAP's products; just the way they went about things. Indeed, after initially indicating in 2010 it would rip and replace the SAP install, the county reversed itself and is today still using the disputed software.

Then there's the classic late 1990s story of Hershey's not being able to ship $100M worth of chocolate Kisses and Jolly Ranchers candies for Halloween. More recently, in jewelry-retailer Shane Co.'s early 2009 chapter 11 filing, the company blamed a failed SAP install, at least in part, for its woes.

For its part, Waste Management said, among other things, that "SAP used a 'fake' product demonstration to trick Waste Management officials into believing its software fit the bill," according to a ComputerWorld article on the out of court settlement in May of 2010.

Now, lest you think SAP is the only ERP vendor with problems, Oracle, JDA, Epicor, and others have all had their troubles from time to time. SAP is just the largest and most visible of the bunch so they get the lion's share of attention -- both good and bad.

A common bond

While each "failure" is unique, when you start looking more closely, some common themes begin to surface. The reason "failure" is in quotes, by the way, is because failure is often a perception, rather than a quantifiable measure of outcomes.

Eh? You say. How is this?

Well, as it turns out, after a six- to 18-month installation process pock-marked with bruised egos and completely re-engineered business processes that have re-arranged and most likely wreaked havoc on the status quo, most companies do not have the heart to look back to see if what they set out to accomplished was, in fact, accomplished. They are just happy "it" is over and are ready to move on. As it turns out this is a big mistake, but more on that later.

(Sounds like the makings of a good Geico commercial, though, doesn't it?:

"How happy is a person switching to Geico, Jimmy?"

"About as happy as a CEO at the end of a long ERP install."

"Now that's happy."

Queue music …)

So, anyway, back to failure. Pretty much everyone knows that relying on technology to solve a business problem is only part of the solution. Without the ever-critical support from top management, for example, all of your best laid plans will certainly be sidetracked at best and, at worst, fail outright; leaving you and anyone else that can be, holding the bag.

Obviously, this is not what most business folks want or expect when the set out on such an ambitious project as ERP. And, yet this is exactly where they will find themselves at some point in the process. Generally, failure happens along the way, not at the end, when everything is suddenly live and just as suddenly "it" isn't working.

Failure takes many forms but often involves things like key people leaving in the middle of the project (sometimes your SI will actually steal them away), management failing to provide the promised resources, key performance indicators (KPIs) and deadlines being missed, fearful employees refusing to change digging in their heels … these and a whole host of other costly surprises await the uninitiated.

Somewhat surprisingly, it is generally agreed among the ERP consulting community that failures are rarely caused by the software. Yes, it's true. Most of the packages on the market today actually do what the vendor claims. Ultimately, what this means is most of the problems that come with an ERP install can be summed up in one word: People.

And it's not just ERP, people are the main cause of technology's short-comings most of the time. The "human element." How many times have you heard that trying to be "taken out of the equation" or "out of the loop"? How many surgeons leave tools in patients? About 4,000, according to the New York Times. Now ERP and life saving surgery have more in common than you might think: they are both very technical affairs involving very bright people who make mistakes.

Of course the outcomes are quite different (unless you are installing ERP in a hospital setting and system failure causes people to be harmed) but the process is the same because both are complex procedures wrought with the potential for human error. Unlike an hour-long operation, however, the mistakes the lead to the ultimate failure of an ERP implementation are often cumulative and iterative and can take many months to unfold.

So when it comes to avoiding them, which mistakes top the list of CIO's and consultant's?

The first and most glaring of these is **setting unrealistic expectations** at the outset. Next comes **failure to manage organizational change**, this followed closely by **not involving key stakeholders** at every step of the process. Fourth on our list is, not surprisingly, is the ever-pervasive **poor project management**. And last, but not least, considering this article could be about the top 25 or 30 reasons why ERP installs fail, comes one that you may not have heard about as often: **failure to manage business benefits.**

Let's take each one of these, explore the problem and, more importantly, what you can do about it.

In Detail: The Top 5 Reasons

1. Setting unrealistic expectations at the outset

"Most projects begin life with the hopeful enthusiasm of anticipated triumph and success. However, success requires planning for details that do not become relevant until much later in project; training is a perfect example," says Michael Krigsman, founder of research and consulting firm Asuret and a ZDNet columnist focused on IT project failures. In this case he was writing about Lumber Liquidators Q3 2010 loss of $12M that they blamed, at least in part, on their employees not understanding how to use their newly installed SAP ERP system, which they said worked just fine.

So, why is this? Well, basically, in the beginning of any big, shiny new project, what you have is a great deal of excitement over the benefits that it will bestow upon your organization -- streamlined processes, bottom-line savings, top line growth, more efficiency, reduced waste, better customer service, etc. The problem arises when this leads to a "hurry up and get things done" approach.

Maybe your company has a history of talking-the-talk but walking-the-walk — not so much. "This time it's going to be different!," exclaims your CEO slapping the table for emphasis and — shocking — everyone's on board. You charge ahead, select a vendor, eschew due diligence, and fail to define clear business requirements and goals. Perhaps you even know you don't understand your business processes as well you need to but, "Hey, ERP's designed to fix all that, right? That's what the salesperson said." And away you go.

So how to you combat this? It's simple: don't do it!

Done properly ERP can and will transform your business by automating and re-engineering its beating heart: its business processes. It is, therefore, in your best interest to take the time to understand how your business actually runs; especially if you've grown through a lot of M&A over the years.

It is also critical to understand the level of resource commitment the project will take, for example. Most companies have very little overhead in this area so already maxed-out managers will have to devote an additional 15 to 20 percent of their day to this project at any given time. Can they really do this and do their "day job" too?

Another oft-glossed-over requirement is the time it will take to get the project done, says Panorama Consulting founder Eric Kimberlink. Understanding things like resources allocation, time-to-value, cost, change management, adoption, employee training are all down-played in favor of the perceived benefits the software will bring. (Aside from running Panorama, Kimberlink spends most of his time these days as an expert witness doing forensic analysis on failed projects that end up in court.)

Kimberlink suggests a few do's and don'ts that will help:

- Develop your own benchmarks, don't rely on the vendor's. Vendors can supply you with templates and best practices that can take you a good part of the way but only take you so far. You still need to define what constitutes success and failure, progress and set backs, deadlines and must-haves, your "as-is" state vs. your ideal "to-be" state
- Don't rely on your vendor or SI to handle change management. It's your firm, so its your culture that has to change, not theirs. Vendors sell software and some best practices. SI's sell implementation. Change management is up to you and the difficulty of this process is directly affected by expectations set early on. If you think it's gong to be easy and its not, then you are going to be in for some sleepless nights
- Define your business processes up front. Don't' let the software define them for you. Most companies have no idea how their business processes work in practice until, say, Joe quits. Suddenly all of that problem solving and expediting wisdom is gone. No software can replicate Joe's knowledge. Find Joe. Talk to Joe -- preferably in the beginning of the process, not when you're trying to get him back

All of this will be more time consuming up front but will save lots of heartache and money on the back end when you find yourself fixing what should never have been broken in the first place.

2. Failure to manage organizational change

In a refreshing public assessment of its failings, Lumber Liquidators did not blame SAP for its Q3 2010 loss of $12M+. They fessed up saying plainly that they underestimated the amount of training needed to get employees up to speed on the new system.

"Unfortunately," writes Kimberlink in his blog, "Lumber Liquidators isn't alone in its insufficient attention to organizational change management, ERP training, and communications. Most companies view these activities as optional, nice-to-have activities. However, as many companies realize the hard way, these are critical necessities. As Lumber Liquidators illustrated in its Q3 results, a few hundred thousand dollars and even just a little more time focused on organizational change management would have easily taken a dent out of the $12 million plus of lost sales that resulted from poor user acceptance of the new system."

As everyone knows the only constant in life is change. So that knowledge coupled with Murphy's Law that states anything that can go wrong will, add in an ERP project and you have the makings for a Perfect Storm. Given that ERP technology generally works and you've taken the time to set realistic expectations up front the next critical step is to get your organization ready for the massive change ERP represents.

You will need to understand your business processes end-to-end and not just on paper. As mentioned above, you have to find your "Joes," the people in your organization that hold the institutional knowledge of how the business actually runs and get them involved in the process early on.

You must also take the time to understand your company's culture, says retired Marriott CIO, Carl Wilson. What made Marriott successful at technology wasn't IT it was its people. They were just better at applying it than the competition. Wilson accomplished this by making change personal; making the effort to communicate what the project would mean to people's jobs, careers, ways of working, etc. — the things they cared about. As basic as this sounds, unfortunately, most companies fail in this area.

You also have to factor in the time and effort needed to standardize your business processes across your organization. This includes master data management (MDM) activities so "Widget 1" means "Widget 1" everywhere. More often then not clients have legacy issues, use Excel spreadsheets for some areas, in some divisions but not others without any standardized reporting so just getting data accurate across divisions is a huge problem. Ironically, MDM is one of the main reasons ERP is installed in the first place. The problem is people don't do what's necessary in the planning stages or even during the install to affect that change to a single version of the truth. They eventually get to it but not usually before two-thirds of the project is completed.

So along with requirements, figure this out before you begin. Put a separate team together to tackle just this one aspect of the install. As daunting as this sounds, you don't need a bunch of fancy new tools to do this often its just a matter of collecting all the data and then going through it by hand. But, this is what ERP is all about so skipping or skimping on this critical step is a big mistake.

3. Not involving key stakeholders

This is more than the much-vaunted executive “buy-in.” ERP is a top down project so buy-in is a given. What isn’t, however, is ongoing participation — the sponsorship of the project. If your executives are always too busy for status meetings or to allocate the resources and money needed to deal with unanticipated events because they are “dealing the real problems of the business” or some such foolishness than you are in for a steep climb.

How to get and keep executive attention is hard to say but Wilson’s solution was to “move the cheese” to get his executive team on board. He made sure that he recognized, rewarded and compensated where he wanted them to go not where they were. The more exciting work would start to go to the people that got on board early and then the rest of the group would eventually follow along.

“The company is going in this new direction and using this new technology,” says Wilson, who continues to coach executives today, of his pep talks. “If you want to get and stay on board, then this is how you can do it. If you are good leader, you are going to provide the steps along the path that will get them there: training, coaching or whatever it takes to get there. This is basic change management.”

Educating the executive team on the scale and risk of an ERP install is a good idea. Many executives are so busy with the day to day of things they may not have the bandwidth to absorb what ERP really means to the organization. They may view it as just another IT project or a way to automate existing processes.

If this is your situation, impress on the C-suite that along with big-time rewards come big-time risks and to minimize that risk requires their attention and participation. Cite Marin vs. Deloitte if you have to. This is what happened there.

4. Poor project management

Boy, where to begin with this one, right? Poor project management is pervasive. Many books are devoted to this topic because when you get a group of people together to do anything, let along something as intense as ERP, you are going to have problems.

It takes a strong leader to keep things on track and hold people accountable so first and foremost make sure you have someone leading your team that has ERP implementation experience. Hire them if you don’t — even if they have to sit around cooling their heels while you do other things for a while. This is critical. A few thousand dollars to get them on the payroll before you need them is a pittance compared to the average multi-million dollar ERP package price tag.

If you can’t find someone to hire, make sure you engage a qualified third-party consultant — not the SI’s folks or the vendor’s folks — to act in their stead. After all, the truth of the matter is its in the best interest of the vendor and the SI for installs to go long since they will have people on the ground the entire time billing for their services.

The other things that good project management will do is:

- Keep things on schedule so you can realize ROI in the time frame you set;
- Keep lines of communication open so the right people are involved at crucial junctures and informed decisions are made;
- Limit the firefighting and management-by-exception that is so common on large projects;
- Eliminate "Hail Mary" execution of deliverables (as well as the associated and unplanned overtime this takes);
- Manage scope creep so the project's deliverables don't turn into an ever-expanding wish-list (this also ties in with No.1 — setting expectations gives everyone a strong foundation to work from when approving or denying changes);
- Keeps people form over-customizing the templates that come with most ERP packages today (remember you can always go aback and tweak a report or dashboard later — doing these relatively minor things mid-project can lead to significant delays as they add up); and (believe or not but this happens a lot)
- Keep management from demanding that your vendor's latest upgrade be integrated mid-project (stick to the package you started with and upgrade later if you just have to have the latest and greatest)

And, finally …

5. Failure to manage business benefits

Really this just a fancy way of saying if you don't ask, you won't know. How do you really know your install has "failed," for example? You have to look and measure and then compare what actually happened to what you wanted to have happen.

All projects of this scope will have some things that go exceptionally well and some that don't, says Panorama's Kimberlink, and this is key: ERP gets better over time with tweaking. But, to tweak, you have to have visibility into what you are tweaking. This is how you identify areas for improvement. As we mentioned at the outset, however, most companies don't do this because they are so exhausted by the whole process they're just glad to be done.

This is a mistake. Most ERP installs don't fail outright but by degrees of unrealized business benefit. Huge failures like the ones outlined in the introduction are really the exception. Most failure are incremental and made up of small incidents that accumulate and amplify: Maybe you are using the wrong software and only figure this out post-implementation because of the rush to get the project going. Or maybe you didn't fully realize how your business processes work or that all of that customization to get things to "look like they used to" caused too many cost overruns or, like Lumber Liquidators, you training was insufficient.

Whatever the cause, you won't be able to pin point remedies if you don't shake the tree to see what falls out. There will be problems. But, if you use this exercise to learn from the things that could have gone better and then work to improve the areas where they did not, you will avoid a lot of hurt feelings and negative energy that could be put to better use elsewhere.

Conclusion

Above all ERP is first and foremost a business initiative, not an IT project or a software package. Your ERP package is going to be with you a long time so defining why you're doing it and what you expect to get from it are critically important first steps. Involving key personnel and stakeholders early in the process as you define the outlines of the initiative will save a lot of Alka-Seltzer later on. Communicate your strategy and your tactics to the entire organization as much as you can and make sure the C-suite stays involved and educated as the project progresses. And don't skimp on the project management. Control scope and leave the little things for after you've done the heavy lifting.

If you treat ERP from the point of view of the people that will be most affected and who have the most to gain and to loose, then you will probably make a lot more right decisions than wrong ones.