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# ERP Facts and Information

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# Software Selection Methodology

On average, companies select new business software every 7 to 12 years. Due to this infrequency, few client employees are truly skilled at selecting software. The following are our general guidelines when selecting a business system:

## Avoid RFQ/RFP Driven Selections

It has been our experience that selections that use the RFQ/RFP methodology as their main driver fail to meet the true requirements of the purchasing company. The project team that builds a 500 page requirements document creates monumental problems, not the least of which is the wasted investment in time and money spent to create and analyze the document. Our experience has been that most modern software will meet the stated requirement; the differentiator will be how the software performs those functions in comparison to the company's needs. We focus on developing 10–15 critical decision drivers that are important to the successful implementation of the system.

## Improve Your Process

Many companies embark on a selection by defining a new system that resembles the old system. They simply want to continue doing what they have done in the past with a more expensive user interface. Whether you want to admit it or not, selecting a new system is simply improving your company's information handling process. Select your system based on what the process should be, not what it is, by taking the time to map out the future "To Be" process.

## Have Cross-Functional Representation

The project team must have cross-functional representation and embrace the big picture, having a clear focus on the project objectives and alternative methodologies. The team must be aware of the many trade-offs between technology, departments and functional needs. The project team must also remember that the ultimate goal is to buy a business system, not a computer system. The search is for a solution to the company's information handling problems, not an exercise in finding technological excellence. Companies that do not have cross-functional representation frequently make the mistake of making technology a main driver.

## Structure the Demo Process

Companies usually conduct demos after narrowing down their list to two or three vendors. Our experience has been that if you do not structure these demos, specifying based on your critical decision drivers and initial interviews what you would like to see; you are showed what differentiates the software product from other offerings. This may be very important to your company or it can be a function that will have no impact on your decision.

## Select a Partner not a Vendor

System implementations are complex projects. You will have problems and any vendor who tells you otherwise should be eliminated from the selection. Use the selection process to gauge responsiveness, attention to detail, timeliness and professionalism in order to not only select the right software but the right software company.


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# ERP Systems—From Installation to Performance Results

ERP systems now lie at the heart of current attempts at improved supply chain integration and customer relation management. For better or worse, ERP systems are here to stay. The challenge, therefore, in any organization becomes one of increasing the probability of an ERP system's effective use either to the point of system-wide functionality (at a minimum) or optimality (at best).

We make a distinction between installation of an ERP system and the effective use of that system. The crux of the ERP implementation problem is not installation, rapid or otherwise, but rather implementation to the point of achieving the desired performance results, what we call the Phase 2 problem. You can install a new system quickly, only to have hurried in order to discover that its ultimate effectiveness relies almost entirely on the capacity of its users to absorb the change. In other words, it's the users' throughput capacity that matters, not the installers'. While the Phase 2 problem lies at the heart of any attempt to improve performance, top managers, system designers, and implementers often chose to ignore it initially, if not altogether. For example, what many information technology consultants consider implementation is minimal functionality at best, installation at worst. These consultants then use minimal functionality in one part of the organization or more widespread installation as evidence that the ERP has achieved its system-wide performance objectives. A great leap is made.

ERP implementations take a considerable amount of time, money, and effort. Exactly how much time, money, and effort is required tends to be proportional to the size of the organization in which the implementation takes place. For example, the typical Fortune 500 company will spend $30 million to $100 million on their initial ERP implementation, which will require several years of effort to complete. Smaller firms (under $1 billion in sales) spend considerably less than that, about $12 million on average as of several years ago.

Regardless of size, conventional wisdom suggests that the majority of ERP projects are difficult and significant budget overruns are common, due to such things as the complexity of the software itself, the often many and disparate databases that must be joined together, and the difficulties associated with estimating certain costs. Training costs appear to be the most elusive budget item and one that is consistently underestimated, in some cases by as much as 100 percent. More importantly, ERP implementations—even those that use "pre-coded" applications such as SAP, Oracle, Baan, JD Edwards, PeopleSoft—often require a complete overhaul or reengineering of major business processes in order to make use of the software's capability or to accommodate the software itself or both.

This in turn creates a number of cross-functional issues that often prove more difficult to deal with than do the changes made in computer hardware and software, such as who owns the processes, how these processes should run, how performance should be measured, and what organizational structure is needed. More importantly, underlying all the above is the need for a great many people to accept the new system and learn new or different skills in order to use it, much less become comfortable enough with it so that it functions at some level of acceptable performance.


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The decision as to whether to fit the ERP system to the way people work or change the way people work to fit the ERP system depends, in large part, on the degree to which business process excellence provides a competitive advantage and on the costs (and benefits) associated with each alternative. The difficulty from a decision standpoint is that the costs of ERP hardware and software tend to be known to a far greater extent than are the costs associated with changing the business processes to support the software leading many companies to simply ignore the need and set the stage for the classic Phase 2 problem.

## ERP Systems—Six Common Problems

### Six common ERP implementation problems that determine the success or failure of a project:

1. Not understanding the true significance of what you have taken on.
2. Not committing the right resources to the project.
3. Not managing the change effectively.
4. Not managing benefits (i.e., reporting on cost and schedule, not ultimate system benefits or performance).
5. Not embracing integration (i.e., retaining the existing organizational structure, reporting relationships and processes).
6. Not planning for the end of the project before you start (i.e., the long term implications and needs).

This list should look familiar to anyone who has been involved in almost any type of change effort. Perhaps the only difference between an ERP implementation and most other attempts at new technology implementation or organizational change is the size of the bill, the number of people or systems affected at any one time, and the turnover created. Experts estimate that approximately 25 percent of key personnel leave during the implementation process and another 25 percent seriously consider leaving, primarily due to the disruption and change caused by the project.

In general, studies of technology implementation and change have found that acceptance of change is positively correlated with such factors as the (perceived) relative advantage of the change, its compatibility with current practices or beliefs, whether it's something that is easily or readily understood, the degree to which it can be tried and discarded if it doesn't work out, involvement in the change process, the availability of adequate resources, the use of meaningful and desired rewards, the ability to adapt the change to local conditions, open communication regarding the change, and management support for and commitment to the change. On the other hand, resistance to change has been found to be associated with the absence or lack of the above factors, as well as the presence of such things as fatigue, skepticism, or cynicism due to past change efforts; employee mistrust of management; job or employment security fears; and fears related to such things as the loss of status and control.


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A typical solution to more effective ERP implementation is "rapid implementation," a strategy that calls for the full commitment and support of senior management and a labor-intensive, three-way partnership among the client, implementation staff consultants, and software support personnel. However, the emphasis on rapid implementation as a way to achieve more effective use is misplaced for two reasons. First, the main goal is installation, not effective use. Second—and more importantly—the real issue is information throughput, which is determined by the capability and capacity of users to absorb the new ERP technology and make effective use of it. This is a bottleneck that no amount of management commitment, staff support, or resources is going to improve beyond the normal learning curve of the organization.

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