ERP Strategy: Why You Need One, and Key Considerations for Defining One

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A clearly defined ERP strategy is vital for success with ERP investments. This research is a reference guide for IT professionals and business users analyzing the key considerations that underpin an effective ERP strategy.

Key Findings

• Most organizations develop their ERP strategies as a result of tactical decision making and ongoing acquisitions. Such an approach rarely delivers an ERP strategy that supports the enterprise’s strategic business objectives.

• The most successful ERP projects support strategic business objectives and goals. This helps ensure the right level of executive involvement to support the major business changes that such projects usually demand.

• Defining the right ERP strategy is a difficult balancing act that requires IT and business representatives to work together. IT departments cannot make these difficult decisions on their own.

Recommendations

• Don’t approach ERP tactically from an IT-led perspective. Define an ERP strategy that supports your business strategy and delivers real business value.

• Define a clear boundary for the scope of the ERP system. This will help ensure that the project doesn’t spiral out of control as users demand more functionality.

• Don’t think of ERP only as a single, global system — other approaches to an ERP strategy can deliver benefits.

• As your business and technology needs change, use this research to help define your ERP strategy, understand the key success and risk factors, and re-evaluate your ERP strategy.
ANALYSIS

Many organizations have a fragmented ERP landscape, because they never had a clearly defined ERP strategy. Instead, ERP has been a series of incremental development projects that have made the technical architecture more complex, without yielding obvious strategic benefits. Alarming, Gartner has found that most organizations deploy ERP systems without measuring the value they’re delivering. A survey of 186 companies — 71% of which have $1 billion or more in revenue — revealed that only 37% of companies actually measure the business value from their ERP projects. This means most organizations lack a coherent ERP strategy and, instead, are being driven into an ongoing cycle of tactical decisions forced by user demands and vendor upgrade cycles.

Organizations that want to control the costs of managing ERP and to drive maximum value from their ERP investments should fundamentally re-evaluate their ERP strategy, including goals, assumptions, key performance indicators, successes and failures. Similarly, organizations about to undertake a major new ERP project need to ensure they have a clearly defined ERP strategy before they start.

Defining an ERP Strategy and Why You Need One

What Is ERP?

Gartner defined ERP in 1990 as the combination of four systems:

- Financials
- Human resources
- Order management
- Manufacturing

These modules were meant to be integrated and to work together seamlessly. However, as software vendors have added significant pieces of functionality outside these four core modules, the situation has become confused. Many software vendors (including SAP and Oracle) now offer a wide range of modules that extend the functionality of these main four areas, while providing other functionality, including customer relationship management (CRM), supply chain management (SCM) and product life cycle management (PLM).

Hence, some observers now say that ERP includes all this functionality, whereas others say that ERP still only relates to these initial four components, and that modules such as SCM or CRM are not part of ERP. One reason people have this latter view is that, in some cases, initial efforts by vendors at supplying these expansion modules did not provide tight integration with the four core modules in the original ERP system. However, this is only the case in some vendor situations; in others, the integration between SCM and finance or components of CRM and finance is as tightly linked as the components in the original four modules, so this distinction seems arbitrary and is more related to the extent of the integration, rather than a categorical differentiation.

Given the confusion that has arisen, Gartner takes a broader view of ERP. In our view, it is more than a set of modules, and ERP should not be defined in terms of modules. Gartner views ERP as a technology strategy in which operational business transactions are linked to financial transactions, specifically general-ledger transactions, rather than a distinct set of functionality. Therefore, ERP is a technology strategy that an end-user organization will implement, as well as a kind of suite in which a vendor may place various pieces of functionality. What makes ERP distinct is the way in which these modules are integrated with financials — not the functionality contained in them. The reason we highlight this distinction is that taking a functional view of what is included in ERP seems arbitrary, and doesn’t recognize the varied ways in which ERP is deployed in different organizations. This results in the following definition of ERP:

**ERP is a technology strategy that integrates a set of business functions, such as finance, HR and purchasing, with operational aspects, such as manufacturing or distribution, through tight linkages from operational business transactions to financial records.**

From the software vendor’s perspective, an ERP suite is delivered as an application suite in which operational business transactions are tightly coupled with financial transactions. This does not mean that all operational transactions or analytic functions give rise to financial entries, but that this is a design principle for a significant part of the suite. Suites provide process, function and data integration for several systems of record in an enterprise. The system of record is the official authoritative source of data that any stakeholders in an enterprise can reference to support their activities, processes and responsibilities.

An ERP system can also provide analytic applications based on the transactional dataset that is generated by the functionality contained within the suite. Most ERP solutions enable the flow of information across the organization, in end-to-end business processes, through a comprehensive set of interconnected modules. So, for example, this makes it possible to get a real-time view of all business activities from a financial perspective.

In many cases, ERPs can also include industry-specific functionality — e.g., for retail, specific kinds of manufacturing, banking, insurance and healthcare. Nonetheless, ERP functionality is focused on its traditional industries of manufacturing and distribution.
Why Do You Need an ERP Strategy?

Every organization needs some form of ERP strategy, because in some areas, an ERP system — whether on-premises, software as a service (SaaS) or outsourced — can be the only practical source for packaged software to support some business functions. For example, there are no practical solutions for core, high-volume transactional order management in manufacturing and distribution, outside conventional ERP products. Similarly, all general-ledger packages are part of a broader suite offering (the scope of which varies considerably by vendor), so any organization evaluating financial applications must decide how much of the additional suite offerings (if any) it will take from its general-ledger vendor.

Few organizations start with a “clean slate” when it comes to ERP. Many have developed their business application portfolio over time and through acquisitions. This usually results in a tactically or operationally defined business applications portfolio that cannot support business requirements. This usually manifests as:

- IT’s inability to meet evolving business needs
- Escalating IT costs, with no apparent benefits
- Data errors
- Integration problems enterprise-wide

Failure to define a coherent ERP strategy that supports the strategic goals of the business will result in poor economies of scale and an inability to respond to business change.

As we’ve noted several times, ERP is not a magical product that will solve all these issues. Many ERP implementations fail to deliver the perceived benefits for many enterprises. That’s why it’s critical for organizations to derive an ERP strategy from their business goals and in support of them. That is, you shouldn’t just assume that merely using an ERP will actually live up to the promise of ERP. You must focus the strategy and projects on achieving these goals. Few, if any, organizations source all their business applications from one vendor, because no single software provider can supply all the functionality required to automate every business process in every industry. This makes the interplay between sourcing and business strategy integral to an ERP strategy. Hence, the key to an ERP strategy is deciding the scope of the business processes that can be supported by an integrated ERP suite.

However, with a realistic view and a focus on what is important to the business, a carefully managed ERP strategy will create a governance model and road map for an ERP landscape that matches the business strategy. This ERP strategy should be updated to match the changing needs of the business and new technologies as well.

Key Considerations for Defining an ERP Strategy

There is no single definition of the functionality in an ERP system, we find organizations adopt different ERP strategies, depending on their industry and business goals. Some organizations adopt not only the administrative aspects of ERP (primarily financials, human capital management and indirect procurement). For example, large enterprises that consist of many business units with very different business models (or acting in very different industries) sometimes deploy one ERP suite as their administrative backbone ERP suite to drive out greater operating efficiencies from their administrative functions.

Large enterprises with a common business model across their business units often extend their use of ERP beyond these components into operational areas, such as order management, manufacturing and supply chain, to maximize operational efficiencies. Some organizations adopt a two-tier ERP strategy in which separate, lower-cost regional solutions for small or midsize businesses are run alongside a Tier 1 ERP for larger operations.

Due to the limited scope of mature, full-scope ERP offerings in public sector, healthcare, banking, and insurance, organizations in these industries (sometimes referred to collectively as service-centric industries) tend to use administrative ERP strategies, while organizations in manufacturing, distribution, retail, etc. (sometimes referred to collectively as product-centric industries), are “more advanced” in their use of ERP in business operations. This is because there is less of a tight linkage between the operational activities and the financial system of record in the former industries than in the latter. For example, in insurance large volumes of “one off” payment transactions are generated by the claims processing system and the design of the financial modules of most ERP systems is not well-suited to managing this volume of activity.

In banking, there is no direct relationship between operational business transactions and the general-ledger postings — most banks operate a “thin” general ledger in which activity in their banking systems is posted at a summary level to the general ledger, again for volume and complexity reasons. The number of vendors offering an integrated suite that covers operational business transactions and back-office functions in these industries is limited, which is why many focus their ERP strategy on the administrative modules. Consequently, any organization defining an ERP strategy needs to consider several factors.

What Strategic Business Goals Will the ERP Implementation Support?

Gartner frequently encounters ERP projects that are tactically driven by IT, often in response to a need for IT to reduce its operational costs and simplify the application landscape. Although these are undeniable benefits, the most significant business benefits are derived when an ERP implementation is used to support strategic business transformation. Consequently, IT professionals and business users involved in defining an ERP strategy need to identify how this can be explicitly linked to, and enable in measurable ways, key strategic business goals. This will help put in place many of the key success factors for ERP — for example, the right level of executive sponsorship and commitment.
What Business Processes Will Be Included in the Scope of the ERP Implementation?

Because there is no standard definition of what functionality is in ERP, organizations need to define the scope of the business processes to be supported by their ERP implementations. If this isn’t done, organizations can easily fall prey to vendor marketing, and they risk purchasing a solution that will not meet their needs in key areas or one that may require the implementation of capabilities that are not part of the integrated ERP suite.

An ERP strategy must be defined in terms of process scope, rather than module functionality, because ERP suites offer potential benefits when they can ensure process integrity for business processes executed within the boundary of the ERP suite. This is because there are economies of scale in an ERP which has process integrity built in. Consequently, organizations need to define their requirements in terms of business process areas where process integrity will be a driver of business value.

For example, an organization that deals with a high volume of sales orders, with many different types of orders, may gain economies of scale by using an ERP suite that ensures process integrity and allows sales orders to be processed quickly and efficiently (without the need for users to resolve data-quality issues or become familiar with multiple systems). Conversely, an organization that delivers complex, project-based services (with perhaps low volumes of billing activity) may decide that the process of delivering and managing projects is best handled outside the ERP system, through a dedicated project management, delivery and billing application.

It is important to use this process scope to define a boundary for the ERP system. An ERP strategy must enforce use of the ERP system within the boundary definition; otherwise, the operating efficiencies that process integrity delivers will be compromised. The boundary definition should also include the “hand off” points from processes managed by the ERP system to processes in other, related business applications.

How Will the ERP System Be Customized and/or Augmented With Best-of-Breed Components?

Defining the process scope that sits within the ERP boundary is critical for ERP success. However, it is a challenging process, because not all business processes have equal value to an organization, and not all ERP-based applications are sufficiently usable or complete enough to support the intended process. Just having a laundry list of important processes will not provide clarity needed to make the right ERP decision. Every organization must identify which business processes are strategic — that is, which processes are, or could be, sources of competitive advantage and differentiation, and which are not. This business process classification should be used to drive the ERP strategy:

• For nonstrategic business processes, the business should flex the business process to support the ERP functionality as it is delivered, as long as the incremental solution is fairly priced and offers at least “good enough” usability and functionality. This leverages the delivered best practices in the ERP suite.
• For strategic business processes, the ERP system should be flexible enough to support innovation and differentiation in the business activity. If the ERP system cannot support the required functionality, this process should be considered outside the boundary of the ERP system.

However, the distinction between strategic and nonstrategic business processes on its own is too binary to be able to define an optimal ERP strategy. IT professionals and business users also need to understand the role of ERP in their business application portfolio, and, to do this, Gartner recommends the concept of pace layering. Pace layering classifies applications into systems of record, systems of differentiation and systems of innovation. A large portion of an ERP suite footprint will be systems of record, which support nonstrategic business processes, but many ERP suites also offer functionality that extends into systems of differentiation and, in some cases, innovation. Consequently, organizations need to balance the value of end-to-end process integrity provided by an ERP against the (potentially) better fit of a best-of-breed application, where a strategic process spans the pace layers.

Analytic applications often require little transaction integration, so this may tip the balance away from ERP solutions in these cases, even though they may support nondifferentiating business processes. However, as ERP vendors build out their analytic capabilities, prebuilt analytic integration may bring these applications back into the consideration of an ERP support. As analytic applications increase in importance in ERP vendor portfolios, this framework will shift the decision calculus around analytic application sourcing as well, because we expect the ERP vendors to make the analytic applications they offer more powerful and easier to use, due to prebuilt integrations to underlying transaction ERP applications. We might see the calculus shift in these situations to support for strategic or differentiating analytics versus nonstrategic analytics in a similar fashion to strategic versus nonstrategic business processes.

Therefore, ERP evaluations need to assess the ease with which standard processes in the ERP system can be configured or customized to support differentiation and innovation. This needs to be balanced against the additional integration costs of using best-of-breed systems (or even custom development) that may provide a better functional fit at lower cost (compared with customizing an ERP system).

What Instance Strategy Will Be Adopted?

The concept of ERP is associated in the minds of many executives with a single, global system. After all, we tend to describe ERP as a single entity; however, reality is more nuanced than that. Many companies that have a fragmented business application landscape are looking at moving to a single global instance of ERP. The technical barriers to this have fallen, even for large companies, and it is a powerful tool for standardizing business processes and applications across the enterprise. It offers the maximum potential economies of scale and IT cost savings, but it also has a higher degree of risk due to the magnitude of business change required.
Although the single global instance may appear attractive, it is not appropriate for all organizations. Companies need to adopt a strategy that will work within their business strategy and constraints. There are different approaches to centralization and standardization of ERP systems, while some organizations will adopt what Gartner calls a two-tier approach.

Which Vendor(s) Will Be Used?
Vendor choice is a significant factor in all ERP projects. However, Gartner too often sees organizations base their ERP strategy on a single vendor after a highly simplified evaluation process. Some vendors have created a strong marketing vision around the concept of ERP, but the reality of their offering can be different. For example, ERPs that are sold as a “product” are sometimes multiple products under the covers. This can limit the value of the system in terms of improving IT productivity, because it may require multiple infrastructure skill requirements that undermine the skill concentration value of an ERP.

Organizations should undertake a thorough evaluation to identify which vendors’ applications, support model, deployment options and technology platform match the goals of their ERP project. Gartner has developed a model to help structure ERP evaluations so that the different factors in such a complex decision can be balanced against each other.

Defining the Business Value of ERP
The right approach to ERP will depend on how business value will be realized. Correctly implemented, ERP systems can offer a significant range of benefits in a number of different areas.

IT Operational Effectiveness
The desire for IT cost savings and to improve the effectiveness of IT operations are usually the starting points for most business cases supporting ERP projects. These can be realized from a number of areas.

Integration Savings
Legacy point solutions require costly integration to maintain end-to-end business processes. By replacing multiple systems with a single system, integration costs and complexity can be eliminated. ERP systems also provide master data consistency by unifying this transactional information into a single system, the enterprise can focus on its mission, rather than on resolving data integrity issues. Although ERP systems are able to solve some master data consistency problems, they won’t solve them all, and you will still need a comprehensive master data management (MDM) strategy even if you have a functioning ERP. The ERP can make your MDM strategy easier (or harder in some cases), but you still need such a strategy.

Just because a system is sold by a single vendor does not mean that system will not have integration costs — some of the modules may not be properly integrated out-of-the-box, so any ERP evaluation must look beyond the marketing message to the reality of integration. Gartner has identified three types of application suites that provide increasing value to users: vendor-branded, integrated and engineered. Users that implement integrated or engineered suites will realize increasing integration benefits over branded suites.

You will still need to integrate the ERP with other systems, because it’s unlikely that an ERP will be able to meet all of your enterprise application requirements. In some cases, these integrations to other systems may be more resource-intensive, because of the additional complexity of integrating with an ERP, versus a simplified legacy application. In addition, some specialty systems, such as e-sourcing, work well on a stand-alone basis and will need minimal operational integration to the ERP. That said, ERPs usually provide net benefits in terms of integration costs.

Platform Consolidation
Platform consolidation involves using an ERP initiative to rationalize the application landscape in an organization, thus generating cost savings and improving operational effectiveness. For example, implementing a single, global ERP system will reduce IT costs in terms of system support, training and IT infrastructure through system and platform consolidation. Having a single ERP system will reduce the cost of IT operations supporting the business, because the implementation of ERP systems in multiple locations without centralized standardization and control will result in multiple (often widely varied) configurations. Each configuration will require unique training and support capabilities, and each unique technical environment will require uniquely qualified support personnel.

Decentralized solutions multiply the number of IT landscapes and system administration staff, and require additional effort to periodically consolidate operations and financial information from unique ERP instances. Upgrade efforts and costs can run an additional 50% to 100% of the initial instance effort/cost for each instance, depending on the variation in configuration and customization.

Gartner has seen organizations save 15% to 40% of their ERP operation and support budgets as a result of ERP consolidation projects. However, as described above, a single global instance ERP strategy is not right for every organization. Nevertheless, an ERP strategy can be used to reduce IT costs where there is a degree of platform consolidation (for example, standardizing on two vendors in a two-tier ERP strategy). The consolidation cost savings will be lower than moving to a single instance, but the associated project risks will also be lower.

In many cost-saving initiatives, enterprises often fail to see all of these benefits materialize if there are not data centers to shut down and head count to be redeployed. These types of threshold-based, cost-savings cases have to be carefully evaluated, because it can be inexpensive to run old legacy code that is rarely touched.

Legacy Retirement
Legacy systems that were custom-developed for the enterprise, or that are no longer supported by the vendor, can have high costs of support or require high IT resources to support. Retiring these systems with more-modern packaged ERP that has a clear road map can reduce cost and resources required to support these applications. It can also reduce business risk, because these systems often depend on a limited pool of skilled resources. Any ERP strategy that does not contain legacy retirement is unlikely to generate business value or significant cost savings.
Business Benefits
Although implementing ERP systems can deliver significant IT benefits, the bad news is that these savings are rarely enough to justify the project, especially if it involves major changes to business processes and user activities. ERP projects can only be justified on the combination of IT and business benefits. ERP systems offer a range of potential business benefits:

Transaction-Processing Efficiencies
Correctly implemented, ERP systems enable organizations to standardize processes and manage them centrally from a single, shared-service location. ERP systems come with embedded best practices for executing business processes that have been built up, in many cases, during a 20- to 30-year period, based on continual development and input from clients. Implementing these embedded business practices can result in operating efficiencies and reduced costs. These may not be “best” practices, but they are usually robust and “good” practices.

Consequently, the biggest transaction-processing benefits tend to come from nondifferentiating processes in administrative functions (such as procure to pay for indirect procurement or record to report). ERP implementation can also support the implementation of shared services, which enable organizations to take generate further economies of scale in their administrative processes and leverage lower-cost labor areas. For example, Gartner’s research indicates that implementing finance shared services, supported by a centralized ERP finance system can reduce the total cost of the finance function by 25% to 35% or more.

Business Enablement: Information Visibility and User Productivity
In addition to making business more efficient, ERP systems can enable business users to carry out their work more effectively. ERP suites provide better visibility into financial and operational data on a real-time basis. An ERP system will provide a better foundation for more-accurate information visibility across enterprise operations as there will be common master data and a common information model. This can help speed up the financial close process and provide better visibility into customer and supplier activity across the enterprise. Increasingly, ERP vendors are offering a range of analytic capabilities integrated with their applications, such that they become an embedded part of the value proposition, which will deliver more value to the business user. However, these capabilities will not necessarily improve decision-making and management reporting on their own. As a result, consider embedded analytics as part of broader business intelligence (BI), analytics and performance management strategy.

ERP systems also enable users to be more productive, because the common information model, coupled with embedded analytics, enables organizations to bring business data from what once were several systems into a single place. This makes users more productive in many ways — for example, responding more effectively to customer needs or finding new business opportunities. These are usually difficult business benefits to quantify, but, when they are quantified, they can have significant benefits.

However, ERP faces a major challenge in this area, in that many users see the user interface (UI) and user experience of an ERP as overly complex, which brings up the question of whether functionality matters if no one uses it. However, Gartner research has found a gap between the experiences of casual and professional users, in that professional users tend to rate the user experience highly, while casual users rate it poorly. This means special attention should be paid to enabling casual and business users without disrupting the highly specialized UIs for professional users that simultaneously makes their job easier, while making the system almost impenetrable to laypeople.

Strategic Business Benefits
Although many business case documents for ERP projects focus on cost savings and efficiency improvements, the most significant benefits are generated when ERP is directly linked to the achievement of strategic business goals. This helps build the right level of executive sponsorship and involvement. The list of strategic benefit cases below is not meant to be comprehensive, and an individual enterprise rarely experiences all of them, but they are examples of the main strategic benefits we see.

Support Strategic Business Transformation Through Standardization
ERP systems can be used as key enablers of strategic business objectives. Gartner frequently encounters CEOs and senior executives pursuing a one-company strategy to standardize many business processes on a global basis as part of a major business transformation initiative. It is common to find organizations moving away from a regional or local focus to an approach focused globally on product lines or customer segments.

Implementing an ERP system on a global single-instance basis becomes an important foundation for such a transformation effort; in fact, the transformation would be virtually impossible without it. However, ERP systems can enable business transformation at many levels: that is, it’s not necessary to always use a global single instance strategy to achieve this level of strategic benefit. Standardizing on a single ERP system for all manufacturing operations in a line of business would also enable strategic business transformation.

Standardizing business processes across an enterprise through the implementation of ERP systems and other business applications has widened the gap between winners and losers in global competitiveness and profitability. A large part of this gap can be attributed to the way enterprises approach business process and information standardization. The winners at application investments use their applications to standardize business processes and information in their enterprises.

There are other benefits as well. There is recent evidence that process and data standardization has enabled faster business innovation. This may seem counterintuitive, but it is actually easier to replicate business innovation across a standard set of business processes, rather than across a varied and fragmented set of disparate processes.
Foundation for Merger and Acquisition Activity
An ERP system becomes a better foundation for future growth through acquisition. Many large organizations have implemented ERP systems to provide a backbone for the rapid assimilation of future acquisitions. Such organizations have been able to achieve economies of scale more rapidly when acquiring new companies by leveraging their standard ERP platform and processes. If pursuing this strategy, the management team must include an assessment of the ease with which potential acquisitions can be moved to the corporate ERP systems as part of the acquisition due diligence.

Greater Focus on Business Differentiation
ERP is, in many ways, a set of best practices in a box. By implementing the system, you can enjoy the benefits of these best practices in supporting the range of nondifferentiating business processes in your enterprise. Executing the ERP project successfully should free up IT and business resources from focusing on basic and nondifferentiating processes to enable the business to focus on strategic business differentiation. This benefit is often not achieved because all resources are too exhausted after the initial ERP project was concluded to actually access the second phase of realizing the business differentiation.

Associated Intangible Benefits
ERP systems can deliver many direct benefits; however, they also deliver intangible benefits, which can support other business initiatives. For example, an ERP strategy can support a green IT strategy by reducing the amount of hardware — and, thus, energy usage — required to support business operations. Increased business process automation can significantly reduce the amount of paper consumed by an organization through electronic submission of orders and invoices, and by reducing paper-based internal purchasing systems, which will benefit a sustainability strategy.

ERP systems can reduce the cost of compliance with external regulations (such as Sarbanes-Oxley) through their support for process standardization. Because the processes are managed and audited by the ERP system, rather than being manual and, thus, requiring a layer of additional manual checks and controls.

Building the Business Case for ERP
A solid business case lays the foundation for a successful ERP initiative. It should follow from the definition of the ERP strategy, because, once the strategy is defined, the business case should document the objectives, success factors and risks associated with the initiative. A business case enumerates the costs and benefits to the organization and creates a baseline for measuring the initiative’s success at a future date. The business case significantly improves the odds of success, because it generates stakeholder commitment, demonstrates credibility and guides the work to ensure expected benefits are realized. Gartner has developed a template to help organizations create a well-structured business case for ERP and other business application initiatives.

Incidentally, the strategic business benefits above are among the most difficult to quantify after the fact. For example, in many organizations, claiming that all the benefits of a strategic business transformation accrue to a technology (such as ERP) stretches the credibility of the IT department. If the strategic business case for an ERP were to enable cross-sales of products across organizational boundaries, and this yielded $100 million in additional sales, it is right to claim this revenue as a benefit of the ERP project. The biggest issue here is that CIOs are reluctant to claim all these business changes as benefits. Therefore, articulate the strategic changes enabled by the ERP before kickoff, because it makes the massive strategic benefits easier to claim than if they are only realized (and mentioned) after the fact, when it looks like an opportunistic post-hoc business case claim that lacks credibility.

ERP Success and Risk Factors
Key Success Factors
Gartner speaks with many organizations worldwide about their successes (and failures) with large ERP projects. In major ERP projects, several critical success factors stand out.

Clear Link to Strategic Business Goals
The most successful ERP projects are those that are an important part of a clearly defined business strategy, not an IT-led “housekeeping” initiative. For example, Colt Telecommunication’s ERP project was part of its strategy to restore corporate profitability, whereas Oracle’s project was a key enabler of the CEO’s goal to become a global e-business. Another global organization that wanted to become “one business” used an ERP strategy to make the previously autonomous business units focus more on sales, marketing and the customers in their segments and regions, rather than IT and other administrative support tasks.

Strong Executive Sponsorship
The impact of change on people and business processes demanded by ERP projects means commitment from senior management will be vital to drive these changes. Although it’s possible to approach these projects from a consensus-building approach, this takes time. In some cases, executive management has to be prepared to step in and make tough decisions to keep the project on track. This requires greater personal involvement than being named “project sponsor” and attending steering committee meetings. For example, in one successful ERP project, the CFO was personally involved in the design of the global chart of accounts and was prepared to make decisions on the chart of accounts structure, when the regional CFOs could not agree.

The Right Governance Model
Coupled with executive sponsorship, it’s important to create a governance structure that brings together IT, representatives from all parts of the business, senior management and the ERP vendor into a shared governance team that can address the challenging change management issues that such a project will generate.
A Strong Relationship With the ERP Vendor

No project will be risk-free, so it is important to work in partnership with the ERP vendor. Gartner recommends that, for large ERP projects, key executives from the software vendor become part of the governance structure, and that an agreed escalation path to these executives is in place in case issues do arise during the implementation.

The Right System Integrator Partner

System integrators (SIs) have been working on large ERP projects for many years, and most of them have their own best-practice methodologies for implementing ERP systems such as SAP or Oracle. Selecting the right partner with the right skills to augment your internal capabilities can make the difference between success and failure. Choosing the right SI means matching the enterprise’s service/skills/capability gaps to the type of firm that excels in those areas, and it is possible you might need to adopt a multisourcing model that leverages multiple SIs. Don’t try to simply outsource your implementation to your SI; internal resources should stay actively involved in the life cycle of the project.

Cultural Factors

Implementing an ERP is a tedious process that requires many people from different backgrounds to closely collaborate over many months and under a great deal of stress. Different nationalities and cultures contribute, and, in the case of merged or acquired companies, the company cultures must be synchronized. Therefore, the human aspects of understanding and relationships among people play a strong role that’s often neglected.

Key Risk Factors

A number of common risk factors can cause global ERP projects to stall or even fail.

Balancing Best Practices Against Differentiated Processes

Many organizations start with a high-level blueprint that shows the adoption of ERP across a broad range of business process areas, using standard functionality wherever possible. This is an easy assumption to make at a strategic level, but there can be issues when the project starts the actual rollout. In many business process areas (such as procure to pay or record to report), it makes sense to change the processes to suit the software. Although this creates change management issues, it does not endanger the health of the business. However, changing processes in order management, supply chain and customer-facing processes to suit standard software functionality can be more challenging.

For example, Levi Strauss had issues with its ERP implementation and had to shut down the system completely for a week. Because its ERP managed supply chain and operations, this had a major impact on the business — the CEO said this was a “substantial” factor in a 19% decline in U.S. sales and a 98% drop in profitability during that quarter.

Consequently, organizations need to ensure that operational and customer-facing processes that are sources of business differentiation will not be compromised by slavishly adhering to standard ERP functionality. The flip side is that any decision to customize the system to support existing processes in these key areas must be controlled and managed, and users do not use this as an excuse to create customizations to suit the way they are accustomed to working. This is the balancing act that must be performed to define the boundary of the ERP suite. Use Gartner’s Pace Layering approach to help identify and manage systems of differentiation and innovation.

Failure to Manage Change and Build Buy-In

Users often resist global ERP implementations, because they see this as the company forcing them to change systems and processes they’ve known for years (even if the new system may improve their processes). For example, if an ERP is selected as a global standard but, in response to user pressure, the project allows for different implementations worldwide, integration costs could increase, because of varying data and process models. This could compromise the original goals and business case of the ERP implementation.

A key contributor to many failed ERP projects is mishandling the organizational changes associated with the implementation. This risk can be managed with the appropriate executive sponsorship and commitment, coupled with an effective change management program.

Business Forgets Value Over Time

ERP benefits amnesia is perhaps the most insidious challenge to an ERP strategy. The ERP project may be justified by eliminating millions of dollars in costs due to retirements of systems and reduced integration costs. However, once those benefits are achieved, and the systems are retired, the business tends to forget it was ever spending that money. The problem comes when businesses are trying to demonstrate the ongoing value of the ERP, which requires expensive ongoing maintenance, but the business forgets what the ongoing costs of the alternative would have been. This is particularly true when the costs of the ERP system are collected centrally, then charged out to the business units.

Gartner has seen many cases in which incoming executives at the business-unit level question why they pay corporate to maintain the ERP system and services, when they may be able to tactically source some of the capabilities through a regional outsourcer at a lower cost to their business unit. This approach challenges the strategic goals and can compromise the original business case assumptions.

To establish and measure the value of ERP, organizations need to benchmark their current operations and identify the likely opportunities for improvement, as well as document the savings and efficiencies realized over the life of the ERP system. Another challenge faced in ongoing ERP strategies is that business is always asking, “What have you done for me lately?” To be successful, ERP cannot be static. It must deliver an ongoing stream of business efficiency gains.

You need a continuous improvement methodology in your business as part of any ERP project, as well as an operational tempo to business releases that meets the needs of the business. Some companies are turning to agile development methodologies, marrying them to front-end ERP development efforts, to ensure that there is a stream of ongoing business value.
Failure to Plan for Continuous Innovation and Maintenance Fatigue

Many ERP implementations view their deployment as an end state. This leads to valuing stability over business responsiveness — and batch change over continuous innovation. The difficulty with this approach is that business change itself isn’t batched — the business changes every day and needs the ERP to change with it. The worst strategy is to batch up changes to the ERP around major upgrades. This means budget requests for maintenance and upgrades come at extended periods, after which the ERP has not delivered incremental value. This is the crux of long-term dissatisfaction with ERP by the business. It can be addressed by focusing on ERP as an enabler of continuous innovation, rather than a point-in-time strategy; however, this means that the business needs to budget for and fund continuous innovation as part of an ERP strategy.

Conclusions

Defining and documenting an ERP strategy is the first step on the road to ERP success. Resist the temptation to make a quick “strategic” decision to go with a major ERP vendor and hope it will solve your problems for you. You might as well just give the vendor your checkbook. Instead, address the main considerations outlined:

- Identify how ERP will support strategic business objectives.
- Define the boundary of your ERP system. Use delivered processes with minimal or no customization within that boundary to leverage process integrity and deliver economies of scale, augment the ERP system with best-of-breed solutions or additional solutions from your ERP vendor outside the boundary to support differentiation and innovation.
- Decide on an instance strategy that best supports your business goals.
- Evaluate ERP vendors and SI partners after you have identified your key ERP strategic goals and approach.

Document the business value that the ERP project is expected to deliver using the business case template, and identify the key risk factors that may adversely affect your strategy so they can be proactively managed throughout the project. Finally, don’t just focus on the major effort that will be required to implement and roll out the ERP system. Although this could take anywhere from 12 months to 10 years, the investment in ERP doesn’t end there. Gartner recommends that systems of record should have an anticipated life of 10 to 20 years, and a large part of any ERP implementation will include systems of record. Thus, proactive management of the life cycle of the system is crucial to ensure the best ROI in ERP.

Evidence

For the referenced polling of 186 companies, this survey was fielded in fall 2009 to the clients of ASUG, SAP and AMR Research. After eliminating incomplete responses, 186 usable surveys remained.

For the referenced polling on user perception of interfaces, this first-time survey was conducted as an online survey in May 2010 for two weeks, in which time 34 responses were gathered. The target audience was members of Enterprise IT Leaders (EITL): Applications (SAP) who had voted to cover the topic of SAP UI in the most recent EITL: Applications (SAP) member topic survey.