The Importance of an ERP Strategy

Realizing the Gain without the Pain

What is ERP?

The definition of ERP (Enterprise Resource Planning) in the late 1980s included financials, human resources, order management and manufacturing. This, of course, has changed as ERP vendors have augmented their offerings by adding modules to their ERPs to satisfy customer needs.

Gartner defines ERP as “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.”

ERP Strategy Definition and Components

An ERP strategy defines the rules, components and road map that will govern an ERP deployment and utilization. The selection and implementation of a pre-packaged ERP system should be the end result of a well thought-out development and execution of this ERP strategy. The ERP strategy needs to be developed in accordance with the overall IT strategy and application portfolio. The ERP is a component of the IT strategy, albeit often the most important part. Both the ERP strategy and IT strategy need to include an architectural view of how the ERP fits with other systems and tools. Most important of all, an ERP strategy must support the business strategy and accommodate for changing business needs and technology.

A good ERP strategy should take into account the following:

1. Business goals
2. Business requirements
3. Business processes
4. Business and technical architecture
5. Deployment strategy
6. Potential vendors
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There are countless stories of ERP implementations that missed their target dates, had budget overruns or resulted in the ERP not doing what was expected. Many organizations do not have a clearly defined ERP strategy, or it is outdated, and the net effect is that companies are not seeing the business benefits of their ERPs.

Most companies do not start with a clean slate when implementing an ERP; usually there is a significant legacy factor. The majority of organizations have put together their business applications over time and through acquisitions. This usually results in a business application portfolio that does not support the business goals, requirements and processes. An ERP strategy is crucial, as the ERP is the backbone of a business’s operations and the primary system-of-record.

The benefits of a well thought-out ERP strategy include:

1. IT operational effectiveness:
   a. An ERP will bring integration savings with its inherent native interfaces, instead of mostly custom interfaces for legacy systems. Some custom interfaces may still be needed, as the ERP may not address all the business needs of the organization.
   b. A savings in platform consolidation, if for example, a single ERP system is implemented. This results in cost savings in system support, training and IT infrastructure.
   c. Legacy systems are generally customized and require more resources to support them, so there will be “modernization” savings, as well.
2. A well implemented ERP system will enable the standardization of business processes and the use of best practices, as the ERP will be embedded with the best practices.
3. Information will be more readily available for decision-making, both for planning and for performing individual tasks.
4. It will enable better data management, as there will be better definition and handling of master data (item master, customers, suppliers, etc.) and transactional data.

The lack of a well-defined ERP strategy will have the following negative impacts:

1. IT’s inability to meet evolving business needs. This contributes to the impaired visibility and decision-making by managers. Business goals and needs evolve over time, and a poor (or nonexistent) ERP strategy leads to failure in supporting the business goals. Core capabilities such as processing the business transactions and producing adequate reporting can be put in jeopardy.
2. Escalating IT costs. Companies may be stuck in a pattern of applying costly band- aids and putting out fires, instead of proactively addressing issues on a scheduled basis.
3. Integration problems across the organization. Transactions that are integrated from one system to another may not be able to process correctly, causing data and transaction
errors and inefficiencies. Business process issues may arise from these system transaction issues. People may try to resolve a transaction problem by changing the business processes.

4. An architecture that is complex and not completely understood with undocumented systems, tools and interfaces.
5. Lack of user productivity. Users will be less productive, as transactions are not properly processed and information and reports will not be available at the specified times. Staff may be forced to institute inefficient workaround policies and procedures.

Having an ERP strategy before implementing the ERP system is essential, because organizations will be able to clearly understand what the ERP is intended to deliver, and follow the road map in which it will be delivered. If the ERP is already in place, a good strategy will help to evaluate the current situation and address business needs going forward. To evaluate and make a case for a good ERP strategy, consider the following:

1. Create/revise the business strategy, detailing business goals and specific objectives.
2. Document Total Cost of Ownership (TCO), capturing the direct and indirect costs of the current systems.
3. Perform a risk assessment of the current systems, tools and interfaces.
4. Create/revise the IT strategy, including all the various systems and tools.
5. Create/revise the ERP strategy.

The ERP needs to keep in pace with changing business needs, and this is where continuous improvement practices come into play. ERP vendors release new versions from time to time to accommodate some of these changes. If the ERP software is installed on-premise, companies may need to evaluate when to upgrade ERP versions. Otherwise, if the ERP is in the cloud using software as a service, companies will manage upgrades with the service provider.

Organizations need to perform the due diligence of defining the business goals and identifying the systems and tools to support these goals. Not only is it recommended to create a good ERP strategy, but also an IT strategy. Developing and implementing good ERP and IT strategies will enable organizations to knowledgeably and purposefully plan and operate.

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