THE IMPORTANCE OF AN ERP STRATEGY

Realizing the gain without the pain.

WHAT IS AN ERP?

An ERP (Enterprise Resource Planning) system is a software suite of interconnected tools to manage and integrate disparate business functions, processes, and data. The ultimate goal of an ERP is to provide business executives greater access to important company data to support decision making, allowing for significant impacts on operational efficiency and, in turn, profitability. However, before these business outcomes can be realized, the ERP system must be successfully implemented throughout the organization and the strategy to achieve that end must be spot on.

ERP STRATEGY DEFINITION AND COMPONENTS

An ERP strategy defines the rules, components, and roadmap that will govern an industry-standard ERP deployment and its eventual utilization, the goal being the selection, and implementation of an out-of-the-box pre-packaged ERP system. One must also consider ongoing IT and business strategies within the organization. While the ERP is only a component, it will undoubtedly play a large role and should be implemented in alignment with other strategies to ensure a proper architectural vision with other systems/tools which can meet leadership objectives. An ERP strategy must be able to support both as well as be forward-thinking to accommodate changing business needs and technologies.

A good ERP strategy should consider the following:

1. Business Objectives
2. Business Requirements
3. Business Processes
4. Business and Technical Architecture
5. Deployment Strategy
6. Potential Vendors

IMPORTANCE OF AN ERP STRATEGY

There are countless stories of ERP implementations that missed their target dates, had budget overruns, or resulted in the ERP not meeting its intended usage. Many organizations do not define their ERP strategy well, or do not apply it to modern times, and the net effect is that companies are not seeing the business benefits of their ERPs.

Additionally, most companies do not start with a clean slate when implementing an ERP and there is usually a significant legacy factor. The majority of organizations have put together their business applications over time and through acquisitions and this usually results in a business application portfolio which no longer supports business goals, requirements, and processes as it once may have. Consider how best to sunset your legacy applications to not disrupt on-going business processes but equally ensure an adequate overlap in key areas. An ERP strategy is crucial as the ERP should serve as the backbone of a business' operations and the primary system-of-record, so the more resources devoted to its development and implementation, the more a business will benefit from its ERP as a whole.

BENEFITS OF A WELL-DEFINED ERP STRATEGY

IT Operational Effectiveness:

- An ERP will bring integration savings with its inherent native interfaces, instead of having to rely on potential custom-built interfaces for legacy systems. However, some custom interfaces may still be needed, as the ERP may not address all the business needs of the organization – consider these throughout your strategy efforts.
- 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, although you should expect to operate in dual-mode for some time through a transition from one system to the next.
- Legacy systems are generally customized and require more resources to support them, so there will be "modernization" savings, as well

Standardization of business processes and the use of best practices, as the ERP will already be embedded with the industry standards.

Information will be more readily available for decision-making, both for planning and for performing individual tasks.

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. You will also know what business questions need to be answered from the ERP and what data will be required to support.

The project team will know what to do, what to deliver, and how to communicate.

LACK OF A WELL-DEFINED ERP STRATEGY WILL HAVE NEGATIVE IMPACTS

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 business transactions and producing adequate reporting can be put in jeopardy.

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.

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 which could cause business process issues. People may try to resolve a transaction problem by changing the business processes.

An architecture that is complex and not completely understood with undocumented systems, tools and interfaces.

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.

Unaligned resources. An ERP implementation is a large undertaking and without proper alignment, the risk of success diminishes greatly. The right team can make or break an implementation.

Having a well-defined and communicated 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 roadmap 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. The core project team should be composed of full-time personnel, including a strong project manager and others representing the core areas of the business and IT. If a consulting integrator is used, the core project team should have a good and cohesive working relationship with the consultants. Also, identify a set of resources from the various areas of the business and IT to provide subject matter expertise when necessary to make important project-focused decisions. Establishing a good team with defined responsibilities up front will set the implementation up for success.

CONSIDERATIONS WHEN EVALUATING AND DRAFTING A STRONG ERP STRATEGY

- Perform thorough risk assessments of current processes, systems, and tools. Get aligned on a single set of facts, key requirements, and initial priorities.
- Define your business goals and specific objectives as specifically as possible, but remain flexible as organizational changes may require re-evaluations
- Ensure alignment with all on-going IT and business strategies
- Document Total Cost of Ownership (TCO), capturing the direct/indirect costs of the current systems and future projections
- Lay out the case for the right team which can make or break the implementation. Ensure the right attention is devoted to change management and leadership buy-in is present.

A good ERP needs to keep in pace with changing business needs. This is where continuous improvement practices come into play, as ERP vendors frequently release new versions 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. While the unique needs of a particular company may necessitate using on-premise ERP software, they can be more costly to initially implement and do not often include the modern benefits of cloud integration. To learn more about the benefits of modern ERP systems, click here.

To realize the potential benefits of their ERP system, organizations first need to ensure a successful implementation. And arguably, the most important part of this process is beginning with a well-defined and communicated ERP strategy as it will set the foundation for the project as a whole. However, there are some other key success factors involved in this process which must be considered too. Click here to see a full description of these: Key Success Factors for an ERP Implementation

Click here to connect with a Trexin Advisor and learn how we can help you "get to done".

REFERENCES:

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

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