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Who is to blame for ERP failure?

By Barry Calogero

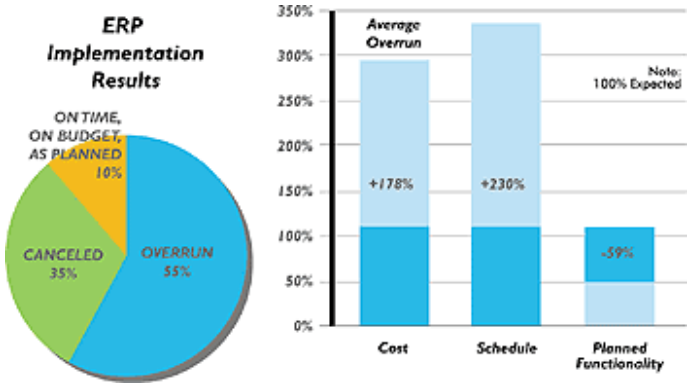
Enterprise Resource Planning (ERP) tools, or enterprisewide client/server applications for managing accounting, manufacturing, distribution and human resources have become the de facto backbone of business intelligence. As more and more organizations across the globe have chosen to build their corporate knowledge base around this class of complex infrastructure tools, the implementation challenges have become evident.

These challenges have been well publicized in the leading business periodicals, underscoring organizational frustrations and even total meltdowns. Whirlpool and Gore-Tex recently blasted SAP and PeopleSoft in separate front page articles in "The Wall Street Journal" articles, highlighting serious business consequences and blaming these leading ERP vendors and implementing consultants for botched deployments. What's more, the nation's leading chocolate manufacturer, Hershey Food Corp., recently noted that it has lost its taste for SAP, holding the vendor accountable for order processing problems that hampered its ability to ship candy and other products to retailers around the peak Halloween season.

In reality, however, the software giants are not to blame for these high-profile failures. The customers are not to blame either. The real culprit is the process.

Revising implementation management strategies can put ERP solutions back on a successful path. At the root of many ERP problems lies one overlooked but critical step: new business processes must be established, thought through, and implemented before software tools are selected, purchased, and rolled out.

As showcased in the recent media articles, business evolution to ERP is about more than software tools. Herein lies the greatest challenge for end-user organizations and consultants working to implement solutions. To an even greater degree, the success of an ERP implementation is gauged by its ability to align IT and business management objectives, demanding program management skills and a refined process for success.



Most ERP implementations today result in cost and schedule overruns; courtesy of the Standish Group

To add to the complexity, the software world today is undergoing a significant transformation, with many vendors adapting the popular Web-enabled Application Service Provider (ASP) model. ASPs lease software to organizations via the Web. Although some will try to apply this model to ERP implementations, it may well serve to add additional complexity and remove much of the critical business process planning that can make or break the implementation. In addition, it will likely encourage "square-pegs-in-round-holes" ERP implementations, in which organizations spend significant dollars to buy a technology — and are then forced to squeeze their business processes to fit the mold of the purchased technology. There may be opportunities to marry ERP with the Web through front-end technologies, giving users access to the system through browser-based alternatives to the traditional client-server paradigm. Whatever model they choose to roll out, an organization's success will depend on redesigning the process and customizing the technology to fit that process — rather than the other way around.

A roadmap for success

There are three basic building blocks to a successful ERP implementation: define the requirements; develop a plan; and implement. The marriage of these three components, coupled with technology integration and user training comprises the total effort. If an organization does not make conscious decisions regarding what to architect and what benefits must be received, the organization cannot hope to realize the maximum value creation from implementation.

The first step, requirements definition, is often given the most superfluous attention. There are a number of different types of requirements, each of which should be addressed and discussed with key stakeholders. Technical requirements will define expectations in terms of processing time, reliability, maintainability, and technical support. Functional requirements should be derived from the overall business process and gaps in ERP software. Functionality that must be included based on the business requirements should be identified and catalogued. Finally, programmatic requirements take into account all of the implementation's end goals and the team's actions from a value perspective.

The development and implementation plans should grow from these requirements and form a lifecycle implementation plan for the technology. Adopting a structured approach to managing this lifecycle

implementation plan will help the team understand the decisions that are being made and, importantly, reduce the risk of failure.

Common barriers to success

There are three process barriers that are the real culprits for ERP failure. These barriers cause an elongated development cycle with poorly defined requirements and, as a result, poorly defined measures of success. The implementation team often is tasked with chasing a series of floating requirements, no optimizing process, and a false belief that technology alone will provide a silver bullet. These teams are, without fail, disappointed with the results.

Specifically, the three most common mistakes of ERP implementations are the following:

1. Focusing on technology. The technology "silver bullet" approach is one that is sometimes sold by vendors. However, there is no evidence anywhere in the history of IT that software alone will solve a business problem.

2. Ignoring the importance of requirements definition. Organizations too often ignore the need to define an optimal process and then use the technology as an enabler for the process. In too many instances, organizations either try to adopt a process that is inherent in the ERP solution, even if it does not fit their business requirements, or they try to shoehorn their legacy processes into a software package that is not designed to support their processes. In both cases, they sub-optimize the capabilities in the technology and don't take advantage of the opportunity to streamline their business process — the entire point of technology implementations.

3. Jumping from the requirements definition to the development phase. Pressed to deliver systems against pre-defined timelines that don't take into account all of the necessary implementation steps, organizations often rush the process, neglecting to build a solid implementation plan and neglecting to establish solid agreement across the organization as to what it will take to develop and implement the solution prior to implementing the technology.

ERP program remediation is required when an organization has a significant investment in an ERP implementation that has not delivered the anticipated ROI. In some cases, these programs are abandoned entirely, costing organizations much more than dollars. Ancillary effects include the erosion of corporate confidence in the IT function, as well as an erosion in IT staff morale. An independent third party, skilled in program management, can preempt these negative consequences by providing a clear and honest evaluation of the current situation. This third party, however, can not be a software vendor or a consulting implementor, and must have no stake in the process other than delivering business value.

Looking at the current cost and schedule overruns associated with ERP implementations, as well as the number of implementations that are abandoned mid-stream, it is obvious that the business world is missing an enormous opportunity to harness technology as the business evolves and a golden opportunity for IT to deliver business value. Failure is not a given.

A November 11 "Computerworld" article recounts the question that haunted Lockheed Martin Corp.'s aeronautics group, involved in an ERP project similar to that of Hershey. Anxious about its future, Lockheed Martin recently contacted SAP to investigate whether or not they needed to brace themselves for the sticky issues that afflicted Hershey. The response: a resounding no. Their success was attributed to the way that they were planning and managing the project, rather than to the software itself. This view was "seconded by several other R/3 users...in the aftermath of Hershey's problems and similar snafus at Whirlpool Corp.," wrote Craig Stedman in Computerworld.

At Lockheed, business users from its three aircraft manufacturing companies have been working since 1998 to design common ways to enter orders and process other transactions — first defining processes, then working with SAP to use R/3 to implement its ERP solution. Similarly, Elf Autochem North America Inc., a chemical supplier, assigned a team of 24 workers to work for four months on business process redesign before even selecting R/3.

There is a clear and pressing requirement for improved program management for these implementations. The fact that such planning contributes significantly to corporate competitiveness cannot be ignored and presents an enormous opportunity for those working to architect business change.

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