EPICOR.

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Best Practices for
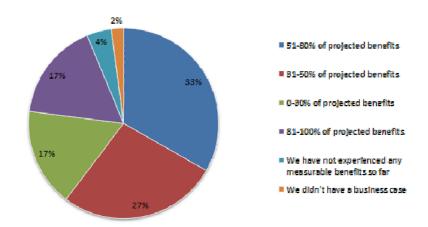# ERP Implementation

Table of Contents

Introduction

The role of Enterprise Resource Planning (ERP) systems in managing business processes has expanded significantly over the past decade from a focus on specific business areas such as manufacturing, procurement, or human resources, to broader use throughout the company. Although IT has traditionally been responsible for specifying and implementing technology within an organization, successful ERP implementations require involvement from stakeholders at all levels, from executives to end users. For many companies, the transition from existing traditional systems to a new ERP one can consume significant corporate resources, including time, expense, and risk to business operations. However, as we'll explore below, this need not be the case.

Panorama Consulting Solutions, an ERP consulting firm based in Centennial, Colo., publishes an annual report on the state of ERP worldwide. Their most recent report[1] found that 54 percent of ERP implementations take longer than expected, while 56 percent of these implementations exceed budgeted costs.

As Figure 1 shows, less than 50 percent of implementations achieve expected benefits, while only 17 percent of the companies experienced more than eighty percent of their projected benefits.

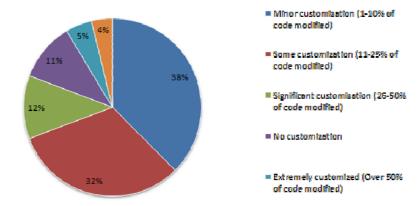Figure 1: Percent of Benefits Realized in ERP Implementations

Source: Panorama Consulting Solutions

Eric Kimberling, president and founder of Panorama Consulting, believes that one of the reasons that ERP implementations take longer than expected or fail to achieve their expected benefits can be attributed to the high degree of code customization used to tailor ERP systems to business requirements (see Figure 2). The research shows that 60 percent of companies perform some degree of customization which can contribute to longer implementation times and higher costs.

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[1] "2012 ERP Report," Panorama Consulting Solutions, http://Panorama-Consulting.com/resource-center/2012-ERP-Report/.

Figure 2: Level of ERP Customization

Source: Panorama Consulting Solutions

Of course, customization is only one of the factors that can affect an ERP initiative. Many of the issues associated with difficult or "failed" ERP implementations can be avoided by adopting the best practices described below.

Best Practices for ERP Implementation

According to Kimberling, "The problem isn't in the software; it's in the way companies implement the software and get their organizations to adapt to it." Based on Panorama Consulting's ERP industry research and direct consulting experience, Kimberling identified eight best practices that are common to successful ERP implementations:

Understand business processes and key requirements.

The first step in executing any business system is to gain a thorough understanding of the processes that comprise business operations. This is especially true for ERP implementations, because they are often intended to be the core management system for company operations. A complete understanding of corporate business processes is essential to selecting the right ERP vendor and to planning the implementation.

Once business processes are understood, the next steps are to define and prioritize key business requirements. Because they are the basis for evaluating and selecting ERP software and, ultimately, determining how much customization is needed, definition of requirements should begin as early as possible. Says Kimberling, "The more time spent up front defining what's important, and what standardized processes should look like in the future, the easier it will be to find the right software for your organization."

Prioritizing business requirements is just as important as defining them. There is so much information available during the evaluation phase of implementation that it's easy for companies to get lost in specifying lower-level processes, which can lead to "analysis paralysis." A better strategy is to develop priorities based on satisfying immediate business needs, the ones that affect normal business processes, followed by longer-term strategic objectives. Moreover, defining business requirements is not a one-time

activity, resulting in a static set of requirements for vendor selection. Instead, it should be viewed as an ongoing process that can be refined on a regular basis to reflect the changing needs of the organization.

Finally, make sure that the ERP software's technical capabilities match the defined business requirements. Many companies concentrate more on the technical aspects of ERP software, rather than on what requirements are most important to the business. Software features or functionality that don't align with the company's business needs often lead to an unnecessary waste of implementation resources, time, and money that might be better spent on other activities such as software customization or training.

Build a business case for ERP with a positive ROI

Building a comprehensive business case will help justify the acquisition of an ERP system. A good one will present tangible business benefits based on defined requirements and include key performance metrics; in business, facts are always harder to dispute than opinions.

Most companies require a business case demonstrating a positive ROI before corporate resources and funds are committed to a project. Again, the scope and complexity of many ERP projects will demand a business case that addresses the concerns and needs of all project's stakeholders. A business case that anticipates potential problems or objections can also be a powerful tool to sell the project in the organization. Involving key stakeholders in the development of a business plan can also be a strong way to build organizational support for the new system.

A compelling business case will assess current system performance against expected post-implementation performance. Establishing key performance indicators (KPI) allows quantifiable measurement of progress during implementation and ensures a tie to real changes in performance. These metrics can also be used to evaluate ERP software vendors and select which software modules match business requirements.

The issue of whether customization is necessary to satisfy a new business requirement is often raised during the implementation process. A business case with a positive ROI allows the merits of customization to be considered on the same basis as the original implementation. Investments in customization can be evaluated according to whether they fit the requirements defined in the business case, based on performance metrics that are quantifiable, rather than subjective.

Ensure proper project management and resource commitment

Another characteristic that distinguishes best-in-class ERP implementations is how well the implementation is managed. A prerequisite for a successful ERP implementation is a dedicated project manager who is involved in both planning and ongoing management. In addition, the company must also be willing to commit sufficient resources to the project before, during, and after implementation.

Kimberling observes that companies tend to focus too much on whether implementation resources are internal or external to the company. "Don't rely only on internal resources because you need people who are experts in ERP and who know how to do business process reengineering," he notes. "Ideally, augment the internal team with people who have done ERP implementations before." However, it is important for the internal organization to be actively involved in implementation because they will own the project once the implementation phase is completed.

Strong project controls and governance are also needed to implement an ERP system. A formal risk management and mitigation plan should be developed in advance. It should include ongoing reviews of project phases throughout implementation, with full participation of all inside and outside resources. A combination of project management skills, resources, and methodologies are vital to a successful ERP implementation.

Gain executive and organizational commitment

A distinguishing trait of best-in-class ERP implementations is that they have the full support and commitment of the company's executives. In fact, it can be argued that this characteristic is the most important one for a successful ERP implementation; without this support, ERP initiatives are more likely to be "starved" for corporate funds and resources. ERP initiatives often begin with the CIO or IT director, but the support of the CEO, CFO, and other C-level executives is critical. These people are responsible for setting corporate business strategy and direction, so they should be making higher-level decisions about how the ERP system will be involved in running the business. Lack of executive participation in an ERP project can also have legal ramifications. "We are expert witnesses for many lawsuits where the executive team simply delegated the project to someone without providing any management oversight," Kimberling notes. "ERP initiatives are big and complex projects; without the right management support, they will fail."

The broad scope and duration of most ERP implementations can also cause changes in familiar workflows or business processes for people throughout the organization, whether they are directly involved in the implementation or not. For this reason, it is important to gain broad organizational support during all phases of an ERP implementation. Finally, the establishment of regular project reviews with the executive team or the project steering committee will keep them informed about project progress. It will also provide a forum so that the appropriate decision makers can deal with issues that arise.

Recognize the value of early planning

In any ERP implementation, there is no substitute for careful planning; in fact, planning should begin during the earliest project phases. Remember that 54 percent of companies complained that their ERP implementation took longer than expected, some of which can be attributed to poor planning. Companies get excited about the benefits of implementing ERP and tend to want to "dive in" without a fully developed plan. "Too often we see clients who bring in all kinds of consultants while the meter's running," Kimberling says. "Companies need to allow the time to put a solid project plan in place."

The project plan should have time built into it for activities associated with requirements definition, key performance measures, and vendor evaluation and selection. The best plans have buffers built into the schedule to account for activities such as testing, data migration, and unforeseen events that occur in every implementation. Companies that invest in comprehensive, up-front planning often experience shorter implementation times and spend less money overall than their peers.

Focus on data migration early in the implementation process

Many companies tend to focus on software testing and configuration and put off dealing with data migration until late in the implementation process. An attribute of successful ERP implementations is that data migration is put into the project plan as early as possible. A company's data is one of its primary assets and issues with migrating data between legacy systems and a new ERP system can have a sizeable negative impact on business operations, especially those that are exposed late in the process.

Once the scope of the data to be migrated is determined, activities such as data scrubbing and mapping can be performed independent of the larger implementation process. Similarly, work on forms and reports can be conducted without relying on the rest of the implementation. It's also a good idea to incorporate a data component into conference room pilots and testing processes, so that data is tested within the software along with business processes.

Another important decision is how much historical data should be brought into the new system. Many companies have a policy of saving everything rather than make decisions about what data should be saved and what should be put in long-term storage. Some companies are required to retain data for compliance with the Sarbanes-Oxley Act; others are concerned about threat of e-discovery and consequent legal penalties. Nonetheless, all companies should establish a data retention and storage strategy. At the very least, data to be migrated should be put through a de-duplication process to remove redundancies. The old computer axiom, "garbage in = garbage out," applies here; even a new ERP system won't fix corrupted data.

Invest in training and change management

ERP implementations don't just affect systems and business processes; they also involve people who may find it difficult to change roles, processes, and behaviors that they may have learned over many years of work. It's unreasonable to expect employees to change their behavior during the relatively short duration of an ERP implementation. Kimberling notes that managing change is a constant, ongoing process that needs to start from day one and continue throughout the implementation to the end-user training at the close of the project.

Change management is crucial to the success of an ERP initiative. Employees need to be introduced to new processes and job roles over a period of time so that they can accept and internalize these developments. Neglecting this aspect of implementation or putting it off until late in the project may result in organizational resistance to the new system, even to the point of operational risk. To be most effective, training should concentrate on business workflows and how these changes affect job roles and the people who do the work.

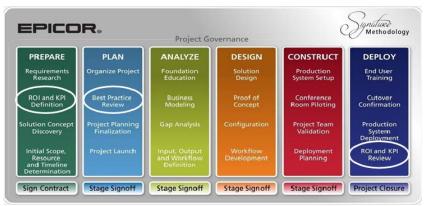## Know why you're implementing ERP

Successful ERP implementations are characterized by a clearly defined purpose and a set of attainable goals. These companies have done the work of defining requirements, establishing metrics, and building a business plan that clearly articulates what benefits the company expects from an implementation.

Some companies have a tendency to look at what others or their competitors have done with ERP, especially if corporate executives have prior experience with an ERP system at another enterprise. This isn't to say that companies shouldn't learn from others' experience; but it should be clear from the preceding discussions that a successful ERP installation is based on a clear vision and articulation of the needs that are unique to each firm.

The Value of a Structured Methodology

Although Panorama Consulting Solutions has the option to use many different ERP software vendors, they often choose to work with Epicor Software Solutions. Kimberling notes, "Epicor 9 is a robust and flexible product that is designed to provide many of the benefits of ERP without the need for customization." Epicor Software promotes what they call the "Signature Methodology," a phased approach to reducing the inherent risks of ERP implementation that incorporates project best practices (see Figure 3).

Figure 3: The Epicor Signature Methodology

Source: Epicor Software Corporation

The Signature Methodology highlights the importance of developing a solid business case for the ERP initiative at the outset, one that presents a positive ROI and KPIs that accurately capture the business processes to be measured throughout the implementation.

It's no accident that Epicor Software's methodology and Panorama Consulting's best practices agree on many of the same implementation principles; they are based on the similar experiences and lessons learned from hundreds of ERP implementations. While every ERP initiative is different, following these best practices may spell the difference between a successful ERP implementation and a failed one.

About Epicor

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