# Symphony

# Selecting and Implementing an ERP System: Seven Common Mistakes

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# Overview

An ERP system is the heartbeat of key company processes, and the pathway for the flow of information to the people who need it.  It can be a daunting task for any company to rip out and replace this vital tool, or to install one for the first time.  Although there can be solid business reasons to take this step, it is a significant undertaking for a team that is already fully engaged in running your business. The solution that you select and implement will likely be a 10-year commitment, with little room to correct mistakes down the road.  It is a marriage of sorts with the ERP vendor that you choose, which means that you want to get it right the first time.

Despite its criticality, it is surprising to see how organizations make simple mistakes in addressing fundamental questions before embarking on this commitment.  There is no doubt that due to its complexity, every ERP implementation will face glitches and some unpredicted delays.  There are just too many variables to expect an ERP implementation to go flawlessly.  Having said that, most risks that materially impact your project success can be mitigated through upfront planning, excellent negotiations and contracting, clear focus on key business objectives, and solid project management and executive oversight.

**In this white paper, we will share with you seven common mistakes that companies make in selecting and implementing an ERP solution:**

# 1. Lack of a Clear Business Case

Perhaps the most common mistake that we see in our practice is that companies engage in discussions prematurely with software vendors.  This leads them down all sorts of unnecessary paths without understanding what they really want or need.  Once there is a perception of a need, phone calls to software vendors begin and before they know it, demos and proposals are flying without a clear understanding of the end game.  Before you talk to people outside your company, talk to those inside your company.  Find out what problem you are trying to solve or what capability you are trying to enhance.  Gauge your readiness and make sure that you have first mapped out the business processes before you begin evaluating ERP packages.  You may even find that you do not need a new system after you reengineer your business processes and take advantage of the capabilities your current system provides.  Once you have confirmed internally that there is compelling need to move forward, that is when you begin exploring options externally.

# 2. Choosing the Wrong Software

ERP selection can be complex and difficult.  There are a wide variety of vendors (e.g., SAP, Oracle, NetSuite, Infor, Microsoft), packages (CRM, SCM, PLM, HCM, etc.)  and formats (on-premise, hosted, cloud).  Due to the overwhelming nature of these ERP packages, we often see companies taking a simplistic approach and merely looking at one or two large brand-name companies.  Those big, complex packages may not be the right answer for everyone – especially small to midsize companies.  For example, smaller companies (e.g., revenues under $200M per year), with a limited geographic footprint and a more limited product portfolio, may find a package like NetSuite to be a better fit than a full-package Oracle ERP.  Even if a tier-one package is the right answer, you need to choose wisely when it comes to software vendors, license types, and how entitlements are structured.

In choosing your software vendor, go back to the business needs that you outlined in the first step and decide where you need critical functionality from your ERP solution to support your business.  Most packages will cover your basic needs in finance, operations, purchasing, resource management, etc., but what might differentiate packages is their ability to meet your more unique needs. Ideally, the functionality will be built into the solution you choose out of the box or through simple configurations.  Unless there is a compelling business case, try to avoid customization because that will saddle your organization with costs and complexity throughout the life of the solution.

As you narrow the field to a few software vendors that have the capabilities you are looking for, be sure to begin negotiating pricing and terms early in the process, and before you are past the point of no return. Do not be enticed by aggressive discount levels and quarter-end pressures. Exercising patience and due diligence will get you much more value than succumbing to high pressure sales tactics. Also be cautious of the contract terms and conditions, as there are many critical points that you can negotiate to increase value and obtain flexibility as business conditions fluctuate. There is no doubt that your plans will change in a significant way during your ERP's lifecycle, and well-negotiated contractual terms can go a long way to preserving value.

# 3. Selecting the Wrong System Integrator

For complex, customized ERP engagements, money spent on an SI for implementation can be substantially higher than the purchase price of the software itself. Of course, with less customization and through the use of cloud ERPs, your implementation cost will be reduced. In almost every implementation, schedule delays and scope changes are facts of life. The key is how you identify, quantify, rationalize, and approve or disapprove these changes. It is important for you to have knowledgeable personnel who also have the bandwidth to manage the activities of the SI. The SI is an important resource, but you should not assume that you can rely on them to do everything. You must keep the SI and your organization focused on why you decided to purchase or upgrade your ERP package, and what problem you are trying to solve. Work with an SI that not only knows the ERP software that you have chosen, but one that also has a successful track record in dealing with the specific business issues which you have identified as critical.

The Statement of Work (SOW) that you sign with an SI also has a significant impact on cost, and on the behaviors that you are trying to encourage or discourage. A robust SOW should clearly outline scope, deliverables, key milestones with payment tied to those milestones, acceptance/rejection criteria, well-defined roles and responsibilities, selection and retention of key personnel, a transparent cost structure, and a change order framework that is mutually understood and agreed to by you and your SI. In order for you to have leverage and flexibility in the extreme situation where your SI is failing, it is also critical that you structure your SI contract in a manner that allows you to pivot to a new provider with the ability to transport your deliverables and the intellectual property contained in those deliverables to a new SI.

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> *Nearly 50% of ERP implementations fail the first time around*[*]

*Source: Technology Evaluation Centers*

# 4. Buying Shelf-ware

It is unfortunate that many companies do not manage the selection process well and as a result, they end up paying a premium, or purchasing the wrong mix of licenses, with little to no flexibility to make modifications as usage changes. To avoid this, the key is to use the leverage you have before finalizing a deal to negotiate and structure your software contract to give you the flexibility you need. Professionals who have familiarity with licensing mechanisms and pricing structures can help secure deeper discounts, but more importantly, they can help you obtain non-price value such as licensing flexibility. While deals are often judged by discounts received at the time of purchase, we have found that it is more important to look at your total cost of ownership over the lifecycle of the ERP platform, including maintenance and support in the case of on-premise ERP software, or subscription fees in the case of cloud ERP solutions. The contract terms and definitions create the framework that represents a significant portion of the non-price value you will receive.

One example of non-price value that you can negotiate in your contract is conversion rights or swap rights. In a recent engagement, our client had planned a phased rollout but was uncertain if it would be optimal. They wanted to reevaluate subsequent phases after the first phase was completed. This meant that their projections for various types of licenses could change from what was initially purchased from the software vendor. As such, conversion rights or swap rights were negotiated, allowing our client to make changes to the mix of licenses at certain intervals without losing any value. Given the complexity of the licenses, the contract language granting this right to our client was very intricate and required multiple iterations before it was finalized.

Bundles are another slippery slope in ERP software purchases. At times, what seems like a great deal because you are receiving a bundled price or a quarter-end "special" discount might entice you to buy shelf-ware. These bundles can be heavily populated with modules and license counts that depending on your business, you may not even need. Keep in mind that you can always buy and implement packages in phases – in a just-in-time manner – rather than buy it all upfront. The key is to have the right type of deal structure that provides you with the scalability you need at pre-negotiated prices.
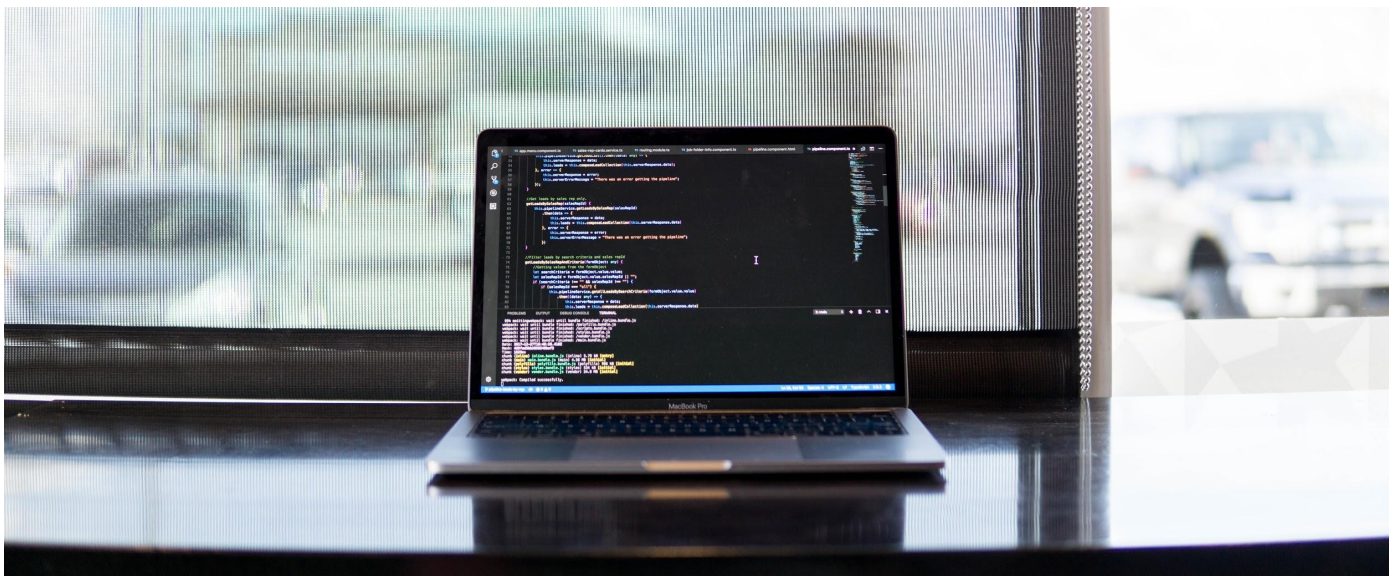
# 5. Lack of Risk Assessment and Mitigation Plans

As stated previously, no ERP implementation goes flawlessly. It is simply a question of how much risk is reasonable, what mitigation steps you take, and what contingency plans you put in place. For example, we are aware of one company that made a cold-turkey transition from their old ERP system to the new one, with insufficient testing and weak contingency plans. During a weekend, the company turned off one system and turned on the other, assuming that all data had been properly migrated and that the company could now run on its new ERP system. On Monday morning, the system crashed and with no access to data, the company had to delay its financial reporting by over two weeks. The stock was impacted and some of the leadership was fired. Simply stated, when you do not have a Plan B, you are gambling with your company.

Assessing risk and taking mitigation steps are not activities that you take on once at the beginning of the project and call it a day. It is an ongoing process, and a critical part of project management. Risks evolve during the various phases of your ERP selection and implementation process, and as such, the plan needs to be constantly refreshed as new information emerges. Not only do risks change, but the resources or methods available for remediation might change during a project as well. One clear example of this is the COVID-19 pandemic that emerged as we were launching an ERP implementation project for a client. In this particular case, Symphony had assumed the role of project management. While no one was able to foresee the risk of a pandemic and its impact, we worked with our client and the SI to develop a mitigation plan before the full effects of the pandemic were felt. Through mutual collaboration with our client, we were able to preemptively plan for a remote implementation due to travel restrictions, re-shuffle staffing, take advantage of lower-cost offshore resources, and negotiate a credit on the travel dollars that were included in the SOW. Assessing, monitoring, and mitigating risk on an ongoing basis should be one of the main deliverables of the ERP project manager who, by the way, should be laser-focused on the success of the project and not distracted by routine operational activities.

# 6. Poor Data Management and Cleansing

We have all heard the expression "garbage in, garbage out." This certainly applies when it comes to data integrity associated with ERP implementations. When companies deploy an ERP solution for the first time, or migrate from their legacy ERP to a new one, there is always a need for data cleansing. First, data proliferates over time and is often duplicated across disparate systems that may exist in a company. As an example, you may have multiple names and addresses for the same customer in your current system that needs to be cleaned up before it is transferred. Or you may have data residing on different systems in your company due to mergers and acquisitions that now need to be transferred to your new ERP system.

Cleansing your data and preparing it for migration is an activity that you need to embark on before you engage your SI for implementation, or very early during the implementation phase. You should not assume that this is a task that you will leave for the SI to address. In fact, most SIs specifically state in their implementation SOW that data cleansing is not within the scope of their deliverables, unless you hire them through a separate engagement to complete this activity. If you do hire them for this purpose, keep in mind that the SI is good with data in general and they have tools that can facilitate the cleansing process. However, they do not know your data like you do, nor do they have the intimate knowledge on how you will use data in key processes. You will be more successful if you, as the owner of the data, take the initial steps to understand the problem and what you need from the cleansing process. Delayed data cleansing is one of the main culprits of project delays and budget overruns, since the SI's work has to cease in order for the cleansed data to become available for conversion, mapping, and migration.

# 7. Inadequate Oversight of System Integrator

We have often seen companies rely solely on a System Integrator to project-manage an ERP implementation's details and deadlines. This, in our opinion, is a mistake. While it is important for an SI to assign a project manager to oversee the project schedule in terms of its own resources, scoping, and timelines, it is imperative that you assign a project manager that is laser-focused on what is in your best interest and that of your internal stakeholders. In the case of the SI project manager, there is an inherent conflict of interest in which the SI is focused on its internal priorities and meeting its own objectives. For example, there are often challenges that emerge in which the project scope has to be changed, and specialized resources are brought onboard to solve a problem. System Integrators often try to promote their own resources to solve these problems, and that may not be optimal for you. It might become necessary to bring in resources from a competitor of the SI for a specific task. That is when the project manager assigned by you can discuss this need objectively with the business stakeholders, and deploy the expertise that is needed to solve your problem. For instance, there are System Integrators that have deep expertise in implementing the manufacturing modules of an ERP solution, but they may not be the right fit when the client suddenly decides to add HCM (Human Capital Management) to scope. In these cases, you should have a resource that will make the right call based on your needs, which may involve engaging a different SI to implement this newly-scoped HCM module.

Another example is efficiency gains that may be available, which may not be in the best interest of the SI.  In one of our engagements, the Symphony project manager working for our client identified an opportunity to streamline the implementation process by combining phases.  This was not necessarily in the best interest of the SI because it reduced the fees, but it was certainly the right thing to do for our client.

Last but not least, Organizational Change Management (OCM) is always a byproduct of an ERP implementation. While the SI normally has this activity within its scope, it may not have enough insight or bandwidth to dig into a company's internal processes, policies, and procedures to facilitate those discussions alone.  OCM is mainly focused on the softer issues that involve people, their roles and responsibilities, and what changes they can expect in a new ERP environment.  An internally focused project manager can serve your best interest by interacting with internal stakeholders and streamlining communication to the SI on OCM-related issues as it pertains to their deliverables.

*64% of ERP projects will spend more than the allotted budget\**

## Summary

An ERP system is the backbone of your company.  In this whitepaper, we have attempted to share with you the seven most common mistakes that we have observed in our ERP practice.  This is by no means an exhaustive list and there are many other factors that can derail your success.

Before you embark on a new solution, it is important to know what problems you are trying to solve and/or what capabilities you are looking to enhance.  There is a lot of analysis and due diligence that goes into selecting the right ERP software and SI, getting the best deal, and mitigating risk through robust project management.  Given the impact, it is prudent to invest the time and resources necessary to achieve optimal results and to avoid common mistakes.

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*\*Source: Panorama Consulting*