Why Does ERP Fail?

by Carter Lloyds

Chief Marketing Officer, QAD

A QAD Leadership White Paper for the Global Manufacturing Industry

CONTENTS

WHY DOES ERP FAIL?

---

21 percent of ERP implementations fail to go live. 55 percent are over budget and 75 percent take longer to implement than planned. Given these figures it is worthwhile to step back and ask why ERP fails before beginning a selection process. Failed ERP projects often are the result of ERP vendors committing "The Three Sins of ERP in Manufacturing." These include: (1) a lack of a continuous improvement approach, (2) a singular concentration on software, and (3) assuming the job is over when the solution is deployed. These sins all are associated with an too much feature focus on ERP.

MYOPIA — DEVOLVING TO A FEATURE FOCUS

At a high level, companies are looking to achieve better business outcomes. ERP is considered one of several means to improve outcomes. As the ERP project gets passed down in the organization for vendor selection and implementation the ERP "MEANS" for solving the problem can devolve into the "ENDS," meaning that someone in the IT department believes the goal is to get ERP installed.

It is this translation of ERP as a means for improving business outcomes to ERP as an IT implementation ends that can doom a project. Too many ERP projects end up concentrating on what the software can do versus what you need it to do and more importantly why you need it. Even if you recognize the need to adopt a continuous improvement approach to optimize your processes, and try to align your ERP, it is unlikely you will be able to do so.

Most ERP systems are like pouring and setting concrete: they can flow to meet your demands during design but once implemented they harden in place making change extremely difficult. They simply were not built to quickly adapt to change. Beyond just the ERP software, agility is also impacted by the services and customer engagement technique of the ERP vendor. Vendors should assist in identifying business issues, the underlying processes that impact the issues and with this knowledge, work to align the people, process, and underlying technology. Not all vendors do this.

THE DEATH CYCLE OF ERP – FAILING THROUGH GOOD INTENTIONS

"Nothing is more permanent than a temporary hack."

Failure starts with making reasonable changes in processes that the business needs. Changes in process should be reflected by changes in the supporting ERP. Many ERP systems are difficult to modify. To avoid this difficulty, workarounds and manual processes are adopted.

Over time the gap continues to grow between your process and the ERP system. This leads to errors and no single or real time version of the truth. This results in users no longer trusting the data and the system. Companies then become less responsive to customer needs and requests, for example:
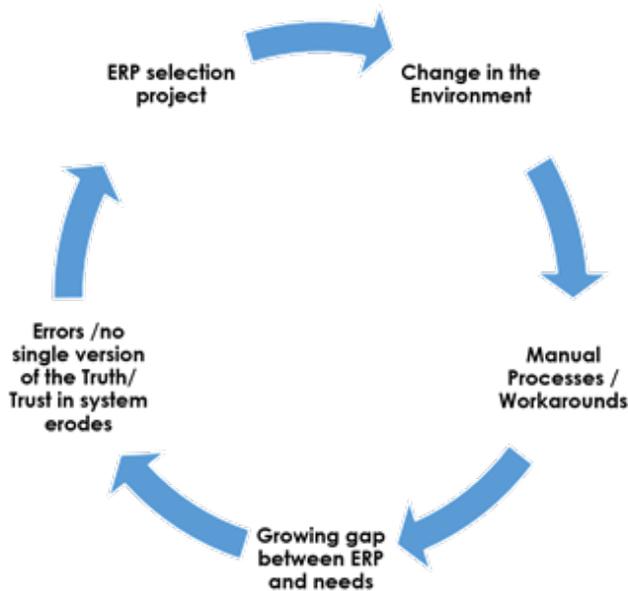
Customer: Can I add 100 widgets to my existing order and maintain the same ship date?

Vendor: I don't know, I need to check with

operations and get back to you later.

Blame is then placed on the ERP system. Then, to solve the ERP system problem, another ERP selection is kicked off and the whole cycle repeats as in the figure below.

BORN TO FAIL — FAILING BEFORE STARTING

As if this is not bad enough, the way we purchase ERP software can lead to poor solution design. Selection committees seldom have a high level consolidated goals tied to the company's strategy and objectives, like profit, revenue growth or cost reductions, on which to base the selection. Without the set of goals, members of software selection committees rightfully focus on the individual business goals they have and are incentivized to achieve.

The problem is that these individual goals are often in conflict. For example:

- The VP of operations wants to increase the length of production runs to reduce manufacturing costs, requiring more inventory.
- The VP of sales is fine with more inventory to

improve customer service but wants it across more product lines.
- Finance wants less inventory to reduce carrying costs.

Trying to optimize for each goal individually prevents optimization of the company's goals by rejecting reasonable tradeoffs when viewed at the company strategy level, Similarly, this siloed approach makes it difficult to optimize processes that are inherently cross functional as no one owns the end to end process and again individual goals are in conflict.

UNFAILING — A BUSINESS FOCUSED APPROACH

At a high level, you need to ask yourself why you are searching for an ERP solution. Optimizing for the individual goals and associated key performance indicator metrics of key stakeholders can lead to a suboptimal solution for the company as measured by its strategic goals. Ultimately, ERP should be purchased as one piece of a solution to support your overarching business strategy.

In addition to ERP, a focus on people and process will support your desired outcomes. Because your market is constantly changing, a continuous improvement approach is required to ensure your solution grows in support of and aligned to your strategic goals and changes in the market. A continuous improvement approach for ERP is just like continuous improvement you pursue in other aspects of your business, albeit focused on your processes and the technology that supports it.

Outcomes measurement is the means for assessing the alignment between your ERP and your business strategy and can act as a diagnostic for areas of improvement. This business approach to ERP leads to a lower cost and lower risk phased project focusing on achieving enterprise wide business outcomes through process review and business transformation where needed, backed

by a rational set of software features.

Since the only constant is change, you need a partner who can help over the long term to ensure this alignment remains strong as the market evolves, as you know it will. An ERP system that is [flexible](#) after implementation to support process changes that come out of a continuous improvement approach is required. Following this approach can counteract the "Three Sins of ERP" perpetrated by many ERP vendors and refocus your selection on what truly matters to you: your customers and your products.

For more information on how QAD can help your company better align ERP with your business strategy, contact QAD at +1-805-566-6100 or email info@qad.com.