

## So What is the Verdict after 30 Years of ERP Integrated Systems?

By Ray Atkinson

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ERP (Enterprise Resource Planning) systems and their MRP/MRP II (Manufacturing Resource Planning) predecessors have been around for nearly 30 years. Questions and debate still abound as to the effectiveness of these systems and where to go from here.

Muddying the water and distracting organisations are the many high profile (and wasted dollars) horror stories about ERP implementations couched in terms of “Technical Issues” with the roll-outs. In other words “implementations gone wrong”.

The evolution of ERP has been an interesting journey. The consolidation of the enterprise applications market into fewer vendors and the ERP landscape has a significant impact on implementation strategies and execution plans of manufacturing.

Driving these strategies is the continual pressure from customers both local and global to optimise resources, meet tighter delivery schedules, reduce costs and improve overall responsiveness. These pressures have forced many companies to re-evaluate their ERP operations to ensure they are obtaining the maximum benefit from their existing applications. To achieve this many companies are attempting to drive the integration capability deeper into the organisation.

Despite millions of dollars being invested in ERP technologies over the past few years many companies are experiencing significant problems as the continuous push to streamline business processes runs into barriers of organisational culture and outdated ERP technology, that simply cannot support the changing environment.

Recent research has established that around 60% of existing ERP applications are greater than 5 years old and 30% are greater than 10 years old.

The ERP Technology of 5 and ten years ago is vastly different to the functionality available with today's ERP applications.

To take that a step further there is a large gap between the capability of the ERP applications and the actual operation of the technology within organisations. The reasons for this are many and not necessarily easy to rectify. Organisations are made up of people with different backgrounds, skills, ideas and experiences, which, if let loose in an unfocussed way on ERP operations, results in a profusion of decision support tools ranging from ERP output reports, simple spreadsheets manually updated, manual systems, gut feel and reactive management, to fix problems resulting from poor information.

Distinctions should be made in “Having an ERP System” and Effective use of the ERP System”

In any ERP system there are typically 24 generic modules which represents the systems functionality. Research has shown that as an average only 30% of the ERP systems total functionality is utilised.

Another issue to look at is the effectiveness of the modules that are actually implemented. As this is difficult to accurately assess, ERP

operations have been categorised into three groups.

**1/ Laggards (30%)** —operation effectiveness that is significantly behind the average of the industry

**2/ Industry norm (50%)** — operations that represent the average or norm

**1/ Best Practice (20%)** — practices that are considered the best practice currently being employed and significantly superior to the industry norm

By far the major problems with ERP systems driving significant benefit is lack of understanding by users and management, poor base data and the misalignment of business processes with software capability. Conflicts arise where processes have been changed to suit systems but does not meet operational requirements or where the software has been modified to meet operational requirements leading to downstream problems associated with system upgrades.

Implementation of ERP systems can be very expensive and resource draining for organisations. A major mistake is to believe that by paying big dollars to third party organisations an effective implementation can be achieved. Many organisations embark on an ERP Implementation exercise only to find the simplistic methodology being peddled by the software houses ends up being a major resource drain on the companies people and finances.

Software house implementation partners see major ERP implementations as huge revenue earners and to justify their fees have developed complex implementation strategies that require an army of consultants to manage.

The strategies are presented in such a way that they have companies believing that there is no other way to implement the technology.

### **The basics are quite simple:**

What do you want to do (model)?

Configure the software.

Migrate and load data.

Write procedures.

Train users.

Go Live.

### **Management Beware:**

The trend has been for companies to simply sign the contract and expect third parties to implement ERP into the organisation.

## **So what now?**

First and foremost senior management and users should be educated into the ERP technology capability. Too many senior executives simply see the technology as an IT issue and not as a strategic business tool.

ERP strategy should be reviewed or developed as part of an organisations strategic planning and communicated to the entire company. Senior management should be given clear achievable objectives and held accountable for seeing that these objectives are put in place.

An assessment of current ERP operations against Best Practice should be carried out to determine what level of operation they are at and determine what needs to be addressed.  
*(email [atko@tac.com.au](mailto:atko@tac.com.au) for free copy of ERP Operations Self Assessment)*

An audit of the current ERP software capability to ensure the functionality is able to meet the company objectives.

Business processes should be aligned to the technology capability to ensure the maximum operational benefit is derived in line with company objectives.

## **ERP ! Yes or No?**

There is little doubt that ERP has revolutionised the planning control and information available in organisations.

Best Practice companies have demonstrated that great value can be derived from the use of such systems.

For the majority of organisations that have the technology but struggle with it, a lot of work needs to be done to turn around the results.

This turn-around can only be brought about by ERP being seen as a strategic decision support tool that needs specific objectives set and driven down by senior management.

Beware of the trap of buying ERP Software and the implementation activities that go with it and expecting all will be well. Cultural issues in organizations can undermine the investment and result in poor outcomes at great cost in both dollars and morale.

Trying to change implementation strategies that conflicts with the software house or software partners income stream usually results in a scare campaign, from those bodies, of visions of total failure.

ERP systems are here to stay in one form or another and can provide a competitive edge if implemented properly. The key for successful implementation and operation is for the company to take the time to educate the company to philosophy behind the technology and take charge of it from day one and limit the influence of the software vendors and their partners.

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