The Risky Side of ERP

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By MICHAEL P. COLLINS, Author, *Saving American Manufacturing*

It seems like you can’t pick up a trade journal without a story on the necessity of enterprise resource planning (ERP). The headlines often read like this: By purchasing an XYZ system, we …

1. … are helping our enterprise achieve continuous improvement.
2. … are bringing added value to our customers.
3. … are “offering excellent customer service.”
4. … are “taking advantage of global opportunities.”
5. … are able to optimize on a global level.
6. … have grown our business by 40 percent in the last four years.
7. … “have dramatically increased our efficiency.”
8. … can help manufacturers survive recession and prepare for recovery.
9. … are enabling businesses to become lean and green, and prosper.

Most of these stories are written by the people who are selling the systems. By putting a positive spin on every story, they make these digital systems sound omniscient and flawless. The stories make the systems sound like magic-key formulas that have the ability to solve all operation problems from inventory to overflowing toilets. One gets the feeling that there is no downside to the wonder of these ubiquitous software systems. They are installed on time, within the budget and do everything promised by the vendor.

But what do Hershey Foods, Fox Meyer Drug, AMR Corp., Snap-On Inc., Norfolk Southern, Universal Oil Products, Greyhound Lines and the Oregon Department of Motor Vehicles have in common? Well, they all had spectacular ERP failures.

The failure of ERP and other IT systems might not threaten Fortune 500 companies.

Most seem to be able to absorb the losses. But my concern is for the small and midsize manufacturers (SMMs). Many of these companies are struggling and want to believe that these systems are magic-key systems that will solve all of their problems. Other SMMs do not have the knowledge to see through all of the hype and alleged benefits. But the biggest danger is that most SMMs do not have the money or balance sheets to absorb the losses when an IT project goes over budget, takes longer than scheduled or doesn't deliver the promised benefits.

Because of this threat to SMMs, I think it is important to every now and then expose the problems and the dark side of ERP and other IT software, if for no other reason than to make the sellers work harder on guaranteeing the benefits and exposing the problems that happen during implementation.

Here are some findings from studies conducted in the last 10 years:

1. The Robins-Gioia Study of 232 respondents said, "51 percent viewed their ERP implementation as unsuccessful."
2. The Conference Board Survey of 117 companies that attempted ERP implementations said that "40 percent of the projects failed to achieve their business case within one year of going live."
3. The Standish Group survey of 365 respondents found that "31.1 percent of projects will cost over 189 percent of their original estimates."

There are many more studies examining failures, but generally, I think one can conclude that there is a strong likelihood that implementing an ERP system will:

1. Take longer than expected.
2. Cost more than the original budget.
3. Not deliver all of the benefits promised.
4. Leave employees and managers unsatisfied.

Many of the reasons for failure have had to do with the company (buyer) not being ready to implement a system as complicated as an ERP system. Ernest Madara [his comments are shown in bold-italics below], in his article "A Recipe and Ingredients for ERP Failure," sums up many client issues:

When the management is not controlling the scope of the project, especially when you expect the consultant to provide a magic bullet, ERP is a recipe for failure.

I mentioned this earlier because many SMMS visualize the system as a magic-key solution. But this begs the question: Does the seller, during all of the sales hoopla, go out of its way to convince the client the system isn't magic key?

If the vendor does not understand your business, ERP is a recipe for failure.

I agree with this question, but can the seller do an honest assessment of your business —particularly if you are making one-off products?

If you have not re-engineered your business processes to be compatible with the capabilities of the technology, ERP is a recipe for failure.

I have seen this problem over and over where manufacturers don’t have accurate routing statements, shop drawings or a real production control system, and the existing processes do not match the new software technology.

If you do not have a clear end-user training program to transfer skills to employees, ERP is a recipe for failure.

One of the problems here is that sellers don’t specify upfront just how much training and employee time is necessary or how much adequate training costs.

If management is over-committed (excessively ambitious, prompting unrealistic deadlines), ERP is a recipe for failure.

Aren’t the schedule, deadlines, and budget supposed to be negotiated and agreed on by both parties at the beginning?

Low morale within the team is a recipe for ERP failure.

This is a simple statement of the obvious. But if the reaction to the new system is causing the low morale, is it the total responsibility of the client (buyer) to improve morale?

Inadequate requirements definition (current processes are not adequately addressed) is a recipe for ERP failure.

I have seen this problem with job shops and facilities where products are custom engineered. In most cases, the seller didn’t do a very good up-front job of assessing these requirements or decided that the new system would solve the problems.

Internal resistance to changing the old processes is a recipe for ERP failure.

There is always going to be resistance to change old processes. This should be considered by the seller at the time of sale or they should define what they mean by change leaders and change policies.

If a bottom-up approach is employed (the process is not viewed as a top management priority), ERP is a recipe for failure.

Shouldn’t the management’s commitment to the priority of the system be made prior to the order? The second part of the problem is what if the seller knows that management is not going to want to be involved.

If the client does not properly address and plan for the expenses involved, ERP is a recipe for failure.

Shouldn’t all expenses be spelled out in the original proposal, or if there are unforeseen expenses, shouldn’t the proposal include contingency money?

If any functional gaps have not been identified (GAP analysis), ERP is a recipe for failure.

This is the same problem as listed before about understanding the nature of the business and the business processes before making a proposal

These problems expose an obvious fact: Many manufacturers are not ready for an ERP system because of organizational, management and process problems. The problem for sellers is that they get so caught up in the sales process to get the order that they ignore the red flag issues. Or they do not do a complete job of assessing the client.
There is no doubt that many ERP systems did work and others were eventually made to work given enough time and money. But many SMMs are not in a financial position to be able to absorb the financial hit from these projects taking longer than expected, costing more than the original budget or not delivering all of the benefits promised

The purpose of the article is help readers see through the marketing smoke, and understand the potential problems during the proposal stage and before a contract. So what can small and midsize manufacturers do to prepare for an ERP or MRP system?

1. Cut out this list of problems and use it as a checklist during discussions of the proposal.
2. Ask the seller to give you a list of all implementations — good and bad.
3. Call some of the failures or dissatisfied customers, and find out what went wrong.
4. Ask the seller to show you a company that makes similar products and has the same kind of production system.
5. Ask the seller what kind of guarantee or assurance they can give you (in writing) about the negative possibility of going over budget or past the completion date.
6. Ask if they are prepared to absorb part of the costs of going over budget.

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