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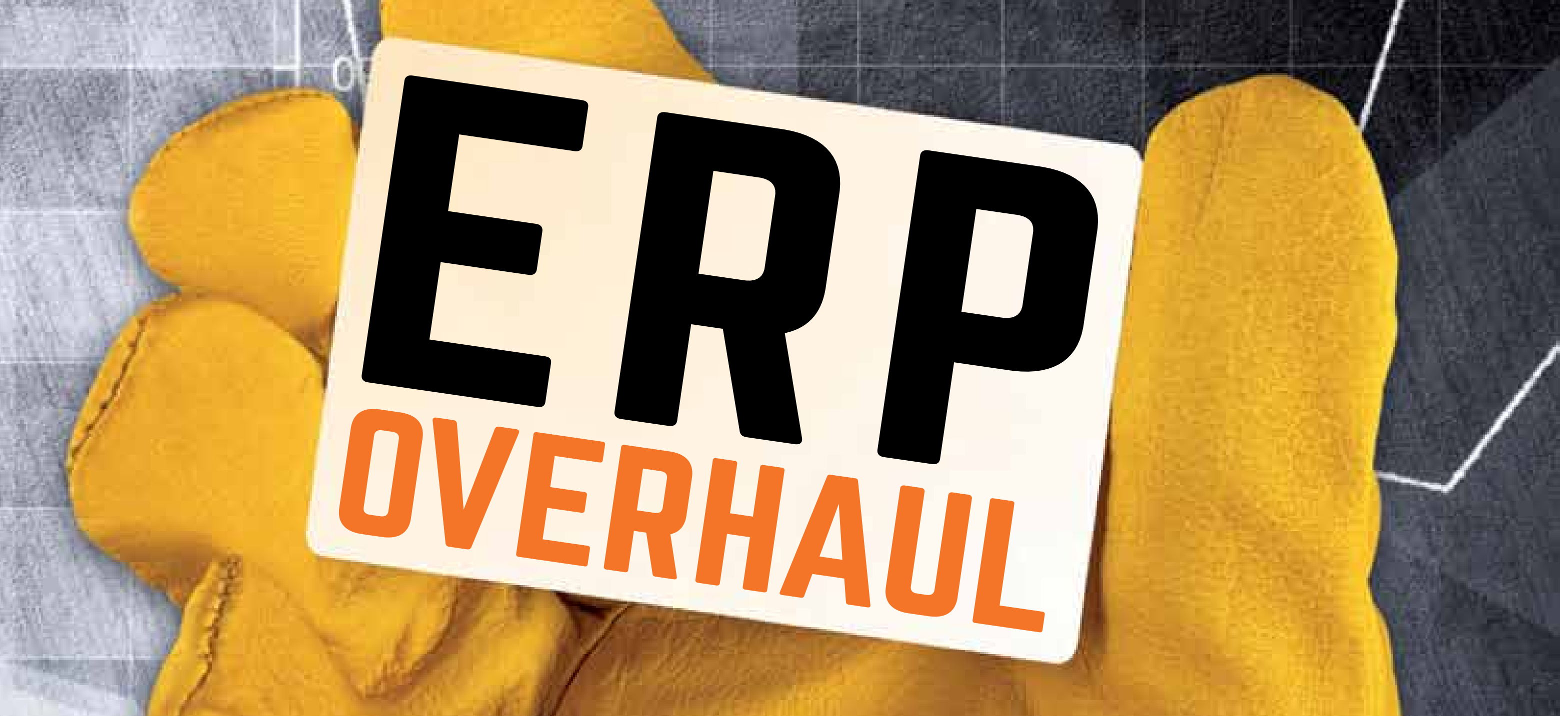
ERP OVERHAUL



Preparation, Testing and Measuring Data Are Keys to Success

By Jennifer Lehman

One mistake that some businesses make when implementing a new enterprise resource planning (ERP) system is not taking the necessary time to ensure that it complements the company's structure and business plan—a tough and, quite possibly, detrimental lesson to learn firsthand.

It is unfortunately a scenario that Ron Staebell, MSM, credit manager with Ruhrpumpen in Oklahoma finds all too familiar.

Staebell experienced an ERP mishap with a previous employer. The company completely changed systems, he explained, and rushed through the process due to concern that the old system would crash. As a result, the new system was never properly tested. "Unfortunately, while it was a good accounting system, it was a terrible warehouse fulfillment system," said Staebell, explaining that the new system could not handle the company's shipments, would duplicate orders and placed orders on another customer's invoice. Consequently, the business ended up with a giant accounts receivable mess.

"I believe the poor results [and] cost of correcting all of the mistakes it caused led to the company eventually outsourcing all of the operational side of the business—including the 18-member credit department we had built," he said. "Layoffs were in large part due to this new system not being tested and for it not being vetted as the correct fit for both the accounting and distributing parts of our company. That company is no longer in business, and this was one of the nails in its coffin."

Preparation

The decision to undergo an ERP system overhaul typically stems from a company's desire to integrate systems and increase business efficiency. Revamping a company's system is a time commitment—one that usually takes between six to 12 months of preparation and testing before it goes live. After the system is up and running, it does not necessarily mean that everything will run smoothly. Companies need to develop a baseline to measure whether the new system is successful in the short- and long-term—something that should be thought out well in advance.

"It all starts at the top and then umbrellas down," said Dee Stephens, CCE, CICP, credit manager for Dole Packaged Foods Company in California. Companies' upper management must be on board because they evaluate and drive the ERP implementation, along with all of the department heads. Because ERP systems vary from business to business, the company as a whole must determine its needs as well as ensure that the new system will fit into the overall business plan.

Michael Byrne, CCE, ICCE, credit and collections manager at Massachusetts-based Hollingsworth & Vose Company, went through an ERP implementation at a previous company. Many of his colleagues were involved in the process from the beginning, which helped make the transition relatively smooth and efficient. "As a result, we knew all of the shortfalls or the pitfalls that might happen during the implementation," he explained, "and we knew in advance because all of the different departments were there during the assessment phase of the ERP."

"It's crucial for a credit manager to be involved," added Stephens, because credit mangers cannot do their job if they are not informed.

January Paulk, director of client services, organizational change and business process management services at Panorama Consulting Solutions in Colorado, agreed. "I think it's critical for credit managers to be involved because … you have to understand how the orders are getting in and you have to understand where the new system is pulling orders from."

Panorama, a firm that specializes in ERP consulting, helps companies find the ERP system that is the best fit. Through this process, a company defines its future needs as well as recognizes its current inefficiencies. Identifying these factors helps to lay the groundwork for developing baseline metrics that measure the new system's abilities once it goes live. "Oftentimes companies, at least at the executive level, want to know what the ROI [Return on Investment] is for a new system," Paulk said. Sometimes, however, it can be difficult to quantify an ROI without defining the company's requirements to gain a better understanding of the different efficiency gains, she added.

Early on, a company must not only determine the quantifiable data, it must determine how the results will prove the system is functioning correctly. For example, by tracking factors such as costs and inventory from the beginning, the company will easily be able to see whether the new ERP system is on track for meeting its goals. "Those are the type of things that companies need to do to track their process improvements," Paulk said. "It establishes a baseline measurement. You can't manage what you don't measure."

One company that underwent an ERP overhaul had a highly inefficient system for approving inventory adjustments, Paulk recalled, which involved unnecessary paperwork and signatures from several departments. One solution through the revamped system included adding barcodes to the inventory, which would be scanned and automatically update the inventory levels. "It's a reduction in time spent, and there's also a cost benefit there," explained Paulk, adding the old manual method delayed the inventory process, while the new system improved its efficiency. "I think companies should really understand before they go through the ERP process what their inefficiencies are, how it equates to a dollar value and what a new system will do better?"

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Without the appropriate planning and understanding of the business' needs, sometimes a company will purchase more than it requires or vice versa. Byrne suggested first looking at the functions of the "vanilla" (basic) ERP system to see if it fulfills the predetermined requirements. Additional services can always be added on at a later date. It is important to not only understand the ERP's functions and its benefits for the company, but also to know whether it is necessary. "What data do you want from it? That could determine how you manage the resources," Byrne said. "You have to determine what you want out of it before you evaluate a new system. Every new customization and add-on that you want will have additional costs, you have to watch and see what the cost benefit is."

"Be aware of embedded features that may add useless bells and whistles that your company may never use," added Staebell. "They come with a cost."

Staebell also recommended making sure that new system is upgradable and perhaps more importantly, user friendly. "A hard to use system will never be maximized by the users," he said. "Also, training must be a part of the package. Poor training and a hard to use system can cause you to lose much of the cost savings and efficiencies you hoped to gain by moving to a new system."

Testing & Measuring Success

After a company develops a vision for the new system, the next step is to install and test it. Paulk does not suggest implementing the entire system all at once because it could overwhelm the company's employees. The best approach, she said, is to install the most critical portions of the system first and then implement other new pieces over time. This way, employees can ease into the new system and receive adequate training, which will help them feel more comfortable as they transition into the next installation phase.

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Jackie Danielson, senior credit analyst and systems admin for ADP at Wilson Tool International in Minnesota, emphasized the importance of testing once the company has chosen the appropriate software. Her company went through the ERP system overhaul in 2002 and since then has made several upgrades. "Test, test, test and then test again," she stressed. "And keep integration at the forefront. If you're not aware of that, you will create a lot of problems down the line."

Having been through a negative ERP experience at his previous company, Staebell went through a more positive ERP system overhaul at his current company. He advises involving everyone in the process and taking the appropriate amount of time for testing before it goes live. "Don't just jump into the system live," he said. "Make sure you thoroughly test it. Make sure that you don't go by simulated tests only, and make sure all of those people who are at the table in the beginning are there to review the system. Obviously, not everyone can have 100% of what they want, but they should come to a consensus and decide what's most important to the group."

Danielson concurred. "Because we spent so much time scenario testing everything, when we laid it out to the team members, we were much more successful with it. It was our biggest savior, and we're always looking for better ways to improve the processes. Our philosophy has always been to creep, crawl, run…especially because it's an integrated system. I can change something up here and not realize it would change something elsewhere."

From his experience with going through the ERP implementation process, Byrne also stressed that testing the system before it goes live is the key to getting accurate data. "If you test for every potential scenario that you can think of, when you get to the live production, you're not going to be surprised by anything," Byrne said. But whether it's structured properly—that's a different story. "If you didn't define what you wanted up front, you may get data that isn't helpful," Byrne added. "It depends on how well you define your needs and data output. How well you test it will determine No. 1, whether the data is accurate, and No. 2, whether you're getting data that's meaningful."

Once it goes live, Paulk recommends setting up a measurement strategy and assigning an employee as an "owner" to a particular data point within the ERP system. "You break each benefit down and assign an owner, and it holds somebody accountable. People like to take ownership," she said. "You want to have them talk through how much time it takes to do a task today, the expected percent improvement with the new system, and then follow up to see if the improvement was realized," she said. For example, if the company is measuring efficiency and anticipates a change within three months, the owner of that data point can quickly provide that information and can determine if the data reflected a reduction in time.

Paulk added that it takes about two years for a company to realize all of the benefits of the new system. Once it goes live, a company should take measurements after the first month, and then every six months thereafter.

With anything new, it is likely that some challenges will surface along the way, and if the new system is not running as planned, it is vital to recognize it early on and find a solution. "If you do have some variances that you're not happy with, you have to figure out what it is happening now," Stephens said. "You want to make sure it's not due to hiccups within the time frame. If that trend analysis is not going the way you thought, you need to sit down and figure out where it's at and correct it."

For Stephens, whose company went through an ERP overhaul in 2011, installing a new system can be overwhelming and frustrating at times—but it can also prove rewarding. "In a sense, you have to temper that frustration with 'hey, we're building something new,'" she said. "As you keep building and building, you are completing improvements that need to be done, and are building something from scratch—that's kind of a neat thing."

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