Companies seeking a competitive edge could discover enterprise resource planning is a double-edge. ROGER BURRITT reports.

Enterprise resource planning (ERP) is the latest in a line of systems designed to give the user a competitive edge, through the realisation of cost advantage.

On the most basic level, ERP is a complex software system that ties together and automates the basic processes of business, from taking customers’ orders to monitoring inventory levels to balancing the books.

This year, the Australian Financial Review reported the total market in ERP systems is forecast to reach $A200 billion by next year. Ideally, ERP provides total planning for an organization. However, there are signs that ERP may present costly problems for enterprises. Purchase of ERP systems is very much a case of caveat emptor — let the buyer beware.

According to a recent study, more than 70 per cent of Fortune 1000 companies have either begun implementing an ERP system or plan to do so in the next few years. Smaller firms are expected to adopt similar plans as prices for ERP packages drop and larger firms start demanding that suppliers be ERP compliant. There is no reason to suggest that Australian companies will not follow the US in adopting ERP systems. ERP extends notions that have conventionally been used in inventory management — a desire for the effective and efficient management of resources using model-based information systems.

The table opposite shows a set of tools available or inventory management and the placement of ERP within that set.

The aim of ERP is much broader than inventory management. ERP is designed to integrate all the business processes in enterprise and optimise resources using available enabling technologies. These business processes include materials (inventory and throughput), people, information and equipment.

While vendors of information systems are still heavily promoting ERP, potential problems with ERP systems are also beginning to surface. The most recent review of problems stems from a research report by The Boston Consulting Group. In the report, Getting Value from Enterprise Initiatives, the group surveyed 100 executives of leading North American companies. The results of their survey indicated a number of disturbing aspects associated with ERP. These include:

- Few successes: only one out of every three ERP applications is successful when analyzed in terms of value creation, cost-effectiveness, tangible financial impact and goal attainment.

**CORPORATE PROBLEMS WITH ERP SYSTEMS: Hershey Foods**

US chocolate manufacturer Hershey stated in its 1999 annual report: “There is no doubt that 1999 was a most difficult and disappointing year for Hershey Foods Corporation. While the year got off to a slow start due to excessive retail inventories, we fully expected a strong finish in the second half of the year. Instead, the implementation of the final phase of the corporation’s enterprise-wide information system (ERP) created problems in the areas of customer service, warehousing and order fulfilment ... as a result, Hershey’s sales and earnings fell well short of expectations for the year ... we should remember that the ERP system is designed to make Hershey more competitive through lower costs, better customer service, and increased sales. It has not been the easiest journey.”
‘More than 70 per cent of Fortune 1000 companies have either begun implementing an ERP system or plan to do so in the next few years’

- Financial benefits not evident: only 37 per cent of respondents could point to a tangible financial impact from ERP.
- Vendor dissatisfaction is rampant: the executives behind one out of every three ERP’s said they believed their vendor had encouraged unnecessary spending.
- Smaller appears to be better: the average size of a strong positive outcome was a $US10 million initiative and the average size of a negative outcome was $US90 million.
- Effective execution not always the answer: among those with overall positive outcomes, some companies have openly criticised ERP systems installation as the cause of significant and costly problems for their organisations. The case of Hershey Foods is outlined opposite. The company estimated it lost $US150 to $US200 million in sales, in part because of its new ERP order taking and distribution system.

Given the uncertainty that is raised by this latest evidence of problems associated with ERP systems reiteration of some clear guidelines to be followed by potential purchasers is necessary. The following tips are based on a Purchasing magazine article by T. Minahan, Enterprise Resource Planning — strategies not included.

1. Be clear about your goals. The ultimate goal should be to improve your business, not to implement software. Use cross-functional teams and executive-level input to identify, examine, and rethink existing business processes. If possible, benchmark these processes against those used by the best in your industry.

2. Plan ahead carefully. Establish business goals. Map out a strategy for achieving the goals. Reengineer existing business processes and/or develop new business processes to support your strategy.

3. List the expected costs and benefits of ERP. Identify how an ERP system will support overall business strategy and how it will work with your new business processes. If you are unable to make a case for ERP, avoid it.

4. Choose vendors wisely. Five providers control two thirds of ERP systems. SAP AG has 31 per cent of the market and Oracle 14 per cent (1997 figures). Talk to existing users, especially those within your industry, about what they like and dislike about their ERP systems. The same rules apply when hiring consultants. Choose only those who understand your business as well as ERP technology.

5. Pick the best person to implement ERP. Implementation is tricky. Consultants can help, but no one knows your business like your own employees. Fill implementation teams with your company’s smartest workers.

6. Start slowly. A good ERP implementation can help a company run smoother. A bad one can shut a company down. Install ERP on a rolling basis, starting with small but highly visible business units as the pilot. Early successes will help generate CEO commitment and shopfloor enthusiasm.

7. Invest in change management techniques. There is the potential to change everything in your information system with ERP, but when steps 1 to 6 have been considered, sometimes smaller packages will look much more attractive.

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