Enterprise Business System Replacement

Selection and Implementation Do's and Don'ts

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OPTIMIZE *Advisory Note*

The Issues

Enterprise business system (typically a broad ERP system in most organisations) replacement is the most challenging IT project that most businesses will face. Such projects require substantial business and IT resources and require substantial budgets to implement. Success is not guaranteed in such projects and there are many examples of project delays, unachieved benefits and outright failure. The programme risk management process is a critical component of such projects and must start at the strategy stage. Having the right scope of work and contract defined with the implementer is also essential.

The purpose of this Advisory Note is to indicate some key do's and don'ts of enterprise business system selection and implementation. After reading this paper, you should:

- Understand the key things to execute during enterprise business system replacement
- Understand what should be avoided

Key Recommendations

- Define your overall strategy and architecture early on, including what you plan to achieve, the benefits, and how to integrate your entire business suite of applications
- Establish a defined system selection process before you start
- Create a weighted evaluation model which takes into account more than just functionality and cost
- Treat the implementation as a programme with many interconnected streams
- Make sure that change management is a key part of the enterprise business system replacement
- Don't underestimate the scope and complexity of what a core business system replacement entails. Give careful consideration to how it will impact the business.

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How Long Should an Enterprise Business System Selection Take?

There no prescriptive answer to this question and in depends on the context of the business. There are risk and time trade-offs in the duration taken to selecting an enterprise business system:

- Too quickly exposes the business to selecting the wrong system by not completing adequate due diligence
- Too long exposes the business to a loss of interest within the business as well as lack of co-operation from the vendors

A zero to low customisation approach can very quickly select a new enterprise business system by taking vanilla business processes as much as possible, and simplify the implementation:

- No detailed functionality requirements need to be defined to compare the system against. Scripted scenarios can be used to test the functionality of an application.
- Customisation is only carried out for very specific and narrow business needs.

However, most established operations will prefer to define their requirements and to carry out a gap analysis between requirements and system capabilities before deciding upon the right system or deciding the degree of customisation. In this case, users need to be consulted and requirements needed to be defined. A pure vanilla business process approach rarely works well in these circumstances.

Typically we find that a zero customisation approach can select a system in less than three months while most established operations will take six months or more, depending on the selection process, whether the vendor requires a separate implementer, complexity of requirements, etc.

For the Selection Process – Do

- Ensure your enterprise business system strategy, expected benefits and wider integrated applications architecture is clear.
- Define how you are going to deal with vendor and implementer selection. If the vendor is unlikely to be your implementer, then you need to coordinate and tie the vendor and implementer contracts to each other to ensure you do not pay for software before it is really needed or even useful to your business.
- Follow a formally defined selection process with clear steps and deliverables (and get the approach approved by Internal Audit in advance if necessary). Businesses should avoid beauty parades where vendors come and demonstrate their products in a generic way. Instead a clearly defined evaluation model should be defined and the vendor should be controlled in order to get the required information from input to the evaluation model.
- Focus on multiple criteria for vendor evaluation not just functionality. Other key issues such as implementation ability and financial stability should also be taken into account.
- Spend time on the RFP. It is a crucial document in the process and should form part of the contractual agreement with the vendor. The RFP should be reviewed extensively within the organisation before it is issued to the vendors.
- Properly allocate time to the selection process. This is not something that can be completed in a very short time frame. A typical selection process can take 4-6 months.
- Give the vendor enough time to respond to your RFP (4-6 weeks) – the less time that the vendor gets the more likelihood of getting a poor quality response.
- Use scripted scenarios (high-level representation of the critical business process) to force the vendor to demonstrate the package according to what your business needs. A pure

reliance on a list of function points, while an essential part of the process is not sufficient to select a system.

- Visit reference sites (even better if these are done independently of the vendor). These provide a real life guide to how the vendor has actually operated. While the vendor will not take you to sites where the implementation is poor, most reference sites are open enough to talk about the shortcomings of the vendor (ensure that the vendor representative is not present at these meetings).
- Develop a total cost of ownership of the system over a 5 year term to really understand what a system replacement will cost. For example software maintenance over this period may equal the licence cost. Be aware that there are many hidden costs and that the vendor's cost is only a part of the overall programme cost (typically no more than a third).
- Make sure that the roles and responsibilities of the vendor and the business (and the system integrator if one is involved) are clearly specified in the contract.
- Carry out a final due diligence on the vendor before contract signing. Meet the Senior Management of the vendor as part of this process.
- Keep the process openly competitive to contract signing, ideally negotiate with 2 vendors in parallel.
- Negotiate on the basis of what the future may hold in terms of licence requirements. The initial sale is when you have most leverage over the vendor.

For the Selection Process – Don't

- Don't pay for the licenses until at the earliest after the gap analysis is completed. The vendor will try and get a full contract signed before implementation. We recommend an approach whereby the final software contract is signed at the earliest after the gap analysis but the business should be prepared to pay for the gap analysis services if a contract is not signed. If a separate implementer will be used, link the software and implementation contracts and timings to avoid paying for software years before the business gets any value from it.
- Rely on canned vendor demonstrations. These show the best of the product but rarely what show the business needs to confirm the fit against its requirements.
- Think that there is a perfect enterprise business system in the market. It is our experience that most have flaws of which you need to be aware.
- Accept the standard vendor contract. The standard contract is rarely in the business's interest or even fair but typically it is negotiable when the vendor is at the shortlist stage.
- Underestimate the time that it will take to negotiate a contract. The less time taken the less likely that you have got a good deal.
- Believe that the vendor will manage the project for you. The vendor's responsibility is only part of an overall programme that the business has to manage.
- Leave the selection to IT. You will get the system they want not necessarily the one that provides the most business value.

For the Implementation – Do

- Treat the implementation as a programme with many different streams which need to be co-ordinated rather than a traditional project. Consider establishing a programme management office to do this.
- Re-engineering your processes around what the package supports. Only customise for processes which provide a competitive business advantage.

- Get the right project governance structures in place for the implementation. Put a project charter in place which clearly defines the project roles and responsibilities as well as the structures for managing the project (project steering committee etc.).
- Consider your implementation strategy carefully (e.g. big bang vs phased rollout) – the options have different cost/risk/time trade offs that you need to be aware of.
- Make sure change management is a specific part of the programme structure.
- Have a very clear benefits definition and delivery approach defined from the initial investment justification. Most business system implementations that initially focused on time and cost, to the detriment of benefits, ended up re-implementing later on to maximise their benefits.

For the Implementation – Don't

- Try and customize the new system to match the existing business processes. This will lead to excessive customization and a higher cost of ownership. Understand that market leading vendors may have better process built into the package that the existing process within the business.
- Underestimate the complexity of the integration challenge. Some businesses have well defined integration architectures with clearly defined interface points but others have integration spaghetti built up over time and implementing a new core business system will touch on many of these integration points. While using an enterprise business system replacement project as an impetus to upgrade the integration architecture has merit, it can add to the complexity, time and cost of the project.
- Underestimate the internal resources required to implement the system. Vendors do not tend to make this clear in their response, and consistently play down the extent of internal resources needed.
- Underestimate the amount of process and system change which may occur as a result of the implementation. One project we know of spawned 34 IT sub projects as a result of their implementation many of which were not foreseen in advance.
- Think that the vendor project plan is all that you need. It is only a subset of an overall programme for which the business is responsible.
- Automatically accept the key staff that the vendor proposes. Make sure that you have the right to review key staff in advance.
- Staff the project internally with junior resources or those the business users think that it can afford to lose for the duration of the project.
- Think that the enterprise business system vendor will manage the risk for you. Your business needs to manage the risk which extends far beyond the vendor.

Enterprise Business System Replacement

In Brief

A broad scope enterprise business system replacement is the largest IT related project most businesses face. A considerable amount of due diligence must take place in the selection exercise, and programme risk management must be to the fore during the implementation.

While there is no absolute guarantee of success the above do's and don'ts provide high level guidelines for key issues that need to be watched. Our view is that a considerable amount of due diligence must go into the entire process given the importance of an enterprise business system and the fact that typically such systems have a 10-15 year lifespan with a number of upgrades in between.