

Quantifying the Benefits of an ERP System Prior to Implementation

To Assure Positive Return-on-Investment, Document Your Vision

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To be viable, implementation of a new ERP-based company operating system must have a tangible return that exceeds the cost of the software, hardware, and human resources required to implement the system. Although everyone performs a cost analysis for the software and hardware, that is where the exercise typically ends. Most companies never perform a cost benefits analysis at any other point during an implementation.

Performing a system implementation without a clear understanding of the benefits in terms of dollars and cents can result in big problems as the project progresses. Unfortunately, when problems occur, there is no obvious link to the lack of defined benefits. Fortunately, the problems that may and do occur can be avoided if the benefits of the implementation are identified at the beginning.

Myriads of reasons for not performing a benefits analysis are offered. Among them are:

- “We know our current systems are a mess. We just have to replace them.”
- “The cost side is easy, but we don’t know how to approach performing a benefits analysis.”
- “Management isn’t interested; they told us to just do it.”
- “We already have approval for the new system and the budget to go along with it.”

▶ **An integrated ERP system can have a positive impact across the entire business.**

Establishing benefits and associating them with the specific implementation costs will allow everyone to understand the impact of the decisions they make.

Clearly understood, tangible benefits developed at the very beginning are critical. Benefits act as the basis for establishing meaningful, measurable goals and milestones for the system implementation project. Milestones merely become tasks to be completed if they do not have tangible benefits associated with them. Tasks without clear benefits always take a backseat to completing other projects, such as finishing a product redesign, buying a piece of capital equipment or talking with the bank to establish a revised line of credit. Without tangible benefits, the implementation of a system to improve operations will never be a mission-critical activity.

Initially, tangible benefits provide concrete justification to management for the resources the project will consume. Nonetheless, it seems that the purchase and implementation of an ERP system is about the only capital project companies undertake where a Return-on-Investment (ROI) calculation is not mandatory. Yet, knowing the ROI of a system implementation is important because every system project, at some point, will be compared with other capital projects being undertaken in the business. If those other programs or projects have an objective return associated with them, the ERP system implementation will never have its justified priority with management.

New System Implementations – A Lengthy Process

Clearly defined, tangible benefits focus attention on achieving timely completion. Since the time frame for implementation can be many months, it is easy for priorities to be changed for any one of a number of reasons. The justification that almost always seems to surface for making such changes is, “We’ve gotten along without the new system up to

now. Putting off implementation another couple of months won't matter." If management understands the dollars and cents "lost opportunity" of such delays, completion of the ERP implementation would retain its initial high priority.

Without tangible benefits, a system implementation can become a *cost cutting exercise*. When budgets and resources get squeezed, management starts looking for areas that can be cut back. At some point, the question, "Where can we cut costs and still get the system implemented?" gets asked. If the benefits to be gained by the implementation have not been established and tied to the implementation costs, the only response that can be given to that question is: "Where and how much do you want to cut?"

► **Milestones established and supported by measurable benefits also establish accountability for results.**

Individuals accountable for the actual implementation usually have to perform their ongoing job functions during the implementation. When these implementers know that tangible results are expected through the achievement of an implementation milestone, they look at the activities surrounding the implementation in different terms.

In general, benefits are typically achieved through reductions in inventory, direct and indirect cost, improved delivery performance, and increased visibility. Here are a few examples of how companies have seen significant benefits.

Establishing Demand Flow Procurement and Inventory Management

Through the use of tools like System Alerting and Supplier Agreements, a company can implement Demand Flow Line Side Procurement without the need for backup inventory.

Today's systems can be configured to signal a supplier to release a delivery as a result of an inventory transaction. Then, if the delivery does not arrive as requested, the buyer is signaled to call the supplier to expedite. This eliminates the need for lot driven

purchasing and the associated inventory carried in the supply chain by either the buyer or the seller. In some companies, this could lead to a very significant inventory reduction.

Demand flow procurement and inventory management also eliminate a large percentage of the communication that takes place between purchasing and suppliers relative to scheduling and expediting. In addition, the reduction in the supply chain greatly reduces the impact of engineering changes, significant in some companies.

Order Entry Visibility – Establishing Valid Delivery Commitments

Companies can provide their customers with valid delivery commitments.

There is a great opportunity for increased sales when delivery commitments are consistently kept. In addition, companies save money as missed deliveries usually mean increased indirect costs for expediting and freight, not to mention the management time also consumed.

New Product Introduction and Management of Engineering Changes

Many companies are forced by market pressure or because of their basic business model to constantly introduce new products into manufacturing. This creates a communications overload between engineering and manufacturing.

Today's integrated systems have tools that help manage the intense demands new product introductions cause. Project management tools for establishing milestones, work schedules, and budgets can be established for engineering projects. Using these tools, management has the visibility to make sure projects are completed on time and within budget. For some companies that have problems meeting new product introduction goals, this is a potentially big return.

Additionally, implementing engineering changes to existing products can be a big problem for some companies. Poorly implemented engineering chang-

es will lead to large amounts of scrap and obsolete inventory. Field service and reliability costs can become extreme if engineering changes are not managed well.

Integrated Tools for Managing Cause and Corrective Action

Managing cause, corrective action, and defect analysis can be a costly task for a company that does not have tools integrated within its manufacturing system.

The quality modules of today's systems have tools that help identify and track CAR's and the activities associated with them. The ability to do all of this work and link it in an integrated manner with engineering change provides some companies with important, tangible payback.

Warranty and Service

If a company does not have a clear understanding of exactly what it built, support in the field can be a costly nightmare.

System tools should exist that allow a company to generate an exact as-built configuration for every product. Identifying the precise components used in

any unit in the field becomes a routine matter, as does keeping track of replacement items used on those units through unit serialization.

Other Tangible Benefits

Each company must look at its specific situation to determine the areas that have the greatest impact for them. The benefits gained through improvements in any one of the areas discussed above more than justifies the cost of the implementation of a new ERP system.

▶ How do you make sure focus is maintained after the benefits have been established?

Since the implementation can take a number of months, there is still potential for a loss of focus. To make sure attention stays on the project, take the annualized benefit and divide it by twelve. In doing so, the resulting number represents the cost of a one-month delay in completion of the implementation. When everyone in the company understands the lost dollars associated with delaying the implementation, schedules and benefits are far more likely to be achieved according to the original plan.

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