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ERP Strategy

ERP doesn't have to cost an arm and a leg and take several years. Here's how midmarket companies get it done fast and cheap.

Faster, Cheaper ERP

BY LEE PENDER

JAMES MCCULLOUGH REMEMBERS back when he had a \$500 million IT budget and teams of IT professionals. By last year, though, all of that was a distant memory.

McCullough, the former CIO of Delta Air Lines, found himself reshaping his new company's IT infrastructure without the benefit of a large budget or staff. As CIO of eCompanyStore, an Alpharetta, Ga.-based company that builds online stores to fill promotional product needs for its clientele, he had to figure out how to deploy big-company technology—specifically, ERP applications—without spending big-company money.

"We knew we were going to have to go [the ERP] route if we were going to become scalable," McCullough says. "We didn't want to come back in 18 months or two years and say we can't handle [transaction] volume."

McCullough decided to explore a relatively new option in enterprise applications: fast-track ERP. Fast-track ERP gives smaller businesses (with revenues between \$200 million and \$500 million) access to functionality similar to what their Fortune 500 counterparts have had for years. When all goes well, fast-track ERP implementations are measured in thousands of dollars instead of millions, and months instead of years. The vendors promise up-front, guaranteed agreements on schedule and price, fully functioning applications and a lot fewer headaches than traditional ERP.

The fast track isn't without its speed bumps, however. First, there is a greater need to stick to the plain vanilla version of the package, with as little customization as possible. There are also unexpected costs that pop up outside the scope of the fixed-price contract. Although they are simpler than their bigger brethren, the systems are still at the mercy of people—it's essential to manage expectations and resistance to change, and provide thorough training.

McCullough started down the fast-track ERP path with Walldorf, Germany-based SAP. He and his team of 20, composed of SAP consultants and eCompanyStore employees, installed the R/3 system with modules for materials management,

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function planning and finance, and an online store to replace the Pandesic application. They started in mid-December 2000 and applied the finishing touches in early January 2001. They did it without spending big-company money or time. "I'm sitting on an engine that's capable of taking our company into the stratosphere with the same suite of applications," McCullough says.



James McCullough, CIO of eCompanyStore, needed to implement big-company technology without spending big-company money.

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SURVIVAL OF THE CHEAPEST

not long ago, the only things "stratospheric" about ERP were the cost and implementation time. The stories are legendary—botched ERP implementations delaying critical product shipments, projects spiraling out of control and companies spending years and millions of dollars to set up systems. Hershey, the famous candy maker from Hershey, Pa., was among the companies hardest hit by ERP snafus. The chocolate maker reported a 19 percent drop in profits year over year in the third quarter of 1999. Hershey CEO Kenneth Wolfe attributed lost sales and costly inventory backups to a failed implementation of "new business processes" based on R/3. The Hershey dilemma wasn't the only ERP failure to cripple a company's bottom line, but the press it received made it a poster child for the consequences of botched ERP efforts and helped jolt ERP vendors into developing cheaper and easier applications (see "[ERP Moves into the Fast Lane](#)").

ERP Moves Into The Fast Lane

By 1999, ERP had developed a reputation as technology that blew through budgets and calendars.

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Enter fast-track ERP. For the most part, fast-track packages are built like their older siblings, based on best-practices templates. SAP, for instance, now has 11 industry-specific templates for midmarket customers. These templates are

The biggest difference between traditional and fast-track ERP implementations is customization, or the lack thereof.

designed to maximize efficiency and minimize customization, based on the processes and applications that have proven most efficient. Smaller companies often have undeveloped or underdeveloped processes, so they're willing to take the advice of ERP vendors that have attempted to refine those processes. They can learn from the suffering of their larger counterparts. There is less room for change but at the same time, less room for error.

In fact, the biggest difference between traditional and fast-track ERP implementations is customization, or the lack thereof. Traditional ERP packages are often heavily customized, requiring consultants, time and money. The price tag on the doomed Hershey's project, for instance, totaled more than \$100 million, according to the company and press reports. By contrast, most SAP rapid implementations cost less than \$300,000.

HOW VANILLA IS VANILLA?

It's important to keep an open mind when considering changing business processes to fit ERP packages, experts say. Customizing packages should be a last resort, as the practices included in rapid-implementation plans are usually better than existing practices. That's a major break from traditional ERP, which often relies heavily on customization to integrate applications and processes.

"Given a choice between custom and preconfiguration, choose the preconfiguration," says SAP customer Rick Schmidt, vice president of finance and corporate controller at networking applications provider NetRail in Atlanta. "If you think you've developed some terrific process to do purchasing or sales contracts or whatever process you're doing, I've got a funny feeling that SAP probably has a good



way for you to do it. You need to get in the mind-set that you just changed jobs, you are working for a new company, and you are learning a new way to do your job. It is the best practices that are key."

Gene Johanson, project leader for The Frank Russell Co., a Tacoma, Wash.-based financial services company, says changing processes helped his company shut down old systems that were ripe for creating errors. "It would be counter-intuitive to assume [PeopleSoft wasn't] doing best practices in HR," he says. "Why do we think that we know more than they do? It's caused some process change here, which is good. We've been able to effectively shut down all of the shadow systems."



Rick Schmidt, vice president of finance and controller of NetRail, says it makes sense to match your business processes to the software templates.

Changing business processes isn't something one person can do unilaterally, though. Altering processes affects many people—all of them in some cases. It's important to involve everyone affected by the change in the decisions and discussions. Explaining that the new applications will make things better—not just different—is difficult but critical.



Deborah Joseph, manager of client service programs at CyberCash, had to explain how the new applications would make things better, not just different.

"If you're about to implement changes in your process—and if you have people who helped the process get to where it was—it's hard for them to step out of the box and look at it without the restraints they were working with [before the implementation]," says Deborah Joseph, manager of client service programs at CyberCash in Reston, Va. Her company recently underwent a rapid implementation of a CRM package. "Don't think about trying to replicate the bad process you had. Think about the ideal process you want to get to," she says.

KNOW THY CONTRACT

it sounds simple. there's a fixed price and a fixed timetable, but the devil, as always, is in the details. Fast-track ERP contracts aren't like traditional ERP agreements. These contracts fix a time line, a price or both, in advance. That's part of what attracts small companies to fast-track ERP in the first place. Fast-track companies often have spending requirements that call for such up-front agreements.

When Johanson's company needed to upgrade an HR system that was failing under the weight of integration leaks

Fast-track ERP contracts aren't like traditional ERP agreements. These contracts fix a time line, a price or both, in advance.

and overcustomization, company executives balked at the price of ERP. "People choked a little bit on the price," Johanson says. "We were considering the sale of the company to a number of different types of financial organizations. We didn't want to spend money on HR before selling." So Russell, which did eventually sell to Milwaukee-based Northwestern Mutual, made a deal with San Francisco-based PeopleSoft for the rapid implementation of an HR system.

Johanson says working through his company's contract was an eye-opening experience. The process of hashing it out was more difficult than he had expected. He says to remember the vendor is basing its fixed price on the time it will take to implement the applications. The actual cost of software is very low. In this case, time is literally money.

The project planning process, therefore, becomes more important in a fast-track setting than in a traditional ERP setting. The fast-track contract guarantees both what the vendor will give and what the buyer will get. There is little room for application customization with the fast-track route. Companies have to know what they need and make sure they bargain for it up front. The vendor will then be able to

base its implementation plan on those decisions.

"[The price] was a guarantee based on the deliverables," Johanson says. "The way they can do a fixed bid is they say, 'This is what we'll do.' They're basing their number on how much time they're going to have to spend on this." Again, the more an implementation sticks to a template, the less time it will take. In Johanson's case, PeopleSoft agreed to attempt three data conversions into the new human resources system. After that, Johanson's company might owe extra money.

Sometimes other costs slip in for odd reasons. Scott Price, COO at Interactive Apparel, a company that offers website design and development to the apparel industry, said his company was stung by an obscure but necessary detail during its rapid implementation of SAP R/3. His company had to pay extra for forms to print customers' logos. Price found that the cost overruns that larger companies absorb during more open-ended implementations can hurt a smaller company that expects to pay only the agreed-on amount. "That's not real inexpensive," he says. "In the contract, it said that we had agreed to the basic forms. When you get down that path, sometimes you forget about some of these details."

KNOW THY SYSTEM

Another regular speed bump involves integrating existing systems. There are often surprises lurking in legacy systems and processes. McCullough says his team had to rethink its process for offering gift certificates. The team had assumed the previous system was handling the process efficiently. "We thought we understood how that worked in Pandesic, but when we really got down to it, we found it wasn't like we thought," he says. "It caught us by surprise. We had to rethink how to do it in SAP."

Generally speaking, surprises aren't good. They're even more shocking for a company trying to contain costs and schedules. Just as in setting up a contract, planning is paramount. Replacing systems that automate the way a company does business is rarely easy, but it can be more complicated for a company trying to move from simple tools to sophisticated ERP applications. Often, that move is accompanied by growth that sparks the need for an upgrade. A smaller company that begins an implementation without sophisticated systems or processes needs to ensure the selected package works for a company of its size. Price says his company worked with SAP to create a demonstration of the new system. Using that demo, he pinpointed a process change requiring some software customization, but it saved Price from having to rectify the problem after the system was up and running.

Another regular speed bump involves integrating existing systems. There are often surprises lurking in legacy systems and processes.

REMEMBER THE POWER OF PEOPLE

Technology gets a lot of attention during a fast-track implementation, but it ends up being only as effective as the willingness of the people who use it to do their jobs. Ultimately, employees, IT staff and even customers will determine a project's success. The time to start communicating is as soon as the project begins. Managing its scope is often a hidden difficulty. On one hand, some employees will be reluctant to use a new system and will have trouble thinking outside the constraints under which they already work. On the other hand, some employees might expect too much from new technology. Those expectations might lead to requests to add more functionality—which can ultimately defeat the purpose of installing a plain vanilla, template-based, fixed-price or fixed-time package. Fast-track ERP packages offer full functionality, but additional features cost money, and determining how much is necessary is one of the most important





Scott Price, COO of Interactive Apparel, was stung by unexpected but necessary additional costs.

steps in planning an implementation.

"Since our team was made up primarily of HR functional people, as they saw the product, the whistles and bells and lights just went off," Johanson says. "The hardest part is keeping a lid on and reminding all of the people involved that vanilla is good. I felt one of my challenges was to quickly understand what the HR

capability was and then demonstrate it."

Setting expectations can also mean calming fears. CyberCash's Joseph says one of her team's challenges was to convince employees of their new system's flexibility. "People get wrapped around the axle thinking, 'Once I do this, it's going to be this way forever,'" she says, "but we make changes every day."

With any change comes the need for training, another tricky aspect of rapid ERP implementations (see the [ERP research center](#) on CIO.com). With all the effort involved in making ERP work quickly, training can slip through the cracks. NetRail's Schmidt says his company got training all wrong when it first started to teach employees their new system.

"We were originally planning to do computer-based training with our users," he says. "It was about midway into the implementation—all of a sudden one day [two consultants from SAP partner Plaut Sigma] came into my office, closed the door and said, 'We need to talk.' They said, 'Rick, they're really not getting it as rapidly as we need them to.'"

So Schmidt changed his plans. NetRail scrapped computer-based training and organized five in-person sessions held on Friday afternoons. "We were able to put together pretty quickly some handouts that showed them what [they] needed to do," he says. "It took a little bit more personal attention than just sitting in front of your computer screen trying to learn it."

Done right, rapid ERP implementations can be successful. At Interactive Apparel, Price's team implemented SAP's financial, sales and distribution, materials management and warehouse management applications in nine weeks for less than \$150,000. NetRail completed its implementation in nine weeks for less than \$200,000. McCullough has no more worries about whether his company's website will be able to handle its transaction volume.

Fast-track ERP isn't as easy as its name may suggest, but when managed well it can revolutionize a business. "It has improved efficiencies throughout the business," McCullough says. "We had a little bit of jousting back and forth, but we got through it." [CIO](#)

Tell Senior Writer Lee Pender your ERP time-warp stories at lpender@cio.com.

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