Microsoft Business Solutions

Measuring the Value of Your ERP System

By Trish Saunders

When it comes to measuring the performance of their business application suite, many companies start down the road of good intentions and get sidetracked. If this sounds like your company, you might just need a better road map. Technology writer Trish Saunders offers one here.

Helpful Links

- The ABCs of ERP: An Executive Primer
- Inside Our Business Blueprint: Connecting Processes Across Companies
- Microsoft Business Solutions Newsgroups

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Overview

While many companies spend significant amounts of time and money researching, analyzing, and justifying an enterprise resource planning (ERP) purchase, they give only a token look (if any) at how well the application actually performs once it's installed. And that's a big mistake, warns Trisha Tubbs, director of SoftResources, a Seattle, Washington-based company that specializes in software assessments.

"For many companies, it's all about choosing the right product," she says, "but if you don't establish specific performance metrics, it will be very hard to gauge how well that product is working to meet your objectives, let alone correct any performance gaps."

Given that ERP technology is so expensive, you might wonder why more companies don't engage in a thorough, after-the-fact audit. Reasons range from a lack of involvement by senior management to anxieties about whether the project will live up to its promise—and whose feet will be held to the fire if it doesn't. And somewhat surprisingly, after-the-fact audits are often skipped because no one agrees on what precisely constitutes a successful ERP program.

If you're unsure of what ERP is, you're not alone. The answer depends on whom you ask. On a technology level, ERP software integrates a company's departments and functions into a single program running on one database, a valuable step forward for improving efficiencies, because integration speeds up business processes.

A human resources manager, however, might define ERP as something very different, such as a view of how employees interact with each other. But getting bogged down in definitions is beside the point. Whatever methodology you use to measure your ERP, it should be applied consistently across the organization at specific points following the implementation. If not, you cheat your analysis. How often you measure will depend on the size of your organization and the depth of your software change. Typically, an audit

should occur halfway through the implementation, again at three-quarters of the way through the implementation, and when it's complete. Then, you should follow up at 3-, 6-, and 12-month intervals.

Know How You Will Measure Success

Ideally, you will create a high-level systems road map before you implement ERP applications, says Tubbs, who recommends drawing a diagram of a company's entire application system, making sure to include data repositories and stand-alone applications, such as Microsoft Excel spreadsheets, as well as any electronic and manual integration links. "You need to know exactly where things are now, so that you can draw up a similar map when you move into your new software environment," she says. "That way, you can identify where specific gaps occur and develop a plan to address them."

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Set Up Specific Metrics Based on Your Industry

"You can't pull these numbers out of the air," Tubbs cautions. "It's not enough to say, 'I want to see a 10 percent improvement in my call center numbers'—that metric is not really meaningful." Let's say you manage a customer service center for a chain of wholesale furniture stores. You've identified inventory turns as an area that urgently needs improvement—for as every retailer or distributor knows, too much inventory clogs precious space, products age rapidly on the selling floor, and you may be forced to take steep markdowns just to move inventory. Before you can adequately measure how well your inventory management applications are performing, you'll need to identify an industry benchmark for turns.

"Gather as many data points as you can," says Tubbs. "Sometimes you can purchase information from industry associations; other times it's available from a government resource. You will need these numbers to establish specific performance metrics." If your performance metrics include improvements in inventory management, you'll need specific industry benchmarks to determine how well the software is performing against the standard. Otherwise, you may notice a 20 percent improvement in turns, but if your competitors are beating your numbers, your software isn't living up to its potential—and neither is your furniture business.

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Perform Regular Post-Implementation Audits

You've spent the money. Now comes the hard question: How does your application measure up? Only a systematic, disciplined approach to measuring ROI can provide the answer. To be effective, there must be a strong, across-the-board commitment to technology audits, including upper management. Of course, there will be risks—nobody wants to face the possibility that the application doesn't measure up. But if your ERP audit focuses only on productivity gains, such as how many steps it takes to complete a shipping label, you're not gaining a true picture of ROI. The audit also should take into account how well employees interact with the software. Does it help them feel more empowered to accomplish key tasks? How quickly do they feel they've mastered the software? Have you made it easier to communicate with peers, share information, or solve challenges? Those characteristics are far trickier to measure. Many experts advise implementing user surveys immediately following training and again six months later.

Preston Cameron, managing director of Oculus Consulting Group, a Mesa, Arizona-based company that focuses on software implementation, emphasizes the need to tread carefully—this isn't meant to be a performance appraisal, but a software appraisal. "Be careful how you ask employees how they interact with the software," he says. "They will be more forthcoming if

they know they won't be judged harshly by their answers." Reassure employees that you're asking for the purpose of providing additional training or improving procedures based on their input. Otherwise, they may be tempted to exaggerate their comfort level with the software, Cameron says, or they might dismiss the software as a poor improvement, without fully knowing its capabilities.

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Analyze Your Performance Numbers

Some areas of your software can be audited more easily than others. In general, the areas that are designed to automate processes, such as printing shipping labels and notifying customers, should be relatively easy to measure, as long as you've established benchmarks. More difficult to measure are areas that reveal an employee's lack of familiarity with the software. For example, if your audit reveals little improvement in overall shipping errors despite the software's automation capabilities, you may need to go back again to key employees. Ask them to show you precisely how they use the software.

"Companies frequently fail to understand the impact new technology will have on their business processes," Cameron says. "If a company implements new technology and fails to improve inefficient business processes, such as inefficient file sharing or using manual overrides instead of automated processes, the software won't live up to its promise."

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Set Up Universal Processes

"You don't have to be so super process-oriented that it bogs down the organization," Tubbs notes. "But it does make the company more efficient if you have universal processes in place after implementing your application, with a mandate to follow them." Other examples of poor business processes include information hoarding and storing data on a desktop, where it can't be accessed in an emergency. Other practices can put data at grave risk, such as failing to promptly install security upgrades or using easily guessed passwords.

The actual processes you use are less important to this discussion—those will vary by company—than the fact that they're not being universally followed. Promise employees that their feet will be held to the fire if they don't comply.

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Create a Continuous Learning Loop

Too often, companies will reduce the number of dollars or employees they are willing to commit to training following an expensive technology implementation. But when employees fail to use all of the ERP features because of inadequate training or because of a natural resistance to change, the software benefits will erode over time, until you're only using a fraction of its capabilities. At some point, you have to return to base-level training to protect your technology investment. "You need to have a continuous feedback loop," says Tubbs. "Go back in and talk to end users to discover any knowledge gaps, so that you can take corrective action. If your end users have the perception that software is the problem, that perception tends to become a reality."

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Prepare for Inevitable Security Failures

Most companies will face a security breakdown at some point. It needn't be a technology failure that brings your operations to a screeching halt. Natural disasters, security failures, or even a change in business cycle can affect your servers and applications. Is your business prepared to handle the consequences?

"You need a specific plan for disaster recovery," advises Rod Hansen, a solutions analyst for Microsoft Business Solutions–Solomon. "Start by defining what constitutes a disaster. Then you can plan for those things you believe are beyond your control, such as weather or theft." For example, say your company identifies data loss as a significant risk factor. In that case, periodic data backups should move to the top of your list.

"You can have complete risk by having no data backups," Hansen explains, "or you can have clustered systems that are backed up to local storage that is backed up to remote storage that is backed up to multigenerational tapes. That would give you almost zero risk of losing data."

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