



What does ERP *really* cost?

It simply is not possible to give you a quote on what an ERP will cost you without careful analysis of your business and the practices of your company allowing us to decide what demands need to be met. ERP software installation has so many variables, such as: the number of divisions it will serve, the number of modules installed, the amount of integration that will be required with existing systems, the readiness of the company to change and the ambition of the project—if the project is truly meant to be a battering ram for reengineering how the company does its most important work, the project will cost much more and take much longer than one in which ERP is simply replacing an old transaction system.

When will I get payback from ERP—and how much will it be?

Don't expect to revolutionize your business with ERP. Its contribution is optimizing the way things are done internally rather than with customers, suppliers or partners. Again, value depends on ambition. If ERP is the focus of an effort to bring dramatic improvements to the way a company does business, it will bring more value than if the project is treated as a simple systems replacement. And even if ERP does bring dramatic change, because it affects mostly existing "back office" processes such as order management rather than creating new revenue opportunities, the bottom-line value may not be much. Veterans say ERP is more a cost of doing business to make the company operate more efficiently. And most veterans say it takes six months or more to get the new systems and processes running up to snuff. A Meta Group study of 63 companies a few years ago found that it took eight months after the new system was in (31 months total) to see any benefits.

What are the hidden costs of ERP?

Although different companies will find different land mines in the budgeting process, those who have implemented ERP packages agree that certain costs are more commonly overlooked or underestimated than others. Armed with insights from across the business, ERP pros vote the following areas as most likely to result in budget overrun.

1. **Training**—Training is the near-unanimous choice of experienced ERP implementers as the most underestimated budget item. Training expenses are high because workers almost invariably have to learn a new set of processes, not just a new software interface.
2. **Integration and testing**—Testing the links between ERP packages and other corporate software links that have to be built on a case-by-case basis is another often-underestimated cost. A typical manufacturing company may have add-on applications from the major—e-commerce and supply chain—to the minor—sales tax computation and bar coding. All require integration links to ERP.
3. **Customization**—Add-ons are only the beginning of the integration costs of ERP. This happens when the ERP software can't handle one of your business processes and you decide to adjust the software to meet your business needs. The customizations can affect every module of the ERP system because they are all so tightly linked together. Upgrading the ERP package—no walk in the park under the best of circumstances.
4. **Data conversion**—It costs money to move corporate information, such as customer and supplier records, product design data and the like, from old systems to new ERP homes. Although few will admit it, most data in most legacy systems is of little use. Companies often deny their data is dirty until they actually have to move it to the new client/server setups that popular ERP packages require. Consequently, those companies are more likely to underestimate the cost of the move. But even clean data may demand some overhaul to match process modifications necessitated—or inspired—by the ERP implementation.
5. **Data analysis**—often, the data from the ERP system must be combined with data from external systems for analysis purposes. Users with heavy analysis needs should include



the cost of a data warehouse in the ERP budget—and they should expect to do quite a bit of work to make it run smoothly. Users are in a pickle here: Refreshing all the ERP data every day in a big corporate data warehouse is difficult. One solution is custom programming.

6. **Consultants ad infinitum**—when users fail to plan for disengagement, consulting fees run wild. To avoid this, companies should identify objectives for which its consulting partners must aim when training internal staff. Include metrics in the consultants' contract; for example, a specific number of the user company's staff should be able to pass a project-management leadership test—similar to what the consultants have to pass to lead an ERP engagement.
7. **Replacing your best and brightest**—it is accepted wisdom that ERP success depends on staffing the project with the best and brightest from the business and IS divisions. The software is too complex and the business changes too dramatic to trust the project to just anyone.
8. **Implementation teams can never stop**—most companies intend to treat their ERP implementation as they would any other software project. Once the software is installed, they figure the team will be scuttled, and everyone will go back to his or her day job. But after ERP, you can't go home again. The implementers are too valuable. Because the implementers have worked so closely with ERP, they know more about the sales process than the salespeople and more about the manufacturing process than the manufacturing people. Companies can't afford to send their project people back into the business because there's so much to do after the ERP software is installed. Just writing reports to pull information out of the new ERP system will keep the project team busy for a year at least. And it is in analysis—and, one hope, insight—that companies make their money back on an ERP implementation. Unfortunately, few IS departments plan for the frenzy of post-ERP installation activity, and fewer still build it into their budgets when they start their ERP projects. Many are forced to beg for more money and staff immediately after the go-live date, long before the ERP project has demonstrated any benefit.
9. **Waiting for ROI**—one of the most misleading legacies of traditional software project management is that the company expects to gain value from the application as soon as it is installed, while the project team expects a break and maybe a pat on the back. Neither expectation applies to ERP. Most of the systems don't reveal their value until after companies have had them running for some time and can concentrate on making improvements in the business processes that are affected by the system. And the project team is not going to be rewarded until their efforts pay off.
10. **Post-ERP depression**—ERP systems often wreak havoc in the companies that install them. In a recent Deloitte Consulting survey of 64 Fortune 500 companies, one in four admitted that they suffered a drop in performance when their ERP system went live. The true percentage is undoubtedly much higher. The most common reason for the performance problems is that everything looks and works differently from the way it did before. When people can't do their jobs in the familiar way and haven't yet mastered the new way, they panic, and the business goes into spasms.