

ERP Strategy 101: Executing Corporate Strategy with Modern ERP Systems



dwr

**ORACLE
NETSUITE**
Solution Provider



Aligning ERP strategy with overall corporate strategy is crucial for realising the full business value of an investment into a modern technology platform. When implemented strategically, ERP can enable companies to execute on their strategic goals and priorities. However, without proper strategic alignment, ERP risks becoming an expensive set of disjointed applications that fail to support organisational objectives.

This article will examine how organisations can leverage ERP as part of their corporate strategy. Key points covered include:

- The role of ERP in enabling strategic capabilities
- Best practices for strategic ERP planning
- Developing an ERP strategy aligned with corporate goals
- Using ERP to support strategy execution and measurement
- Change management considerations

By reading this article, you will gain an understanding of how to effectively incorporate ERP into your organisation's strategy and vision. With proper alignment and planning, ERP can be a powerful enabler of strategic objectives and competitive advantage.

Defining ERP Systems

Enterprise resource planning (ERP) systems are integrated software applications that manage and automate back-office functions related to technology, services and human resources across an organisation. ERP software integrates these functions into a unified system to streamline processes and information flow. The core capabilities and functions of ERP systems typically include:

Financial Management

Financial Management involves managing a company's finances to ensure its financial health. Key parts include:

General Ledger: The core of a company's financial records. It's a complete record of all financial transactions.

Accounts Payable: Managing money owed by the company to suppliers or creditors.

Accounts Receivable: Handling money that is owed to the company by customers.

Fixed Assets: Managing assets like buildings, machinery, and equipment that are used over a long time.

Human Capital Management (HCM)

Human Capital Management is about managing a company's workforce. It includes:

HR: Handling hiring, training, and employee relations.

Payroll: Managing the payment of wages and salaries.

Benefits: Managing employee benefits like health insurance, retirement plans.

Time and Attendance: Keeping track of employees' work hours and attendance.

Supply Chain Management

Supply Chain Management involves managing the flow of goods and services. It includes:

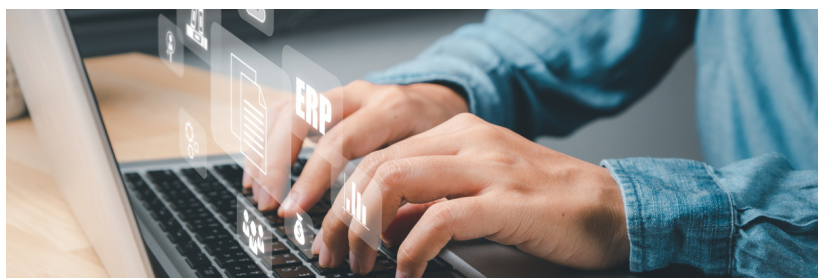
Inventory: Managing stock levels to meet customer demand without overstocking.

Purchasing: Acquiring goods or services needed by the company.

Product Planning: Designing and developing products.

Sales Orders: Managing customer orders for goods or services.

Distribution: Ensuring goods are efficiently transported to customers.



"Effective ERP integration is pivotal for organizations to realize their strategic goals. By aligning ERP with corporate strategy, companies can transform technology investments into key enablers of competitive advantage and strategic execution."

– Tiernan O'Connor, Sales Director, DWR Consulting

Customer Relationship Management (CRM)

Customer Relationship Management is about managing a company's interactions with current and potential customers. It includes:

Sales: Managing the sale of products or services.

Marketing: Promoting products or services to attract customers.

Customer Service: Helping customers with their needs or issues.

Manufacturing Management

Manufacturing Management involves managing the production of goods. It includes:

Production: Managing the process of making products.

Quality Control: Ensuring products meet certain standards.

Plant Maintenance: Keeping factory facilities in good condition.



ERP System Challenges to Consider

Implementing an Enterprise Resource Planning (ERP) system involves several challenges, each requiring careful consideration and management. Here's a detailed look at these challenges under specific subheadings:

Costs

One of the most daunting challenges in ERP implementation is the initial cost of licence fees and implementation. This includes the expense of the ERP software, the implementation services required and additional costs for customisation to tailor the software to specific business needs.

Time and Resource Commitment

The implementation and adoption of an ERP system requires a substantial commitment of time and resources. It's a comprehensive process that goes beyond just installing software; it involves integrating the system deeply into the company's operations. This integration demands significant effort and time from staff, often leading to a diversion of resources from other critical business areas, which can impact overall productivity during the transition.

Complex Organisational Change Management

Introducing a new ERP system necessitates significant changes in business processes and workflows.

This change management is complex as it involves getting employees accustomed to new ways of working. The challenge is not only in the technical implementation but also in managing the human aspect – ensuring that staff understand, accept, and are trained in the new system.

Ongoing Training and Support

Effective use of an ERP system requires ongoing training and support. As the ERP system evolves with updates and new features, continuous training is essential to ensure that employees remain proficient in its use. This ongoing education is crucial for maintaining operational efficiency but adds to the overall cost and resource requirements for the business.

Difficulty in Quantifying ROI

Quantifying the Return on Investment (ROI) of an ERP system can be challenging. While the benefits, such as improved operational efficiency and centralised data management, are apparent, they are often difficult to measure in strict financial terms. This challenge can make it hard for businesses to justify the substantial initial investment required for ERP implementation.



The Strategic Role of ERP

Enterprise Resource Planning (ERP) systems are critical to enabling an organisation's strategic goals. ERP systems integrate business processes and activities across departments and functions into a single integrated software system. This unifies operations and data into one enterprise-wide system.

Implementing ERP provides several strategic benefits:

Supports Strategy Execution

ERP connects all business units and functions, enabling coordination and optimisation of strategic priorities across the organisation. This allows companies to execute their strategies in a streamlined fashion.

Enhances Competitive Advantage

ERP provides integrated real-time data and analytics which gives companies better insights to guide strategic decision making. This improved visibility and data utilisation creates competitive advantages.

Drives Operational Excellence

ERP improves business processes, removes inefficiencies, and automates activities. This increases productivity, reduces costs, and enables delivery of higher quality products and services.

Facilitates New Business Models

ERP provides the flexibility and capabilities to enable new digital business models, revenue streams, and customer experiences as part of strategic transformations.

Enables Growth

ERP systems scale to support business growth and facilitate expansion into new markets or geographies through standardised systems and processes.



Aligning ERP and Corporate Strategy

A key success factor for ERP implementations is ensuring close alignment between the ERP system and overall corporate strategy. When properly aligned, ERP enables and accelerates the achievement of strategic goals. However, misalignment results in disconnected systems, wasted resources, and missed opportunities.

Importance of Alignment

ERP initiatives must directly support a company's strategic plan. The capabilities of the ERP system should map closely to strategic priorities around growth, cost reduction, customer experience, and operational excellence. Aligning ERP with corporate strategy ensures that time and money invested in ERP will further the organisation's most important objectives.

Planning ERP to Support Strategic Goals

Companies should begin by identifying their strategic priorities and determining required capabilities. For example, expansion into new markets may require multi-currency and localisation features. Improving customer satisfaction may require strong CRM and marketing automation functionality. Leaders should select an ERP solution able to deliver those must-have capabilities that are identified during the requirements planning phase.

The ERP implementation roadmap should also align with strategic timing. Big-bang implementations support aggressive growth strategies while phased rollouts accommodate incremental change. Both the ERP software and rollout schedule must align with strategic goals.

Avoiding Misalignment Issues

A lack of strategic alignment causes disconnects between ERP and business strategy. Symptoms include inefficient processes, inability to support new business initiatives, and lack of user adoption. Misalignment results from poor planning, changing strategies, or siloed thinking. Ongoing strategic planning between IT and business leaders prevents these pitfalls.

Avoid misalignment by carefully selecting ERP software, guiding configuration with strategic priorities, and maintaining integration between ERP and evolving business strategies. Close collaboration between IT and business enables ERP to be a strategic asset rather than a liability.



ERP Planning Best Practices: A Proven Strategy

Successfully integrating ERP systems with overall corporate strategy requires careful planning and execution. Here are some best practices to keep in mind:

Cross-functional Involvement

Strategic ERP planning should include representatives from all key business units and functions. Their input is crucial for identifying needs, capabilities, and gaps that ERP can help address. Cross-functional teams enable the organisation to consider the strategic value of ERP from multiple perspectives.

Defining Strategic Goals for ERP

Before implementing ERP, organisations must clearly define the strategic goals they want to achieve. This includes targets for business growth, cost reduction, improved customer experience, and other metrics tied to strategic objectives. With clear goals defined, the ERP system can be configured and customised to directly enable and support them.

Continuous Alignment

Strategic alignment between ERP and corporate strategy should be regularly revisited and maintained after implementation. As business

needs and the external environment evolve, the ERP system may need reconfiguration and updating to continue enabling desired strategic capabilities. Regular strategy reviews provide an opportunity to realign ERP priorities and functionalities.

With advanced planning, cross-functional input, clear strategic goals, and continuous realignment after implementation, organisations can maximise ERP as an enabler of corporate strategy execution and as a source of competitive advantage. The investment in ERP pays the greatest dividends when tightly integrated with strategic priorities.



"Successful ERP implementation demands careful management of costs, time, and resource commitment. It requires ongoing training and an understanding of its strategic role in enabling organisational goals and competitive advantage."

- Tiernan O'Connor, Sales Director, DWR Consulting

ERP Strategy Development

Developing an effective ERP strategy is crucial for aligning these systems with overall corporate strategy and objectives. Rather than viewing an ERP implementation as just a software installation project, organisations should develop a comprehensive ERP strategy that maps to strategic business goals.

Some key steps in developing an ERP strategy include:

- 1- Conducting a strategic business analysis to identify key objectives, pain points, and requirements. This helps inform the vision and scope for the ERP program.
- 2- Defining clear business processes, requirements, and capabilities needed from the ERP system to enable the strategy. The ERP should be chosen or configured to directly address strategic needs.
- 3- Building a multi-year ERP roadmap that sequences rollouts across business units and functional areas. The roadmap should tie directly to business priorities and strategic milestones.
- 4- Assigning ERP capabilities and rollouts to specific strategic goals to maintain alignment. Track ERP benefits and key performance indicators as they relate to strategic objectives.
- 5- Planning integrations between the ERP and other enterprise systems to create an integrated technology stack that holistically supports the strategy.
- 6- Developing a benefit realisation program that measures how well the ERP investment is supporting strategic priorities and capabilities. Adjust ERP plans if needed.
- 7- Managing all the technological, process, organisational change, and talent components of ERP in line with strategic change management.

The ERP strategy should continuously link short-term ERP plans and programs to long-term business goals. This discipline of strategy alignment ensures maximum ERP business value and strategic impact.

Change Management, A Commonly Forgotten Factor

Implementing an ERP system represents a major change for any organisation. To ensure successful adoption and realisation of strategic goals, companies must manage the organisational change brought about by the new ERP system.

The most important aspects of change management for an ERP implementation include:

Open Communication from the Top Down

Ongoing communication about the reasons for change, the benefits of the ERP system, timelines, and roles and responsibilities helps create buy-in across the organisation. Training sessions, town halls, newsletters, and one-on-one conversations are key.

Leadership Alignment and Active Support

Having leaders at all levels visibly support and sponsor the ERP implementation is critical for driving change. Leaders should communicate the business case, connect it to strategy, and reinforce the importance of adoption.

A Culture of Continual Training

Comprehensive training on the new ERP system ensures users

understand how to use it prior to go-live. Training should include the rationale for change in addition to hands-on system training.

Change Champions

Identifying change champions from business units can reinforce messages, answer questions, and address concerns about the ERP implementation.

Reinforcement

Ongoing reminders and celebrations of wins help reinforce and sustain user adoption over time. This could include newsletters, contests, or rewards.

With proactive change management, organisations can pave the way for a smooth transition to the new ERP system and realisation of strategic goals. Managing users' mindsets and securing buy-in are just as important as configuring the technology.





Measuring ERP Success

One of the keys to ensuring your ERP implementation delivers strategic value is developing effective metrics to measure success. There are a few different aspects to consider:

Metrics for Tangible Benefits

Some typical metrics to track include:

- Improved operational efficiency (% reduction in process costs or cycle times)
- Increased revenue or profitability (% increase tied to ERP capabilities)
- Reduced inventory costs (% decrease in carrying costs)
- Faster order-to-cash cycle times
- Improved on-time delivery to customers

These types of tangible, financial metrics are important for demonstrating the ROI of the ERP investment. Having clear benchmark data from before implementation makes measurement easier.

Metrics for Intangible Benefits

Intangible benefits like improved data visibility, better reporting, and organisational alignment can be harder to quantify, but are still important. Some metrics could include:

- Data accuracy and transparency
- Employee productivity and satisfaction scores
- Customer retention and satisfaction

Surveys, audits, and process quality assessments can help collect data on these types of metrics.

The Wrap Up

Aligning ERP systems with overall corporate strategy is critical for organisations to fully realise the benefits these powerful systems can provide. As discussed throughout this article, ERP enables key strategic capabilities such as improved data analysis, increased efficiency, and organisational agility. However, ERP implementations fail to deliver their full potential when not properly integrated with the strategic goals and vision of the organisation.

Key factors for ensuring proper strategic alignment of ERP include:

- Developing a clear ERP strategy upfront, tied directly to corporate objectives. This provides a roadmap for implementation and ongoing optimization.
- Getting buy-in across the organisation, from leadership to end-users. ERP impacts many departments and roles.
- Planning for and investing in change management activities before, during, and after implementation. ERP represents a major change.
- Measuring success based on strategic impacts, not just technical metrics. Demonstrating ERP's value requires tying it back to strategic priorities.

When viewed as more than just a software implementation project, ERP emerges as a potentially transformative strategic asset. Organisations that value their ERP's strategic potential and align their systems appropriately are best positioned to maximise value and gain a competitive edge.