

Many Vietnamese companies are considering investment in software support systems that will allow them to manage more effectively. Most have heard of ERP, or Enterprise Resource Planning, and may be considering buying one of the many packages on the market. ERP software is actually an integration of several software modules, including information systems for purchasing, production, marketing, sales, human resources, administration, maintenance, warehousing, and physical distribution. Because these systems are integrated, there is an advantage of efficient data registration: transactional data can be recorded once, and then can be potentially accessed by users from all functional areas of the business. The coordination of ERP software also offers a complete “big picture” view of the company that allows planning and control of business processes.

But it is a common misunderstanding that success comes from simply installing software. Due to many past failures, Western companies have discovered that in order to be successful with any ERP software package, they must look at and often change many parts of their business. ERP involves reviewing all areas of a business, analyzing activity, and re-defining that activity to make it more efficient. Only once this effort is complete should firms install the necessary software to support the updated processes. Then the power of ERP happens: *Coordination and automation of essential business activities.*

What Does ERP Do for your Business?

ERP has a big impact on business. It is not the same as just asking the IT department to install some software. ERP looks at all areas of the business, understands how they work together, then uses software to *coordinate* and *automate* the business activities of different departments. The problem with many new businesses is that different departments are disconnected – they do not have information from the other departments. ERP solves this problem by connecting the different departments. For example, the accounting department can easily get revenue and cost information from sales and purchasing. Manufacturing can get reports on available levels of inventory and raw materials. Management can get financial reports to understand income, costs and cashflow. With ERP, information is integrated and centralized using a standard system. It does not require many individuals working on separate reports with a high probability of error. Departments that operated in isolation before gain efficiency by coordinating information with other departments.

Examples of Achievements with ERP

What have Vietnamese companies actually achieved with ERP? Common results include the ability to consolidate and review financial reports immediately, instead of waiting for different departments to report separate information, which often contains errors. Point-of-sale information from different factories or warehouses is entered and gathered in one system, not separate systems with bad accuracy. Accounting departments can actually close their books on time and provide reports to senior managers within a few hours, instead of days.

Failed ERP Projects

According to research and experience, over 50% of ERP projects fail. Why? Because successful ERP is a large and complicated task affecting many parts of the business. As we mentioned, it is not as simple as just installing software. I have seen companies who simply ask the IT department to investigate, purchase and install “ERP software” as if they are installing an anti-virus program or updating the operating system. They are not aware that all parts of the business must be analyzed. They must understand what these departments do, and more importantly how they *should* work together in exchanging data and information. Out of the many types of software on the market, the proper package must be selected that matches the company’s type of business. Then, customization is often necessary to make the software work with how the company does business. After customization, installation and testing, migration to the new system comes next. Training must also happen, teaching employees how to use the new system.

These are not easy things to do. Out of ERP projects that fail, 53% fail due to lack of good project management. With all the complexities involved, most companies simply do not have the ability to keep everything managed and on schedule. 43% of projects fail because top management does not fully support the ERP project. Because ERP projects have such a broad impact on the organization, they require a lot of time, resources and change. I have seen projects fail because senior managers did not make it clear that the entire organization was moving to the new system. They did not make it clear that efficiencies would be gained even though change is difficult. Finally, 37% of projects fail because the company does not dedicate proper resources to the effort. Many companies say they want updated processes and systems, but when the time comes to make the change, they do not dedicate the people, the time or the money to get it done. The result in all these cases is wasted effort and a failed project.

The Next Step

Thinking about ERP requires thinking about the entire enterprise. As we have mentioned, it is more than just software. Therefore, I would like to define the entire business process review and implementation of software package as Enterprise Resource Management (ERM). That is, managing all the enterprise’s resources, effectively, through improved process as well software support.

If the path to successful enterprise resource management is so difficult, why do so many companies continue to attempt it? Because the rewards are great if ERM is implemented successfully. I have seen many companies use ERM to increase efficiency, reduce costs and improve performance dramatically. From my experience, there are many ways to avoid the problems we mentioned and ensure a successful ERM project. In the next article, I will explain the critical success factors of implementing ERM.