Pinpoint Exactly What The ROI On Your ERP Investments Are

After making a sizeable investment on an ERP system, most companies would want to quantify their returns on it. A multi-pronged approach to appraising the new system and processes may help achieve this end. Read on to know more...

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"Evaluate what you want—because what gets measured, gets produced."
— James A. Belasco, the American academic and management consultant

For the sheer transparency and automation it brings to the operations of a business, ERP solutions are fast becoming a necessity for organisations that wish to streamline their operations. But installing an ERP system often requires significant investments; and as with any capital expenditure, quantifying a return on this investment too becomes a mandatory requirement.

Businesses not only want to measure the extent to which the ERP system has made processes smarter, but also if it has recovered its cost; and better still, if it has led to any increase in the revenue of the organisation.

But as many business heads and domain experts shared with us, this task is easier said than done. We wished to further explore the methods businesses could adopt to address this challenge. Those we approached discussed the issues that an organisation may face and also the methods that can be adopted to not only evaluate but also maximise the return on investment (ROI).

Understanding the need

It is a common tendency to not get serious about an investment unless you can see the returns on it. Thus ROI justification is a must, opines Kunal Singhal, CEO, Singhal System Solutions.

Besides, without an ROI measure in place, the implementation of ERP could remain directionless, quips R Sukumar, general manager—Sales, Ramco OnDemand ERP.

Your ERP system should reduce costs, improve performance, increase customer satisfaction and provide an ability to redeploy employees to add more value to your organisation. Hence, there is a need to quantify the returns on this sizeable spend to know if it is delivering value, adds Sharanu S Shirol, head—Technology, TeamLease Services—a staffing company providing a range of temporary and permanent manpower solutions to its clients.

There have been cases in which organisations were able to identify non moving stock worth several lakhs of rupees, lying in stores – a fact that came to the notice of the top management only when they undertook the ROI evaluation, shares Sukumar.

Ways to quantify returns

But often organisations find it difficult to quantify the ROI on ERP. There can be many reasons for this. Sukumar, however, feels that if the organisation implementing an ERP is keen and committed to the cause, it is possible to quantify the ROI. There are a few hurdles or bottlenecks that can invariably be overcome by adopting certain strategies to quantify returns.

Here are a few ROI assessment methods, which ERP users whom we interacted with, practice. A combination of a few of these may help you quantify returns on your ERP implementation:

- *Set benchmarks or KPIs:*

Defining expectations from the ERP system at the outset helps the company to proceed with those milestones in view. These defined objectives are also called key performance indicators or KPIs. Shirol asserts that companies that identify and quantify these objectives/KPIs are sure to maximise the ROI on their ERP system.

Nupur Pitkar, director, S H Pitkar Orthotools, agrees and shares her organisation's initial experience: "When we were implementing the ERP system, our main focus was on a successful implementation in the minimum amount of time. What we wanted from the system was greater data visibility, an integrated system and fast reporting. But we had not defined KPIs prior to implementation. Hence, quantifying ROI in terms of rupees became difficult at first."

To deal with a situation like this, organisations should first identify the key reasons for adopting an ERP solution. The modelling of the implementation should be done around these objectives, which enables quantifying the ROI easily, advises Sukumar. Benefits arising out of inventory control, production control, working capital management, budgetary control and the analysis of variances across the organisation, can be some of the areas evaluated to ascertain ROI.

Apart from this, it is also important to compute the benefits in rupee terms for every unit of progress towards the target, i.e., the KPIs set at the outset, suggests Kumar Vembu, CEO, GoFrugal Technologies. Once this is done, it becomes easy to measure the improvements and the resultant gain in terms of rupees.

- *Compare the 'new' with the 'old':*

The simplest way to assess returns on an ERP system is to compare pre- and post-implementation processes—a method that S H Pitkar Orthotools adopted. Ms Pitkar explains: "To quantify returns, we set out at first to compare processes or reports that were obtained from our old system with those obtained from SAP B1—the ERP solution that we had deployed. The time required to generate these processes and reports was considered along with their accuracy."

Even the MIS (management information system) reports built into the ERP should provide a base for measurement as they will give you a graphical trend analysis of your progress, Singhal suggests.

- *Assess cost benefits:*

Ascertaining the cost savings accrued from transparent and smart operations is another way to measure the ROI. If you are running a retail chain, then quantifying ROI is easy because a 10 per cent reduction in stock can easily tell you how much you have saved, says Singhal. But measuring the ROI for production related and service oriented businesses is a bit more complex, he adds.

To understand the practical side of how this can be done by other businesses, we turned to Shirol and Ms Pitkar. Shirol shares the strategy that worked well for TeamLease: "We looked at the upfront cost of implementing the ERP system, the time taken to set it rolling and the

Best practices to maximise the ROI

But along with the above methods, businesses can also look at a few best practices to maximise the returns accruing from their ERP system. Here are a few suggestions that may help:

- ***IT adoption should be an on-going process:***

Cost pressures are a business reality, which essentially means there is a constant need to innovate with new processes to bring about effective costs reductions. This often translates into the ERP solution undergoing changes, says Shirol. This implies that since the ERP system keeps continually evolving, the ROI monitoring on it also needs to be done on an ongoing basis.

In addition, the system should be constantly evaluated between the department heads and the management, opines Ms Pitkar. Any problems should be reported and help from the implementation agency sought, she adds.

R Sukumar, general manager—Sales, Ramco OnDemand ERP

"Without an ROI measure in place, the implementation of ERP could remain directionless"

Vembu agrees and says that since good management is all about "What we measure, we improve," there should be a sustained focus on the KPIs and there must be a continuous cycle of 'Target => Plan => Measure => Review/analyse/learn => Act on improvements' in order to get the best results, he adds.

- ***Learn from industry peers***

Every business vertical has standard metrics on operational and ROI parameters. So, organisations can benchmark themselves against the industry's best and standard practices. Consultants with niche industry expertise can help establish such industry specific KPIs and ensure you achieve them, advises Vembu.

Even better is when business heads engage with industry peers to learn the industry's best KPIs and strive to achieve them. Such a wider perspective is very critical in the highly competitive business environment that we have today," he adds.

- ***Take a long term view:***

Sharanu S Shirol, head—Technology, TeamLease Services

"We looked at the upfront cost of implementing the ERP system. We finally came up with an ROI figure."

Agarwal suggests that businesses should always focus on the long-term returns and not live quarter to quarter, especially when it comes to assessing the performance of their ERP system. "Certain investments might be capable of giving quick quarterly returns, but an ERP implementation certainly doesn't belong to this category. It is quite akin to calculating the ROI of sending your kids to school or college," he quips.

- ***Adopt a big-bang approach:***

ROI can also be maximised by ensuring that it is successfully and completely implemented, advises Agarwal. "Parallel systems shouldn't be allowed to run in the organisation and everyone must be on board," he adds. The key here is to ensure a cohesive approach to get the implementation of the ERP system going across the organisation, else organisations may not experience the positive results of a typical ERP system, adds Sukumar.

- ***Nipping the negative trend in the bud:***

Kumar Vembu, CEO, GoFrugal Technologies

"An organisation should not attempt to patch things up but should start afresh to decide the best course of action."

Organisations dread ERP system failure or situations when they are unable to draw positive returns from ERP implementation. Generally, this happens in the first 3 months of the system going *live*, observes Agarwal. Many a time, as the organisation moves through a transition phase, a general feeling of fear sets in—people worry about losing their jobs while this is coupled with what seems like an increase in work-load as users get acclimatised to the new system, he explains.

This shouldn't be taken as the end of the road as it is always possible to reverse this trend, affirms Vembu. He explains: "In such situations, it is better to start afresh and analyse the expectations set from the ERP solution and then look at new ways to get the desired results. Based on this fresh analysis, one can review and see whether the current ERP system is the best fit; or whether the same can be re-implemented to deliver results. To summarise, an organisation should not attempt to patch things up but should start afresh to decide the best course of action."

The best way to counter this problem is by adopting a top-down approach, affirms Agarwal. "Senior managers must meet every week with their subordinates and address concerns openly. Companies should invest in continuous training programmes and have a forum where people can express their concerns—both technical and adaptive, he adds. Singhal agrees and adds: "The moment the top management loses seriousness in the ERP system, it begins to fail."

- ***Internal and external audits:***

It is also important to audit the progress of the system to ensure that the ERP system and its associated processes are in line with an organisation's objectives and are also free of errors. This can be done internally, by some external agency, or both. Ms Pitkar shares how this was achieved in her organisation: "It is critical to check the accuracy of transactions entered. For this, we allocated a certain amount of time each day to check entries going into each module of the ERP system. Similarly we conducted internal audits to find wrong entries and kept a vigil on the system to ensure that mistakes were not repeated. For this we had to re-train people, often."

"Our implementation partner conducted a system audit too. The audit was an eye opener to us and we sought to overcome our problems by interacting with users. The ERP appraisal should be a joint effort. The implementation partner can guide you with various suggestions and also highlight any shortcomings in the system and seek to help the organisation. Organisations can plan this kind of an audit on a yearly basis. ERP is software and it is driven by two teams—the company and its ERP implementer, working together to make it a success," avers Sukumar.

The above discussion points to an important fact— a few start-up measures and strategies, as shared above, will guide business and department heads on the direction they should be looking at while evaluating returns. After all, the well-known adage states that: "If we are facing the right direction, all we have to do is keep on walking." ■